

Malaysia: August CPI - no major changes

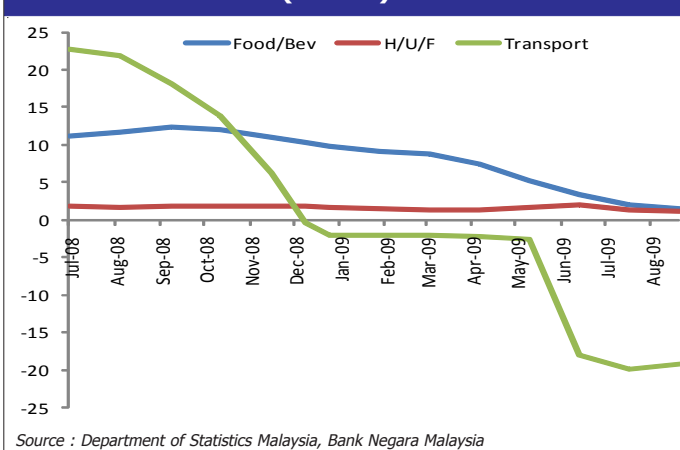
17 SEPTEMBER 2009
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MALAYSIA CPI (% YOY)

	CPI	FOOD	HOUSING & UTILITIES	TRANSPORT
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
May-09	2.4	5.2	1.6	-2.5
Jun-09	-1.4	3.4	2.0	-18.0
Jul-09	-2.4	2.0	1.3	-19.9
Jun-09	-2.4	1.4	1.1	-19.3
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
2Q-09	1.3	5.3	1.7	-8.2

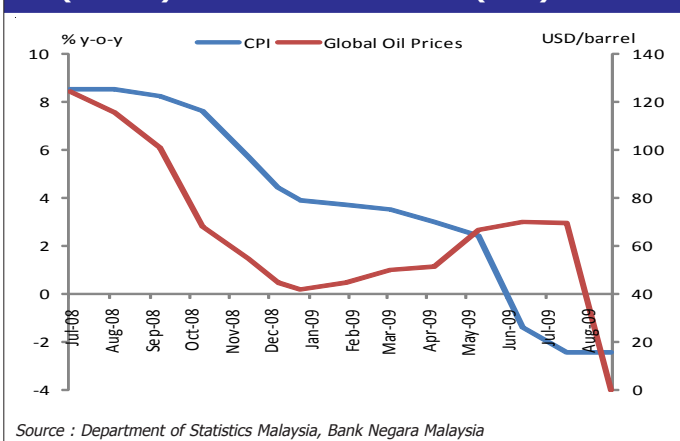
Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI BY COMPONENTS (% YOY)



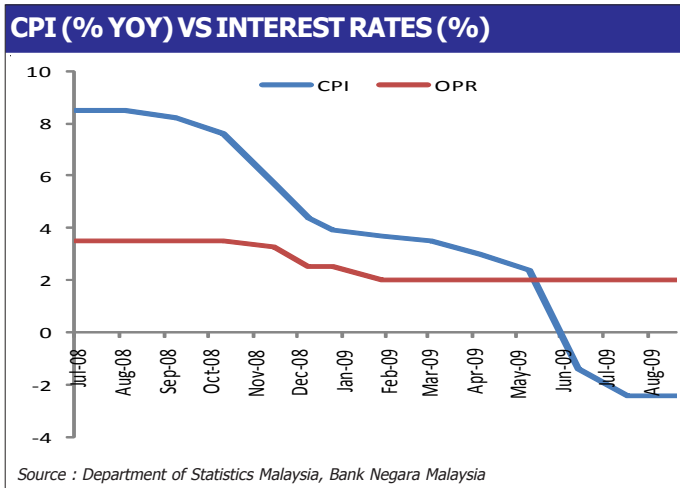
Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI (% YOY) VS GLOBAL OIL PRICES (USD)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

- Malaysia's consumer price index continued to decline by 2.4% y-o-y in August, the same rate as in July but lower than -2.3% estimated by consensus. This was the third consecutive monthly drop recorded since June, when prices fell for the first time since August 1986. On a m-o-m basis, the CPI rose by a larger 0.2% in August compared with the 0.1% gain posted in July and June this year.
- The pick-up in m-o-m data was attributed to the price gain posted in all of the three major components. Transport costs posted a growth of 0.1% m-o-m (the same rate as in July) to result a slower drop of 19.3% y-o-y from -19.9% in July. The smaller than expected m-o-m growth rate indicates that the effect of the hike in bus and taxi fares effective early of August has yet to pass through general consumer prices.
- Housing, electricity and other fuel prices (H&E&F) also posted a smaller gain of 0.1% in August, with no change in prices in the previous month. Food costs, the biggest component among the groups, increased by the same magnitude of 0.2% in August (July: +0.2%). The gain in prices for H&E&F and food on a y-o-y basis however slowed to 1.1% and 1.4% from 1.3% and 2.0% respectively.
- Over the coming months, the monthly CPI is likely to post a larger growth due to the increased public transport fares that may finally weigh on prices of other goods. Consumer demand could also continue to improve during the final quarter of this year to exert some price increases, albeit at a moderate pace.
- We are of the view that the gain in overall consumer prices for September could increase to 0.4% m-o-m, supporting by a possibility of an increase in food prices ahead of the Eidul Fitr festive season, alongside with the hike in petrol prices (RON97 up by 25 sen) effective on September 1.
- Given the higher monthly CPI, the rate of y-o-y contraction in September could continue to narrow to an estimated 1.9% and likely to post positive growth in the final part of the year. We expect the November to December inflation to range between zero to +1.5% following a smaller decline of 1.3% in October. Thus, the whole year inflation could average around 0.7% to 1.0%.
- On the back of continuing benign inflationary pressure, we believe interest rates to remain unchanged during the next two monetary policy committee meetings (scheduled on Oct 28 and Nov 24) this year. In its latest MPCM meeting on Aug 25, Bank Negara maintained its Overnight Policy Rate at 2.00% (since February 09) based on the



expectation that economic conditions will improve and the price pressure remains benign going forward.

- The adjustment on interest rate, in our view, could take place the earliest during the second half of 2010 in response to faster increases in the CPI. Inflation in the

next year could start to show a steady upward trend albeit gradually following improvement in domestic demand. We are projecting Malaysia's inflation rate to average 2.0%-3.0% in 2010. Likewise, GDP growth is likely to move up from a negative 2.5%-3.0% this year to a positive 3.0%-3.5% for 2010 to be driven by the huge fiscal stimulus measures and improving global economy.

- In the 2010 Budget (scheduled on October 23), we expect the government to announce the revision of Malaysia's 2009 GDP growth projection probably from -4.0% to -3.0% and to unveil a positive GDP growth forecast for 2010. In an anticipation that the government will embark on a non-expansionary budget in 2010, given its widening fiscal deficit, the monetary policy will have to be the main tool to support growth, thus accommodative stance to continue. The fiscal policy, on the other hand will have to be more selective and focus on promoting private sector activity and assisting the rakyat.