

To Zheng Hong

(603) 7890 8888 (ext 2099)

zhenghong.to@apexsecurities.com.my

2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+4.7%
2025 Export Growth:	+6.4%
2026 Export Growth Forecast:	+8.1%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+2.1%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

Malaysia Supply Chain Holds Up

Macro outlook remains intact

- **Government measures to safeguard fuel and supply chains should support production activities in the near term. Our channel checks indicate supply disruption risks remain manageable for now.**
- **We believe our 2026 GDP growth forecast of +4.7% YoY remains achievable given continued supply chain resilience.**
- **We expect Malaysia's sovereign credit profile to remain intact, underpinned by the government's commitment to medium-term fiscal consolidation.**

Supply chain resilience remains intact for now

We entered this week (June 8) with the US-Iran conflict crossing its 100th day since its onset in early March. The Crisis Management Task Force (PPPK), established under the National Economic Action Council (MTEN), recently outlined several measures aimed at safeguarding domestic supply chains, including securing domestic fuel supplies, coordinating national logistics, strengthening anti-smuggling enforcement and stabilising food supply lines.

Recent data suggest firms remain relatively well-positioned to manage current disruptions. Manufacturing PMI surveys point to ongoing inventory accumulation, while BNM highlighted in its latest 1Q26 Quarterly Bulletin that businesses are holding an average of three to four months of inventories. Firms have also diversified suppliers and export destinations, reducing reliance on any single supply source.

Overall, supply disruption risks remain manageable for now. Existing inventory buffers, supplier diversification efforts and government measures to safeguard fuel and supply chains should help support production activities in the near term. **Our channel checks indicate that supply disruption risks remain manageable for now**, with no signs of broad-based disruptions across key sectors.

Growth outlook remains supported

We maintain our 2026 GDP growth forecast at +4.7% YoY. Our expectation remains that the Middle East conflict should gradually ease in 3Q26, broadly consistent with BNM's baseline scenario of a temporary Hormuz closure through end-August (Figure 1). Given signs of near-term supply chain resilience, we do not expect the current conflict to materially disrupt domestic production activities or derail the broader growth momentum.

Growth should also be supported by resilient exports of E&E and ICT-related services, as well as steady domestic demand. Existing policy support measures, including the continuation of targeted RON95 and diesel subsidies, as well as income-related policy support such as SARA, STR and Jualan Rahmah, should continue to underpin household spending. Following the stronger-than-expected 1Q26 GDP print, growth is likely to sustain in the coming quarters.

Under the current environment of continued supply chain resilience, **our 2026 GDP growth forecast of +4.7% YoY remains achievable**. Nonetheless, risks remain tilted to the downside. In a more adverse scenario where disruptions persist towards year-end, GDP growth could moderate towards +4.0%, the lower end of BNM's official 4.0%-5.0% projection range.

Fiscal pressures manageable

The recent increase in fuel prices has inevitably raised fiscal costs. According to the government, Malaysia's fuel subsidy bill peaked at RM7.5bn in April before moderating to RM3.5bn in May. Our back-of-the-envelope estimates suggest the additional fiscal burden could amount to RM18bn, or 0.8% of GDP, should elevated energy prices persist.

Nonetheless, we do not see material risks to Malaysia’s fiscal position, partly supported by the implementation of targeted fuel subsidy reforms over the past few years. In addition, the government has reaffirmed its commitment to cost rationalisation across ministries. That said, we caution that higher subsidy costs could result in expenditure reprioritisation under the 13MP, although we expect only minimal impact on the broader public investment pipeline.

Even if the fiscal deficit ultimately exceeds the official 2026 target of 3.5% of GDP, a modest overshoot should remain manageable in our view, particularly if it reflects temporary measures aimed at preserving economic stability during a period of heightened geopolitical uncertainty. More importantly, the government **remains committed to achieving its medium-term goal of bringing the fiscal deficit below 3.0% of GDP by 2028.**

Overall, we expect Malaysia's sovereign credit profile to remain intact. Malaysia currently maintains investment-grade sovereign ratings of A- (Stable), A3 (Stable) and BBB+ (Stable) from S&P Global Ratings, Moody's and Fitch Ratings respectively.

Figure 1: BNM key assumptions for the Middle East conflict scenarios

	Baseline: Protracted conflict	Severe Scenario: Prolonged escalation
Brent prices (USD/barrel)	USD85–105 (Point: USD95)¹	USD120–140 (Point: USD130)
March 2026 estimates	USD70–90 (Point: USD80)	USD110–130 (Point: USD120)
Strait of Hormuz	<p>Persistent conflict Hormuz closure duration: <u>three to six months (up to end-August)</u></p> <ul style="list-style-type: none"> Selective passage for Iranian and allied tankers De facto closure through insurance withdrawal and risk aversion 	<p>Prolonged and wider conflict Hormuz closure duration: <u>≥ 6 months</u></p> <ul style="list-style-type: none"> Complete halt of vessel flows (e.g. fully effective U blockade) De facto closure through insurance withdrawal and aversion
Oil and gas output	<ul style="list-style-type: none"> Oil: Production shut-ins due to damaged infra and saturated inventories LNG²: Permanent disruptions causing tight supply in EU and Asia 	<ul style="list-style-type: none"> Oil: Significant and prolonged production shut-ins damaged infra and saturated inventories. Disruptive pipeline bypass LNG: Prolonged disruptions causing shortages in I Asia
Post-resolution	<ul style="list-style-type: none"> Some production scarring from infrastructure damages Gradual price moderation as risk premiums normalise, shipowner confidence restores and countries restock depleted inventories 	<ul style="list-style-type: none"> Severe production scarring from infrastructure d Higher-for-longer prices due to elevated risk prem delayed resumption hinged upon Hormuz flows an production restart timeline
Offsetting factors	<ul style="list-style-type: none"> Release of strategic reserves Pipeline rerouting for Saudi and UAE Selective tanker flows through the Strait of Hormuz Worldwide government demand-supportive policy measures 	<ul style="list-style-type: none"> Further reserve releases, albeit insufficient to cov shortages Recessionary demand destruction begins to conta pressure Ramp up in non-Gulf producers

Source: Bank Negara Malaysia

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
