

Malaysia Consumer Price Index

August 1.5% uptick driven by higher food price index, core inflation unchanged

- **Headline inflation growth increased marginally to 1.5% YoY in August (Jul: 1.4%),** matching consensus but a tad lower than house estimate of 1.6%. On a MoM basis, inflation grew by 0.2% (Jul: 0.1%). Meanwhile, the core inflation remained at 2.0% YoY for two straight months. August's inflation growth remained influenced by a low base effect due to the three-month tax holiday period following 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.
- **August's CPI uptick was largely driven by food & non-alcoholic beverage (2.6% YoY; Jul: 2.4%), alcoholic beverage & tobacco (2.5% YoY; Jul: 2.3%), miscellaneous goods & services (2.5% YoY; Jul: 1.8%), and communication (2.2% YoY; Jul: 2.1%) indices.** In the opposite direction, the transport price index continued to contract albeit higher at -2.1% YoY (Jul: -1.9%) largely due to lower average crude oil price in August which fell to USD59.04/barrel (Jul: USD63.92/barrel) on growing concerns over escalating US-China trade tension as well as the prospect of growth slowdown in the major economies namely China and the Eurozone. Though the transport price index may rebound due to a temporary spike up in crude price in September

Table 1: Global Inflation (% YoY)

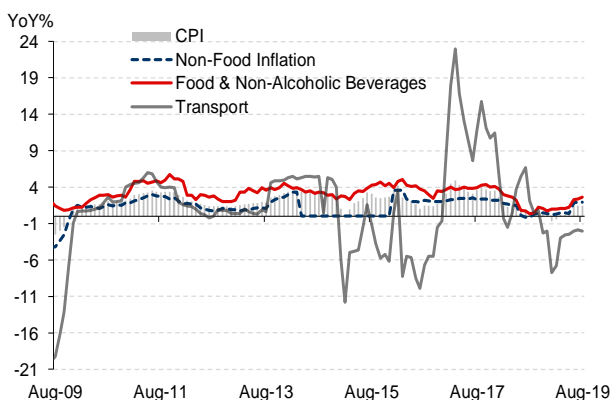
	Mar -19	Apr -19	May -19	Jun -19	Jul -19	Aug -19
Eurozone	1.4	1.7	1.2	1.3	1.0	1.0
China	2.3	2.5	2.7	2.7	2.8	2.8
Korea	0.4	0.6	0.7	0.7	0.6	0.0
Indonesia	2.5	2.8	3.3	3.3	3.3	3.5
Japan	0.8	0.9	0.8	0.6	0.6	0.5
Singapore	0.6	0.8	0.9	0.6	0.4	0.5
Thailand	1.2	1.2	1.1	0.9	1.0	0.5
USA	1.9	2.0	1.8	1.6	1.8	1.7

Source: Bloomberg, Kenanga Research

following a drone attack on Saudi's Aramco major refinery causing a major supply disruption, we expect the upside risk would be limited as the domestic fuel price remained under control via government subsidy.

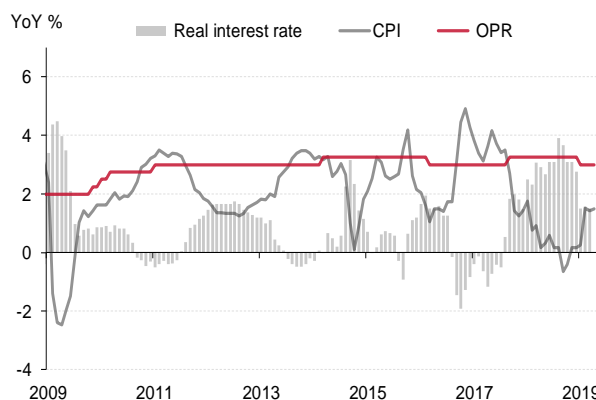
- **Mixed inflation trends across the advanced and developing economies.** US inflation grew slightly slower at 1.7% YoY in August (Jul: 1.8%) due to a big drop in the cost of gasoline and other energy products, prompting the Fed to cut its benchmark interest rate by another 25 basis points (bps) on Sep 18. Meanwhile, inflation in the Eurozone remained at 1.0% YoY in August for the second straight month, allowing European Central Banks (ECB) to cut key rates by 10 bps to -0.50% in September and relaunched QE to support the ailing eurozone economy. Within ASEAN, inflation in Indonesia accelerated in August on higher food prices and education fee, but still well within Bank Indonesia's inflation target range of 2.5-4.5%.
- Year-to-date, headline inflation grew by just 0.5% YoY (Jan-Aug 2018: 1.3%). While 3Q19 inflation is expected to increase between 1.0-1.5% YoY (2Q19: 0.6%), we expect any inflationary pressure to remain benign in the absence of domestic demand pull factor going forward. Our 2019 CPI forecast is 0.7% (2018: 1.0%). A slowing global economy and elevated uncertainties over the prolonged US-China trade feud as well as rising geopolitical tension in the Middle East are expected to weigh on domestic price pressure. **This would provide more scope for BNM to cut its policy rate at its next and last Monetary Policy Committee meeting for the year in November as growth is expected to further loose its traction in the 2H19.**

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

26 September 2019

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

Base 2010=100	weight	2016	2017	2018	Aug -18	Mar -19	Apr -19	May -19	Jun -19	Jul -19	Aug -19
CPI	100.0	2.1	3.8	1.0	0.2	0.2	0.2	0.2	1.5	1.4	1.5
Core Inflation	70.5	2.5	2.3	0.8	-0.2	0.5	0.5	0.4	1.9	2.0	2.0
Food & Non-Alcoholic Beverages	29.5	3.8	3.9	1.6	0.4	1.1	1.1	1.2	2.3	2.4	2.6
Alcoholic Beverages & Tobacco	2.4	17.2	0.2	-0.1	-1.0	1.1	1.2	1.3	2.1	2.3	2.5
Clothing & Footwear	3.2	-0.4	-0.4	-2.0	-2.9	-3.0	-3.2	-3.2	-0.7	-1.1	-1.1
Housing, Water, Electricity, Gas & Other Fuels	23.8	2.4	2.2	2.0	2.0	2.0	2.0	1.8	2.3	1.9	1.8
Furnishing, Household Equipment & Routine Household Maintenance	4.1	2.4	2.2	0.4	-1.7	0.3	0.2	0.5	3.1	3.3	3.2
Health	1.9	2.7	2.6	0.8	0.0	-0.2	-0.3	-0.3	1.2	1.3	1.4
Transport	14.6	-4.6	13.2	1.5	2.1	-3.0	-2.6	-2.5	-2.1	-1.9	-2.1
Communication	4.8	-1.6	-0.3	-1.8	-4.0	-1.1	-1.1	-0.9	2.1	2.1	2.2
Recreation Services & Culture	4.8	2.5	1.9	-0.4	-2.2	-0.4	-0.4	-0.4	2.7	2.4	2.3
Education	1.3	2.2	1.6	1.1	1.1	1.3	1.2	1.2	1.4	1.4	1.4
Restaurants & Hotels	2.9	2.8	2.5	1.5	0.7	1.0	0.8	0.6	1.6	1.7	1.7
Miscellaneous Goods & Services	6.7	2.9	1.2	-1.4	-3.0	-2.0	-2.0	-2.1	1.4	1.8	2.5

Source: Dept. of Statistics, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

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Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

