

**ECONOMIC REVIEW | November 2019 Consumer Price Index****Inflation Stood at 6-Month Low as Prices of F&B and Transport Component Weakened Further**

- *Inflation fell below 1%. Headline inflation edged down to 0.9%yoy, the lowest in six months as prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.5%yoy (Oct-19: 1.5%yoy). In addition, inflation of transport fell slightly harder to -2.4%yoy (Oct-19: -2.3%yoy).*
- *F&B inflation continued trending downward. The food and non-alcoholic beverages inflation has been trending upward so far this year before a downtick in Sep-19 and continued trending downward until the latest month's data at 1.5%yoy, its lowest rate since May-19. Government's decision to cap fuel prices which have spillover effects to F&B industry could have influenced price movement of the largest CPI component.*
- *We forecast inflation rate at 2.4% in 2020. We anticipate inflationary pressure to surge to 2.4%yoy in 2020 (2019e: 0.6%yoy) as the targeted fuel subsidy will kick off in Jan-20, causing the price of RON95 to float according to the market. Inflationary pressure from transportation and fuel-related items is likely to increase in line with our forecast of Brent crude oil price at USD 65pb in 2020, higher than USD 63pb estimated for this year.*

**Inflation fell below 1%.** Headline inflation edged down to 0.9%yoy, the lowest in six months as prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.5%yoy (Oct-19: 1.5%yoy). In addition, inflation of transport fell slightly harder to -2.4%yoy (Oct-19: -2.3%yoy). In contrast the second largest component of CPI basket which is housing & utilities was marginally higher at 1.7%yoy after sustaining at 1.6%yoy in the past two months. On monthly basis, inflation rose 0.1% compared to 0.2% in Oct-19. Meanwhile, core inflation maintained at 1.4%yoy, unchanged from the preceding month.

**F&B inflation continued trending downward.** The food and non-alcoholic beverages inflation has been trending upward so far this year before a downtick in Sep-19 and continued trending downward until the latest month's data at 1.5%yoy, its lowest rate since May-19. Government's decision to cap fuel prices which have spillover effects to F&B industry could have influenced price movement of the largest CPI component. In addition, slight appreciation of Ringgit could have minimized the cost of food imports. Breaking down the indexes, price of fresh seafood and fruits increased at softer pace of 2.9%yoy and 1.4%yoy respectively. In addition, inflation of food away from home slowed further to 2.2%yoy.

**Fuel-related items are still in deflation.** The average price of Brent crude oil contracted by -4.3%yoy in Nov-19 but improved from double digit fall (-25.4%yoy) in the prior month ahead of OPEC's decision on supply cut. In regards to the US-China trade crusade, the duo has agreed on partial trade deal and avoided the tariff hike scheduled on 15<sup>th</sup> December 2019. However, the deal was not officially signed and there is no roll-back of tariffs so far. Domestically, retail fuel prices for RON95 recorded negative growth of -5.5%yoy for the eight consecutive months and may continue at that pace throughout the year as the price remain capped at RM2.08. In tandem, fuels & lubricants posted slightly higher deflation of 5.3%yoy (Oct-19: 5.1%yoy). Looking ahead, average Brent oil price for the first three weeks of Dec-19 went up to USD 65.4pb (Nov-19: USD 62.7pb).

**Table 1: Consumer Price Indices**

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

Source: CEIC, MIDFR

**Table 2: Changes in Selected Price Sub-Indices**

Sub-Indices	MoM%			YoY%		
	Sep-19	Oct-19	Nov-19	Sep-19	Oct-19	Nov-19
Rice	0.2	(0.1)	0.0	(0.1)	(0.2)	(0.2)
Fresh Meat	(2.2)	(1.0)	(1.1)	1.8	(1.0)	0.0
Fresh Seafood	0.0	(0.8)	0.5	4.2	3.3	2.9
Oils & Fats	(0.3)	0.0	0.1	(1.3)	(1.1)	(0.9)
Fresh Fruits	(0.9)	(0.5)	0.5	1.9	1.9	1.4
Fresh Vegetables	(1.4)	2.4	1.3	2.9	0.8	2.2
Food Away From Home	0.1	0.1	0.1	3.2	2.9	2.2
Cigarettes	0.0	0.0	0.0	2.5	2.5	0.1
Electricity	0.0	0.0	0.0	0.0	0.0	0.0
Pharmaceutical Products	(0.2)	0.1	0.1	1.0	1.1	1.0
Fuels & Lubricants for Transportation	0.2	0.3	(0.1)	(5.0)	(5.1)	(5.3)
Transportation Repair & Maintenance	0.4	0.2	0.1	3.3	3.2	2.8
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.1	0.1	0.1
Expenses In Restaurants & Cafes	0.0	0.1	0.1	1.4	1.3	1.3
Insurance For Motor Vehicles	0.0	0.0	0.0	1.0	0.2	0.2

Source: CEIC, MIDFR

**Selangor & Putrajaya has the highest F&B inflation.** KL, Penang, Selangor and Putrajaya recorded inflation above national average with KL chalked the highest rate at 1.4%yoy. Similarly, these states also recorded highest inflation in F&B with Selangor & Putrajaya marked the highest rate at 2%yoy. The lowest overall inflation was observed in Sabah, Sarawak and Terengganu at 0.3%yoy. Moving forward, we view inflationary pressure for all states to increase gradually in 2020. Nevertheless, we could expect inflation rate for Sabah and Sarawak to be relatively low due to government's decision to continue the price cap for RON95 and Diesel for these states.

**Table 3: States Headline Inflation (YoY%)**

	MoM%			YoY%		
	Sep-19	Oct-19	Nov-19	Sep-19	Oct-19	Nov-19
<b>Peninsular Malaysia;</b>	0.0	0.1	0.2	1.2	1.1	1.0
Food & Non-Alcoholic Beverages	(0.1)	0.0	0.0	2.4	1.9	1.7
Housing & Utilities	0.0	0.0	0.4	1.7	1.7	1.9
Transport	0.2	0.2	0.0	(2.1)	(2.2)	(2.3)
<b>Sabah;</b>	0.0	0.1	0.2	0.3	0.4	0.3
Food & Non-Alcoholic Beverages	0.0	0.1	0.4	0.9	0.9	1.1
Housing & Utilities	0.0	0.0	0.2	0.8	0.8	0.5
Transport	0.1	0.1	(0.2)	(2.2)	(2.4)	(2.6)
<b>Sarawak;</b>	0.1	0.1	0.2	0.3	0.3	0.3
Food & Non-Alcoholic Beverages	0.1	0.0	0.1	1.2	1.0	0.9
Housing & Utilities	0.0	0.0	0.4	1.0	1.0	0.9
Transport	0.2	0.1	(0.1)	(3.2)	(3.3)	(3.4)


Source: DOSM, MIDFR

**Rising inflation seen amid easing monetary policy.** The US headline inflation climbed to 2.1%yoy in Nov-19 after maintained below 2%yoy for the past six months. This could be generally due to three policy rate cuts in a row in the period of July-Oct-19. Meanwhile, the US's core PCE index, Fed's preferred measure of inflation continued moderating to 1.6%yoy from 1.7%yoy increase in the previous month and still below Fed's 2% target. Similarly, Japan and some ASEAN countries including Philippines also recorded higher inflation. Philippines' inflation had been on declining trend since the end of 2018. On monetary policy, the country reduced key interest rate twice this year. China's inflation continued soaring this time to 4.5%yoy, the highest rate since Jan-12 but largely influenced by persistently high pork prices following an outbreak of African swine fever.

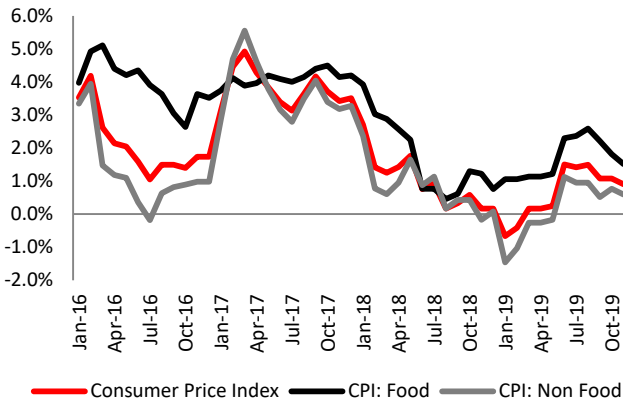
**Table 4: Global Headline Inflation (YoY%)**

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Malaysia	0.2	1.5	1.4	1.5	1.1	1.1	0.9
Indonesia	3.3	3.3	3.3	3.5	3.4	3.1	3.0
Philippines	3.2	2.7	2.4	1.7	0.9	0.8	1.3
Thailand	1.1	0.9	1.0	0.5	0.3	0.1	0.2
Singapore	0.9	0.6	0.4	0.5	0.5	0.4	
China	2.7	2.7	2.8	2.8	3.0	3.8	4.5
Japan	0.7	0.7	0.5	0.3	0.2	0.2	0.5
EU	1.6	1.6	1.4	1.4	1.2	1.1	1.3
US	1.8	1.6	1.8	1.7	1.7	1.8	2.1

Source: CEIC, MIDFR

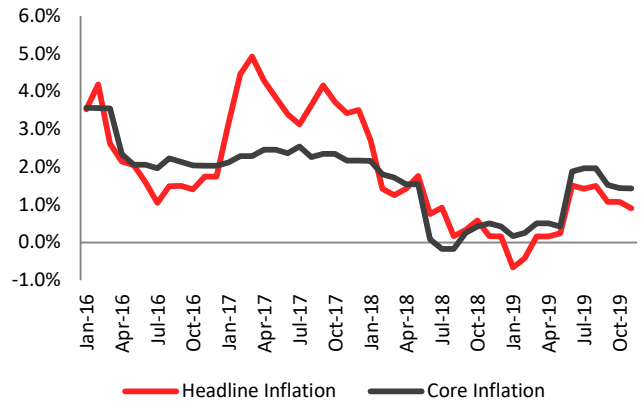
**We forecast inflation rate at 2.4% in 2020.** We anticipate inflationary pressure to surge to 2.4%yoy in 2020 (2019e: 0.6%yoy) as the targeted fuel subsidy will kick off in Jan-20, causing the price of RON95 to float according to the market. Inflationary pressure from transportation and fuel-related items is likely to increase in line with our forecast of Brent crude oil price at USD 65pb in 2020, higher than USD 63pb estimated for this year. In addition, food component is expected to provide upside pressures on overall inflation in 2020 through imported inflation as Malaysia is a net importer of food and weaker Ringgit will result in the items to be more expensive. Besides that, floating RON95 price would have spill over effects to food. Nevertheless, the latest PPI number, a 3-6 months leading indicator of price changes at the consumer level suggests that Malaysia's cost-push inflation will stay low for 4Q19 and early 2020. Hence, we foresee BNM to get a rate cut in 1Q20 in response to slowing economy while the environment is still conducive as cutting rates generally increase inflation. 

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



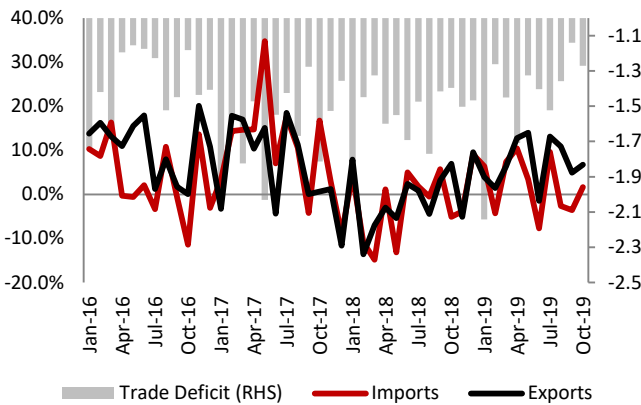
Source: CEIC, MIDFR

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



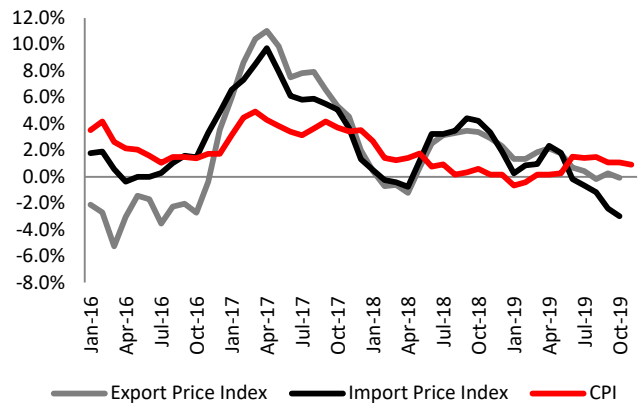
Source: CEIC, MIDFR

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



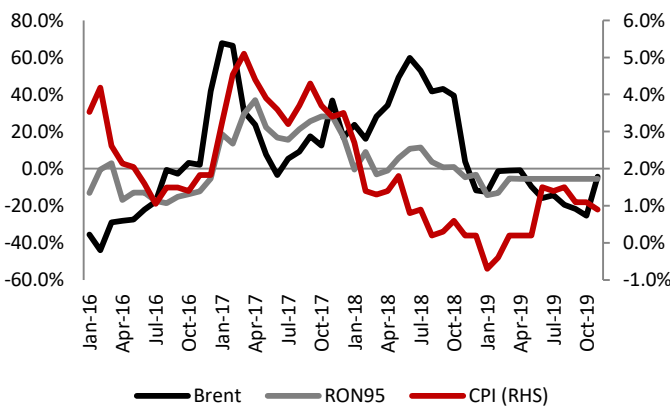
Source: CEIC, MIDFR

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



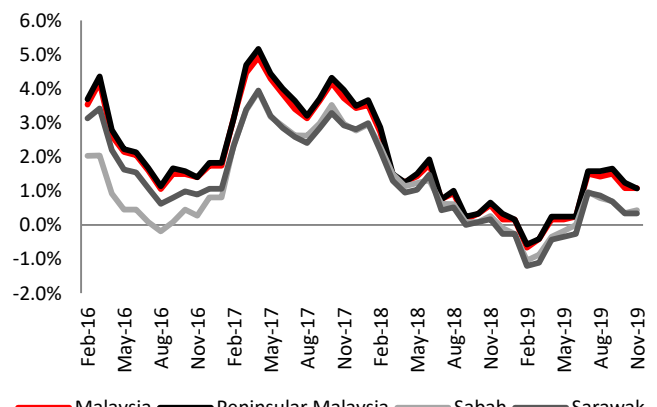
Source: CEIC, MIDFR

**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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