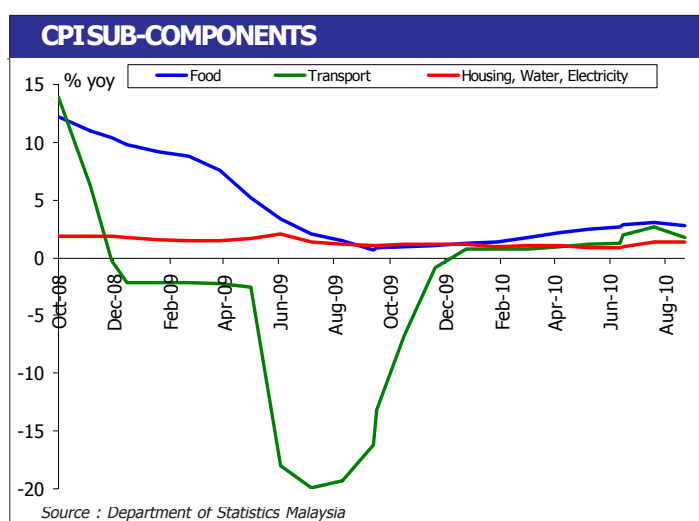
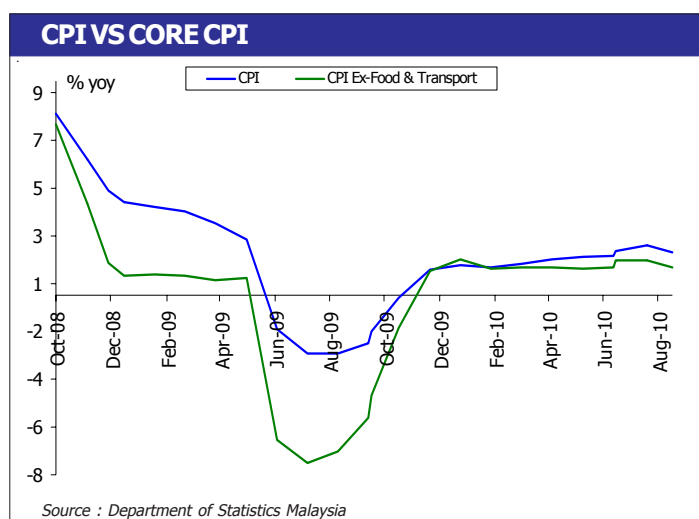
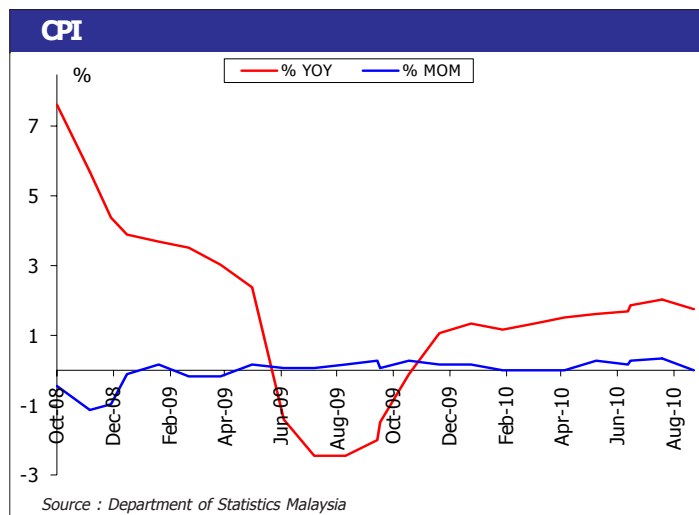


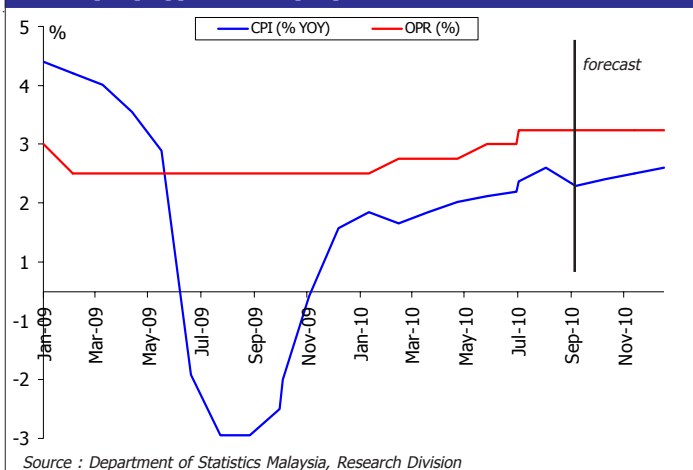
Malaysia: September CPI - benign inflation

25 OCTOBER 2010
2010/0038



- Malaysia's Consumer Price Index unexpectedly grew at a slower pace of 1.8% yoy in September, from 2.1% in August. It came lower than our and consensus expectations of 2.1%. On mom, the CPI was unchanged compared with 0.3% gain in the preceding month.**
- The recent consumer price performance indicates that inflation remain subdued, strengthening the view that interest rate would continue to stay at the current level till the end of the year to support the fragile economic recovery.**
- The slower inflation rate was mainly driven by the deceleration in food and transport costs. Food and non-alcoholic beverages price index grew at 2.7% yoy, the slowest pace in three months, from 3.1% in August. Food prices were flat during the month probably in response to the government price control enforcement on basic food items during Hari Raya festive season.
- Transport costs dropped in September, the first in five months, causing its annual rate to slow to 1.8% from 2.7% in August. This may indicate that the cost of transportation could have peaked in August as the impact from the subsidy cuts fully kicked in.
- Core-prices (excluding food and transport) continued to expand by 1.2% yoy, albeit at a more moderate pace, from 1.5% in August. The moderation in overall core-prices reflects the still lack of demand pressure on inflation.
- Growth in the CPI was broad based, led higher prices of alcoholic beverages/tobacco, restaurants/hotels and miscellaneous goods/services. Clothing and footwear on the other hand showed down-trend where it charted a smaller contraction of 0.4% yoy from 1.6% in August. We believe that the faster growth in non-food prices during the month could be a one-off event given the Raya celebration effect.
- For 3Q10, inflation rose to 1.9%, accelerating from 1.5% in 2Q10, mainly due to the rise in food and transport following the subsidy cuts in July. For January to September, the CPI gained 1.6% yoy from 0.8% the same period last year.
- During the 4Q10, we expect inflation to remain subdued following the moderation in domestic demand alongside with the diminishing effect from the subsidy cuts. We expect the CPI to grow at a modest rate of 2.0% during the final quarter of this year, taking the full year average inflation to 1.8%, which is below our previous estimate of 2.0%.

CPI (%yoy) vs OPR (%)



- The expectation of a subdued inflation rate towards the end of the year may cause the benchmark interest rate to remain unchanged at 2.75% during the upcoming BNM MPC meeting on November 12. This is strengthening by the slowdown in global recovery that could affect local economic activity. At present, signs of softening domestic economy were evidenced in the slowing external trade and industrial production performance.
- The 2011 inflation is expected to accelerate to 2.5%, mainly owing to the supply side pressure following the government commitment to further cut its subsidy on food and fuel items. The increase in inflation will also take into account the buildup of demand pressures as domestic spending strengthens. On that note, we do not rule out that there could be another round of interest rates hike for next year with the earliest to be made during 3Q10 period. We are expecting 25-50 bps hikes in the OPR for 2011 on better economic condition during the 2H11 period.

CONSUMER PRICE INDEX

| | Weightage | Index | September 2010 | | Index | August 2010 | |
|--|------------|--------------|----------------|------------|--------------|-------------|------------|
| | | | % yoy | % mom | | % yoy | % mom |
| Total CPI | 100 | 114.4 | 1.8 | 0.0 | 114.4 | 2.1 | 0.3 |
| Core-CPI (ex-food & transport) | 47.2 | 110.9 | 1.2 | 0.1 | 110.8 | 1.5 | 0.2 |
| Food & Non-Alcoholic Beverages | 31.4 | 124.3 | 2.7 | 0.0 | 124.3 | 3.1 | 0.3 |
| Alcoholic Beverages & Tobacco | 1.9 | 134.3 | 3.1 | 0.0 | 134.3 | 3.1 | 0.0 |
| Clothing & Footwear | 3.1 | 94.9 | -0.4 | 0.9 | 94.1 | -1.6 | -0.6 |
| Housing, Water, Electricity, Gas & Other Fuels | 21.4 | 107.5 | 1.3 | 0.0 | 107.5 | 1.3 | 0.5 |
| Furnishings & Household Equipment | 4.3 | 109.4 | 0.8 | 0.2 | 109.2 | 0.6 | -0.2 |
| Health | 1.4 | 110.6 | 1.7 | 0.2 | 110.4 | 1.7 | 0.2 |
| Transport | 15.9 | 114.5 | 1.8 | -0.2 | 114.7 | 2.7 | 0.8 |
| Communication | 5.1 | 96.2 | 0.0 | 0.0 | 96.2 | -0.1 | 0.0 |
| Recreation Services & Culture | 4.6 | 107.1 | 0.3 | 0.1 | 107.0 | 0.3 | -0.3 |
| Education | 1.9 | 110.3 | 1.6 | 0.1 | 110.2 | 1.5 | 0.0 |
| Restaurants & Hotels | 3.0 | 120.8 | 2.3 | 0.4 | 120.3 | 1.9 | 0.2 |
| Miscellaneous Goods & Services | 6.0 | 113.8 | 2.3 | 0.4 | 113.3 | 2.5 | -0.3 |
| Non-Food | 68.6 | 109.9 | 1.3 | 0.0 | 109.9 | 1.6 | 0.4 |
| Durable Goods | 8.0 | 100.5 | 0.6 | 0.2 | 100.3 | 0.7 | -0.5 |
| Semi-Durable Goods | 4.3 | 97.4 | -1.0 | 0.7 | 96.7 | -1.0 | -0.5 |
| Non-Durable Goods | 40.6 | 120.3 | 2.4 | 0.0 | 120.3 | 2.9 | 0.5 |
| Services | 47.1 | 113.1 | 1.6 | 0.1 | 113.0 | 1.6 | 0.2 |

Source : Department of Statistics, Bloomberg, Research Division