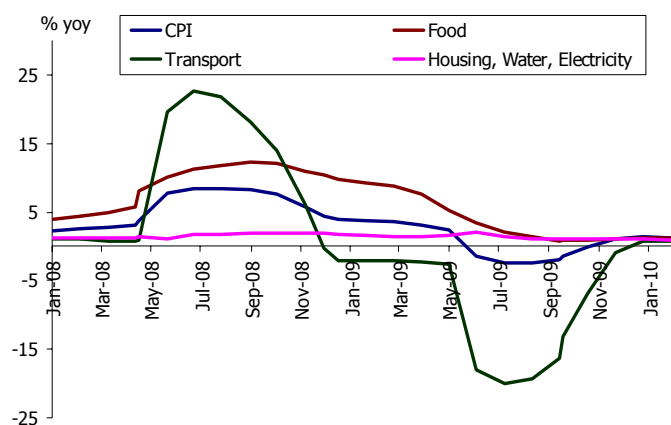


Malaysia: February CPI - easing pressure

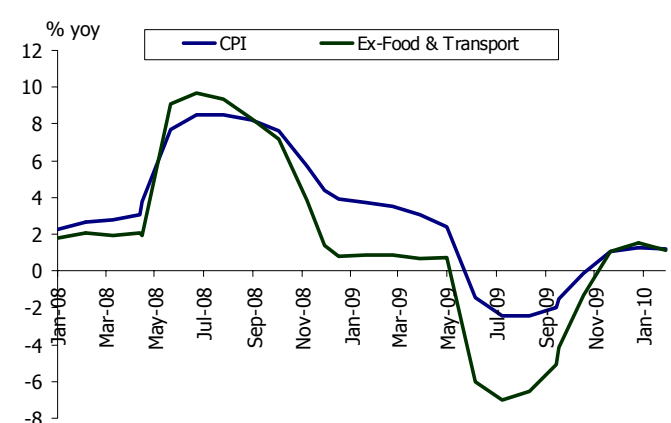
23 MARCH 2010
2010/0016

TOTAL CPI, FOOD, TRANSPORT & H/W/E (% YOY)



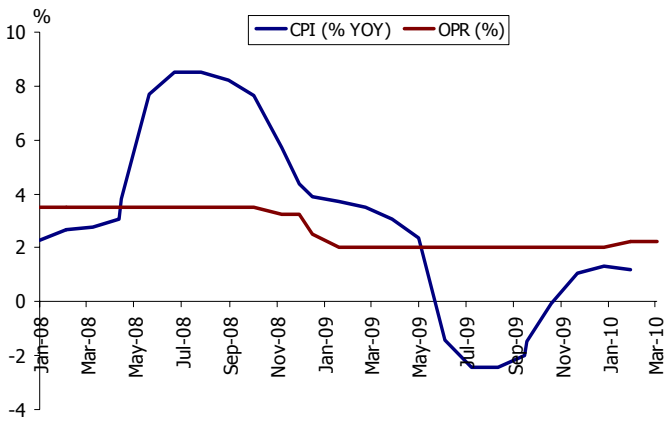
Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI VS CORE CPI (% YOY)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI (% YOY) VS OPR (%)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

- **Malaysia's inflation rate eased in February, reaffirming our view of continued weakness in domestic demand despite the expected higher consumer spending during the Chinese New Year celebration. We expect the moderate inflation trend to continue throughout 2010 given the limited price pressures from both the demand and supply sides. For the whole of 2010, the CPI is projected to grow at an average rate of 2.0% to 2.5%.**

- CPI in February rose slower at 1.2% yoy from 1.3% in the preceding month, following a sharp moderation in prices of non food and transport items. The month also saw the price index on Housing & Utilities & Fuel and Clothing & Footwear easing significantly. Other categories excluding food and transport were mostly flat for the month, further reducing the upside pressure on consumer prices.

- While the index for food & non-alcohol beverage showed a faster increase, the rate remained moderate at 1.3% (Jan:1.2%) resulted from the increased consumer demand following the Chinese New Year. Similarly, the transport costs increased moderately in February at 0.8% from 0.7% in January. Stripping food and transport components, the core CPI increase was significantly lower at 1.1% in February from 1.5% in the previous month.

- On a monthly basis, the headline CPI was unchanged in February after increasing by 0.2% in January, while the core CPI contracted by 0.1% from +0.2%. The subdued price pressure signifies the continuing weak domestic demand condition in spite of the growth recovery. In the past, February consistently charted a faster CPI increase in the range of 0.3%.

- The other economies experiencing weak consumer spending and overall domestic demand similarly witnessed moderating inflation trend in February. On the other hand, countries with stronger domestic demand such as China, India, Taiwan and Hong Kong posted faster inflation rates.

- Going forward, we believe Malaysia's CPI will continue to increase modestly during the 1H10 on the back of a slow recovery in domestic demand and moderate supply side pressures given the Government recent decision to postpone fuel subsidy reforms (originally to be implemented in May) and the delay in the electricity tariff hike. However, the impact of low base could see the CPI to rise at a faster rate, amidst higher crude oil and other commodity prices.

- We are expecting inflation to average 1.5% for 1Q10 and to average between 2.0% and 2.5% for the whole 2010. This is in line with the central bank's view that inflation is unlikely to be a policy concern and will ensure monetary policy to stay accommodative throughout the year, amidst the slow and uneven pace of recovery in developed economies. However, following the strong recovery in economic growth in 4Q09 and further

improvement in 1H10, the central bank is expected to continue normalising interest rates in its effort to avert any financial imbalances. **As such, we reiterate our expectations of further rate hikes of 25bps at the May MPC meeting and another 25bps in September to take the end of the year OPR level to 2.75%.**

CONSUMER PRICE INDEX

	Weightage	Index	February 2010		Index	January 2010	
			% yoy	% mom		% yoy	% mom
Total CPI	100	113.2	1.2	0.0	113.2	1.3	0.2
Core-CPI (ex-food and transport)	47.2	110.1	1.1	-0.1	110.2	1.5	0.2
Food & Non-Alcoholic Beverages	31.4	122.9	1.3	0.1	122.4	1.2	0.2
Alcoholic Beverages & Tobacco	1.9	134.0	3.0	0.0	134.0	2.9	0.0
Clothing & Footwear	3.1	94.6	-2.2	-0.8	95.4	-0.7	0.6
Housing, Water, Electricity, Gas & Other Fuels	21.4	106.5	0.9	0.1	106.4	1.1	0.0
Furnishings & Household Equipment	4.3	108.8	0.6	-0.1	108.9	0.8	0.2
Health	1.4	109.4	1.5	0.2	109.2	1.5	0.3
Transport	15.9	112.8	0.8	0.1	112.7	0.7	0.1
Communication	5.1	96.1	-0.4	0.0	96.1	-0.4	0.0
Recreation Services & Culture	4.6	107.2	2.6	0.0	107.2	2.7	0.1
Education	1.9	109.8	1.7	0.2	109.6	2.7	0.1
Restaurants & Hotels	3.0	119.2	1.5	0.3	118.9	1.5	0.2
Miscellaneous Goods & Services	6.0	112.8	2.5	-0.2	113.0	4.4	0.2
Non-Food	68.6	109.0	1.1	0.0	109.0	1.4	0.2
Durable Goods	8.0	100.6	0.7	-0.1	100.7	1.9	-0.2
Semi-Durable Goods	4.3	97.0	-1.6	-0.7	97.7	-0.4	0.6
Non-Durable Goods	40.6	118.6	0.9	0.0	118.6	0.9	0.2
Services	47.1	112.0	1.5	0.2	111.8	1.7	0.1

Source : Department of Statistics, Bloomberg, Research Divison PNB