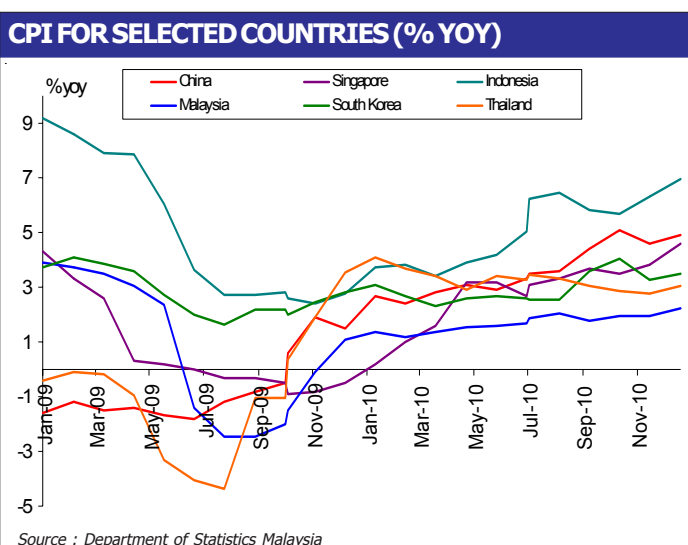
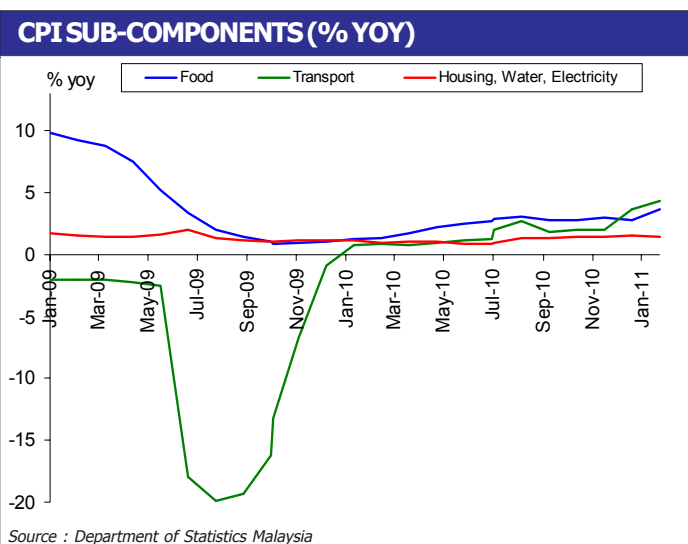
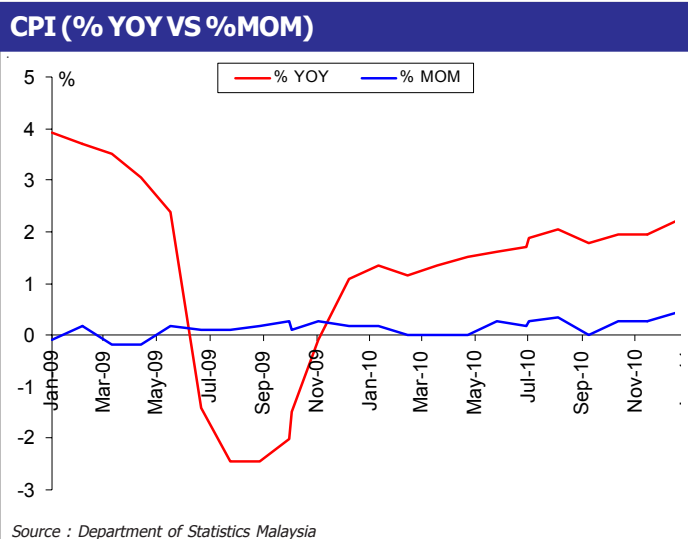


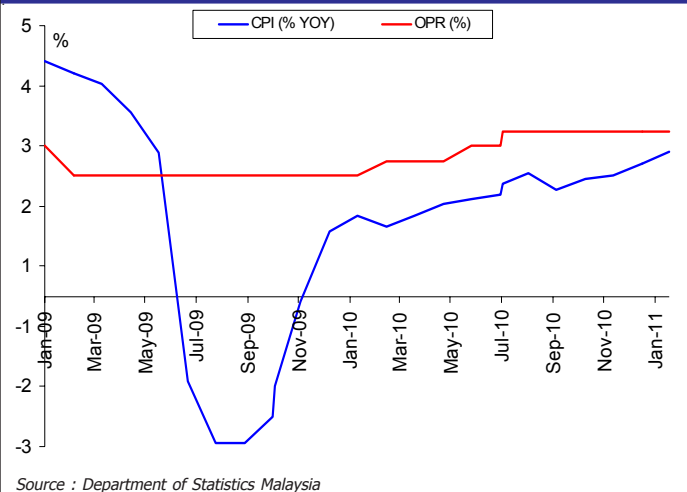
MALAYSIA CONSUMER PRICES : PRICE ACCELERATION BEGINS

24 FEBRUARY 2011
2011/06



- Within forecast.** As expected, the Consumer Price Index increased by 2.4% yoy in Jan from 2.2% yoy in Dec. This was the fastest growth charted since May 2009. On a mom basis, the CPI grew 0.6% compared with 0.4% in Dec, mainly spurred by increases in food and transport costs.
- Growth was led by food costs.** Food and non alcoholic beverages cost charted a faster increase of 3.6%, the highest since May 09, from 2.8% yoy in December. Food costs rose by 1.2% than the previous month. Prior to this, food prices had been stable with the exception of April through May, 09 when it contracted between 0.4-0.5%. In our view, the upward trend in food prices was driven by secondary effects arising from subsidy cuts in December and the month's low base.
- ..amidst moderate rise in transport costs.** Transport cost similarly edged upward, from 3.6% yoy in Dec to 4.3% yoy in Jan. The monthly expansion, however, slowed to 0.3% in January compared with Dec's 1.6% growth resulting from a cut on fuel costs during the year end.
- Prices of non-food were moderate.** Price increases were seen in restaurants and hotels (Jan:+4.6 %, Dec: +2.6%), health (Jan: +2.1% yoy, Dec,+1.9%) and education (Jan: +1.5% yoy, Dec: +1.6%). The rise is normally attributed to seasonal factors. Alcoholic and tobacco costs continued to record a strong growth of 6.4%, mainly due to base effects as no change in prices was recorded during the month (Dec). A decline, however, was recorded for clothing/footwear, communication, recreation/culture, which caused the overall non-food costs to be almost flat at 0.3% while leaving its yoy gain maintained at 1.9% for January (Dec: +1.9%).
- Modest growth compared to regional economies.** Despite Malaysia's faster CPI growth charted for January, it was still below that of the other regional economies.
- Inflation to creep up going forward.** We are expecting prices to creep up in the coming months, owing to secondary effects from Dec. 2010's subsidy rationalization exercise and the advent of further subsidy cuts by the government, perhaps in early June, 2011. January's yoy higher consumer prices could also be attributed to base factors given that price increases were small in 1H2010, averaging at 1.4%. However, the price increase in 2H2010 averaged at 2.0%. Though there could be some impact from the high global prices, we expect the rise to be most likely cushioned by the appreciation in the Ringgit against the US dollar (trading at a strong RM3.04/dollar), provided the fundamentals in the Malaysian economy remain strong.

CPI (% YOY) VS OPR (%)



- **Run-up in global oil prices, a cause for higher CPI.**

The higher global prices, at present, could put more pressures on the government to raise prices of controlled items by a larger quantum than before. In spite of the reassurances by the Domestic Trade, Cooperatives, and Consumerism Minister recently to maintain the RON95 petrol price, further increases are unavoidable in future following surging world crude oil prices spurred by the political instability in the Middle East region and fears of a contagion effect that will threaten the world's oil supply. So far, OPEC member countries will be able to increase supply if supplies from Libya are threatened but the real fear is whether the crisis will spread to Saudi Arabia which

is the largest contributor to OPEC's oil supply. Prices have so far hit the USD100 per barrel mark and could end up higher and consequently, impede world economic growth. The RON97 petrol price, floated at the prevailing market price, was adjusted upwards on Feb.1 by 10 sen to RM2.50/litre. Thus, we are expecting that a rise in transport prices could add one percentage point to result in a rise of 2.5% yoy growth of overall CPI for the coming month.

- **Interest rate to stay accommodative.** Given that growth in CPI was driven by cost-push pressures and not demand-pull, we maintain that the OPR will remain unchanged at 2.75% at the Monetary Policy Meeting on March 11th, 2011. Signs of a moderating domestic demand, as displayed in the 4Q10 GDP, also point to a slowing but stable consumer spending in the short to immediate terms.
- **.. with possibility of a hike in SRR.** Furthermore, Bank Negara also hinted of other monetary policy tool measures, such as the Statutory Reserve Requirement (SRR), mainly to cushion the increasing risks of capital flows. The SRR was held at low levels of 1.0% since Mar 09, which may give some room for further hikes even though there are signs of easing pressures on capital flows, which recently shifted to developed countries on surging inflation threatening growth in emerging economies. At this juncture, we are expecting Bank Negara to increase the OPR during the 2H11, but do not rule out the possibility of an earlier hike in May, on concerns of a stronger domestic demand and faster than expected CPI growth.

CONSUMER PRICE INDEX

	Weightage	Index	January 2010*		Index	December 2010	
			% yoy	% mom		% yoy	% mom
Total CPI	100	101.8	2.4	0.6	115.5	2.2	0.4
Food & Non-Alcoholic Beverages	30.3	102.6	3.6	1.2	125.5	2.8	0.3
Alcoholic Beverages & Tobacco	2.2	140.6	6.4	0.0	142.7	6.5	0.0
Clothing & Footwear	3.4	99.9	-1.3	1.1	93.9	-0.9	-0.7
Housing, Water, Electricity, Gas & Other Fuels	22.6	100.8	1.4	0.0	108.0	1.5	0.1
Furnishings & Household Equipment	4.1	101.0	1.0	1.0	109.5	0.7	0.0
Health	1.3	101.5	2.1	0.7	111.0	1.9	0.1
Transport	14.9	103.2	4.3	0.3	116.6	3.6	1.6
Communication	5.7	100.0	-0.3	0.0	96.1	0.0	0.0
Recreation Services & Culture	4.6	99.7	-0.5	0.0	107.1	0.0	0.0
Education	1.4	101.0	1.5	0.6	110.4	1.6	0.0
Restaurants & Hotels	3.2	103.2	4.6	1.6	121.8	2.6	0.5
Miscellaneous Goods & Services	6.3	101.1	1.2	0.3	115.4	2.3	0.3
Non-Food	69.7	101.4	1.9	0.3	110.9	1.9	0.5
Durable Goods	6.5	100.2	-0.2	-0.2	101.5	0.6	0.3
Semi-Durable Goods	4.4	100.2	-0.7	1.0	96.7	-0.4	-0.5
Non-Durable Goods	41.6	102.9	3.8	0.9	122.3	3.3	0.8
Services	47.5	101.2	1.9	0.4	113.6	1.7	0.2

* From January 2011, index levels are rebased to 2010=100. Prior to January 2011, figures are based on 2005=100.
Source : Department of Statistics, Bloomberg, Research Division