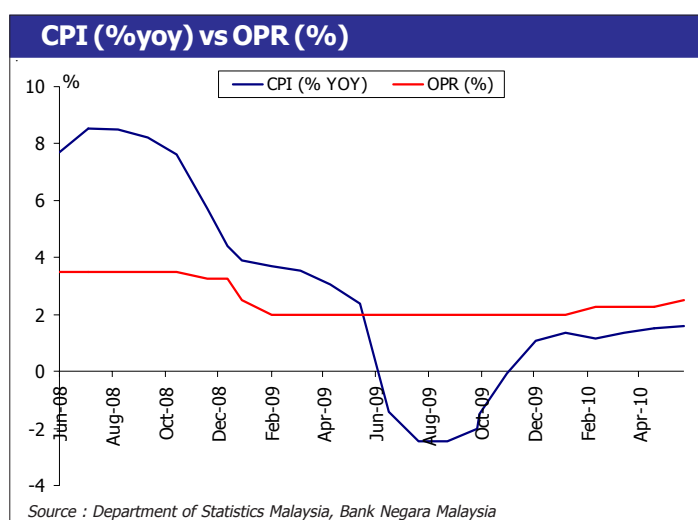
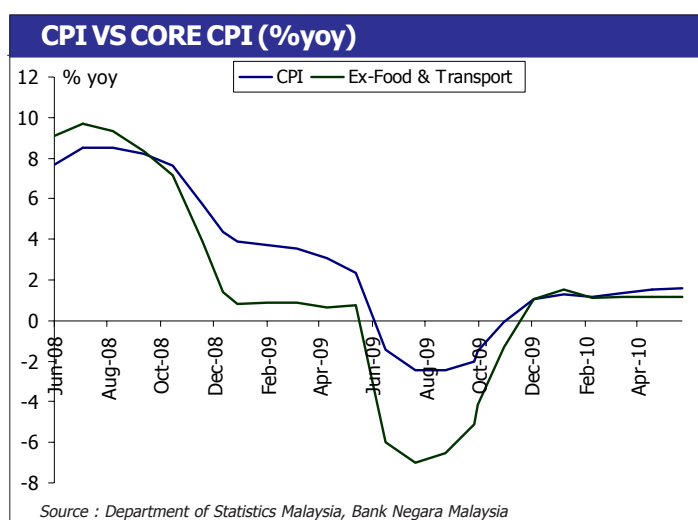
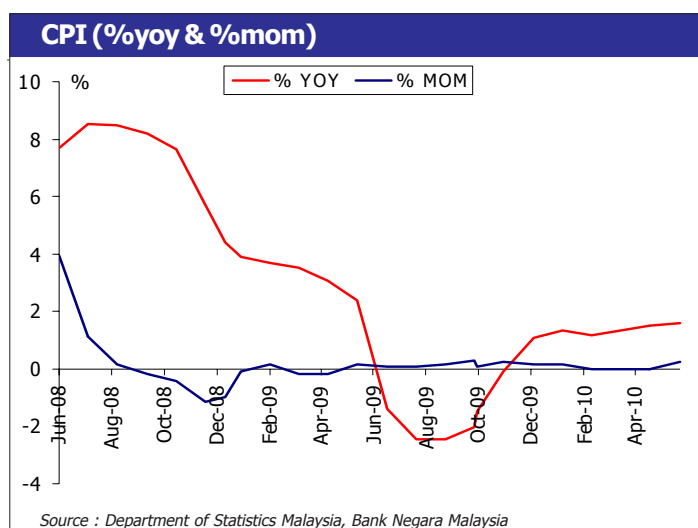


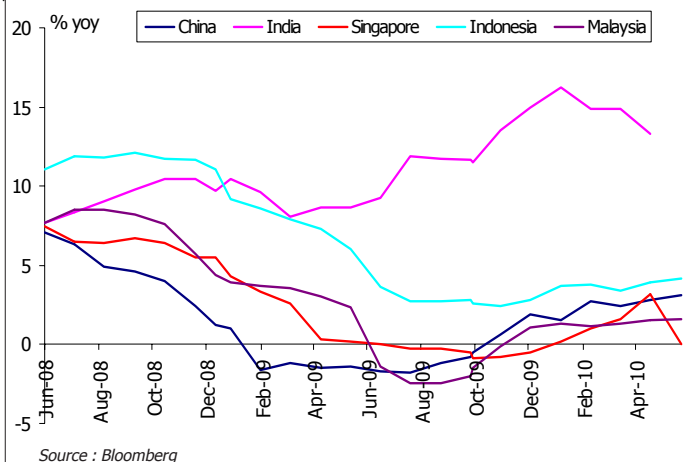
Malaysia: May CPI - Still lack of pressures..

21 JUNE 2010
2010/0024



- Malaysia's inflation rose to 1.6% yoy in May from 1.5% in April, outpacing our and consensus estimation of 1.5%. On a mom basis, the consumer price index (CPI) was higher by 0.3%, the first monthly gain after remaining unchanged for the past three months. Inflation going forward is likely to trend higher as the base effect subsides, amidst a gradual improvement in domestic demand. Given the delay in government plans to cut subsidies, we expect the average rate of inflation for 2010 to be contained at below 2.0%, but should the hikes in the administered prices be implemented during the later part of this year, the average inflation rate could likely reach 2.5% growth.**
- With the exception of Clothing & Footwear and Communication, prices of all sub-categories continued to register annual growth in May. The cost of Food & Non-alcoholic beverages, which accounts for almost 32% of total CPI, increased by 2.5% yoy (Apr: +2.2%) on the back of a monthly gain of 0.4%. On the other hand, the annual price increases in Housing, Utility, & Fuel moderated to 0.8% from 1.0%. The rise in transport costs, the third biggest items in the CPI calculation, however accelerated to 1.2% yoy, the fastest pace charted for this year.
- The core-CPI, which exclude food and transports, showed a slower 1.1% yoy growth in May from +1.2% in April. The index was unchanged on a mom basis, indicating the continued lack of demand-pull inflationary price pressures in the domestic economy.
- The other countries in the region also posted higher inflation rates in May. China's consumer prices accelerated further in May to 3.1%, led mainly by the surging property prices while inflation in India hit a two-year high of 10.2% due to increasing in food and fuel prices. Meanwhile, Indonesia's inflation grew to above 4.0%, the fastest in a year, while Singapore consumer prices jumped to 3.2% yoy from 1.6% in previous month.
- On the local front, the inflation outlook is expected to remain subdued given the still low demand and supply side pressures. The uncertainty in the global economic condition could continue to impact consumer and business sentiments, hence limiting the upward price pressures for the year. We expect the rate of inflation to stay low at below 2.0% until July this year before rising to between 2.0-2.3% towards the end of the year as the low base effect subsides.
- However, there are risks for inflation to surpass the average 1.5-2.0% level this year, should the government implement its plan to rationalize the subsidy scheme. At this juncture,

CPI vs Other Countries (%yoy)



the postponement of the government's plan to cut subsidies either through raising the prices of petrol, electricity and certain food items, could mean less risk for inflation to accelerate further. But, with the reform in the subsidy scheme, the overall CPI potentially can rise by up to 2.5% for this year.

- While inflation would be less of a policy concern for this year, Bank Negara is likely to continue to embark on normalising interest rate. However, due to heightened concerns over the Greece debt issue, we believe that Bank Negara will leave the OPR at the current 2.25% level in its next MPCM meeting on July 8th. It is expected to resume raising the key rate in September by another 25 basis points to 2.75% and to retain it at this level for the rest of this year.

CONSUMER PRICE INDEX

	Weightage	Index	May 2010		Index	April 2010	
			% yoy	% mom		% yoy	% mom
Total CPI	100	113.5	1.6	0.3	113.2	1.5	0.0
Core-CPI (ex-food & transport)	47.2	110.1	1.1	0.0	110.0	1.2	-0.1
Food & Non-Alcoholic Beverages	31.4	122.9	2.5	0.4	122.4	2.2	0.0
Alcoholic Beverages & Tobacco	1.9	134.1	3.0	0.0	134.1	3.0	0.0
Clothing & Footwear	3.1	94.8	-1.7	-0.2	95.0	-1.7	0.5
Housing, Water, Electricity, Gas & Other Fuels	21.4	106.9	0.8	0.4	106.5	1.0	0.0
Furnishings & Household Equipment	4.3	109.1	0.6	0.0	109.1	0.6	0.1
Health	1.4	109.9	1.6	0.2	109.7	1.7	0.4
Transport	15.9	112.8	1.2	0.0	112.8	1.0	0.1
Communication	5.1	96.0	-0.4	0.0	96.0	-0.4	0.1
Recreation Services & Culture	4.6	107.2	2.6	-0.1	107.3	2.8	0.1
Education	1.9	110.1	1.8	0.1	110.0	1.7	0.0
Restaurants & Hotels	3.0	119.9	1.8	0.1	119.8	1.8	0.2
Miscellaneous Goods & Services	6.0	113.1	2.9	0.4	112.7	2.5	-0.1
Non-Food	68.6	109.2	1.2	0.2	109.0	1.2	0.0
Durable Goods	8.0	100.5	1.1	0.3	100.2	0.7	-0.3
Semi-Durable Goods	4.3	97.2	-1.2	-0.2	97.4	-1.1	0.5
Non-Durable Goods	40.6	118.7	1.8	0.3	118.4	1.6	-0.1
Services	47.1	112.5	1.7	0.3	112.2	1.7	0.1

Source : Department of Statistics, Bloomberg, Research Division PNB