

ECONOMIC REVIEW | August 2019 Consumer Price Index

Higher F&B Prices Lifted Overall Inflation despite Still Lower Global Crude Oil Prices

- *Inflation edged up buoyed by F&B. Headline inflation inched up to 1.5%yoy in Aug-19 from 1.4%yoy in the previous month as food & non-alcoholic beverages prices continued to increase at a faster pace of 2.6%yoy (July-19: 2.4%yoy). This offset further decline in transport prices at -2.1%yoy and a marginally lower inflation of housing & utilities at 1.8%yoy.*
- *Fuel-related items are still in deflation. The average price of Brent crude oil contracted by -19.5%yoy in Aug-19 higher than -14.3%yoy recorded in the previous month as the US-China trade discord intensified besides continuous supply cut by the OPEC.*
- *We foresee inflation rate to average at 0.6% in 2019. We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the first eight months of this year, inflation averaged at 0.5%yoy.*

Inflation edged up buoyed by F&B. Headline inflation inched up to 1.5%yoy in Aug-19 from 1.4%yoy in the previous month as food & non-alcoholic beverages prices continued to increase at a faster pace of 2.6%yoy (July-19: 2.4%yoy). This offset further decline in transport prices at -2.1%yoy and a marginally lower inflation of housing & utilities at 1.8%yoy. Meanwhile, core inflation maintained at the fastest pace since Jan-18 at 2%yoy, unchanged from preceding month. Looking ahead, we foresee inflation to return to the low level of below 1% in upcoming months as the lower base effect resulting from the tax holiday period last year is coming to an end. We believe that RON95 price cap at RM2.08 will continue to put a downward pressure on transport inflation.

Food prices on the rise. Food and non-alcoholic beverages inflation which account for 29.5% of the CPI weightage increased further to 2.6%yoy, the fastest pace since Apr-18. Fresh meat inflation stood at a neutral state while those of seafood increased further to 2.5%yoy. The F&B inflation has been trending upward since Apr-19 partly due to Ringgit depreciation as Malaysia is a net importer of food. Ringgit averaged at RM 4.15 against USD for the period of Apr-19, weaker compared to RM 4.00 in the same comparable period last year. Moving forward, we foresee food inflation to stay at higher-side amid weaker Ringgit resulting in the items to be more expensive. We foresee Ringgit at USD/RM4.15 by year-end of 2019. Similarly, we expect Ringgit to average at USD/RM4.15 in 2019. Year-to-date, Ringgit averaged at USD/RM4.13.

Fuel-related items are still in deflation. The average price of Brent crude oil contracted by -19.5%yoy in Aug-19 higher than -14.3%yoy recorded in the previous month as the US-China trade discord intensified besides continuous supply cut by the OPEC. Domestically, retail fuel prices for RON95 recorded negative growth of -5.5%yoy for the fifth consecutive month and may continue at that pace throughout the year if the price remain capped at RM2.08. Similarly, those of RON97 which float according to market fell by -7.1%yoy. In tandem, prices of fuels & lubricants posted higher negative growth of -5.1%yoy (June-19: -4.7%yoy). Looking ahead, average Brent oil price for the first three weeks of Sep-19 went up to USD 62pb (Aug-19: USD 59.8) as US and China delayed tariff hikes and signalled that they will resume trade talks soon.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Jun-19	Jul-19	Aug-19	Jun-19	Jul-19	Aug-19
CPI	0.0	0.1	0.2	1.5	1.4	1.5
Non Food	(0.1)	0.0	0.3	1.1	1.0	0.9
Food and Non Alcoholic Beverages	0.1	0.3	0.2	2.3	2.4	2.6
Alcoholic Beverages and Tobacco	0.1	0.0	0.1	2.1	2.3	2.5
Clothing and Footwear	(0.1)	(0.4)	0.0	(0.7)	(1.1)	(1.1)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.5	2.3	1.9	1.8
Furnishings, Household Equipment and Maintenance	0.1	0.2	0.0	3.1	3.3	3.2
Health	0.2	0.1	0.2	1.2	1.3	1.4
Transport	(0.3)	0.2	(0.1)	(2.1)	(1.9)	(2.1)
Communication	0.0	0.0	0.0	2.1	2.1	2.2
Recreation and Culture	0.1	(0.1)	0.0	2.7	2.4	2.3
Education	0.0	0.1	0.1	1.4	1.4	1.4
Restaurants and Hotels	0.2	0.1	0.2	1.6	1.7	1.7
Miscellaneous Goods and Services	0.3	0.4	0.5	1.4	1.8	2.5
Durable Goods	0.2	0.4	0.6	1.2	1.8	2.6
Semi Durable Goods	0.0	(0.3)	(0.1)	(0.7)	(0.8)	(0.9)
Non-Durable Goods	0.0	0.2	0.1	0.2	0.1	0.2
Services	0.0	0.1	0.3	2.6	2.7	2.6
Core CPI	0.0	0.1	0.3	1.9	2.0	2.0

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Jun-19	Jul-19	Aug-19	Jun-19	Jul-19	Aug-19
Rice	(0.1)	0.0	(0.1)	0.3	0.1	(0.1)
Fresh Meat	(0.5)	3.1	2.1	(3.2)	(2.8)	0.0
Fresh Seafood	1.1	(0.1)	0.2	1.7	1.9	2.5
Oils & Fats	0.0	(0.1)	0.1	(1.3)	(1.3)	(1.1)
Fresh Fruits	0.6	1.2	(0.3)	1.9	3.5	2.2
Fresh Vegetables	1.1	(1.1)	(2.3)	6.2	5.4	3.6
Food Away From Home	(0.1)	0.3	0.1	4.2	4.4	4.4
Cigarettes	0.0	0.0	0.0	2.5	2.5	2.5
Electricity	0.0	0.0	0.0	5.0	1.4	1.4
Pharmaceutical Products	0.2	0.1	0.2	0.9	1.1	1.2
Fuels & Lubricants for Transportation	(0.7)	0.2	(0.2)	(5.0)	(4.7)	(5.1)
Transportation Repair & Maintenance	0.3	0.1	0.1	3.4	3.3	3.5
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.1	0.1	0.1
Expenses In Restaurants & Cafes	0.1	0.1	0.2	1.5	1.7	1.7
Insurance For Motor Vehicles	0.0	0.0	0.0	1.4	1.4	1.4

Source: CEIC, MIDFR

KL has the highest inflation. KL, Penang, Selangor, Putrajaya and Perak recorded inflation above national average with KL chalked the highest rate at 2.4%yoy. The lowest inflation was observed in Sabah, Labuan and Sarawak. KL also recorded the highest inflation of food & non-alcoholic beverages at 4.7%yoy, far above the rest as the second highest rate was 3.1%yoy in Penang. Moving forward, we view inflationary pressure for all states to stay at accommodative environment throughout 2019.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Jun-19	Jul-19	Aug-19	Jun-19	Jul-19	Aug-19
Peninsular Malaysia;	0.0	0.2	0.2	1.6	1.6	1.7
Food & Non-Alcoholic Beverages	0.1	0.3	0.2	2.5	2.5	2.7
Utilities	0.0	0.0	0.6	2.4	2.0	1.9
Transport	(0.3)	0.2	(0.2)	(2.0)	(1.8)	(2.1)
Sabah;	0.0	0.0	0.1	1.0	0.8	0.7
Food & Non-Alcoholic Beverages	0.1	0.0	0.2	1.0	1.1	1.0
Utilities	0.0	0.0	0.1	1.9	1.3	1.0
Transport	(0.3)	0.2	(0.1)	(2.3)	(2.0)	(2.3)
Sarawak;	(0.1)	0.0	0.0	1.0	0.9	0.7
Food & Non-Alcoholic Beverages	(0.1)	0.0	0.0	1.9	1.7	1.6
Utilities	0.0	0.0	0.2	1.2	1.2	1.2
Transport	(0.3)	0.1	(0.1)	(3.0)	(3.0)	(3.2)

Source: DOSM, MIDFR

Inflation remains tame as oil price decline. Most of the key economies recorded lower inflation in Aug-19 mainly due to declining global crude oil prices. The US headline inflation rate inched down to 1.7%yoy as energy deflation deepened sharply. Similarly, Japan's inflation moderated further to 0.3%yoy from 0.5%yoy in the previous month. Besides that, China's and the EU's inflation maintained at 2.8%yoy and 1.4%yoy respectively unchanged from preceding month. While most of ASEAN countries follow suit the easing trend, Indonesia deviated by recording higher price increase during the month (3.5%yoy vs 3.3%yoy in July-19). Global crude oil price movements seem to have more significant impact to inflation performance than an easing policy environment would do. Most of the countries had cut their interest rates to stimulate the economy; yet still unable to jolt the price upwards movements. Indonesia was an exception as it had a series of rate cuts; 3 cuts in a row. We could expect an uptick in inflation for the upcoming month as global crude oil prices surged following the drone attack in Saudi.

Table 4: Global Headline Inflation (YoY%)

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Malaysia	-0.4	0.2	0.2	0.2	1.5	1.4	1.5
Indonesia	2.6	2.5	2.8	3.3	3.3	3.3	3.5
Philippines	3.8	3.3	3.0	3.2	2.7	2.4	1.7
Thailand	0.7	1.2	1.2	1.1	0.9	1.0	0.5
Singapore	0.5	0.6	0.8	0.9	0.6	0.4	
China	1.5	2.3	2.5	2.7	2.7	2.8	2.8
Japan	0.2	0.5	0.9	0.7	0.7	0.5	0.3
EU	1.6	1.6	1.9	1.6	1.6	1.4	1.4
US	1.5	1.9	2.0	1.8	1.6	1.8	1.7

Source: CEIC, MIDFR


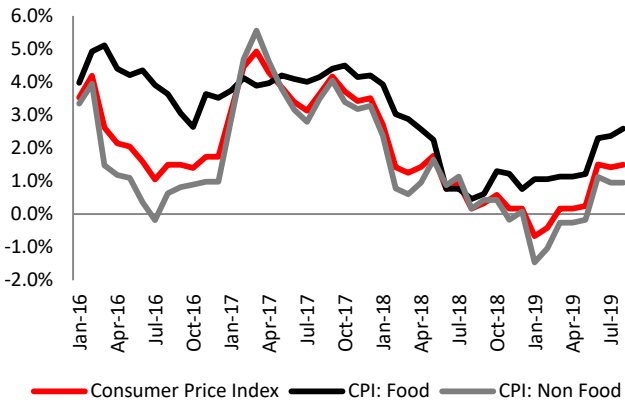
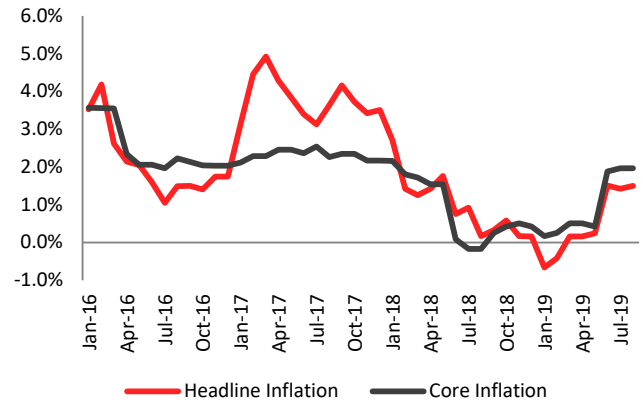
We foresee inflation rate to average at 0.6% in 2019. We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the first eight months of this year, inflation averaged at 0.5%yoy. We expect food component to provide upside pressures for overall inflation in 2019 driven by low base effect, spill over effect from the SST and imported inflation as Malaysia is a net importer of food. Nevertheless, RON95 price cap will continue to provide downward pressure to the overall inflation. Even with the removal of RON95 price cap, the prices are expected to be on the low side in line with global crude oil prices which are affected by multiple headwinds. We anticipate inflationary pressure mainly from fuel-related items to remain weak in line with our expectation of Brent crude oil price at \$63pb for 2019 (2018: \$71.6pb). Moving forward, as we expect core inflation rate and other major macroeconomic indicators to remain stable, we opine no further change in monetary stance by BNM at this juncture. 

Chart 1: CPI: Headline vs Food & Non-food (YoY%)



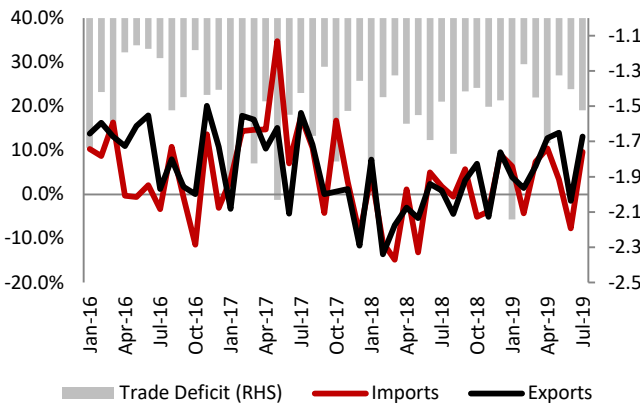
Source: CEIC, MIDFR

Chart 2: CPI: Headline vs Core (YoY%)



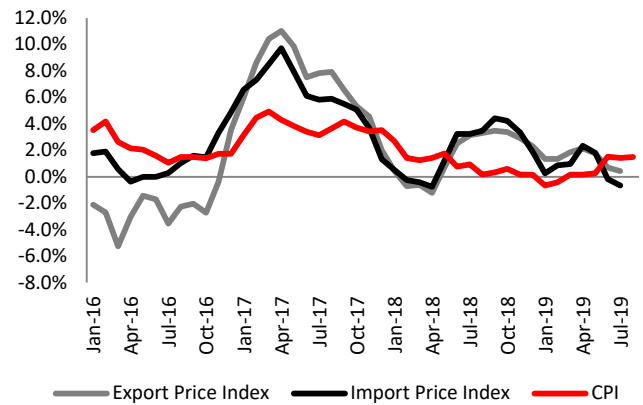
Source: CEIC, MIDFR

Chart 3: External Trade of Food Products (YoY% & Rmb)



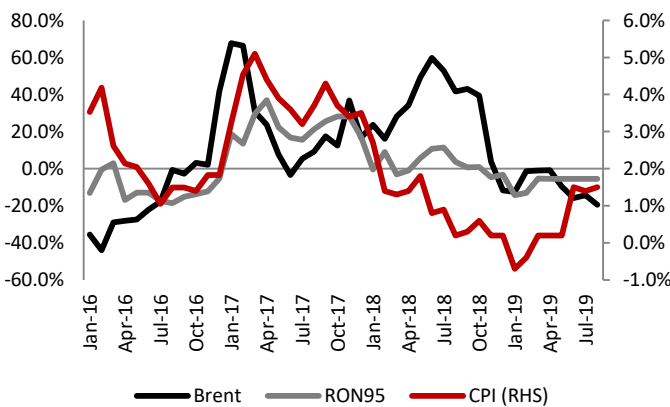
Source: CEIC, MIDFR

Chart 4: CPI vs Price Index of Imports & Exports (YoY%)



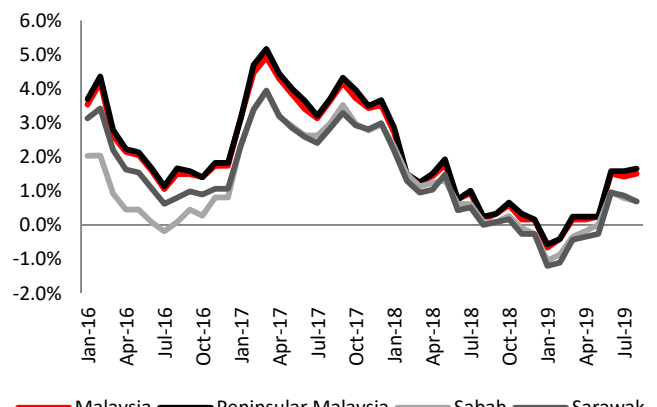
Source: CEIC, MIDFR

Chart 5: CPI vs Crude & Retail Fuel Prices (YoY%)



Source: Bloomberg, MIDFR

Chart 6: Inflation by States (YoY%)



Source: DOSM, MIDFR

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