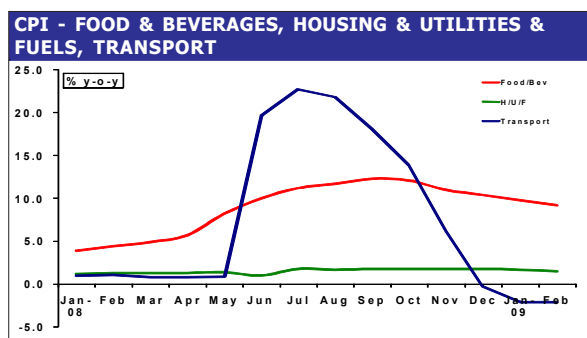


## Inflation

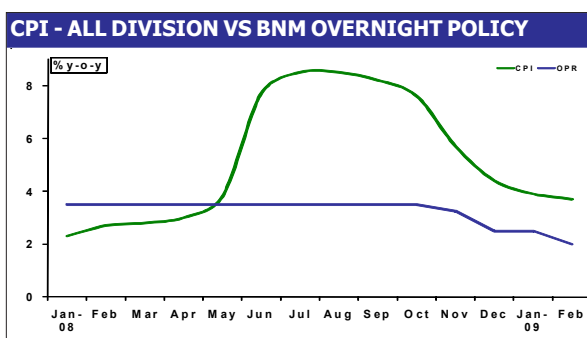
### February CPI - prices moderating..

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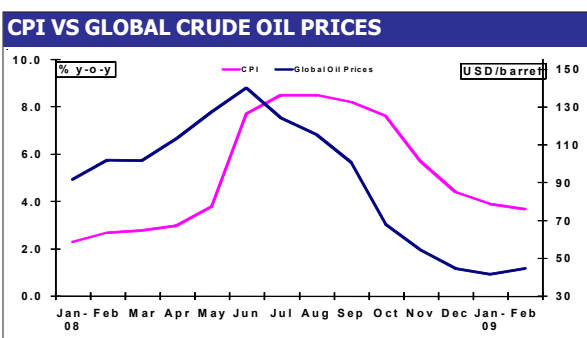
MALAYSIA'S CPI (%yoy)				
	CPI	Food/Bev	H&U&F	Trans
2005	3.0	5.7	1.2	6.3
2006	3.6	3.4	1.5	11.0
2007	2.0	3.0	1.3	2.3
2008	5.4	8.9	1.6	8.9
Nov-08	5.7	11.0	1.8	6.2
Dec-08	4.4	10.4	1.8	-0.3
Jan-09	3.9	9.8	1.7	-2.1
Feb-09	3.7	9.2	1.5	-2.1
1Q-08	2.6	4.4	1.3	0.9
2Q-08	4.9	8.0	1.3	7.1
3Q-08	8.4	11.7	1.8	20.9
4Q-08	5.9	11.2	1.8	6.6



Source : Bank Negara Malaysia & Department of Statistics Malaysia



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- Malaysia's consumer price index (CPI) rose 3.7% yoy in Feb, easing from 3.9% recorded in the previous month. This figure came slightly above the 3.5% gain expected by consensus. Inflation grew at its slowest pace since May last year. On a mom comparison, the CPI rebounded from a 0.1% contraction in January, which is the fifth consecutive monthly fall, to 0.2% gain in Feb.
- February inflation eased slightly as prices of food and non-alcoholic beverages slowed to 9.2% yoy and growth remain unchanged on mom. Transport costs, which account the second largest component in the CPI calculation dropped by 2.1%, the same pace of decline as recorded in the previous month. While this marked the 3<sup>rd</sup> consecutive monthly drop since Dec last year, transport costs were unchanged in Feb, 08 base on a mom comparison. Meanwhile, housing, utility, electricity, gas and other fuels costs also eased to 1.5% gain yoy but rose slightly higher by 0.3% mom.
- As at YTD, the CPI grew by 3.8%. Last year, inflation rose 5.4%, the highest since 1982 (+5.8%) as it reached record levels of 8.5% in July and Aug 08 following the 41% hike in petrol prices (June 08).
- The continued easing in domestic inflation follow the trend of regional economies as global oil prices, which peaked at its record level of USD147 a barrel in July last year, stabilizes at USD45 per barrel at at Feb 09.
- For March this year, we expect inflation to stay at a lower level, presumably increase by 3.5%. The reduction in electricity tariff effective in Mar 08 is expected to bring down electricity cost though the impact could be minimal. Moreover, the blow of the global economic crisis has filtered through the domestic economy and causes some factory shutdowns, which we believe that this will further bring down electricity costs.
- Inflation could further stabilizes due to the fact that most producers will cut the selling prices of their products given the slowing demand arising from the pessimism of the consumer sentiment over the global economic outlook that will further dampen the local economy. The global economic condition seemed to worsen with the International Monetary Fund (IMF) latest assessment that global growth will contract for the first time in 60 years while the World Bank forecast an even sharper contraction of 2.0%, the worst since 1930s.
- On the monetary policy, we reckon that Bank Negara may cut its Official Policy Rate (OPR) by another 25 basis points in its upcoming MPC meeting on April 29, 2009 if the economic condition continues to deteriorate. The latest 50 bps cut interest rate cut on Feb 24 2009 result a total reduction of 150 bps since Nov 08. Coupled with the interest rate policy action, the government recently announced a total of RM60 billion stimulus package over two years to stimulate economic growth and cushion the impact of the global economic malaise on domestic growth. As such, we envisage a further cut in the policy rate to bring back consumer sentiment and encourage more spending by consumers in an effort to complement the fiscal side of the government policy.
- At this stage, we are of the opinion that inflation will continue to trend downwards and would probably moderate to around 1.0%-2.0% for 2009.