Economic Insight

2015/83 | 19 August 2015 Amanah Mutual Berhad

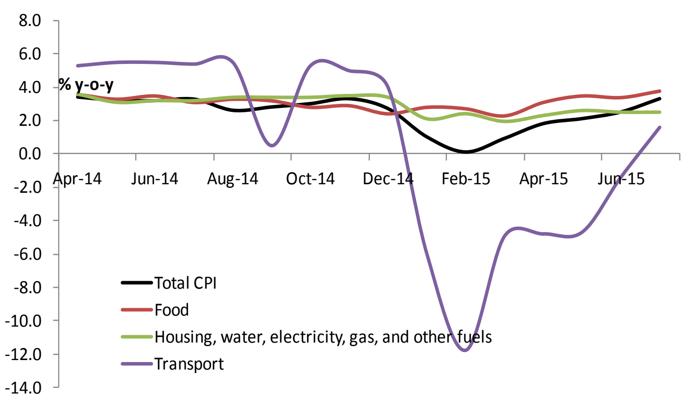
Malaysia: Inflation rate breaches 3.0%

TABLE 1: CONSUMER PRICE INDEX (CPI)

	Jul-15		Jun-15	
	%yoy	%mom	%yoy	%mom
TOTAL CPI	3.3	0.8	2.5	0.6
Core-CPI (ex-food)	3.0	0.8	2.2	0.7
Core-CPI (ex-food and transport)	3.4	0.2	3.3	0.1
Food & Non- Alcoholic Beverages	3.8	0.8	3.4	0.4
Housing, Water, Electricity, Gas & Other Fuels	2.5	0.0	2.5	0.0
Transport	1.6	3.1	-1.4	3.0

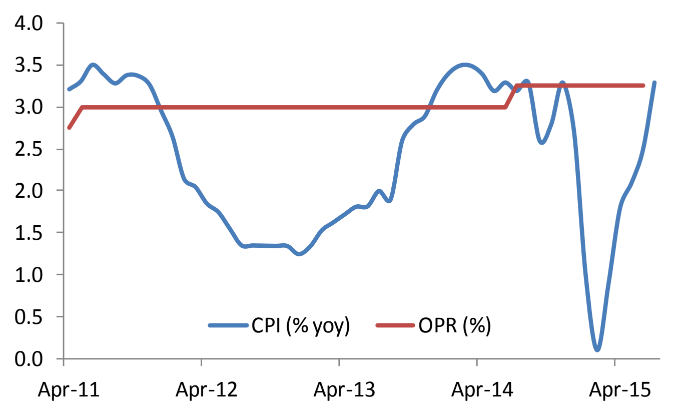
Source: DOSM

CHART 2: INFLATION RATE TICKED UP TO 3.3% YOY



Source: DOSM

CHART 3 : CPI VS OPR



Source: DOSM, PNBRI

- The headline inflation rate increased to 3.3% yoy in July, after rising by 2.5% yoy in June. This marks the first breach of the 3.0% level after inflation lost its momentum since early Jan. '15 following the fall in oil prices.

- For Jan-July, CPI averaged 1.7% yoy, still at much lower than 3.3% yoy CPI growth charted in in Jan-July '14.

- The price increase was broad based during the month and it was led by alcoholic beverages & tobacco (+13.3% yoy), followed by the rise in health costs (+4.8% yoy) and restaurant and hotels (+4.6% yoy).

- Following the gradual recovery in Brent oil prices to $53/barrel (as at 15 July) from $44/barrel (as at 17 Mar.) which had then led to an upwards price revision of domestic pump prices: RON97 (July: RM2.55; June: RM2.35), RON95 (July: RM2.15; June: RM2.05) and diesel (July: RM2.05; June: RM2.05), transport prices recorded the first expansion of 1.6% yoy, after contracting for six consecutive months. For Jan-July period, transport costs declined by 4.6% yoy vs 5.4% yoy during the same period last year.

- Despite the recovery made in mid-July, we noticed that Brent oil price started to weaken again to $49/barrel (as at 19 Aug), possibly suggesting a double-dip situation. Falling oil prices would lead to lower domestic pump prices; thus, rendering the recovery made in transport prices short-lived. In fact, the retail prices of RON95, RON97 and diesel were down by 10 sen per litre in August. If Brent oil price continues to dip, inflation would still be trending upwards thanks to GST, however, its impact would be more subdued.

- There are reasons to believe that oil prices would be pressured further going forward. The downtrend in the Chinese equity market continues to sour market sentiments, while the concerns over supply glut remains. Beside, the market is anxious over the news of an U.S. interest rate hike this year, plus signs of a further strengthening in the U.S. economy would certainly boost U.S. dollar and weigh on oil prices. OPEC nations also signaled that they will resume production amid surplus; thus pushing oil prices further downwards. From the domestic landscape, Malaysia has also been pumping higher oil output, thanks to the commencement of Gumusut-Kakap field. Without a cut in oil surplus, pressure on oil prices would remain.

- Given the still-sustained GDP growth at 4.9% in 2Q15 (1Q15: +5.6% yoy) and manageable inflation growth, we believe that BNM would resort in maintaining the OPR at 3.25% level, at least for the rest of 2015.