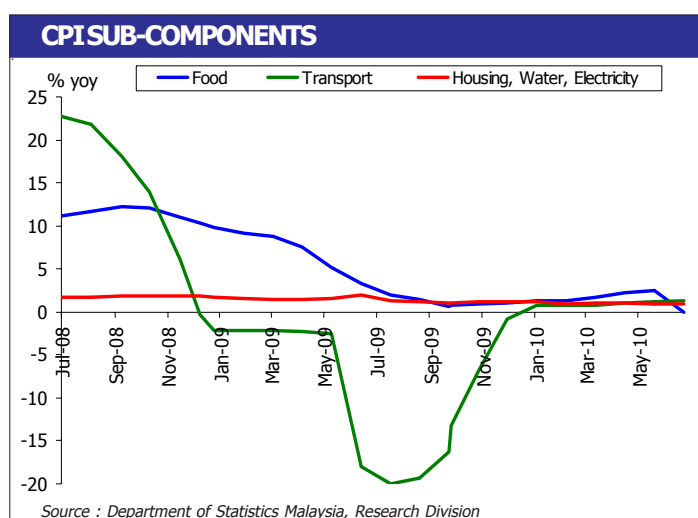
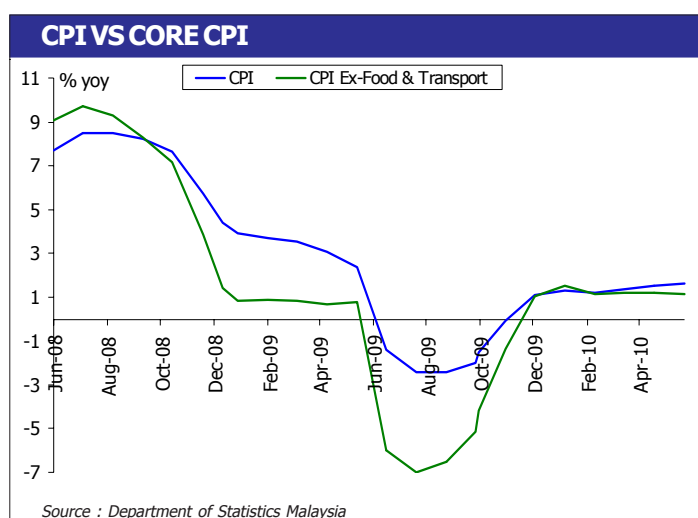
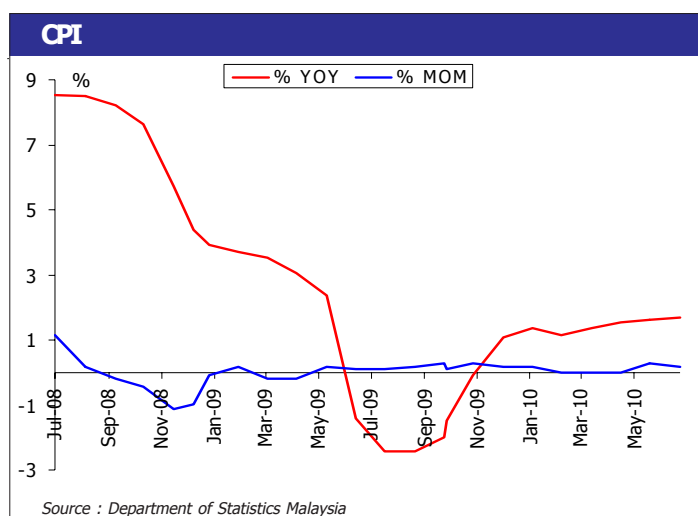


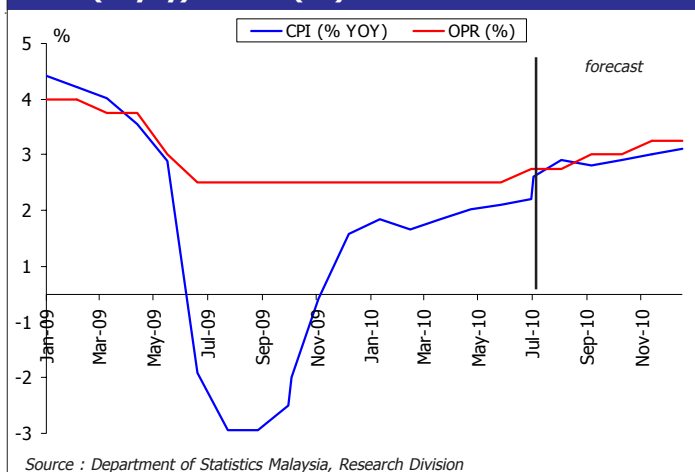
Malaysia: June CPI - Trending faster from here

22 JULY 2010
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- **The Consumer Price Index (CPI) increased 1.7% yoy in June, in line with our and consensus expectations, as against +1.6% yoy in May. On a mom basis, consumer prices rose 0.2%, the second consecutive monthly gain charted this year after remaining flat during February-April. We expect the recent cuts in subsidies will begin to take effect in July's CPI and to rise faster going forward mainly due to supply side pressures.**
- Price increases were led by Alcoholic Beverages/Tobacco (3.0%), Miscellaneous Goods (2.8%) and Food/Non-Alcoholic Beverages (2.7%). The growth in Food/Non-Alcoholic and Beverages costs (the largest component in the CPI) of 2.7% was the fastest in twelve months but still below the 3.4% rate charted in the same month last year.
- Transport cost continued its upward trend in June, increasing by 1.3% yoy from its first 0.7% gain charted in January. Meanwhile, the cost of Housing/Water/Electricity remained stable during the month, growing at the May yoy pace of 0.8%. Other sub-group indices also posted a growth with the exception of Clothing/Footwear (-2.0%) and Communication (-0.3%) sub-indices.
- The core-CPI, stripping food and fuel costs, rose faster at 1.2% yoy from 1.1% in May. There is a slight increase of 0.1% on a monthly performance, suggesting the still lack of demand pull pressures on the overall prices.
- For the 1H10 of this year, the CPI returned with a positive growth, averaging 1.4% from the 2.5% decline in 2H09. The rate of expansion however remained below 2.0% average charted in the same period during the past three years. The CPI growth in 1H10 was attributed by higher transport cost averaging 1.0% yoy from -13.2% in 2H09 as the base effect normalizes. Food/Non-Alcoholic Beverages and H/W/E costs also increased to contribute to the higher overall CPI.
- Inflation is expected to rise relatively faster going into the second half in response to the subsidy reform by the government. The government had already raised prices for petrol RON95 (10 sen to RM1.85 p/litre), LPG (10 sen to RM1.85/kg), diesel (5 sen to RM1.75/litre), sugar (25 sen to RM1.85/litre) while the subsidy for petrol RON97 was removed and will be subjected to a managed float mechanism with effect from July 16, 2010.
- On average, the effect of subsidy reductions on the overall CPI could be minimal considering the quantum of increase was small. The increase on the CPI would average 0.25-0.35 percentage points in July, spurring mainly by transport and food categories.

CPI (%yoy) vs OPR (%)



- The quantum of price increases would also not affect businesses sentiments. Thus, this would also limit the second round impact on prices of other goods and services.

- Another factor contributing towards a mild rise in inflation is the potential slowing global recovery pace during the second half that could again moderate growth in spending and thus limit the upward price pressures on goods and services.
- Given the limited impact of the subsidy reductions and low demand side pressure, we maintain our projection for inflation to range between 2.0-2.5% this year. The upper end of inflation forecast takes into consideration price escalation due to festive seasons and further subsidy adjustment.
- On the monetary policy front, interest rates are expected to remain at the prevailing 2.75% level till the end of the year after the 75 bps increase by Bank Negara this year even the expectation that price pressures will remain moderate. The conduct of monetary policy at this juncture is bias towards economic growth, rather than inflation, given the threat of a slowing global recovery on domestic growth.

CONSUMER PRICE INDEX

	Weightage	Index	June 2010		Index	May 2010	
			% yoy	% mom		% yoy	% mom
Total CPI	100	113.6	1.7	0.2	113.4	1.6	0.2
Core-CPI (ex-food & transport)	47.2	110.1	1.2	0.1	110.1	1.1	0.0
Food & Non-Alcoholic Beverages	31.4	123.4	2.7	0.4	122.9	2.5	0.4
Alcoholic Beverages & Tobacco	1.9	134.2	3.0	0.1	134.1	3.0	0.0
Clothing & Footwear	3.1	94.2	-2.0	-0.6	94.8	-1.7	-0.2
Housing, Water, Electricity, Gas & Other Fuels	21.4	106.9	0.8	0.0	106.9	0.8	0.4
Furnishings & Household Equipment	4.3	109.0	0.5	-0.1	109.1	0.6	0.0
Health	1.4	110.1	1.6	0.2	109.9	1.6	0.2
Transport	15.9	112.9	1.3	0.1	112.8	1.2	0.0
Communication	5.1	96.0	-0.3	0.0	96.0	-0.4	0.0
Recreation Services & Culture	4.6	107.2	2.5	0.0	107.2	2.6	-0.1
Education	1.9	110.1	1.8	0.0	110.1	1.8	0.1
Restaurants & Hotels	3.0	120.1	1.8	0.2	119.9	1.8	0.1
Miscellaneous Goods & Services	6.0	113.5	2.8	0.4	113.1	2.9	0.4
Non-Food	68.6	109.3	1.2	0.1	109.2	1.2	0.2
Durable Goods	8.0	100.8	1.1	0.3	100.5	1.1	0.3
Semi-Durable Goods	4.3	96.8	-1.3	-0.4	97.2	-1.2	-0.2
Non-Durable Goods	40.6	119.1	2.1	0.3	118.7	1.8	0.3
Services	47.1	112.6	1.7	0.1	112.5	1.7	0.3

Source : Department of Statistics, Bloomberg, Research Divison PNB