

Inflation

April CPI - further abating

21 MAY 2009
2009/0020

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
Jan-09	3.9	9.8	1.7	-2.1
Feb-09	3.7	9.2	1.5	-2.1
Mar-09	3.5	8.8	1.4	-2.1
Apr-09	3.0	7.5	1.4	-2.3
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
1Q-09	3.7	9.3	1.6	-2.1

- Malaysia's inflation, as measured by the Consumer Price Index (CPI) rose by 3.0% y-o-y in April. This marked the slowest growth since April 08. The figure was below the consensus estimation of a 3.2% gain. April CPI continued to moderate based on slower growth in food prices, which eased for the seventh consecutive month while the cost of transportation dropped further to 2.3% y-o-y.

- On m-o-m, inflation dropped by 0.2% in April, the same pace of decline as in the previous month. This was largely due to a 0.2% drop in transport costs, which fell into its first contraction since February 09. Food and non-alcoholic beverages prices dropped by a larger quantum of 0.4%, but held slightly below the 0.5% decline recorded in March 09. Housing, water, electricity, gas and other fuels costs remain unchanged.

- Going forward, the y-o-y inflation is likely to soften further, largely due to slowing demand amidst of the global economic crisis. Local businesses which are been affected by recent economic conditions, cut their selling prices so as to clear off their inventories.

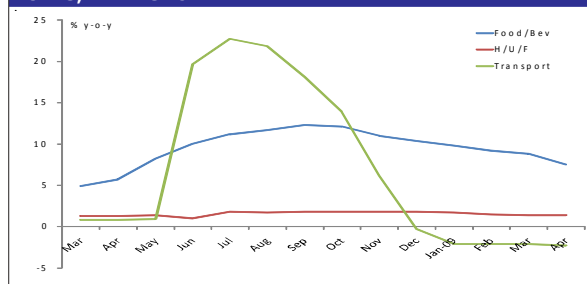
- On the higher prices of livestock given the sudden increase in the demand for chicken amid rising fears over (H1F1) influenza virus, we are of the view that such increases will not be sustained on the back of various government campaigns to reduce prices such as allowing more chicken to be imported, that would likely help to contain price increases.

- The increase in global crude oil prices lately to above USD60 level will not become a major issue as there are no indication, at the moment, that the government will raise domestic petrol prices. Nevertheless, prices could be a slight higher once the government plans to raise price of premium grade petrol RON97 to RM2.00 in September 09 takes effect in the 4Q09.

- On this note, we envisage that CPI will increase at a slower pace in May 09 to approximately 2.5% y-o-y while the high base effect will cause CPI numbers to record a contraction starting June 09 onwards. For record, inflation peaked at 8.5% in June last year following the hike in domestic oil prices by as much as 41% in June 08, causing overall CPI to surge by an average 7.2% growth in the 2H08.

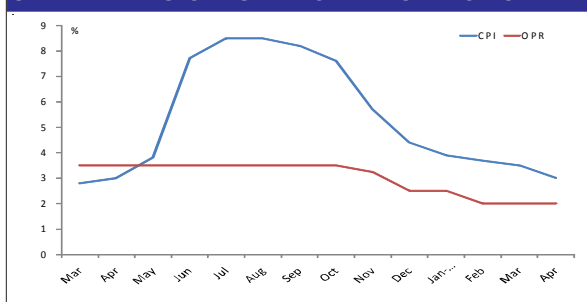
- Given the softening of the inflationary risk, Bank Negara Malaysia (BNM) would have more rooms to further reduce the Overnight Policy Rate (OPR) if economic condition deteriorates. We however believe that BNM will hold the OPR at its current level of 2.00% on May 26, 2008, based on its recent comments that *continuously lowering interest rates is not constructive as there are limitations to its impact in term of promoting growth*. Furthermore, we foresee the tentative signs of a recovery which emerged lately will further support in holding up the key monetary policy rate at the current level until the end of 1H of this year.

CPI - FOOD & BEVERAGES, HOUSING & UTILITIES & FUELS, TRANSPORT



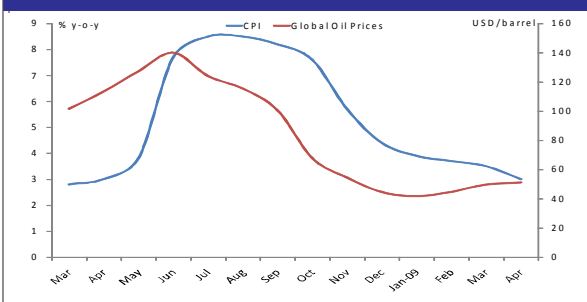
Source : Bank Negara Malaysia & Department of Statistics Malaysia

CPI - ALL DIVISION VS BNM OVERNIGHT POLICY



Source : Bank Negara Malaysia & Department of Statistics Malaysia

CPI VS GLOBAL CRUDE OIL PRICES



Source : Bank Negara Malaysia & Department of Statistics Malaysia