24 March 2014

MALAYSIA

February CPI – creeping up

As the base effects wear off, the index rise has slowed somewhat, but still beating consensus expectation. The index rose by 3.5%YoY in February (Jan: 3.4%) matching ours but higher than consensus expectation of 3.4%. The biggest component i.e. Food and Non-alcoholic Beverages which carries a 30.3% weight of the overall CPI basket posted a deceleration in growth from 4.2% in January to 3.8% in February, partly due to the high base last year. The other two major sub-indices, namely Housing, Water, Electricity, Gas and other Fuels sub-index (index weight: 22.6%) and Transport (weight: 14.9%) continued to edge up by 3.5% and 5.5% respectively, (January: 3.2% and 5.3% respectively). Alcoholic Beverages and Tobacco sub-index continued to post double-digit growth of 14.1% - the same as the pace for four consecutive months after surging 16.0% due to the tobacco excise duty being hiked up in October 2013.

The increase in the CPI continued to be led by Food & Non-Alcoholic Beverages sub-index, followed by Transport and Housing, Water, Electricity, Gas & Other Fuels. Food & Non-Alcoholic Beverages contributed a 1.2 percentage point (p.p.) or 35.2% to the 3.5% increase in the overall CPI. That was followed by the Transport sub-index at 0.83 p.p. and Housing, Water, Electricity, Gas & Other Fuels at 0.82 p.p. Despite having very small weight of 2.2% of the overall CPI, the sub-index for Alcoholic Beverages and Tobacco, came next with a contribution of 0.3 p.p. as a result of the double-digit YoY increase.

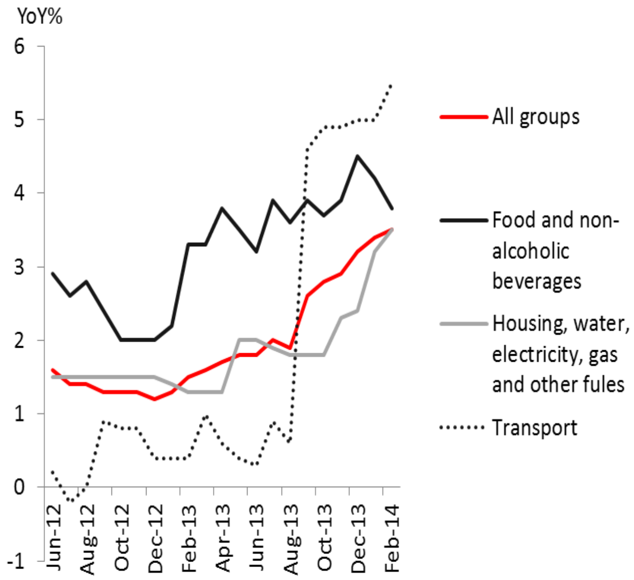
On MoM basis, the rise had moderated, as a normal response to the 0.6% surge in previous month due to electricity hikes but back to trend, implying sustained increases. The CPI continued to edge up by 0.3% from January after having surged by 0.6% MoM in January which was due to the hike in electricity tariff. The 0.3% monthly rise matched that of the sustained pace in the two months after the index surged by 0.8% MoM following the hike in fuel prices in September 2013. That could imply that pressure on prices is gradually building up. MoM changes in CPI are usually rather volatile, with surges normally followed by declines, zero changes or very small increases in an environment where there is little or absolutely no upward pressure.

The ease in PPI may indicate that the sharp surge in local production cost has normalised but import cost is ticking up. The producer price index (PPI) decelerated markedly from 4.3% in December 2013 to 2.6% in January on the marked easing in Local Production index rise from 6.4% to 3.6% over the same period. Nonetheless, the Imports index crept up by 0.4%, reversing its long declining trend in the last 12 months. Nonetheless, the 2.6% increase in the PPI was still notable given that it has been on a declining trend since June 2012 before it reversed in October 2013.

We expect to see the factors of moderating domestic demand to slow down the inflation pace but upward pressure is likley to stay elevated on the possibility of higher inflation expectation becoming more entrenched. While domestic demand is expected to slow down, the pace is likley to remain robust at 7% this year (2013; 7.6%). That indicates producers or businesses can still find room to pass on the higher cost, particularly if expectations among businesses that inflation will continue to rise is well entrenched. The anticipation of more hikes in prices of administered items this year could have also led businesses to pre-emptively raising the prices of their goods and services.The anticipation of compounding effects of multiple price hikes could see inflationary pressure to persist well into 2015 when the Goods and Servives Tax would be rolled out.

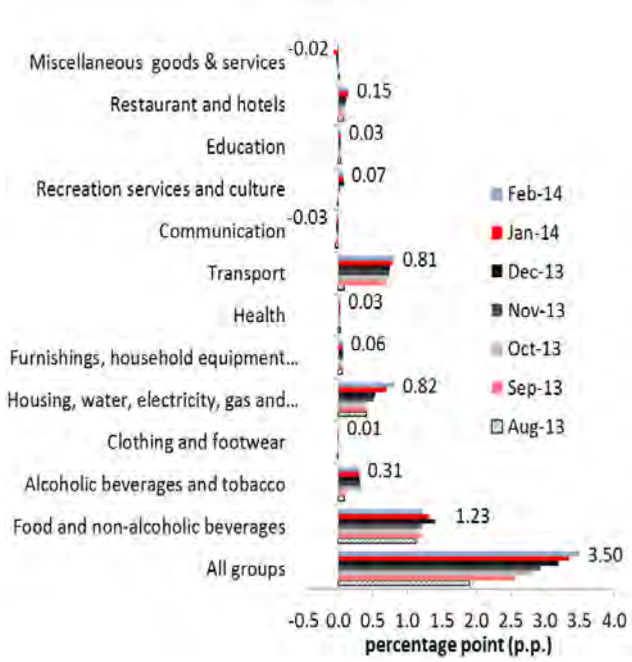
If CPI continues o rise by 0.2-0.3% MoM, the CPI may peak at 4.5% in August and averaging close to 4% in 2014; above our 3.0 – 3.5% range but within BNM's expectation of 3.0 – 4.0%. We continue to factor in the possibility of Bank Negara raising the Overnight Policy Rate (OPR) by 25bps in 2Q 14. Our forecast assumed that there would be no other hikes in prices of adminsitered goods for the rest of the year, but CPI may rise faster, by 3.5 to 4.0% if we have another fuel price hike this year. BNM in its recent Annual Report had highlighted that while price pressure would be contained, it warned that*"..higher cost-push inflation could lead to inflation expectations becoming unanchored and could, in turn, lead to wage growth that is not consistent with productivity growth. This could create conditions for a more significant increase in inflation. Recognising these risks, monetary surveillance will remain focused on identifying signs that inflation is becoming more pervasive and persistent, where a monetary policy response would become more appropriate."* to restore the positive real interest rate as well as keeping inflation expectations in check. We expect the central bank may hike up again in 2H 2014 if there is a firm sign of much wider spillover effects on prices of goods and services and growth likely to be at the top range of the official forecast. BNM is projecting a 4.5 - 5.5% growth for 2014.

Chart 1: Consumer Price Index – Major components - YoY%



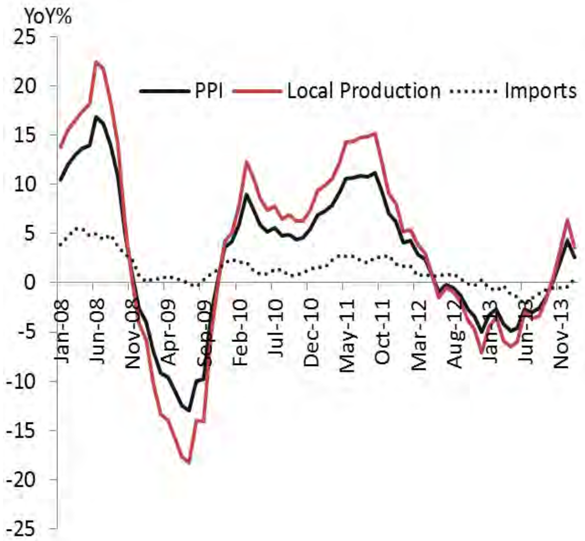
Source: DoS

Chart 2: Contribution to the change in main index



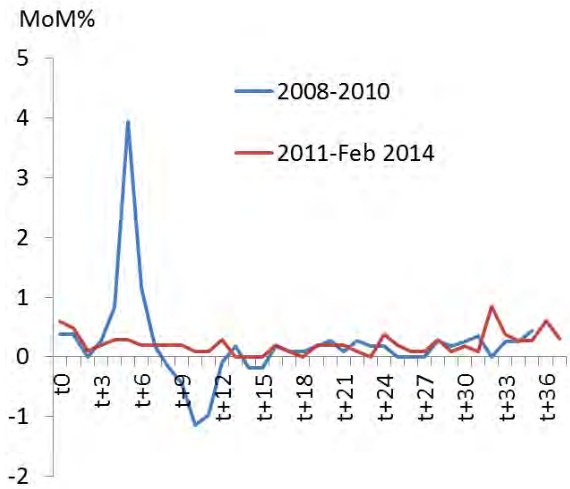
Source: DoS

Chart 3: PPI moderating but import cost ticked up



Source: BNM

Chart 4: CPI continued to creep up month to month



Source: DoS

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.