

Malaysia Consumer Price Index

Headline inflation slows in July, core inflation accelerates to 18-months high

OVERVIEW

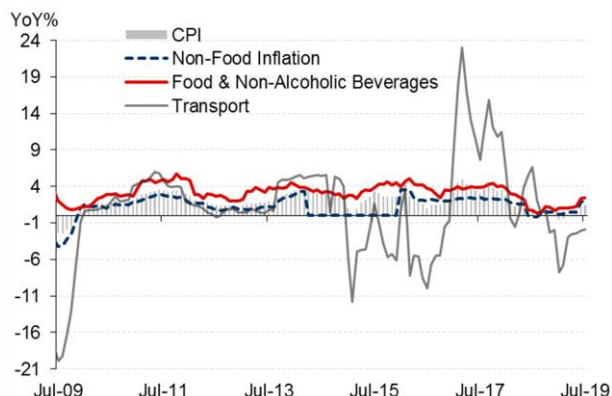
- Headline inflation growth marginally eased to 1.4% YoY in July (Jun: 1.5%),** slightly below consensus and house estimate of 1.5% and 1.6% respectively. On a MoM basis, inflation rebounded marginally by 0.1%. Meanwhile, the core inflation rose to its highest in 18-months (2.0% YoY; Jun: 1.9%). July's inflation was influenced by a low base effect following the removal of the Goods and Services Tax in June 2018, as well as the low-price ceiling imposed on domestic fuel prices and adjustment in the retail oil pricing mechanism since early this year.
- The lower CPI growth was largely weighed by housing, water, electricity, gas and fuel as well as transport indices.** The former slowed to 1.9% YoY in July after it spiked up in June (2.3%). In a similar direction, the transport index fell by 1.9% YoY albeit at a slower pace (Jun: -2.1%), partly due to lower average Brent crude oil price which dropped 13.9% YoY in July to USD63.9/barrel (July 2018: USD74.3/barrel) on growing concerns over escalating US-China trade tension. However, on MoM it rebounded by 0.2% after it fell 0.3% in June. Going forward, we expect inflation to remain subdued in the near term as Brent crude oil price has dipped below USD60/barrel since August 6. OPEC's decision to extend oil output curbs until March 2020, geopolitical tension arising from the US-Iran conflict, and Saudi Arabia's planned oil exports cuts, may only curb a sharper fall in oil prices amid looming global economic slowdown due to concerns over growing trade disputes among other countries triggered by the US-China trade war
- Mix inflation trends across the advanced and developing economies.** US inflation expanded by 1.8% YoY in July (Jun: 1.6%) beating consensus, driven by gains in energy prices and other goods. Meanwhile, inflation in the Eurozone eased to 1.1% YoY in July (Jun: 1.3%), moving further away from the European Central Bank's (ECB) target of 2.0%, giving more reason for the ECB to add further stimulus in September's meeting as the economic outlook worsened following a GDP growth contraction in Germany and UK in 2Q19. Within ASEAN, inflation in Indonesia and Thailand rose in July on higher food prices.
- While 3Q19 inflation is expected to increase between 1.0-1.5% YoY versus 0.6% recorded in 2Q19, **we expect any inflationary pressure to remain contained and forecast the CPI to average 0.7% in 2019 (2018: 1.0%).** The disinflationary trend may delay the implementation of the targeted fuel subsidy mechanism to replace the current price cap. Besides, growth slowdown in the global economy and concerns over the prolonged trade war as well as rising geopolitical risks are expected to dampen domestic price pressure. Hence, this would provide more scope for BNM to cut its policy rate should a further weakening of global growth weigh on domestic demand and GDP growth.

Table 1: Global Inflation (% YoY)

	Feb -19	Mar -19	Apr -19	May -19	Jun -19	Jul -19
Eurozone	1.5	1.4	1.7	1.2	1.3	1.1
China	1.5	2.3	2.5	2.7	2.7	2.8
Korea	0.5	0.4	0.6	0.7	0.7	0.6
Indonesia	2.6	2.5	2.8	3.3	3.3	3.3
Japan	0.7	0.8	0.9	0.8	0.6	n/a
Singapore	0.5	0.6	0.8	0.9	0.6	n/a
Thailand	0.7	1.2	1.2	1.1	0.9	1.0
USA	1.5	1.9	2.0	1.8	1.6	1.8

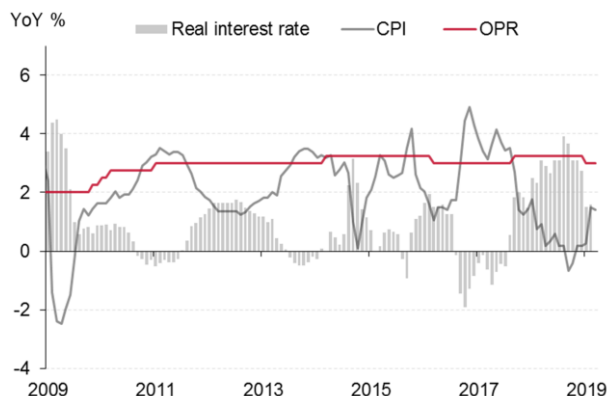
Source: Bloomberg, Kenanga Research

Graph 1: CPI Growth by Main Categories



Source: Dept. of Statistics, Kenanga Research

Graph 2: Real Interest Rate on Positive Trend



Source: Bloomberg, Kenanga Research

15 August 2019

Table 2: Malaysia Consumer Price Index Growth Trend (% YoY)

Base 2010=100	weight	2016	2017	2018	Jul -18	Feb -19	Mar -19	Apr -19	May -19	Jun -19	Jul -19
CPI	100.0	2.1	3.8	1.0	0.9	-0.4	0.2	0.2	0.2	1.5	1.4
Core Inflation	70.5	2.5	2.3	0.8	-0.2	0.3	0.5	0.5	0.4	1.9	2.0
Food & Non-Alcoholic Beverages	29.5	3.8	3.9	1.6	0.7	1.0	1.1	1.1	1.2	2.3	2.4
Alcoholic Beverages & Tobacco	2.4	17.2	0.2	-0.1	-0.8	1.1	1.1	1.2	1.3	2.1	2.3
Clothing & Footwear	3.2	-0.4	-0.4	-2.0	-3.0	-3.2	-3.0	-3.2	-3.2	-0.7	-1.1
Housing, Water, Electricity, Gas & Other Fuels	23.8	2.4	2.2	2.0	2.0	2.0	2.0	2.0	1.8	2.3	1.9
Furnishing, Household Equipment & Routine Household Maintenance	4.1	2.4	2.2	0.4	-1.7	0.1	0.3	0.2	0.5	3.1	3.3
Health	1.9	2.7	2.6	0.8	0.0	-0.4	-0.2	-0.3	-0.3	1.2	1.3
Transport	14.6	-4.6	13.2	1.5	6.7	-6.8	-3.0	-2.6	-2.5	-2.1	-1.9
Communication	4.8	-1.6	-0.3	-1.8	-3.9	-1.2	-1.1	-1.1	-0.9	2.1	2.1
Recreation Services & Culture	4.8	2.5	1.9	-0.4	-2.4	-0.4	-0.4	-0.4	-0.4	2.7	2.4
Education	1.3	2.2	1.6	1.1	1.0	1.3	1.3	1.2	1.2	1.4	1.4
Restaurants & Hotels	2.9	2.8	2.5	1.5	1.0	1.3	1.0	0.8	0.6	1.6	1.7
Miscellaneous Goods & Services	6.7	2.9	1.2	-1.4	1.8	-2.2	-2.0	-2.0	-2.1	1.4	1.8

Source: Dept. of Statistics, Kenanga Research

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