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| | |
|---|---|
| **2025 GDP Growth** | **+5.2%** |
| **2026 GDP Growth Forecast:** | **+5.0%** |
| **2025 Export Growth:** | **+6.6%** |
| **2026 Export Growth Forecast:** | **+26.2%** |
| **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

## Policy measures cushion inflation upside

- **Headline inflation edged up to +1.9% YoY in August (Jul: +1.8%), driven by higher transport and electricity costs.**
- **Core inflation eased further in August, pointing to subdued underlying price pressures.**
- **We maintain our 2026 and 2027 inflation forecasts at +2.0% YoY, with upside risks from elevated commodity prices, business cost pass-through and El Niño.**
- **Subsidy policy adjustments should keep price pressures in check, supporting household purchasing power and domestic spending.**
- **We expect BNM to keep the OPR at 2.75% in 2026, before raising it to 3.00% in 2027.**

### Modest pickup in inflation

Malaysia's headline inflation edged up to +1.9% YoY in August (Jul: +1.8%), marginally above consensus of +1.8%. On a month-on-month basis, inflation rose to +0.3% MoM (Jul: 0.0%), pointing to some intermittent buildup in price pressures amid volatility in global energy prices and geopolitical uncertainties.

Price gain was driven mainly by transport (+2.0% YoY; Jul: +1.4%), reflecting higher petrol (+2.1%; Jul: +1.1%) and a slower decline in diesel prices (-10.9%; Jul: -11.5%). Pump prices rose month-on-month, with unsubsidised RON95 (RM3.75/litre; Jul: RM3.47/litre), RON97 (RM4.28/litre; Jul: RM4.07/litre) and diesel (RM4.60/litre; Jul: RM4.14/litre) all rising. Meanwhile, electricity picked up to +3.6% (Jul: +2.2%), due mainly to a higher electricity surcharge under the Automatic Fuel Adjustment (AFA) mechanism (3.80 sen/kWh; Jul: 3.59 sen/kWh).

### Subdued underlying price pressures

Core inflation eased further to +1.7% YoY (Jul: +1.8%), the lowest since Dec-24, pointing to subdued underlying price pressures. The gradual downtrend in core inflation from +2.3% in January suggests some moderation in domestic demand pressures. That said, core inflation remained steady at +2.0% year-to-date (2025: +2.0%). On a month-on-month basis, core inflation rose +0.3% MoM (Jul: 0.0%).

### Subsidy measures to cushion upside risks

We **maintain our 2026 and 2027 inflation forecasts at +2.0% YoY**. Near-term inflation risks remain tilted to the upside, mainly from cost-related pressures. Brent crude has remained above USD100/bbl since early September following a flare-up in the Middle East conflict. Supply concerns have also intensified following the shutdown of Saudi Arabia’s East-West pipeline, with repairs reportedly taking up to five weeks.

Geopolitical tensions and elevated oil prices are likely to **lift domestic transport inflation**, while higher shipping and procurement costs could feed through to broader inflation. Elevated **commodity prices could also keep electricity costs high** in the near term. These pressures have pushed producer inflation higher to +9.7% YoY in July (Jun: +9.2%). The risk of **pass-through to consumer prices** remains, although spillovers appear limited at this juncture. We also remain vigilant over **El Niño, which could add to food inflation**.

Notwithstanding the upside risks, inflation has remained mostly sub-2.0% even amid the Middle East conflict, reflecting **subsidy policy adjustments that have kept price pressures in check**. The government recently restored the BUDI95 monthly quota to 300 litres and raised the BUDI diesel quota to 400 litres effective September. Meanwhile, the household electricity subsidy threshold has been raised to 800 kWh/month from 600 kWh until 31 December, cushioning households from higher electricity costs amid hazier weather conditions. These measures should help **preserve household purchasing power and support domestic spending**.


KDN PP13226/06/2024 (035469)

## One 25-bp hike in 2027

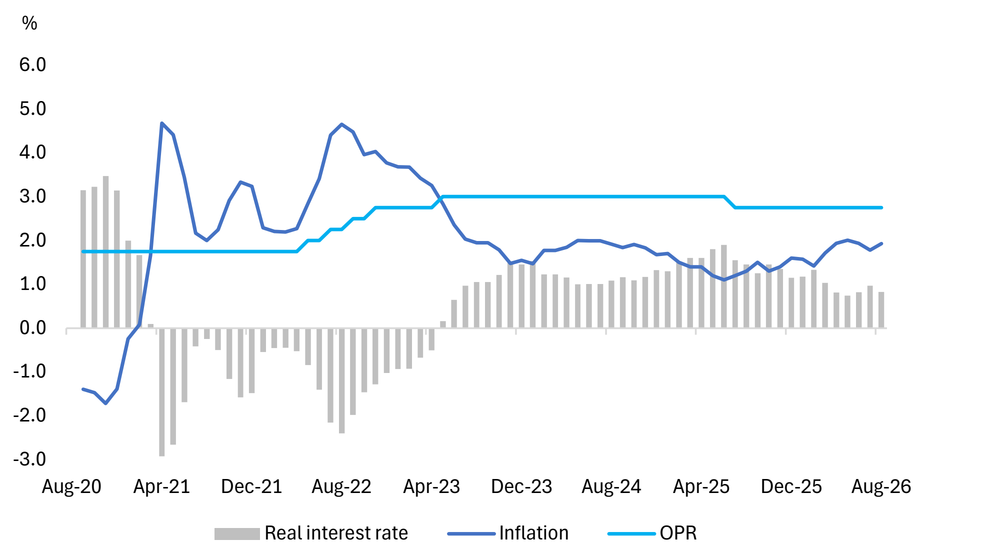
Overall, the still-benign inflation outlook suggests no urgency for BNM to adjust monetary policy at this juncture, supporting our expectation for BNM to **keep the OPR on hold at 2.75% at its upcoming November MPC meeting**. Further out, given the positive domestic economic outlook, steady inflation and monetary tightening in major advanced economies, we expect BNM to **raise the policy rate by 25 bps in 2027**, normalising the OPR to 3.00%.

**Figure 1: Inflation Breakdown by Segment**

| | % | % YoY | | | |
|---|---|---|---|---|---|
| | Weight | 2025 | Jun-26 | Jul-26 | Aug-26 |
| **Headline Inflation** | **100** | **1.4** | **1.9** | **1.8** | **1.9** |
| Food & Beverages | 29.8 | 2.1 | 1.4 | 1.8 | 1.9 |
| Alcoholic Beverages & Tobacco | 1.9 | 0.9 | 2.8 | 2.7 | 2.8 |
| Clothing & Footwear | 2.7 | -0.2 | 0.0 | 0.1 | 0.1 |
| Housing, Water, Electricity, Gas & Other Fuels | 23.2 | 1.6 | 1.4 | 1.8 | 2.1 |
| Furnishings, Household Equipment & Maintenance | 4.3 | 0.2 | 0.4 | 0.3 | 0.4 |
| Health | 2.7 | 1.2 | 1.2 | 1.1 | 1.3 |
| Transport | 11.3 | 0.4 | 2.8 | 1.4 | 2.0 |
| Information & Communication | 6.6 | -4.3 | 2.4 | 3.4 | 2.6 |
| Recreation, Sports & Culture | 3.0 | 1.1 | 1.1 | 1.2 | 1.1 |
| Education | 1.3 | 2.3 | 2.1 | 2.0 | 1.9 |
| Restaurants & Accommodation Services | 3.4 | 3.2 | 2.6 | 2.0 | 2.1 |
| Insurance & Financial Services | 4.0 | 3.4 | 5.7 | 1.1 | 1.0 |
| Personal Care, Social Protect, Miscellaneous | 5.8 | 4.4 | 3.4 | 2.9 | 3.2 |
| | | | | | |
| **Core Inflation** | | **2.0** | **1.9** | **1.8** | **1.7** |

*Source: Department of Statistics, Apex Securities*

**Figure 2: Inflation edged up to +1.9% in August**




*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 **Monday, 21 Sep, 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.