

25 July 2025

AmFunds Management Berhad Market Update

Prime Minister Datuk Seri Anwar Ibrahim Appreciation Announcements

On 23 July 2025, Prime Minister Datuk Seri Anwar Ibrahim made a Citizen's Appreciation Speech in which he announced a few measures. Some of the measures which could impact markets include:

- *Sumbangan Asas Rahmah* ("Sara") initiative, where a one-off cash aid of RM100 will be given to every Malaysian citizen aged 18 and above
- Toll rate hikes for 10 highways will be postponed
- A targeted subsidy for RON95 petrol where eligible Malaysians will be paying RM1.99 per litre, from the current RM2.05
- Expansion of *Jualan Rahmah MADANI*. This program, which offers essential goods at lower prices, will increase its frequency and reach

The additional cash incentive and allocation for *Jualan Rahmah MADANI*, along with low unemployment rate of 3%, should continue to underpin private consumption spending [which accounted for 60.7% of Gross Domestic Product ("GDP") in 2024]. This would help to cushion against downside risks from external uncertainty. The potential cut in RON95 to RM1.99 for eligible motorists is also positive in capping inflationary pressures.

Fiscal Impact

The additional spending of RM2.0b on the cash assistance, RM0.5b compensation to toll operators and RM0.6b for *Jualan Rahmah MADANI* sums to RM3.1b. The recent Sales and Service Tax ("SST") expansion effective 1 July 2025 is projected to raise RM5b in 2025 which is RM1b short of the budgeted RM6b collection for 2025.

The net additional spending will be **higher by RM4.1b**, pushing the budget deficit for 2025 to **4.0% versus targeted budget deficit 3.8%** but would still be a marginal improvement from a 4.1% deficit in 2024 (2023: 5.0% deficit).

The Government has guided a slight shift in timeline for RON95 subsidy rationalization that was targeted to reduce expenditure by c. RM4b in Budget 2025 that was due to be implemented mid-year. With this policy mentioned in conjunction with the SARA initiative, we take this as an indication that implementation will likely be sometime this year.



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Inflation impact

Headline inflation for June 2025 came in at 1.1% Year-Over-Year (“YoY”), the slowest pace since February 2021. Average headline inflation stands at 1.4% for the first 6 months of the year, well below Bank Negara Malaysia (“BNM”)’s projected 2.0-3.5% for the year. Second-round effects of the SST expansion [first round effect only impacts 3% of the Consumer Price Index (“CPI”) basket] should provide some upward pressure for inflation. However, with RON95 petrol now expected to be lowered to RM1.99 from RM2.05 per litre for some 18 million of the population (c.50%) while the top tier (T20 or T15 and higher) pays market price, impact on inflation could be muted. Inflation is likely to be at the lower end of BNM’s range of 2.0-3.5% for 2025 and could even be marginally below the low end of the range.

The SARA cash aid totalling RM2b would have minimal impact on CPI and cost of living, given that the RM100 per adult can only be spent on essential goods, of which many are price controlled.

Impact on Equity Market

Sector wise, the consumer sector is the biggest beneficiary. RM100 cash handouts to all adults and the reduction in RON95 petrol price from RM2.05 to RM1.99 per litre increases short-term spending power. The impact is marginal compared to our per capita GDP of USD11,867 in 2024 (or roughly RM4400 per month), as RM100 is equivalent to around 2.2% of our monthly GDP/capita. As the use will be restricted to the purchase of basic goods, the beneficiaries will include selected retailers, consumer staples, Food and Beverage (“F&B”) outlets and e-commerce platforms. Other beneficiaries of increased spending include retail Real Estate Investment Trusts (“REITs”) that could benefit from higher turnover rent. Some of the beneficiaries are listed on Bursa Malaysia and AmInvest will factor in relevant information including this in our investment process.

Impact on Bond Market

There will be little impact to the broad bond market.

However, in relation to the freeze on 10 toll rate hikes, there could be some impact on toll issuers. AmInvest has identified the concessionaires which are more susceptible to a freeze in toll rate hikes and potential delays in government compensation payments, which is not something totally new in the Malaysia toll roads sector. We will actively monitor the situation and information. At this juncture, we remain comfortable with the sector as from historic examples and stress testing, even the most sensitive concessionaires will remain financially sound.

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