

August's CPI growth eased slightly to 3.3% yoy from July's 3.4%. This confirms the view that inflation has started to level off from its June's peak of 3.5% this year. Going forward, though global commodity prices have eased, we expect the CPI growth to remain high but stable at 3.0-3.2% for the rest of this year due to sustained high food costs and some build up in demand pull inflation. Expectations of a stable increase in the inflation rate amidst the increasing downside risks to global growth may suggest that monetary policy will continue to be supportive towards growth which could also support our year-end OPR target of 3.00% for this year.

- Aligned with consensus, CPI growth eased slightly to 3.3% yoy in August from 3.4% in July. The rate of inflation has begun to level off from its peak of 3.5% in June this year.
- The CPI rose slower in August mainly supported by easing food prices and transport cost. August's food inflation eased to 4.5% from 4.9% in July, though it was unchanged on a mom basis. We believe that this could be temporary due to the price control scheme implemented during the fasting month, ahead of the Hari Raya celebrations.
- Transport costs continued a downtrend in August. The CPI for transport rose by a slower 4.0% yoy from 4.9% in July and its peak of 6.0% in May this year. Both food and transport accounts for about 45% of total CPI.

Table 1: Consumer Price Index

	<u>August</u>		<u>July</u>		<u>Jan-Aug 11</u>
	% yoy	% mom	% yoy	% mom	% yoy
Total CPI	3.3	0.2	3.4	0.2	3.1
Core-CPI (ex-food & transport)	2.4	0.3	2.2	0.2	1.9
Major sub-groups					
i. Food & non-alc. beverages (30.3%)	4.5	0.0	4.9	0.4	4.6
ii. Housing & utilities (22.6%)	2.0	0.5	1.9	0.1	1.7
iii. Transport (14.9%)	4.0	0.1	4.8	-0.1	4.9

- However, core-CPI showed an uptrend. Housing, water, electricity, gas and other fuels sub-groups charted a 0.5% mom increase, the fastest for the year. This could be the result of some pass-through effect from the electricity tariff hike of 7% in June. On y-o-y, the housing and utilities CPI rose faster at 2.0% in August from 1.9% in July. Recreation and services as well as miscellaneous goods and services sub-group also recorded a faster rate increase.
- The overall core-CPI is thus rose faster at 2.4% yoy in August from 2.2% in July. The upward pressure however was contained by a reduction in communication and the slower increase in the cost of restaurant and hotels sub-categories.
- In general, the slower August's inflation to some extent would reflect some easing in supply pressures, mainly food and fuel. Going forward, while we expect transport cost to remain stable due to the downtrend in the global oil prices, the cost of food may stay high due to supply constraints. The OECD and FAO are expecting global oil prices to continue rising as farm production slows and demand increases. During Jan-Aug'11, the World Food Price Index had rallied 26% as compared to the same period last year.
- Despite the gradually easing pressures, we expect Malaysia inflation rate for this year to average at around 3.1% compared with 1.7% in 2010. For the YTD, the CPI had increased by 3.1% yoy from 1.5% during the same period last year.
- The acceleration in the core-CPI, to a certain extent, mirrors the build up of demand pull inflation. Nevertheless, given the increased downside risks for growth compared with inflationary risks, this may cause the monetary policy stance to remain accommodative to support growth. Bank Negara has highlighted its concerns that any slowdown in the global economy, if realised, could potentially affect domestic growth and subsequently domestic spending. Hence the OPR is likely to remain unchanged at the current 3.00% till the year end. The next meeting of the MPC will be in November.

Figure 1: CPI vs Core-CPI (% YoY)

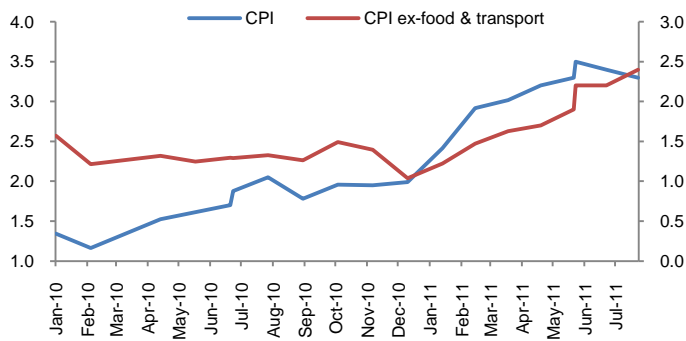


Figure 2: Major Sub-Categories (% YoY)

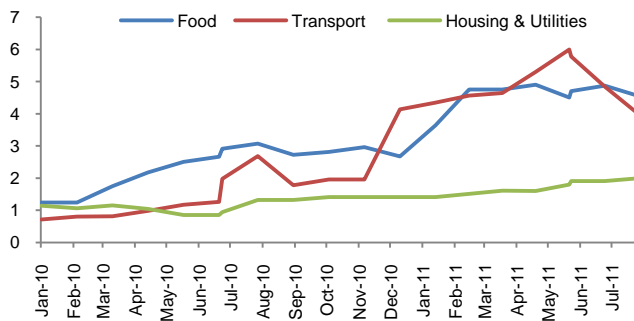


Figure 3: Asian Inflation (% YoY)

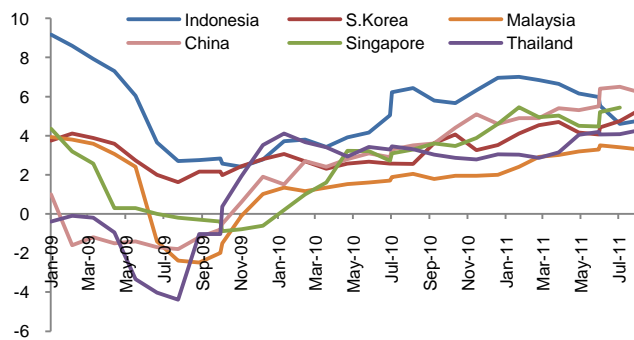


Figure 4: Global Oil Prices vs Global Food Prices

