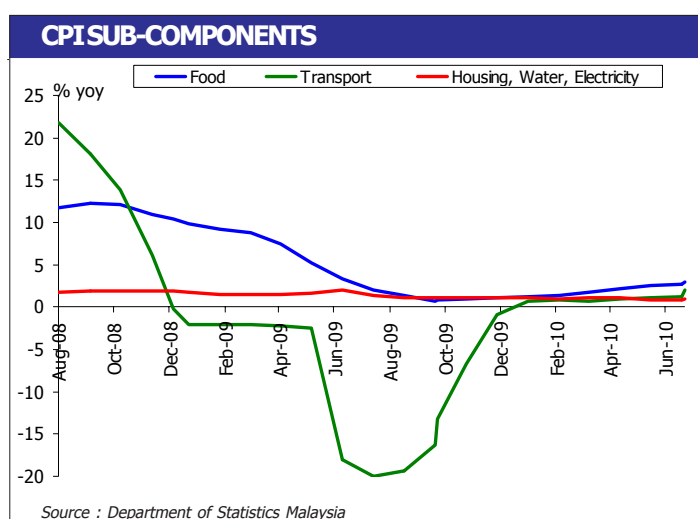
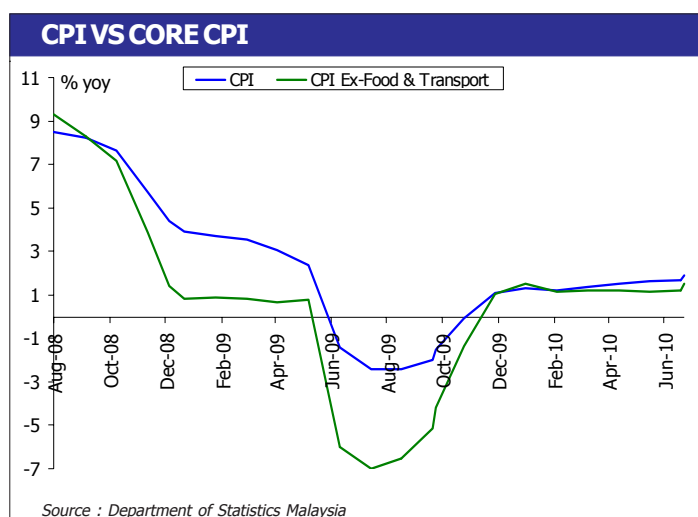
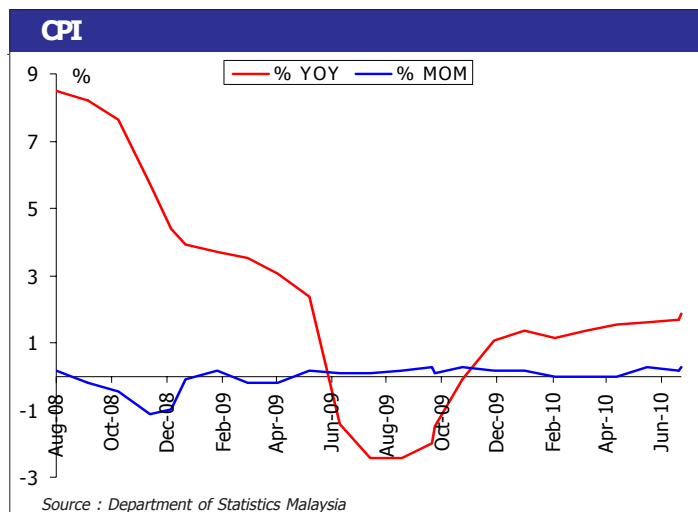


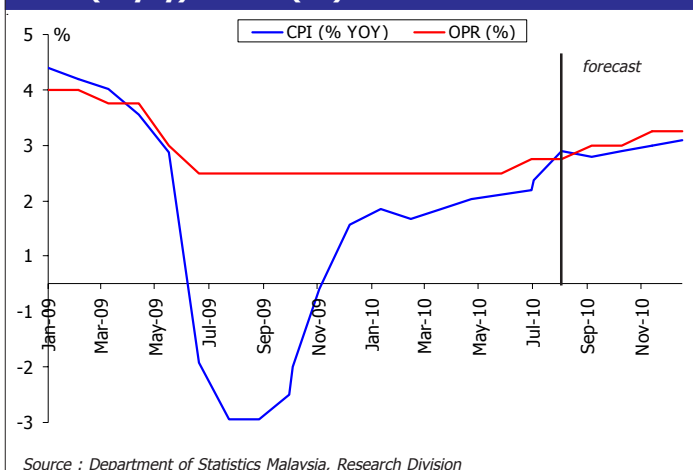
Malaysia: July CPI - still not a concern

19 AUGUST 2010
2010/0030



- Malaysia's consumer price index grew 1.9% yoy in July, aligned with our and consensus estimates, from 1.7% in June. On a monthly basis, the CPI rose 0.6% from a meager 0.2% in the earlier month in response to subsidy cuts in sugar and fuel products effective July 16. The inflationary condition generally remained modest till July, thanks to the relatively stable prices of non-food and transport items. While inflation is expected to trend higher in August through the later part of this year, it is expected to remain manageable at around 2.0-2.5% yoy, mainly in response to supply-side pressures.**
- As expected, the CPI had increased mainly due to higher cost of food and transport. Prices of food and non-alcoholic beverages rose faster by 2.9% yoy from 2.7% in June on the back of a higher monthly growth of 0.4%. Food inflation was the fastest for the year, contributed partly by the increase in sugar prices (25 sen) and some pass-through effect from the cut in subsidy on fuel.
- Transport cost climbed 2.0% yoy in July, the fastest pace since Dec 08, from 1.3% in June. On mom, it grew by 0.8% from an average of 0.5% in 1H10. This was caused to a great extent by the increase in prices of petrol RON95 (10 sen), diesel (5 sen) and petrol RON97 (5 sen). However, transport cost had risen modestly when compared with the 22.7% increase in mid-2008 when the prices of petrol were raised upward by 41%. The overall inflation consequently reached a peak of 8.5% in July 08 (the fastest in 26 years).
- Core-CPI (excludes volatile food and fuel costs) rose 1.5% yoy in July from 1.2% in the previous month. The monthly growth rate was 0.4% as compared to the subdued 0.1% gain charted in June, indicating some upward demand pressure emerging in the economy. In the 2Q, domestic demand had charted a faster growth rate of 9.0% yoy from 5.3% in 1Q on stronger private and public consumption. Consumer expenditure had strengthened on the back of improvement in employment and wages.
- Inflation in many countries in the region similarly has shown an uptrend in July. These include China (July:+3.3%, June: +2.9%), Indonesia (July:+6.2%, June: +5.1%), Thailand (July:+3.5%, June: +3.3%) and Taiwan (July:+1.1%, June: +1.3%). In Singapore, though the CPI charted a slower growth rate, it is expected to accelerate on robust domestic growth. Higher July inflation is also experienced by the US (July:+1.3%, June: +1.1%) and Eurozone (July:+1.7%, June: +1.4%), largely on account of rising fuel prices.

CPI (%yoy) vs OPR (%)



- We expect domestic inflation to continue its upward trend in the coming months, but to remain at manageable levels. Higher prices are largely attributed to increased cost

following subsidy cuts and other supply side related factors such as bad weather conditions. To some extent, the sudden jump in spending for the festive seasons may also exert some upward pressure on prices.

- We expect the August inflation rate to rise to 2.2% yoy and to rate to increase further to 2.2%-2.5% in the subsequent months of this year. The higher rate takes into account the impact of government subsidy rationalisation program.
- Given the manageable inflation expectation, we expect the monetary policy stance to focus on supporting growth amidst the weakening recovery momentum in the global economy. In this regard, we believe BNM to take a pause in its normalisation program. Thus, the OPR is likely to be retained at the current level of 2.75% till the year-end. The central bank has raised the benchmark rate three times since March and the last increase was in July. In its recent statement, BNM viewed the current level of interest rate as consistent and appropriate with the country's inflation and growth prospects.

CONSUMER PRICE INDEX

	Weightage	Index	July 2010		Index	June 2010	
			% yoy	% mom		% yoy	% mom
Total CPI	100	114.0	1.9	0.3	113.7	1.7	0.2
Core-CPI (ex-food & transport)	47.2	110.6	1.5	0.4	110.1	1.2	0.1
Food & Non-Alcoholic Beverages	31.4	123.9	2.9	0.4	123.4	2.7	0.4
Alcoholic Beverages & Tobacco	1.9	134.3	3.1	0.1	134.2	3.0	0.1
Clothing & Footwear	3.1	94.7	-1.3	0.5	94.2	-2.0	-0.6
Housing, Water, Electricity, Gas & Other Fuels	21.4	107.0	0.9	0.1	106.9	0.8	0.0
Furnishings & Household Equipment	4.3	109.4	0.9	0.4	109.0	0.5	-0.1
Health	1.4	110.2	1.6	0.1	110.1	1.6	0.2
Transport	15.9	113.8	2.0	0.8	112.9	1.3	0.1
Communication	5.1	96.2	-0.1	0.2	96.0	-0.3	0.0
Recreation Services & Culture	4.6	107.3	2.6	0.1	107.2	2.5	0.0
Education	1.9	110.2	1.7	0.1	110.1	1.8	0.0
Restaurants & Hotels	3.0	120.1	1.8	0.0	120.1	1.8	0.2
Miscellaneous Goods & Services	6.0	113.6	2.9	0.1	113.5	2.8	0.4
Non-Food	68.6	109.5	1.4	0.2	109.3	1.2	0.1
Durable Goods	8.0	100.8	1.2	0.0	100.8	1.1	0.3
Semi-Durable Goods	4.3	97.2	-0.7	0.4	96.8	2.5	-0.4
Non-Durable Goods	40.6	119.7	2.5	0.5	119.1	2.1	0.3
Services	47.1	112.8	1.8	0.2	112.6	1.7	0.1

Source : Department of Statistics, Bloomberg, Research Divison PNB