NUS INVESTMENT SOCIETY

Key Macroeconomic Data

Real GDP (USD Bn)	471 (2025)
GDP Growth	5.2% (2025)
M2 (MYR Bn)	2584 (Dec-25)
CPI Inflation (YoY)	1.6% (Dec-25)
PPI (YoY)	-2.7% (Dec -25)
Overnight Policy Rate	2.75% (since Jul-25)
FX Reserves (USD Bn)	126 (Jan-26)
Currency	Malaysia Ringgit (MYR)

Source: Trading Economics

Overview of Malaysia

- Malaysia is a medium-sized, open emerging economy with a GDP of USD 471 billion (2025) anchored by three interlocking growth drivers: export-oriented electronics manufacturing, resource-linked commodities, and domestic consumption. Unlike Singapore's financial-hub model, Malaysia's economic identity is defined by its semiconductor supply chain — the country holds a 13% share of the global back-end packaging, assembly, and testing market, ranking as the world's sixth-largest semiconductor exporter. Secondary export pillars — petroleum products, palm oil and agriculture-related goods, and optical and scientific equipment — provide commodity diversification that pure electronics-play economies like Taiwan or South Korea lack. This combination makes Malaysia simultaneously a leveraged bet on the global semiconductor cycle, a commodity price play, and a domestic reform story.

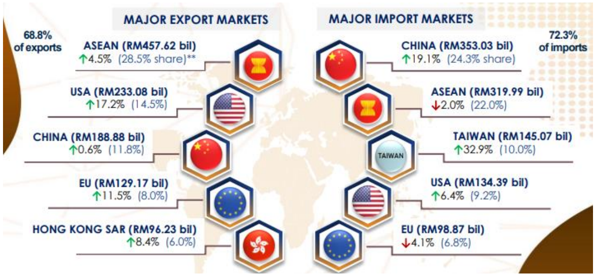
- Monetary policy is conducted by Bank Negara Malaysia (BNM) through a conventional interest-rate framework centred on the Overnight Policy Rate (OPR). In a significant policy shift, BNM cut the OPR by 25 basis points to 2.75% in July 2025 — its first rate move since May 2023 — framing the cut as a preemptive measure to preserve growth momentum amid US tariff uncertainty and moderating global demand. Unlike MAS's exchange-rate management, BNM transmits policy primarily through domestic credit conditions, household balance sheets, and borrowing costs. The OPR has been held at 2.75% since July, with BNM projecting headline and core inflation to average a moderate 1.4% and 1.9% respectively — contained enough to preserve policy flexibility, but with core creeping higher through year-end, limiting the case for further cuts in 2026.

- Fiscal policy, overseen by the Ministry of Finance (MOF), operates under tighter constraints than Singapore's, given Malaysia's elevated public debt levels and structural spending commitments. However, the current government has embarked on a credible fiscal consolidation path — narrowing the deficit from 5.0% of GDP in 2023 to a targeted 3.8% in 2025 and 3.5% in 2026 — anchored by the Public Finance and Fiscal Responsibility Act (FRA), which caps the medium-term deficit at 3.0% and debt at 60% of GDP. The centrepiece reform is subsidy rationalisation, most notably the shift from blanket to targeted fuel subsidies, which represents a significant structural fiscal adjustment.

Figure: Malaysia Semiconductor Industry

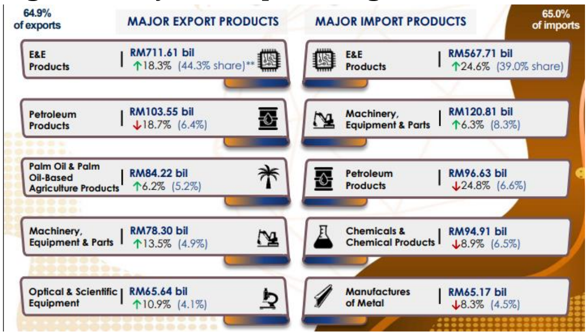
Source: MSIA

Figure: Malaysia's Top Trading Partners 2025



Source: MATrade

Figure: Malaysia's Top Trading Products 2025



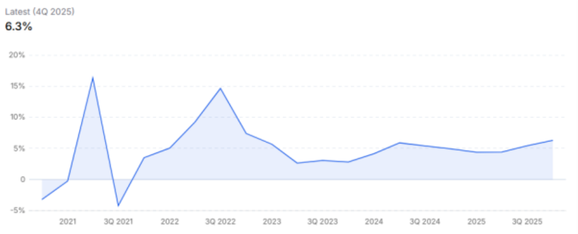
Source: MATrade

Malaysia, Truly Silicon

- Malaysia's trade structure reflects a classic processing-hub dynamic. ASEAN is the largest export destination at RM 457.6 billion (28.5% share), followed by the US at RM 233.1 billion (14.5%) and China at RM 188.9 billion (11.8%). On the import side, China dominates at RM 353.0 billion (24.3%, +19.1% YoY), underscoring Malaysia's dependence on Chinese intermediate inputs, while Taiwan's imports surged 32.9% YoY to RM 145.1 billion — driven by semiconductor wafers and equipment flowing into Malaysia's back-end assembly ecosystem. E&E products account for 44.3% of total exports and 39.0% of total imports, making the sector simultaneously Malaysia's largest export earner and its largest import requirement

- The E&E trade gap — RM 711.6 billion in exports versus RM 567.7 billion in imports — represents the value Malaysia adds within the global chip supply chain, hosting an ecosystem spanning Intel, AMD, Infineon, Jabil, Flex, ViTrox, NationGate, and over 50 other global majors across Penang, the Klang Valley, and Johor (Figure X: Silicon Malaysia). AI infrastructure demand has been a direct tailwind, with E&E exports growing 18.3% in 2025 and the government targeting RM 1 trillion in E&E exports by 2030 under the 13th Malaysia Plan. The structural challenge, however, is well-understood — Malaysia's dominance in back-end packaging and testing leaves it exposed to automation risk and limits value capture relative to front-end wafer fabrication. The NIMP 2030 and the Johor-Singapore Special Economic Zone represent the policy response, but execution is long-dated and competition from Vietnam, India, and Thailand for the same FDI is intensifying.

Figure 1: GDP YoY Growth Momentum



Source: DOSM

Figure 2: Services Sector

Source: DOSM

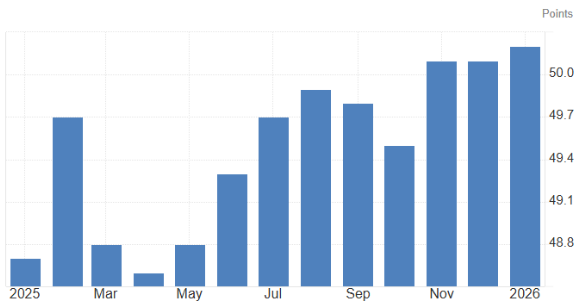
Figure 3: Manufacturing Sector

Source: DOSM

Figure 4: Construction Sector

Source: DOSM

Figure 5: PMI Consistent Expansion



Source: Trading Economics

Boleh, but Watch the Road

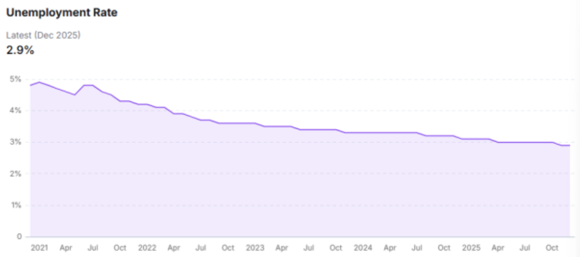
- Malaysia's economy delivered a solid 2025, with full-year real GDP growth coming in at 5.1%. Growth accelerated through the year, with Q4 2025 expanding 6.3% YoY — the strongest quarterly print since mid-2024 — up from 5.4% in Q3 2025 (Figure 1).

- Unlike Singapore, where Q4 was overwhelmingly manufacturing-driven, Malaysia's growth was notably broad-based. Services — the economy's largest sector — grew 6.3% in Q4 2025 and is projected to grow by 5.2% in 2026 underpinned by domestic consumption, tourism recovery, and financial services (Figure 2). Manufacturing accelerated to 6.1% in Q4 2025, driven by the electronics cluster — electrical, electronic, and optical products grew 8.4% in Q3 alone, reflecting sustained global AI-linked semiconductor demand (Figure 3). Construction was the standout performer, surging 11.0% in Q4, supported by ongoing public infrastructure projects and the rollout of the Johor-Singapore Special Economic Zone (JS-SEZ), which is expected to attract up to MYR 2.4 billion in investment over the next decade (Figure 4).

- The manufacturing PMI corroborates the stabilisation narrative. The S&P Global Malaysia Manufacturing PMI held at 50.1 in December 2025 — a second consecutive month in expansion territory and the highest reading since May 2024 (Figure). However, new order growth moderated and purchasing activity stagnated, suggesting the manufacturing recovery is real but fragile.

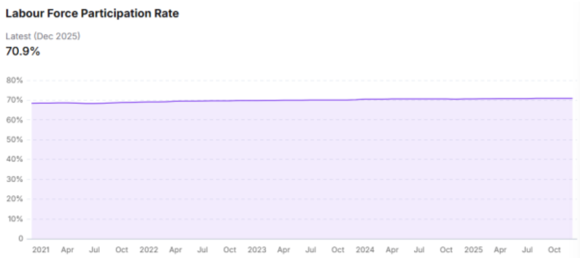
- Looking ahead, consensus GDP forecasts for 2026 cluster around 4.2–5.2%, with the MOF targeting 4.5–5.5%. Growth should be supported by continued E&E demand, the JS-SEZ investment pipeline, and steady household consumption. However, the key risk is tariff escalation: US reciprocal tariffs could weigh on manufacturing exports, and early signs suggest tariffs are already dampening industrial production. Semiconductor-related shipments are expected to remain firm given continued US tariff exemptions on electronics, but broader manufacturing is vulnerable.

Figure 6: Unemployment Rate



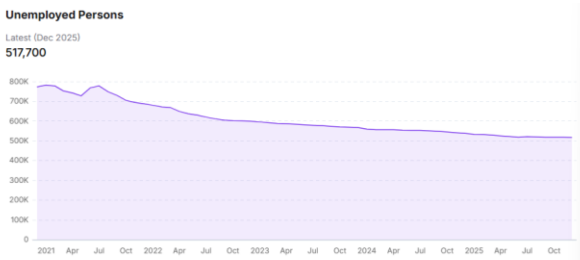
Source: DOSM

Figure 7: Labour Force Participation Rate



Source: DOSM

Figure 8: Unemployed Persons



Source: DOSM

Tight on the Surface, Slack Underneath

- Malaysia's labour market has completed a full post-pandemic normalisation. The unemployment rate fell to 2.9% in December 2025 — its lowest since pre-COVID — continuing a steady descent from the 5.0% peak in mid-2021 (Figure 6). This is corroborated by the absolute number of unemployed persons, which has declined from a COVID-era high of 772,900 to 517,700 by December 2025, a near-halving over four years (Figure 8). Simultaneously, the labour force participation rate has climbed from 68.4% during the COVID era to 70.9% in December 2025 (Figure 7) — meaning more Malaysians are not only finding work, but actively re-entering the workforce. The combination of falling unemployment, rising participation, and shrinking unemployed persons is a textbook full-employment signal.

- The headline, however, masks a persistent structural fault line: skill-related underemployment. As of Q3 2025, 1.96 million degree and diploma holders — approximately 35.5% of all employed graduates — were working in low- or semi-skilled positions, reflecting a fundamental mismatch between what Malaysia's education system produces and what its economy currently demands. The labour market is tight at the aggregate level, but slack at the skill level, and that distinction matters.

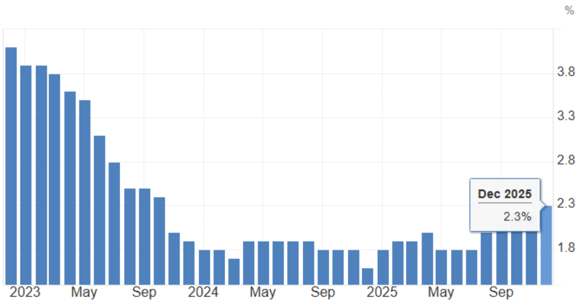
- For the macro-outlook, this duality is actually stabilising rather than concerning. Moderate wage growth — the natural consequence of a market where graduates accept lower-skilled roles — limits the risk of wage-price spirals feeding into services inflation, keeping BNM's inflation outlook benign and reinforcing the case for the OPR to remain on hold. The constraint on domestic demand is real, but so is the constraint on domestic inflation — and for now, that trade-off suits BNM's current stance.

Inflation Dynamics: Benign Headline and Core Is Quietly Creeping Up

Figure 9: Malaysia on a Stable Price Regime

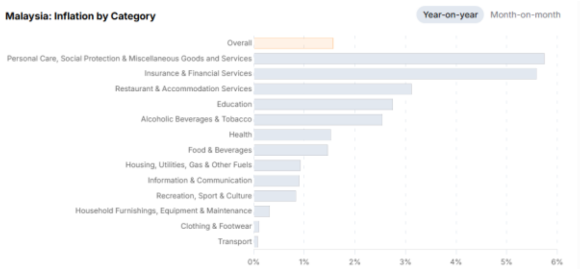
Source: DOSM

Figure 10: Core Inflation Steadily Ticking Up



Source: DOSM

Figure 11: Services are Driving Inflation Pressures



Source: DOSM

Low on the Surface, Hot Underneath

- Malaysia's inflation remained well-contained in 2025, with headline CPI averaging just 1.4% for the full year and printing at 1.6% YoY in December 2025 (Figure 9). This marks the completion of a full post-pandemic price normalisation cycle — headline inflation peaked at approximately 4.7% in mid-2022 before a sustained two-year deceleration brought it back toward the lower bound of historical norms. On the surface, this suggests an economy with no inflation problem and ample room for policy flexibility. The composition, however, tells a more nuanced story.

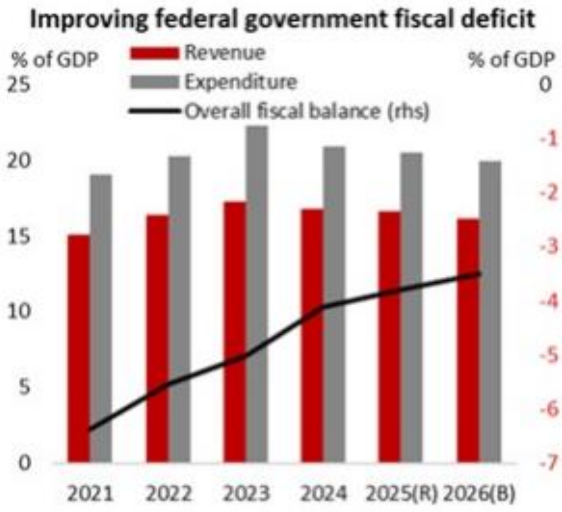
- Core inflation — which strips out volatile fresh food and administered prices — has not simply normalised; it has troughed and reversed. After declining steadily from ~3.8% in early 2023 to a low of approximately 1.8% in mid-2025, core inflation has since rebounded to 2.3% YoY in December 2025, the highest reading since October 2023 (Figure 10). The trajectory — a clear V-shape on the chart — signals that the disinflationary phase is definitively over for underlying price pressures, even as headline remains subdued.

- The category breakdown explains precisely what is driving the rebound (Figure 11). Services dominate the upside: personal care, social protection and miscellaneous goods and services lead at approximately 5% YoY, followed by insurance and financial services at ~4%, restaurant and accommodation services at ~3%, and education at ~2.5%. These are domestically driven categories reflecting wage pass-through, services demand, and structural cost pressures rather than external shocks.

- This divergence mirrors what Singapore is experiencing, though Malaysia's version carries an additional administered layer: subsidy rationalisation. The shift from blanket to targeted diesel subsidies (mid-2024) and the RON95 restructuring under BUDI95 — which retains RM 1.99/litre pricing for 85% of Malaysians while floating prices for the top 15% and non-citizens — have introduced upward price adjustments into specific CPI baskets. The headline CPI impact is estimated at just 0.1pp, but the signalling effect matters more: each rationalisation step establishes the precedent for the next, keeping future upside inflation risks alive even if near-term pass-through is politically managed.

- For 2026, BNM expects headline and core inflation to remain moderate, supported by low global commodity prices and the absence of demand-driven excess. But with core already back at 2.3% and the services inflation trend pointing higher, the burden of proof has shifted — the question is no longer whether inflation can fall further, but whether it stays contained enough to keep BNM on hold.

Figure 12: Fiscal Deficit Narrows Under Gradual Consolidation



Source: CEIC, MOF, DBS

Fixing the Book Slowly

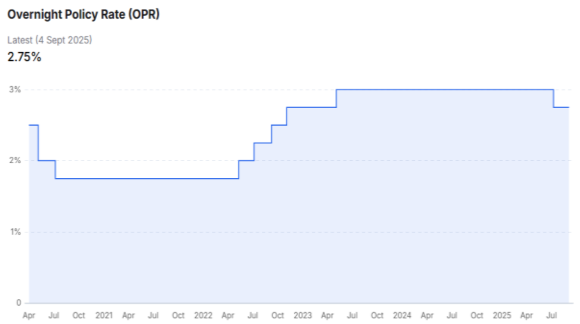
- Malaysia's fiscal trajectory has improved materially. The federal deficit narrowed from 5.0% of GDP in 2023 to 4.3% in 2024, with a target of 3.8% in 2025 and 3.5% in 2026 (Figure 12). Revenue is projected to rise to RM 343.1 billion in 2026 without new taxes, supported by expanded Sales and Service Tax (SST) coverage, e-invoicing rollout, and phased introduction of a carbon tax by late 2026.

- The headline consolidation story is credible, anchored by the Fiscal Responsibility Act and visible in the declining deficit trajectory. However, the composition warrants scrutiny. Subsidy expenditure was cut 14.4% YoY to RM 52.6 billion in the 2026 budget, reflecting the diesel subsidy rationalisation and planned RON95 restructuring. But the RON95 scheme's generous design — retaining subsidised pricing for 85% of the population — means actual fiscal savings may be limited. Some estimates suggest the RON95 subsidy bill could increase by 0.1% of GDP under the current mechanism, as lower per-litre pricing increases consumption volumes.

- The medium-term fiscal anchor remains the FRA's targets: deficit capped at 3.0% and debt at 60% of GDP. The government is making incremental but genuine progress toward these goals, which supports sovereign credit credibility and, by extension, ringgit stability and MGS demand. But the pace of consolidation depends heavily on political willingness to extend subsidy reform beyond the current cautious measures.

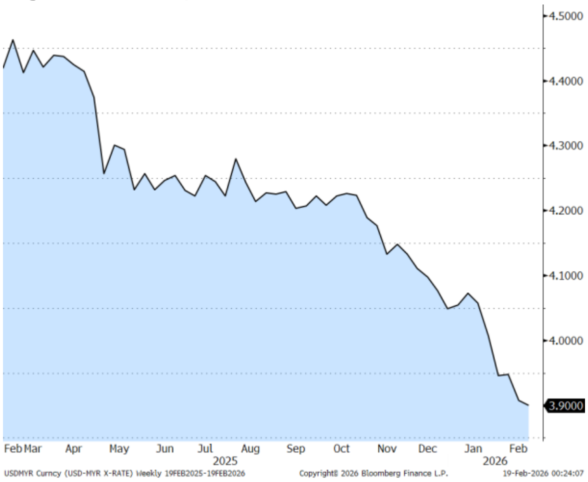
Monetary Policy: On Hold, and Likely to Stay That Way

Figure 13: BNM Rate Path



Source: DOSM

Figure 14: USD/MYR 1-Year Chart



Source: Bloomberg

Goldilocks Zone at 2.75% - Letting the Ringgit Do the Work

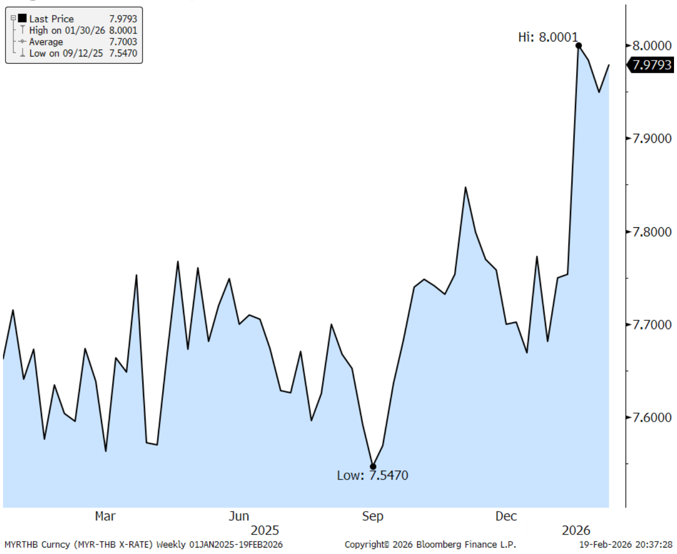
- BNM has maintained the OPR at 2.75% through all of 2025 and into January 2026, a stance it has held since May 2023 (Figure 13). The rationale is straightforward: growth is resilient (~6.3% GDP), headline inflation is contained (~1.6%), and the labour market is at full employment (~2.9% unemployment). There is neither the inflation overshoot that would justify a hike nor the growth weakness that would warrant a cut. BNM has described the current rate as "appropriate and supportive of the economy amid price stability."

- The consensus view — shared by BMI, Kenanga, and most sell-side houses — is that the OPR remains at 2.75% through 2026. A minority see scope for a 25bp cut if growth slows more sharply, but this is not the base case. The key consideration preventing a cut is core inflation's upward drift to 2.3% — even though headline is benign, BNM will be reluctant to ease into rising underlying price pressures, particularly with further subsidy rationalisation on the horizon.

- An important supporting factor for the hold stance is the ringgit. MYR appreciated approximately ~10% against the USD in 2025, making it one of the strongest performers in Asia (Figure 14). BNM's international reserves climbed to USD 126 billion as of January 2026 — the highest level in 11 years — reflecting persistent current account surpluses, strong E&E export inflows, and exporter repatriation.

- The stronger ringgit effectively does some of the work of monetary tightening by dampening imported inflation, reducing the need for BNM to raise the OPR. Conversely, cutting the OPR could risk unwinding some of the ringgit's gains, which BNM views favourably as a stabilising anchor.

Figure 15: MYR/THB 1-Year Chart



Source: Bloomberg

Figure 16: Johor-Singapore Special Economic Zone

Source: Enterprise Singapore

Trade Rationale

Long MYR Leg

Malaysia's macro backdrop provides a structurally supportive foundation for ringgit appreciation. Growth came in at 5.1% for 2025, broad-based across services, manufacturing, and construction, with the current account in persistent. BNM's international reserves climbed to USD 126 billion by January 2026, an 11-year high, reflecting sustained FX inflows from record E&E exports and exporter repatriation. The ringgit has already appreciated ~10% against the USD in 2025, demonstrating that fundamental support is translating into FX performance.

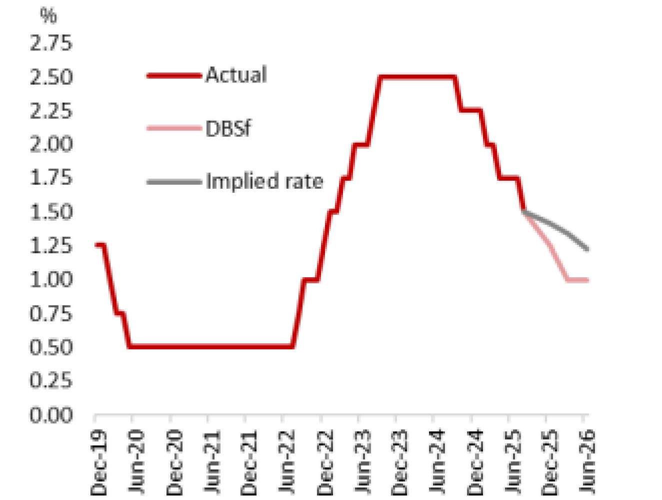
Critically, BNM's hold at 2.75% is not passive — it is a deliberate choice to preserve the ringgit's stabilising function. With core inflation drifting higher to 2.3%, BNM has no urgency to cut further, keeping the rate differential anchored in MYR's favour. The fiscal consolidation trajectory — deficit narrowing from 5.0% to a targeted 3.5% by 2026, underpinned by the Fiscal Responsibility Act — adds sovereign credit credibility that accrues to the currency over time, attracting foreign inflows into MGS and equities alike.

MYR Catalyst: JS-SEZ Goes Operational

The single most important near-term catalyst for MYR is the Johor-Singapore Special Economic Zone. The JS-SEZ — spanning over 3,500 square kilometres with a 5% corporate tax rate for 15 years across 11 priority sectors including AI, quantum computing, medical devices, and advanced manufacturing (Figure 16). The pivotal trigger is the RTS Link cross-border rail, opening December 2026, which reduces travel time between Johor Bahru and Singapore to six minutes and unlocks seamless movement of goods, services, and talent across the zone.

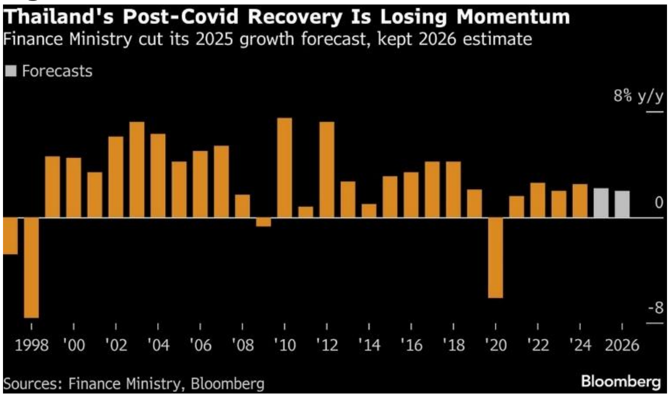
As construction milestones and investment announcements accelerate through 2026, the JS-SEZ transforms from a policy announcement into a concrete capital flow catalyst — bringing a sustained wave of FDI-linked MYR demand that is structural, not cyclical.

Figure 17: Thailand Policy Rate



Source: Bloomberg, CEIC, DBS Estimates

Figure 18: Thailand Revised 2025 Growth Downwards



Source: Bloomberg

Figure 19: Fibonacci Retracement

Source: TradingView

Figure 20: Trade Setup

Source: TradingView

Short THB Leg

Thailand presents the structural mirror image of Malaysia. Growth forecasts for 2026 cluster at 1.5–1.7% (Figure 18) — the weakest in three decades outside of crisis periods — reflecting a simultaneous deterioration across every growth lever: household consumption constrained by debt at 87.4% of GDP and persistently elevated NPLs, private investment suppressed by political uncertainty and weak business confidence, and export competitiveness eroded by a baht that has remained stubbornly firm despite the BoT's aggressive easing. The central bank has cut rates five times totalling 125 basis points over the past year, bringing the policy rate to 1.25% in December 2025 — and the market consensus of 23 economists surveyed by Reuters expects a further cut to 1.00% by 1H 2026. Each cut widens the carry differential against MYR dynamically, making the short THB leg cheaper to hold over time rather than more expensive.

THB Catalyst: BoT Cuts to 1.00%, GDP Forecast Revised Down Again

The immediate catalyst for THB weakness is the anticipated final 25bp cut from 1.25% to 1.00% in 1H 2026 through 2026–2027 (Figure 17). When this cut materialises, two things happen simultaneously: the carry on short THB widens to +1.75% annually, and the rate cut itself signals to markets that the BoT has exhausted conventional tools against structural headwinds, reinforcing the bearish THB narrative. The BoT's own revised 2026 GDP forecast of 1.5% — already one of the lowest in Asia — carries further downside risk if US tariffs broaden to Thailand's export base, which lacks Malaysia's semiconductor exemption protection. A further downward revision to sub-1.5% growth would accelerate THB selling.

Technical

On the MYR/THB chart (Figure 20), price has staged a sharp V-shaped recovery from the January 2026 lows (~7.630, near the 78.6% retracement) back to current 7.981, reclaiming the 23.6% Fibonacci retracement level (7.940). The entry at 7.958 sits just above the 23.6% fib (7.940) — which acts as near-term support. The SL at 7.871 sits between the 23.6% (7.940) and 38.2% (7.856) retracement levels, giving the trade room to breathe through intraday noise while invalidating on any sustained break back into the green zone — a level that would suggest the recovery has failed. The TP at 8.088 is a clean break above the prior high (8.076), targeting the pink resistance zone where sellers previously defended.

We initiate a long position at 7.958, with a stop loss at 7.871 and a take profit at 8.088 with a 1–3-month horizon. This trade yields a reward to risk ratio of 1.5:1 (Figure 20).

Entry	7.958
Stop Loss	7.871
Risk	0.087
Take Profit	8.088 (1.5:1 ratio)
Reward	0.130
Reward: Risk	1.5:1
Carry	+1.50%

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