



**AmResearch**

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# ECONOMIC UPDATE

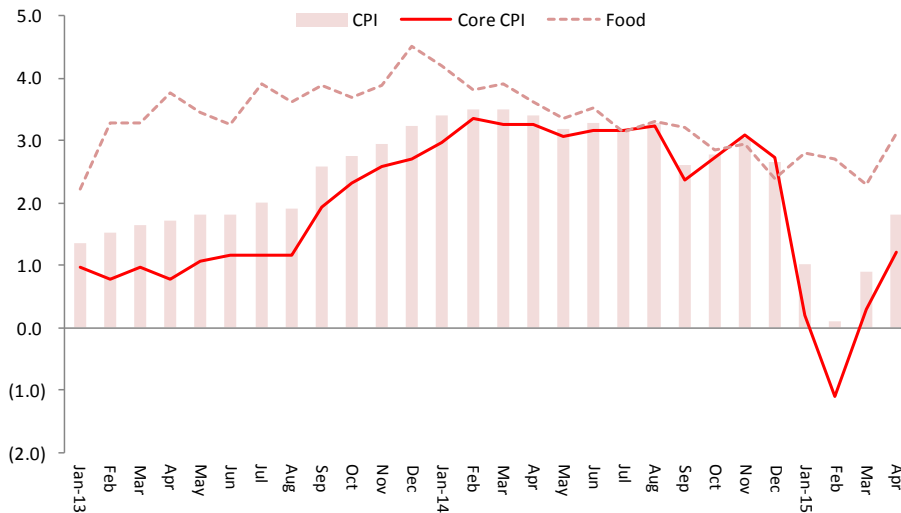
***Inflation grew at a modest pace of 1.8% in April despite GST***

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## Investment Highlights

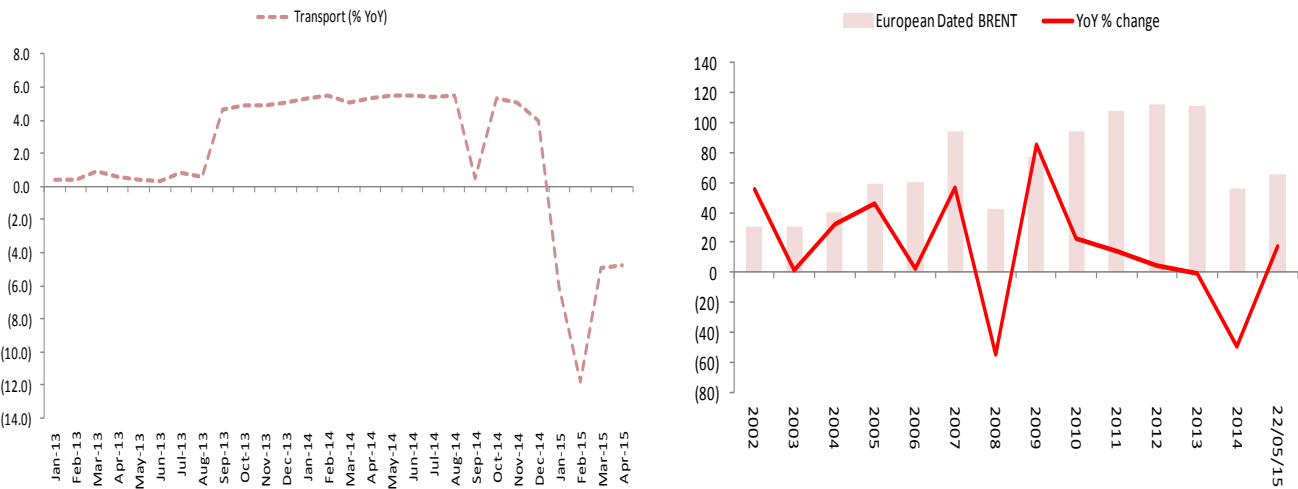
- Malaysia's Consumer Price Index (CPI) grew by 1.8% YoY in April (March: +0.9%), driven by both the non-food and food segments of CPI.
- Core inflation advanced by 1.2% YoY, compared to 0.3% YoY in March. However, the price increase for food and non-alcoholic beverages was 3.1% in April (vs. +2.3% in March).
- Meanwhile, transport cost remains relatively low in April as petrol pump prices remained the same compared to the preceding month. Transport index had registered a contraction of 4.8% YoY (vs. -4.9% in March).
- In April, RON 95 petrol remained at RM1.95 a litre, RON 97 petrol at RM2.25 a litre, and diesel at RM1.95 a litre – unchanged from the previous month.
- As for May, prices are expected to remain in check. Inflation rate is likely to advance by 1.8% in May. Note that the petrol pump prices stayed at the same level since March 2015.
- For the remaining of 2015, we envisage underlying inflation to be fairly stable on the back of subdued demand conditions and moderate cost pressure.
- As for now, we maintain our inflation projection of 2.9% for 2015 (vs. 3.2% in 2014), pending further updates ahead.
- That said, Malaysia is likely to maintain an accommodative monetary policy and the key rate will probably be retained for the rest of 2015.
- Our year-end target for the OPR is 3.25%, which is unchanged compared to that for year-end 2014. The upcoming Monetary Policy Committee (MPC) meeting is on 9 July.
- On the back of the low risk of inflation, positive real interest rate has been prevalent since September 2014. Nonetheless, real interest rate had reduced to 1.45% in April from 2.35% in March.
- Note that inflows of foreign funds and demand for government bonds had surged in recent months, driven in part by the firm domestic fundamentals and positive real interest rate environment.
- Global holdings of government bonds, which include conventional and Islamic sovereign bonds, rose to 31.6% in April (vs. 30.0% in March).
- Meanwhile, foreign holdings of MGS had advanced to 47.0% of total outstanding MGS in April. This compares to 45.7% in March and 44.1% as at end-2014.
- Elsewhere, the reserves at BNM gained 0.4% from end-April to USD106.2bil in mid-May, on the back of the strong Ringgit. Ringgit closed at 3.5640 on 15 May, broadly unchanged from end-April of 3.5615.
- The reserves position is sufficient to finance 8.0 months of retained imports and is 1.1 times the short-term external debt.

CHART 1 : HEADLINE CPI, CORE INFLATION AND MAIN FOOD GROUP (YOY% GROWTH)



Sources: Department of Statistics / AmResearch

CHART 2 : TRANSPORT COST



Sources: Department of Statistics / AmResearch

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