

ECONOMIC REVIEW | July 2016 Consumer Price Index

Inflations Rate Fell to 16 months low in July at 1.1%

- *Headline inflation in July reached a 16-month low in July at 1.1%yoy following a reading of 1.6% in June. The result came in exactly as our forecast but was slightly below the Bloomberg consensus forecast of 1.2%yoy. As pump prices remained unchanged in July, there was little pressure for prices to move higher.*
- *There was a broad softening of inflation across different the consumer items. The largest constituent in the basket i.e food items fell to 3.8% from 4.2% in June while non-food items were lower compared to last year by 0.2%. Most notably, inflation in housing rental dropped below 2.0% for the time in 39 months after rental prices actually fell month-on-month by 0.6% during the month.*
- *Despite a slight pick-up in the pump price i.e RON95 at RM1.75 per litre from RM1.70 in June, it was still 18.6% lower than last year price at RM2.15. Hence, we see transports items are reflecting negative inflation items year-on-year basis. Joining the lower price band was communication item where after prices essentially stay flat for 6 consecutive months.*
- *We revised our inflation forecast to 2.3% from 2.6% for the whole of 2016 as oil prices are expected to stabilize at current level for the rest of the year. At the same time, we forecast inflation figure to come at 1.3% in August. We are expecting price of RON95 to come in at the range of RM1.80-1.85 / litre in September 2016.*

July inflation came in exactly as our forecast at 1.1%yoy. Inflation in July fell further to 1.1%, marking the fifth consecutive months of lower inflation rate from February's peak of 4.2%. The figure exactly met our forecast though it was slightly lower than the Bloomberg consensus of 1.2%. Despite the slight bump in pump prices (RON95, July:RM1.75 , June:RM1.70), it was basically almost 20% lower than last year's price of RM2.15 during the same period. Falling housing rental and clothing adds to the softer inflation in July.

Table 1: Consumer Price Indices

Indices	%MoM				%YoY			
	Apr-16	May-16	Jun-16	Jul-16	Apr-16	May-16	Jun-16	Jul-16
CPI	0.4%	0.3%	0.2%	0.3%	2.1%	2.0%	1.6%	1.1%
Core CPI	0.1%	0.4%	0.1%	0.2%	2.3%	2.1%	2.1%	2.0%
Non Food	0.6%	0.3%	0.0%	0.3%	1.2%	1.1%	0.4%	-0.2%
Food and Non Alcoholic Beverages	0.0%	0.3%	0.5%	0.3%	4.2%	4.1%	4.2%	3.8%
Alcoholic Beverages and Tobacco	0.0%	0.1%	0.0%	0.1%	20.1%	22.1%	21.9%	19.9%
Clothing and Footwear	0.1%	-0.1%	0.0%	-0.2%	-0.7%	-0.9%	-0.6%	-0.6%
Housing, Water, Electricity, Gas & Other Fuels	-0.1%	0.5%	0.0%	0.0%	2.6%	2.4%	2.4%	2.4%
Furnishings, Household Equipment and Maintenance	0.1%	0.0%	0.1%	0.2%	2.6%	2.2%	1.7%	1.5%
Health	-0.1%	0.1%	0.4%	0.1%	2.2%	2.0%	2.0%	2.0%
Transport	3.3%	0.0%	-0.1%	1.5%	-5.5%	-5.6%	-8.5%	-9.9%
Communication	0.0%	0.0%	0.0%	0.0%	-2.1%	-2.2%	-2.2%	-2.3%
Recreation and Culture	0.0%	0.1%	0.0%	0.5%	1.6%	1.5%	1.4%	1.7%
Education	0.1%	0.0%	0.1%	0.1%	2.1%	2.2%	2.1%	2.2%
Restaurants and Hotels	0.1%	0.2%	-0.1%	0.2%	2.7%	2.5%	2.2%	2.1%
Miscellaneous Goods and Services	0.0%	0.2%	0.0%	0.4%	2.6%	2.5%	2.3%	2.4%
Durable Goods	0.0%	0.3%	0.0%	0.3%	2.2%	2.4%	2.3%	2.7%
Semi Durable Goods	0.2%	-0.2%	0.0%	-0.1%	-0.6%	-0.8%	-0.5%	-0.4%
Non Durable Goods	1.1%	0.2%	0.3%	0.7%	1.4%	1.4%	0.5%	-0.3%
Services	0.1%	0.3%	0.0%	0.1%	2.8%	2.4%	2.3%	2.1%

Source: Department of Statistics, Malaysia; MIDF Research

Housing rental and food away from home saw prices fell for the first time in 3 years. One of the major surprises in this month data is that food away from home declined by 0.4% on month-on-month basis. This has never occurred since the CPI was rebased to 2010 and could suggest a worsening consumer finances, forcing them to cut their spending on eating out. Another glaring change occur during the month was that housing rental inflation below 2.0% for the first time in 39-month. This happened as rental fell by 0.6% month-on-month basis, also incident that never occurred since the CPI was rebased. While we believe the excess in supply e.g in fringe areas in the Klang Valley partly contributed to the cause, there is a high possibility that landlords have finally started to feel the pinch due to weaker demand in core areas as well.

Fresh meat dropped to 8 months low after surging prices prior to Eid festival. Fresh meat prices declined by 3.3%mom in July, erasing the gain in prior month. This was largely expected as the price surge was due to high seasonal demand prior to Eid festival which fell in the earlier week July. Prices of vegetables continued to decline month-on-month by 3.4% after dropping by 1.2% in June. However, food items are volatile in nature despite the recent pickup in agriculture production of agriculture as more temperate climate sets in thus we do not have much expectation on future month's prices.

Table 2: Changes in Top 20 Weightage Price Sub-Indices

Sub Indices	%MoM				%YoY			
	Apr-16	May-16	Jun-16	Jul-16	Apr-16	May-16	Jun-16	Jul-16
Housing Rental	0.0%	0.6%	0.0%	-0.6%	2.9%	2.6%	2.6%	1.9%
Food Away From Home	0.2%	0.2%	0.2%	-0.4%	3.9%	3.6%	3.6%	2.5%
Fuels & Lubricants for Transportation	6.3%	0.0%	0.0%	0.0%	-12.1%	-12.1%	-16.2%	-20.3%
Telephone & Telefax Services	0.0%	0.0%	0.0%	0.0%	-2.3%	-2.4%	-2.4%	-2.6%
Electricity	0.0%	0.0%	0.0%	0.0%	1.3%	1.3%	1.3%	1.3%
Personal Care & Effects Products	0.1%	-0.3%	0.0%	0.3%	2.5%	2.1%	2.0%	1.6%
Fresh Fish	-1.6%	-1.5%	2.1%	-0.6%	7.9%	5.5%	6.8%	3.5%
Cigarettes	0.0%	0.1%	0.0%	-0.1%	23.4%	26.0%	25.8%	23.1%
Expenses In Restaurants & Cafes	0.1%	0.3%	0.0%	-0.3%	3.1%	3.0%	2.8%	2.2%
Garments	0.2%	-0.1%	-0.2%	0.3%	-0.7%	-0.9%	-0.8%	-0.1%
Cultural Services	0.0%	0.1%	-0.2%	0.1%	1.4%	1.4%	1.2%	1.0%
Fresh Meat	-0.7%	0.0%	3.3%	-3.2%	0.4%	0.2%	2.6%	-0.5%
Fresh Vegetables	1.7%	4.8%	-1.2%	-3.4%	13.5%	16.9%	13.7%	7.5%
Transportation Repair & Maintenance	0.2%	0.3%	0.1%	-0.4%	6.7%	5.5%	5.3%	4.8%
Bread & Bakery Products	0.3%	0.1%	0.0%	-0.1%	1.9%	1.7%	1.3%	1.2%
Purchase of Motorcars	0.2%	0.1%	-0.1%	0.0%	2.3%	2.4%	2.3%	2.3%
Rice	0.1%	0.0%	0.0%	0.0%	0.7%	0.7%	0.8%	0.7%
Fresh Seafood	-0.7%	-0.3%	3.2%	-2.8%	11.4%	9.8%	11.3%	5.4%
Other Transportation Services (Including Toll)	0.0%	0.0%	0.0%	0.0%	7.6%	7.5%	7.6%	7.6%
Insurance for Motor Vehicles	0.7%	0.4%	0.0%	-0.3%	2.6%	1.9%	1.6%	1.4%

Source: Department of Statistics, Malaysia; MIDF Research

Inflation continues to ease across the world. Amongst the country that we observed in this region, Philippines are the only one that maintains its inflation rate. Singapore went deeper into deflation during the month while Thailand was flirting with stagnant prices as inflation fell to 0.1%. Inflation in Indonesia declined to 3.2% from 3.5% in June. Generally the same observation were occurring in the other parts of the world, - China, United States and EU saw softer inflation, recording lower inflation by 10bps, 20bps and 20bps respectively.

Table 3: Global Headline Inflation

Countries	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Malaysia	2.6%	2.7%	3.5%	4.2%	2.6%	2.1%	2.0%	1.6%	1.1%
Indonesia	4.9%	3.4%	4.1%	4.4%	4.4%	3.6%	3.3%	3.5%	3.2%
Philippines	1.1%	1.5%	1.3%	0.9%	1.1%	1.1%	1.6%	1.9%	1.9%
Thailand	-1.0%	-0.9%	-0.5%	-0.5%	-0.5%	0.1%	0.5%	0.4%	0.1%
Singapore	-0.8%	-0.6%	-0.6%	-0.6%	-0.9%	-1.1%	-1.4%	-0.6%	-1.0%
United States	0.4%	0.7%	1.3%	1.0%	0.9%	1.1%	1.1%	1.1%	0.9%
China	1.5%	1.6%	1.8%	2.3%	2.3%	2.3%	2.0%	1.9%	1.8%
EU	0.1%	0.2%	0.3%	-0.1%	0.0%	-0.2%	-0.1%	0.1%	0.2%
Japan	0.3%	0.2%	0.0%	0.3%	-0.1%	-0.3%	-0.4%	-0.4%	

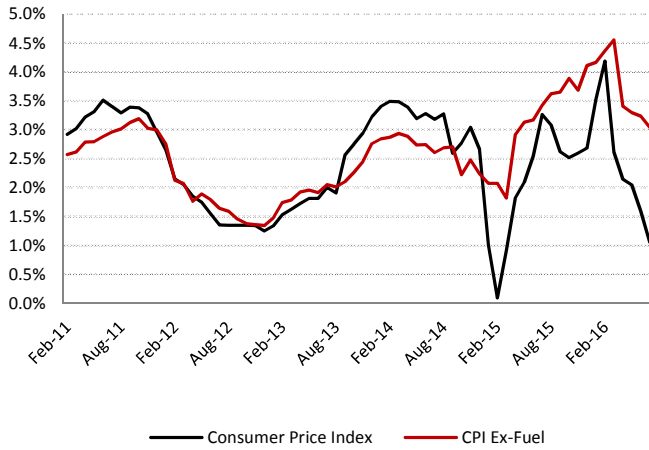
Source: Department of Statistics, Malaysia; MIDF Research

We maintain expectation of one more OPR cut in September this year by 25bps. With inflation rate nears 1.0%, a level not seen in 16-months, we believe there would give ample room for BNM to ease further. Besides, there are signs of more deterioration in the domestic demand as reflected by lower prices of housing rental and food away from home. The cut by BNM will help to provide a floor to the domestic economy to maintain growth above 4.0% in the quarter.

We are paring down our inflation estimate from 2.6% to 2.3%. We have highlighted in the past that our initial 2016 forecast would have to be revised eventually if pump prices are kept low and that situation is what is materializing now. High base from last year and literally fading effect of GST shock will keep inflation rate low in future months barring any other unforeseen circumstances. Crude prices have continued to stabilize in recent months around the USD45pb and USD50pb level. Yesterday, oil prices flip gains based on a report stating Iran will be attending the OPEC's meeting which will discuss on output freeze but we believe the upside to this would be limited on the backdrop of weak global demand. We forecast inflation figure rate to reach 1.3% in August and price of RON95 to come in at the range of RM1.80-1.85 / litre in August 2016.

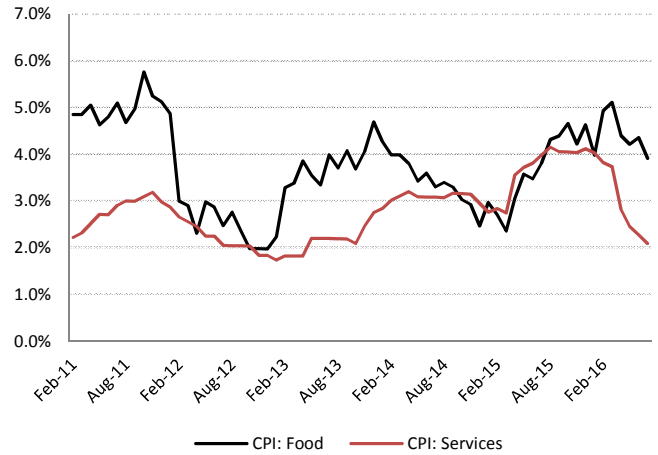


Chart 1: CPI vs CPI Ex-Fuel



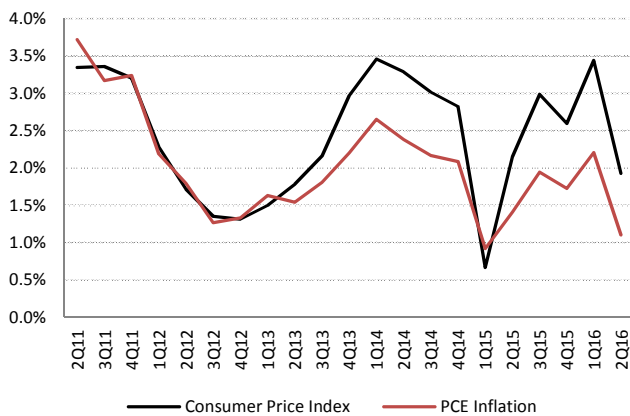
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Food Price Index vs Services Price Index



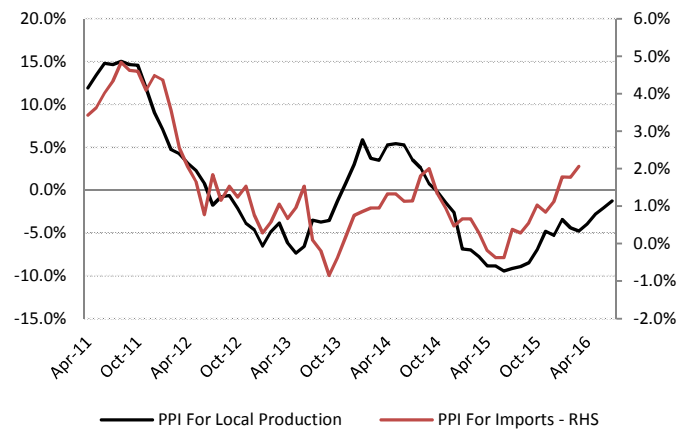
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: CPI vs PCE Inflation



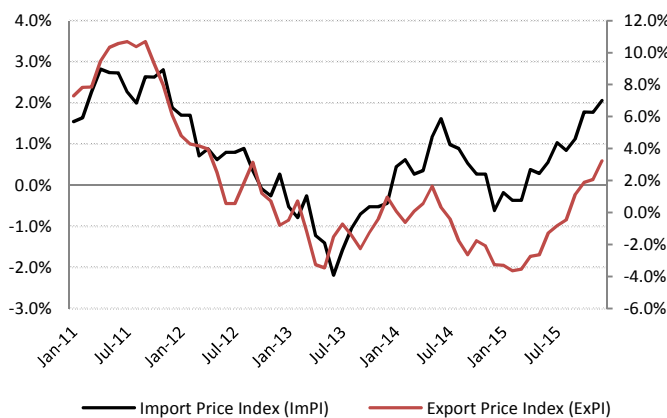
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: PPI Local vs PPI Imports



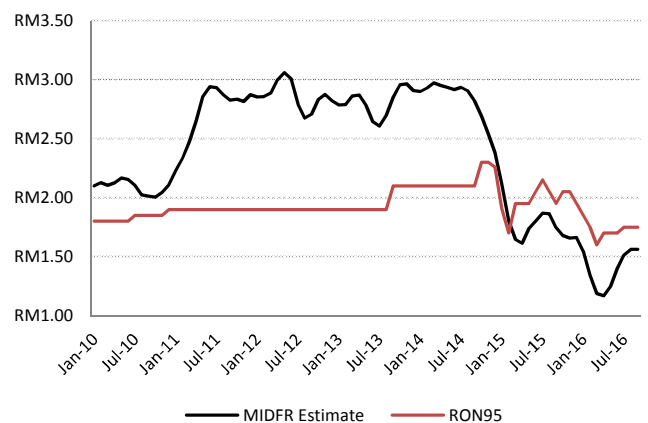
Source: Department of Statistics, Malaysia; MIDF Research

Chart 5: Imports Price Index vs Export Price Index



Source: Department of Statistics, Malaysia; MIDF Research

Chart 6: RON95 vs MIDFR Estimate



Source: Department of Statistics, Malaysia; MIDF Research

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