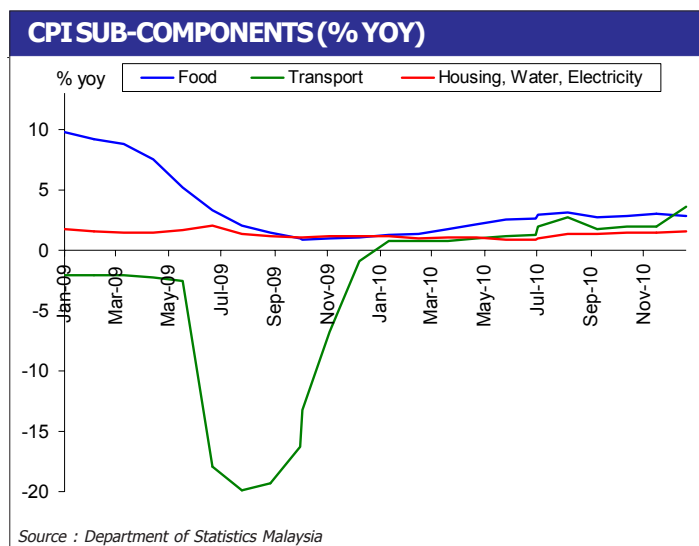


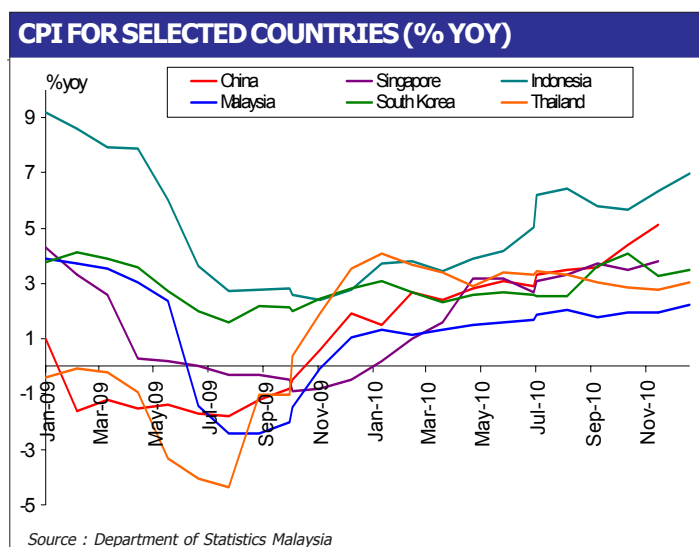
- December CPI ticks higher.** Malaysia's Consumer Price Index (CPI) grew higher by 2.2% yoy in Dec from 2.0% yoy in November. This matched consensus forecast but held slightly below our estimates of 2.3%. Inflation on a mom basis gained 0.4% -marked the fastest increase since Aug 08- mainly in response to the 2nd round subsidy rationalization introduced early December.

- Driven by higher transport, moderation in food prices.** The cost of transportation surged to 3.6% yoy in Dec -the fastest growth charted since Jan 10- from 2.0% yoy in Nov. This came as a result of the government rationalization subsidy programme on Dec 4 in which prices of RON95 petrol, diesel and LNG were up by 5 sen. The subsidy cuts on sugar (up 20 sen) however, appear to have a moderate impact on food inflation as prices of food/non-alcoholic beverages increased at a slower pace of 2.8% yoy in Dec from 3.0% yoy in Nov.



- Core-CPI rise up.** The core-CPI (excluding food and transport costs) gained 0.8% mom, causing its annual growth to rise faster by 2.2% from 1.4% in Nov. The monthly growth seems to be supported by the higher costs of restaurant/hotels and miscellaneous goods/services. While on an annual basis, the core-CPI continued to be led by a sharp 6.5% increase in the cost of alcoholic beverages/tobacco sub-indices.

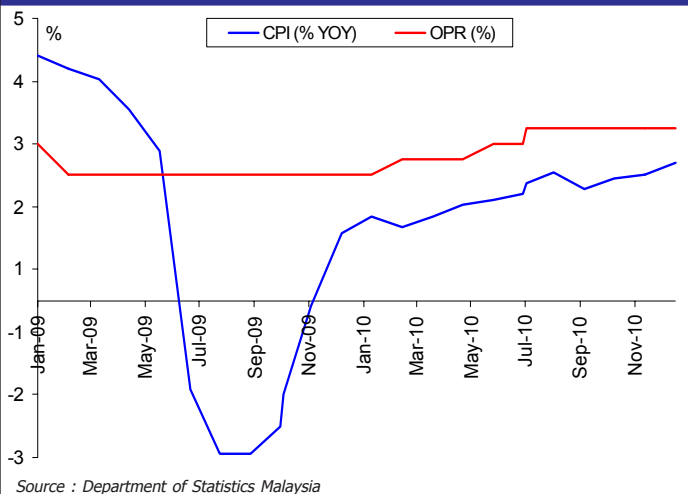
- Moderate 2010 inflation.** For overall 2010, inflation grew at a moderate level of 1.7%, though picking up from the 0.6% growth charted in 2009. The rise, according to Department of Statistics, was attributed to increases in indices of all the main groups except for clothing and footwear (-1.3%) and communication (0.0%).



- CPI growth was mild compared to other Asian countries.** Despite the increase, Malaysian CPI still lagged behind the growth rate charted in China (inflation surged 5.1% yoy in Nov) and other regional economies where the CPI growth rate already surpassed the 3.0% levels. The rising inflationary pressures, to a certain extent, have prompted regional central banks to tighten its policy rates. Early this year, both Thailand and South Korea raised their benchmark interest rate by 25 basis points to 2.25% and 2.75% respectively, in an effort to combat the higher inflation rates.

- Inflation creeping up going into 2011.** Inflation outlook is more on the upside pressure, owing to the secondary impact of the subsidy cuts in Dec, chances of further subsidy rationalization programme this year and further upward trend in commodity prices. While we expect inflation to be more cost-push, it could also be supported by demand-pull particularly going into the 2H11 period. Economic growth, for instance, is expected to chart an encouraging performance

CPI (% YOY) VS OPR (%)



during the second part of this year following the implementation of several entry point projects (EPPs) under the Economic Transformation Plan (ETP). This would cause consumer demand to strengthen as economic activities gain its strength. As such, we expect the CPI to be broad-based and grow at between 2.5%-3.0% levels

throughout the year, rising faster from the average 1.7% growth in 2010.

- Stronger Ringgit will cushion price increases.** The rise in the total CPI however is expected to be limited by the stronger ringgit (currently is trading higher at RM3.06 against the US dollar and is expected to breach the 3.00 level by the year-end) through lower imported inflation.
- Interest rate to remain at 2.75% for a while.** The moderate inflation rate could suggest that Bank Negara Malaysia (BNM) will leave the benchmark Overnight Policy Rate (OPR) unchanged at 2.75% during its upcoming Monetary Policy Committee Meeting (MPCM) on January 27th. At this juncture, interest rate policy will continue to be pro-growth based on the lack of demand-pull inflationary pressures, concerns over a sustained global recovery and massive capital flow into the country. While these factors will continue to influence BNM's decision on the movement of the country's interest rate, the rise in inflation, which would largely be attributed to the cost-push factor, may cause the OPR to remain unchanged at 2.75% during 1H11 before rising further in 2H11 following a stronger domestic demand. At this juncture, we are expecting the OPR to increase by around 25-50 bps, taking the full-year target at 3.25% level.

CONSUMER PRICE INDEX

| | Weightage | Index | December 2010 | | Index | November 2010 | |
|--|------------|--------------|---------------|------------|--------------|---------------|------------|
| | | | % yoy | % mom | | % yoy | % mom |
| Total CPI | 100 | 115.6 | 2.2 | 0.4 | 115.0 | 2.0 | 0.3 |
| Core-CPI (ex-food & transport) | 47.2 | 112.4 | 2.2 | 0.8 | 111.5 | 1.4 | 0.0 |
| Food & Non-Alcoholic Beverages | 31.4 | 125.5 | 2.8 | 0.3 | 125.1 | 3.0 | 0.6 |
| Alcoholic Beverages & Tobacco | 1.9 | 142.7 | 6.5 | 0.0 | 142.7 | 6.5 | 0.0 |
| Clothing & Footwear | 3.1 | 93.9 | -0.9 | -0.7 | 94.6 | -1.1 | -0.2 |
| Housing, Water, Electricity, Gas & Other Fuels | 21.4 | 108.0 | 1.5 | 0.1 | 107.9 | 1.4 | 0.3 |
| Furnishings & Household Equipment | 4.3 | 109.5 | 0.7 | 0.0 | 109.5 | 0.6 | 0.1 |
| Health | 1.4 | 111.0 | 1.9 | 0.1 | 110.9 | 1.7 | 0.2 |
| Transport | 15.9 | 116.6 | 3.6 | 1.6 | 114.8 | 2.0 | 0.2 |
| Communication | 5.1 | 96.1 | 0.0 | 0.0 | 96.1 | -0.1 | 0.0 |
| Recreation Services & Culture | 4.6 | 107.1 | 0.0 | 0.0 | 107.1 | 0.0 | 0.0 |
| Education | 1.9 | 110.4 | 1.6 | 0.0 | 110.4 | 1.7 | 0.1 |
| Restaurants & Hotels | 3.0 | 121.8 | 2.6 | 0.5 | 121.2 | 2.3 | 0.2 |
| Miscellaneous Goods & Services | 6.0 | 115.4 | 2.3 | 0.3 | 115.0 | 2.6 | 0.4 |
| Non-Food | 68.6 | 110.9 | 1.9 | 0.5 | 110.4 | 1.4 | 0.1 |
| Durable Goods | 8.0 | 101.5 | 0.6 | 0.3 | 101.2 | 0.9 | 0.3 |
| Semi-Durable Goods | 4.3 | 96.7 | -0.4 | -0.5 | 97.2 | -0.6 | -0.1 |
| Non-Durable Goods | 40.6 | 122.3 | 3.3 | 0.8 | 121.3 | 2.8 | 0.3 |
| Services | 47.1 | 113.6 | 1.7 | 0.2 | 113.4 | 1.6 | 0.2 |

Source : Department of Statistics, Bloomberg, Research Division