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Malaysia Consumer Price Index

April inflation eases as fuel prices moderate

Economics

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OVERVIEW

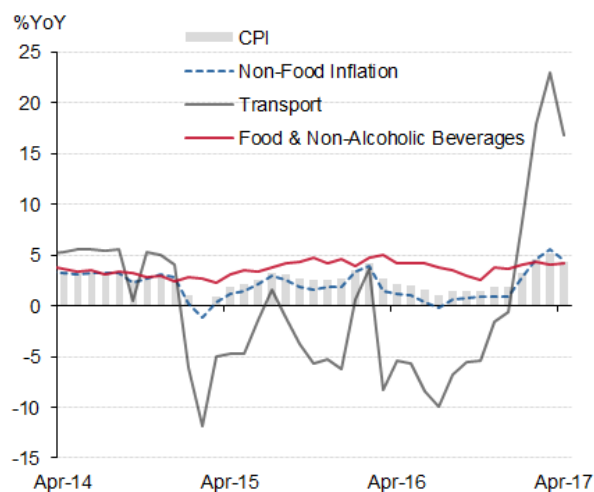
- CPI growth eases and within house expectation.** April's consumer price grew at a slower pace of 4.4% YoY after hitting an eight year high of 5.1% in March. This is close to Bloomberg's median estimates for 4.5% and in line with the house's estimates of 4.4%.
- Transportation index likely peaked in March.** The transportation index rose by a slower 16.7% YoY (Mar: 23.0%), remaining as among the largest contributor to headline inflation. In MoM terms, the sub-index shrunk 1.9% (Mar: -0.3%). Food price growth remained at 4.1%, similar to that of the previous month.
- Elevated inflation to stay.** We believe that inflation has most likely peaked in March. However, due to a lower base, inflation will likely be elevated for the rest of the year above 4.0%, at least for 2Q17 and 3Q17. We project an inflation of around 4.4% both for 2Q17 and 2017.
- Broader price trends in check.** With core inflation remaining at 2.5% for the third consecutive month, we believe that there is no immediate need to dampen inflation in the near future. As such, we reiterate our 3.00% OPR forecast, at least for the next six months.

Consumer price index likely peaked. The consumer price index likely peaked in April with a 4.4% YoY expansion, coming off from a 100-month high (since November 2008) observed in March. This was just slightly below Bloomberg's median estimate of 4.5% (4.1-4.9%) but was in line with the house's estimates of 4.4%. In MoM terms, inflation fell 0.3% (Feb: -0.1%). After seasonal adjustment, the CPI also fell 0.3% MoM (Feb: -0.1%). Broader price trends, as measured by the core inflation, registered a 2.5% growth for the third consecutive month since February.

Transportation inflation coming off. The transportation index (comprising 13.7% of headline CPI) grew at a more moderate 16.7% YoY in April (Mar: 23.0%) after hitting about a 123-month high during the previous month. This came as the weighted average retail fuel prices saw broad-based declines during April.

Lower price at the pump. Weighted average retail prices for RON95, RON97 and diesel prices fell to MYR2.21/litre, MYR2.48/litre and MYR2.14/litre respectively in April (relative to March's MYR2.29/litre, MYR2.59/litre and MYR2.19/litre respectively). Indeed, on a month-on-month basis, the transportation index fell -1.9% (Mar: -0.3%) after surging 5.9% and 5.5% MoM in January and February respectively. April was also the first full month where the weekly oil price announcement was implemented. While April's fuel retail prices rose for three consecutive weeks from its end-March prices, retail fuel prices remained below the March averages and indeed, eased somewhat in the fifth week of April.

Graph 1: CPI Inflation by Main Categories



Source: Dept. of Statistics, Kenanga Research

Food prices broadly higher. The food and non-alcoholic beverages sub-index saw a modest 4.1% growth (Mar: 4.1%) with broad based increases among most food categories, notably a 39.1% increase in oil and fats (largely attributable to the Cooking Oil Price Stabilisation Scheme), a 6.2% increase in fish and seafood and the 4.9% increase in the food away from home sub-category. Milk & eggs, and coffee, tea, cocoa & non-alcoholic beverages stood out as the few subcategories that saw a mild deflation during the period. On a MoM basis, food prices rose by just 0.1% (Mar: -0.3%). This was a slight contrast with FAO's food price index which declined 1.8% on a MoM basis as most of its constituent commodity indices subsided with the exception of the FAO Meat Price Index which rose 1.7% MoM.

Housing, water, electricity, gas and other fuels somewhat stable. The housing, water, electricity, gas and other fuel sub-index (comprising 23.8% of headline CPI) grew at a slightly higher 2.2% YoY (Mar: 2.1%) though this was largely attributed to a slight base effect given that the sub-index continued to be flat on a MoM basis (Mar: 0.0%).

Mixed inflation outlook. Inflation was mixed globally in April, with US reporting marginally lower inflation of 2.2% (Mar: 2.4%) even as the Fed seeks signs of firming prices. Elsewhere, inflation grew at a faster clip in the Eurozone and China at 1.9% and 1.2% respectively (Feb: 1.5% and 0.9%) as these economies continue to see broader economic recovery. Closer to home, inflation were mixed with Indonesia reporting a higher 4.2% inflation (Mar: 3.6%) while inflation were slower in Vietnam and Thailand at 4.3% and 0.4% respectively (Mar: 4.7% and 0.8% respectively).

OUTLOOK

Inflation likely peaked but will remain elevated for 2Q17. With April's numbers suggesting that inflation most likely peaked in March, we expect consumer price growth to continue decelerating come May. Furthermore, retail prices of fuel eased further in the second and third week of May, well below April's averages. However, we believe that inflation is likely to remain above the 4.0% mark for the rest of 2Q17 and possibly 3Q17 from lower base effect of 2016 post-oil price adjustments at the beginning of the year. As such, we believe that 2Q17 inflation is likely to be around 4.4%, exceeding the 4.3% inflation observed in 1Q17, barring sharp movements especially for crude oil prices. Our full year inflation forecast remains at 4.4% for 2017.

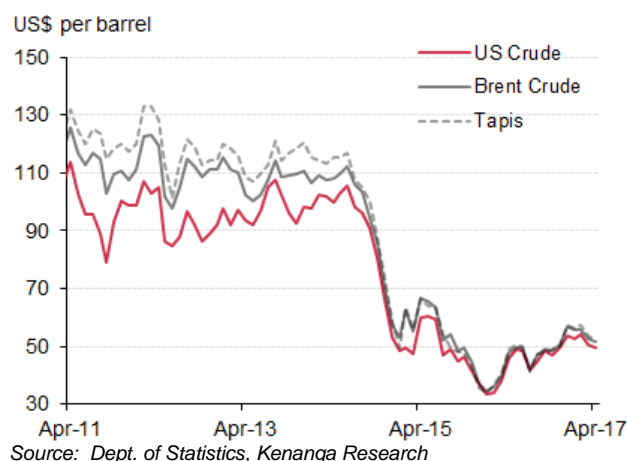
Highly dependent on oil. As hinted earlier, the trajectory of crude oil prices will be highly influential in determining the evolution of inflation, at least for 2017. While initial retail fuel prices have trended downward for the first three weeks of May as per the weekly oil price announcements, global oil prices have firmed somewhat on suggestions that key OPEC members (and major oil producer, Russia) are warming up to the idea of an oil cut extension. At the minimum, this deal will likely keep oil prices elevated at USD50-55/barrel; a stronger rally may see oil prices temporarily breaching above the USD55/barrel resistance though likely

Table 1: Global Inflation (% YoY)

	Nov -16	Dec -16	Jan -17	Feb -17	Mar -17	Apr -17
Eurozone	0.6	1.1	1.8	2.0	1.5	1.9
China	2.3	2.1	2.5	0.8	0.9	1.2
India	2.6	2.2	1.9	2.6	2.6	NA
Indonesia	3.6	3.0	3.5	3.8	3.6	4.2
Japan	0.5	0.3	0.4	0.3	0.2	NA
Singapore	0.0	0.2	0.6	0.7	0.7	NA
Thailand	0.6	1.1	1.6	1.4	0.8	0.4
USA	1.7	2.1	2.5	2.7	2.4	2.2

Source: Bloomberg, Kenanga Research

Graph 2: Crude Oil Price Trend



bounded by the USD60/barrel mark on further shale oil expansion. This will feed into Malaysia's retail price trajectory and ultimately, headline inflation.

Concerns from retail fuel dealers. Furthermore, we note concerns raised among the Petrol Dealers Association of Malaysia (PDAM) on narrower (or indeed zero) margins arising from the weekly price change mechanism. This, in turn, may translate into greater pressure for an upward revision of the commission due to petrol dealers and the implementation of a five-sen limit on weekly petrol ceiling price movements. While there are little signs that these revisions are pending in the near future, we are overall cautious on these developments.

Risks to broader inflation in check. Of particular interest, core inflation remains stable at 2.5% for the third consecutive month since February. This reinforces our view – and the overarching view of the latest Monetary Policy Statement – that recent inflation spikes were largely attributed to cost-push factors and underlying inflation is expected to increase modestly at most. Moving forward, shifts in domestic demand trends will determine if BNM would shift from its neutral stance to gradually lean towards a tightening bias. However, in the absence of significant demand-based inflationary pressures affecting BNM's neutral stance, we believe that the OPR will likely be retained at 3.00%, at least in the next six months.

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

Base 2010=100	weight	2015	2016	Apr -16	Nov -16	Dec- 16	Jan- 17	Feb- 17	Mar- 17	Apr- 17	Jan- Apr16	Jan- Apr17
CPI	100	2.1	2.1	2.1	1.8	1.8	3.2	4.5	5.1	4.4	3.1	4.3
Core Inflation		3.1	2.4	2.3	2.2	2.1	2.3	2.5	2.5	2.5	3.3	2.4
Food & Non-Alcoholic Beverages	30.2	3.6	3.9	4.2	3.8	3.7	4.0	4.3	4.1	4.1	4.5	4.1
Alcoholic Beverages & Tobacco	2.9	13.5	17.2	20.1	1.9	0.1	0.2	0.2	0.2	0.2	22.0	0.2
Clothing & Footwear	3.3	0.5	-0.4	-0.7	-0.5	-0.5	-0.7	-0.2	-0.2	-0.1	0.1	-0.3
Housing, Water, Electricity, Gas & Other Fuels	23.8	2.5	2.4	2.6	2.1	2.1	1.9	2.2	2.1	2.2	2.9	2.1
Furnishing, Household Equipment & Routine Household Maintenance	3.8	2.7	2.4	2.6	1.4	1.4	1.5	1.5	1.5	1.9	4.0	1.6
Health	1.7	4.5	2.7	2.2	2.5	2.4	2.5	2.4	2.6	2.8	3.9	2.6
Transport	13.7	-4.5	-4.6	-5.5	-1.5	-0.6	8.3	17.9	23.0	16.7	-2.5	16.3
Communication	5.2	1.9	-1.5	-2.1	-2.7	-2.6	-0.2	-0.3	-0.2	-0.3	0.2	-0.3
Recreation Services & Culture	4.9	1.7	2.5	1.6	3.2	3.3	3.2	3.1	3.0	3.0	2.2	3.1
Education	1.1	2.4	2.1	2.1	1.9	1.7	2.0	1.7	1.7	1.7	2.5	1.8
Restaurants & Hotels	2.9	4.1	2.8	2.7	1.9	1.9	2.1	2.3	2.3	2.4	4.1	2.3
Miscellaneous Goods & Services	6.5	4.1	2.9	2.6	1.8	1.8	1.4	1.4	1.3	1.5	4.6	1.4

Source: Dept. of Statistics, Kenanga Research

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