

Malaysia: December CPI - back to positive

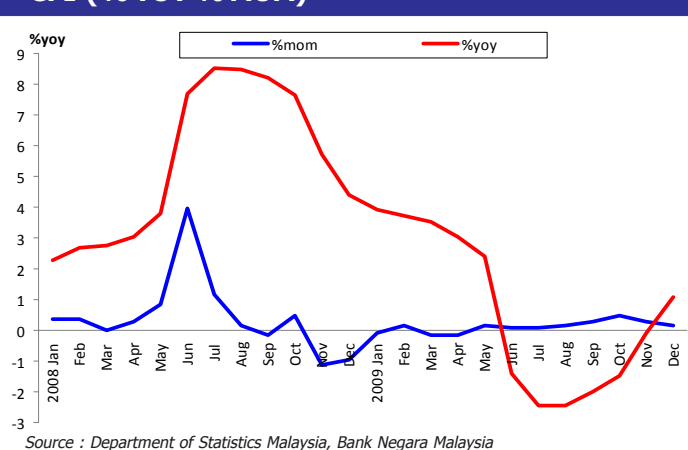
21 JANUARY 2010
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MALAYSIA CPI (% YOY)

	CPI	FOOD	HOUSING & UTILITIES	TRANSPORT
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
2009	0.6	4.1	1.4	-9.4
Sep-10	-2.0	0.7	1.0	-16.2
Oct-10	-1.5	0.8	1.0	-13.2
Nov-10	-0.1	0.9	1.1	-6.8
Dec-10	1.0	1.1	1.1	-0.9
1Q-09	3.7	9.3	1.6	-2.1
2Q-09	1.3	5.3	1.7	-8.2
3Q-09	-2.3	1.4	1.2	-18.5
4Q-09	-0.2	0.9	1.1	-7.2

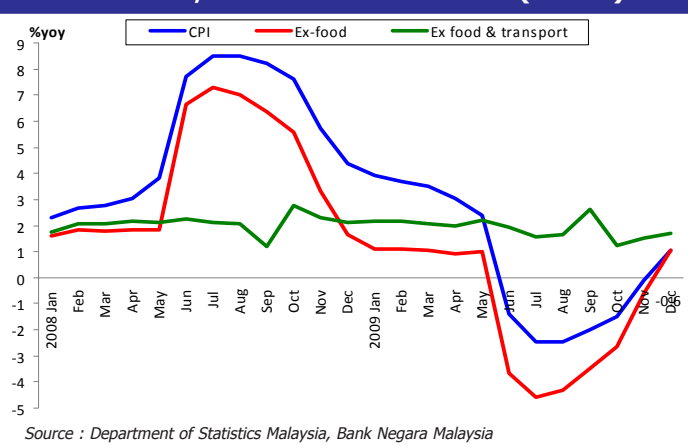
Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI (% YOY % MOM)



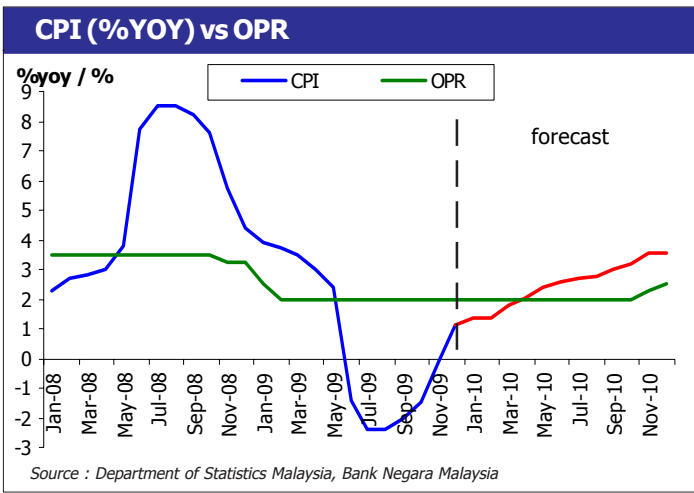
Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI EX-FOOD, EX-FOOD & TRANSPORT (%YOY)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

- Malaysia's headline inflation rose to 1.1% in November from -0.1% in October, aligned with consensus and our estimate. After six months in technical deflation, the sharp reversal to positive inflation was mostly due to the receding base effect from last year. On a monthly basis, CPI rose 0.2% from 0.3% in November, hinting no excessive escalation in price pressure as yet.
- The annual gain across the CPI basket was broad based, led by Food and Beverages price increases (Dec: 1.1%, Nov: 0.9%) attributed by low base effect and high vegetable prices due to monsoon season (news press reported a 200% increase in vegetable prices early December). Housing, Utilities and Fuel maintained the positive inflation reading (Dec: and Nov: 1.1%), as well as Miscellaneous (Dec: 5.2%, Nov: 4.8%).
- The main drag on the headline inflation came from Clothing & Footwear prices (Dec: -1.3%, Nov: -1.1%) which fell faster following the nationwide New Year sales. Transport (Dec: -0.9%, Nov: -6.8%) moderated its decline significantly, despite remaining a drag on headline CPI, likely due to the inflationary effects of a shift to a two-tiered petrol pricing system effective September 09, although partly offset by receding base effects from Jun-08 fuel price hikes. Annual decline in Communication stayed broadly flat (Dec: -0.4%, Nov: -0.4%).
- As a whole, receding base effects saw the end of the technical deflation, bringing full year inflation to 0.6% as we previously forecasted. Going into 2010, we expect supply-side inflation pressures to intensify. Subsidy reforms, particularly in fuel and sugar, will likely push up headline inflation modestly in 2010, adding to pressures amid dissipating base effects.
- Effective 1st January, sugar price has been raised by RM0.20 but it is expected to have a modest direct impact on the January CPI, estimated at 1.5%. In the case of the more finely target fuel subsidy adjustments, based on engine's capacity and using the MyKad system by May, the accurate impact on CPI is still uncertain as no details are released yet released. However, the impact is not expected to be as drastic compared to the upward adjustment in November 2008. Taking these factors into consideration, we expect inflation to average 2.5% in 2010.
- With the demand pull inflationary pressures likely to remain subdued, we are not expecting the supply side inflation risks to trigger any major monetary tightening in 2010. Furthermore, as growth continues as the principal policy focus, it would be necessary to retain an accommodative monetary policy to help stimulate economic activity. Thus we are projecting the prevailing OPR level to remain unchanged at 2.00% until 3Q09. It is also to be noted that the risk of asset bubble is likely to be low during 2010.



- However, as mentioned previously, BNM may tighten its monetary policy earlier than expected in response to other economies embarking on raising interest rates to slow growth in inflation. A slow response to adjusting local interest rates could only expose the Ringgit to downward pressure as funds flow out in favor of other countries which offer higher returns. **PNB**