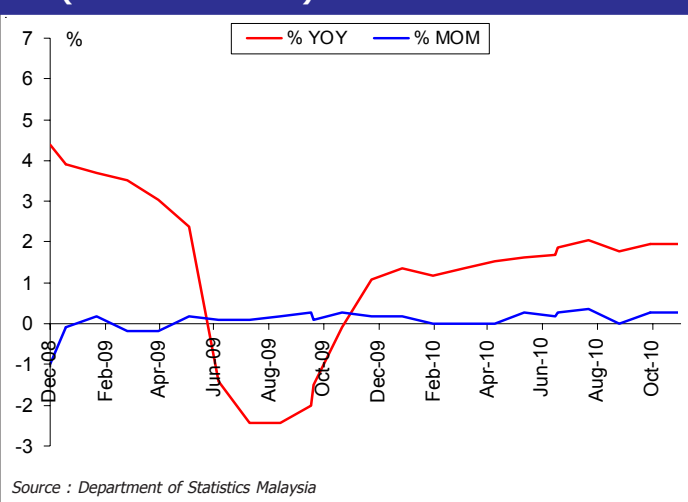
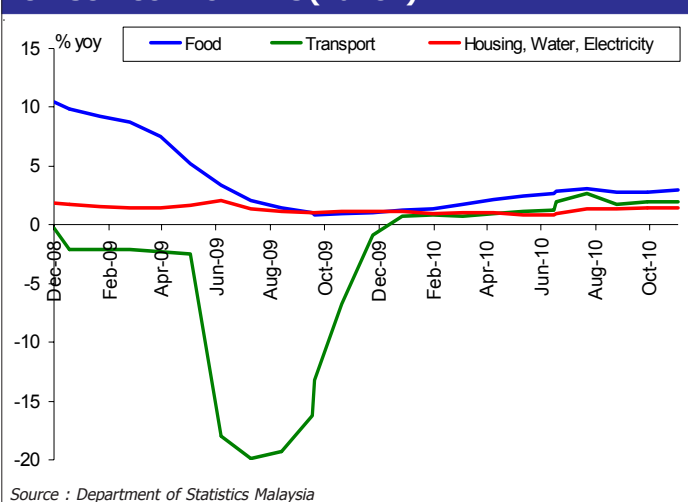


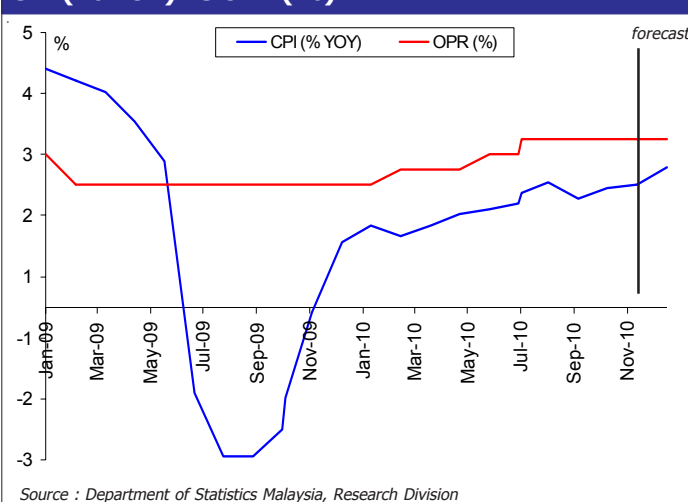
CPI (% YOY VS % MOM)



CPI SUB-COMPONENTS (% YOY)



CPI (% YOY) VS OPR (%)



November CPI

- Malaysia's consumer price index (CPI) grew 2.0% y-o-y in November, the same pace charted in October. This matched our expectation but was slightly lower than consensus' estimates of a 2.1% growth (polled by Bloomberg). On a m-o-m basis, consumer prices gained 3.0%, mainly due to a faster increase in the cost of food/non-alcoholic beverages, housing/utilities and transports.

CPI Items

- Food and non-alcoholic beverages costs** increased 3.0% y-o-y in November, the fastest pace since July 09, from 2.8% y-o-y in October. Prices of food category on m-o-m posted a faster growth rate of 0.6% in November compared with the small +0.1% gain in October. The larger m-o-m growth rate, however, did not impose much concern as it was in tandem with the average 0.7% growth charted in the same month during the pre-crisis period (2005-2007).
- Transport costs** were unchanged at 2.0% y-o-y growth in November maintaining October's growth of 2.0%. The RON97 petrol price-regulated by a managed float mechanism-increased by 2 sen during the month bringing the price to RM2.15 per litre on November 2nd. This increase could have contributed to the 2.0% m-o-m increase recorded in the transport category.
- Core-CPI (excludes food and transport)** increased 1.4% y-o-y following the modest rise in most of its sub-items. The rate of growth, however, was slower compared with October when it charted an increase of 1.6% y-o-y following the surge in alcoholic beverages and tobacco costs. In November, the rate of growth was small for most products except for housing/utilities and miscellaneous goods/services. The overall non food and transport prices on a m-o-m basis was flat, suggesting the absence of demand-pull inflationary pressures.

Comments

- The increase in consumer prices was mainly led by the supply side, rather than demand-side. This was supported by the rise in food and transport costs, while prices of other products charted a small increase during the month. To a certain extent, prices for clothing and footwear dropped for two consecutive months while communication, alcoholic beverages/tobacco and recreation/services were unchanged compared to the previous month.
- We expect the supply-side factor to continue to support a higher CPI growth rate in December, due to further subsidy rationalization plans announced by the government on December 4. In its effort to consolidate the fiscal budget, the government raised the prices of its administered items including RON95 petrol (up 5 sen), diesel (up 5 sen), LNG (up 5 sen)

and sugar (up 20 sen). This, in our view, will have a direct impact on inflation and would likely contribute about 0.3 percentage points to overall headline inflation in December, slightly higher from the 0.2 percentage points increase in the CPI annual growth rate in June (when the first round of subsidy rationalization was introduced on June 16).

- The CPI is thus, expected to grow at 2.3% in December, resulting in an average 1.7% of overall inflation for 2010, well below the government forecast of a 2.0% growth.
- We are expecting the CPI to increase at a gradual pace during the 1H11 on concerns of the second-round impact of the subsidy rationalization plan as well as base-effects. The prospects of higher oil prices- which surpassed the USD90/barrel on December 23 -coupled with the chances of electricity tariff hikes would also induce an increase in the inflation rate.
- On the flip side, the uncertainty on the global economic outlook during the first part of 2011, however, is expected to affect domestic sentiments. Simply, overall consumer price increases could be contained at manageable levels.
- Going into 2H11, we expect prices to edge higher following the buildup in demand-pull inflationary pressures as domestic growth strengthens. Economic growth is expected to chart an encouraging performance during the second part of next year following the implementation of

several entry point projects (EPPs) under the purview of the Economic Transformation Plan (ETP) as well as a sustained global economic recovery. On that note, we are expecting a rise in the 2011 inflation rate to 2.5% from 1.7% estimated for this year.

- The upside risks on the inflation outlook would prompt Bank Negara to resume its interest rate hikes after leaving it unchanged at 2.75% in its MPC meeting in September and November this year. We, however, believe that any changes will only take place during the 2H11 in view of a pick up in domestic demand towards the end of the year.
- For the 1H11, there will be no changes to the benchmark Overnight Policy Rates (OPR) given that any surge in price pressures, would be likely on the supply as opposed to the demand-side. Likewise, the latest MPC meeting signaled that Bank Negara will closely monitor the massive inflows of capital into the country.
- Presently, an increase in the OPR rate would only induce greater inflows of the short-term and volatile capital or "hot money" given the differential in interest rates between the developed economies with those of in the emerging markets. Any increases in hot money could add to greater economic and financial instability to the Malaysian economy at least in the short and medium term. We expect Bank Negara to hold the current OPR throughout 1H11 before raising it by around 20-50 basis-points (bps) during the second half of the year. The overall OPR is thus expected to be at 3.25% in 2011.

CONSUMER PRICE INDEX

	Weightage	Index	November 2010		Index	October 2010	
			% yoy	% mom		% yoy	% mom
Total CPI	100	114.7	2.0	0.3	114.7	2.0	0.3
Core-CPI (ex-food & transport)	47.2	111.5	1.4	0.0	111.5	1.6	0.5
Food & Non-Alcoholic Beverages	31.4	125.1	3.0	0.6	124.4	2.8	0.1
Alcoholic Beverages & Tobacco	1.9	142.7	6.5	0.0	142.7	6.6	6.3
Clothing & Footwear	3.1	94.6	-1.1	-0.2	94.8	-0.5	-0.1
Housing, Water, Electricity, Gas & Other Fuels	21.4	107.9	1.4	0.3	107.6	1.4	0.1
Furnishings & Household Equipment	4.3	109.5	0.6	0.1	109.4	0.6	0.0
Health	1.4	110.9	1.7	0.2	110.7	1.7	0.1
Transport	15.9	114.8	2.0	0.2	114.6	2.0	0.1
Communication	5.1	96.1	-0.1	0.0	96.1	-0.1	-0.1
Recreation Services & Culture	4.6	107.1	0.0	0.0	107.1	0.2	0.0
Education	1.9	110.4	1.7	0.1	110.3	1.6	0.0
Restaurants & Hotels	3.0	121.2	2.3	0.2	121.0	2.3	0.2
Miscellaneous Goods & Services	6.0	115.0	2.6	0.4	114.5	2.9	0.6
Non-Food	68.6	110.4	1.4	0.1	110.3	1.5	0.4
Durable Goods	8.0	101.2	0.9	0.3	100.9	1.0	0.4
Semi-Durable Goods	4.3	97.2	-0.6	-0.1	97.3	-0.3	-0.1
Non-Durable Goods	40.6	121.3	2.8	0.3	120.9	2.8	0.5
Services	47.1	113.4	1.6	0.2	113.2	1.7	0.1

Source : Department of Statistics, Bloomberg, Research Division