To Zheng Hong
(603) 7890 8899 (ext 2099)
zhenghong.to@apexsecurities.com.my

2025 GDP Growth	**+5.2%**
2026 GDP Growth Forecast:	**+5.0%**
2025 Export Growth:	**+6.4%**
2026 Export Growth Forecast:	**+16.3%**
2025 Unemployment Rate	**3.0%**
2026 Unemployment Rate Forecast:	**3.0%**
2025 Headline Inflation:	**+1.4%**
2026 Headline Inflation Forecast:	**+2.0%**
End-2025 OPR	**2.75%**
End-2026 OPR Forecast:	**2.75%**

Malaysia Inflation Rate

Benign inflation supports steady OPR outlook

- **Malaysia's headline inflation eased to +1.8% YoY in July (Jun: +1.9%), marginally below consensus of +1.9%, driven mainly by easing transport costs.**
- **Core inflation eased to a one-year low of +1.8% YoY (Jun: +1.9%), pointing to subdued underlying price pressures.**
- **We maintain our 2026 and 2027 inflation forecasts at +2.0% YoY, with upside to price pressures from lagged passthrough of higher business costs, volatility in crude oil prices and El Niño impacts on food prices.**
- **The still-benign inflation outlook supports our expectation for BNM to keep the OPR on hold at 2.75% through 2026.**

Subdued inflation in July

Malaysia's headline inflation eased to +1.8% YoY in July (Jun: +1.9%), marginally below consensus of +1.9%. On a month-on-month basis, inflation was unchanged for a second straight month (Jun: 0.0%), suggesting that price momentum has stabilised following the earlier buildup in price pressures amid global supply chain disruptions.

The moderation was driven mainly by further easing in transport costs (+1.4% YoY; Jun: +2.8%), reflecting lower pump prices for unsubsidised RON95 (RM3.47/litre; Jun: RM3.69/litre), RON97 (RM4.07/litre; Jun: RM4.33/litre) and diesel (RM4.14/litre; Jun: RM4.50/litre). For context, Brent crude averaged USD84.1/bbl in both June and July, down from its peak of USD103.7/bbl in May, providing some relief to domestic energy prices.

Meanwhile, inflation across other categories remained uneven. Food & beverages accelerated to +1.8% YoY (Jun: +1.4%), driven by both “food away from home” (+2.5%; Jun: +2.4%) and “food at home” (+1.2%; Jun: +0.5%). Price pressures were particularly evident in “meat” (+3.2%; Jun: +1.5%), “milk, other dairy products & eggs” (+0.8%; Jun: +0.1%) and “vegetables” (+1.0%; Jun: -1.8%). Nonetheless, the passthrough of higher fertiliser and poultry feed costs into broader food inflation remains relatively contained for now.

Underlying price pressures remain steady

Core inflation eased to a one-year low of +1.8% YoY (Jun: +1.9%), below its 2021-2025 average of +2.1%, pointing to subdued underlying price pressures. The low core reading suggests the absence of excessive demand pressures and steady underlying demand. On a month-on-month basis, core inflation was unchanged for a second consecutive month (Jun: 0.0%), in line with the broader headline inflation trend.

Upside to inflation in 2H26

We **maintain our 2026 and 2027 inflation forecasts at +2.0% YoY**. Inflation has remained relatively stable at 1.7-2.0% since the onset of the Middle East conflict in March, underscoring the limited spillover from supply disruptions thus far. Going forward, existing targeted RON95 and diesel subsidies should continue to keep inflation pressures in check, with the government likely to maintain current measures to cushion households from higher energy prices.

That said, upside to price pressure remains. Several factors could drive price pressures higher in 2H26, including **i) lagged passthrough of higher business input costs** into consumer prices. With PPI rising to a four-year high of +9.2% YoY in June, it is increasingly difficult for businesses to absorb the higher costs without passing them on to consumers; **ii) volatility in crude oil prices** amid prolonged tensions in the Middle East; and **iii) El Niño and related unfavourable weather conditions**, which could drive food prices higher.

OPR to stay put

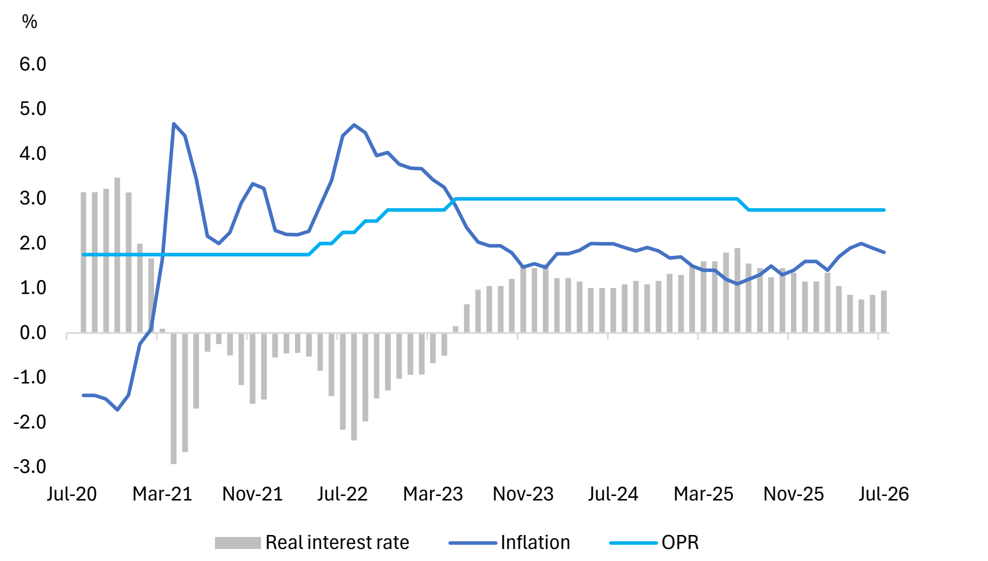
Overall, inflation is likely to remain within BNM's projection range of 1.5%-2.5% YoY in 2026. The still-benign inflation outlook suggests no urgency for BNM to adjust monetary policy at this juncture, supporting our expectation for BNM to **keep the OPR on hold at 2.75%** through 2026.

Figure 1: Inflation Breakdown by Segment

	%	% YoY			
	Weight	2025	May-26	Jun-26	Jul-26
Headline Inflation	**100**	**1.4**	**2.0**	**1.9**	**1.8**
Food & Beverages	29.8	2.1	1.4	1.4	1.8
Alcoholic Beverages & Tobacco	1.9	0.9	2.8	2.8	2.7
Clothing & Footwear	2.7	-0.2	-0.1	0.0	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.6	1.2	1.4	1.8
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.4	0.4	0.3
Health	2.7	1.2	1.2	1.2	1.1
Transport	11.3	0.4	3.8	2.8	1.4
Information & Communication	6.6	-4.3	2.1	2.4	3.4
Recreation, Sports & Culture	3.0	1.1	1.1	1.1	1.2
Education	1.3	2.3	2.2	2.1	2.0
Restaurants & Accommodation Services	3.4	3.2	2.5	2.6	2.0
Insurance & Financial Services	4.0	3.4	4.9	5.7	1.1
Personal Care, Social Protect, Miscellaneous	5.8	4.4	4.8	3.4	2.9
Core Inflation		**2.0**	**2.0**	**1.9**	**1.8**

Source: Department of Statistics, Apex Securities

Figure 2: Inflation eased to +1.8% in July



Source: Department of Statistics, Apex Securities

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

As of **Tuesday, 18 Aug, 2026**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.