

## ECONOMIC REVIEW | December 2016 Consumer Price Index

### Inflation Steadied in December at 1.8%, Higher Pace of Price Increase Expected for 2017

- The inflation rate maintained during the month at 1.8%yoy while core inflation trimmed slightly to 2.1% amid a mixed price movement for various items. Inflation for alcoholic beverages and tobacco narrowed further to 0.1%yoy from 1.9% last month; largely due to elevated base effect despite month to month price movement was almost flat.
- Fuel price saw small cut by 5 cents in December a year-end rejoice to consumer. After seeing steep price increase of 15 cents in the previous two months, fuel prices across all categories were cut by 5 cents in December. We expect items under transport to reflect yearly inflation this year as a result of firmer commodity prices where crude oil is expected to average at USD50pb compared to USD45pb in 2016.
- We expect inflation to increase to 2.8% for 2017 and RON95 to tick up by 10 cents in February and a possible rate cut for OPR in 2017.

**Inflation steadied in December at 1.8%yoy.** The inflation rate maintained during the month at 1.8%yoy while core inflation trimmed slightly to 2.1% amid a mixed price movement for various items. Inflation for alcoholic beverages and tobacco narrowed further to 0.1%yoy from 1.9% last month; largely due to elevated base effect despite month to month price movement was almost flat. Food items saw price increase at slower rate during the month at 3.7%, down by 0.1% from November while prices for transport was still lower year-on-year at 0.9% but narrows from 1.5% last month.

**Table 1: Consumer Price Indices**

Indices	%MoM				%YoY			
	Sep-16	Oct-16	Nov-16	Dec-16	Sep-16	Oct-16	Nov-16	Dec-16
CPI	-0.3	0.3	1.0	0.0	1.5	1.4	1.8	1.8
Core CPI	0.1	0.0	0.5	0.1	2.1	2.0	2.2	2.1
Non Food	-0.3	0.6	1.1	-0.4	0.8	0.9	1.0	1.0
Food and Non Alcoholic Beverages	-0.2	-0.3	1.0	0.6	3.0	2.5	3.8	3.7
Alcoholic Beverages and Tobacco	0.0	0.1	0.0	-0.1	19.7	19.8	1.9	0.1
Clothing and Footwear	0.2	0.0	0.0	-0.1	-0.6	-0.5	-0.5	-0.5
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.5	0.0	2.1	2.1	2.1	2.1
Furnishings, Household Equipment and Maintenance	0.0	0.2	0.1	0.1	1.3	1.5	1.4	1.4
Health	0.3	0.3	0.3	0.2	2.2	2.3	2.5	2.4
Transport	-1.6	3.1	4.5	-1.4	-5.5	-5.5	-1.5	-0.6
Communication	-0.1	0.0	-0.1	0.0	-2.6	-2.6	-2.7	-2.6
Recreation and Culture	0.0	0.1	-0.2	0.1	3.4	3.5	3.2	3.3
Education	0.0	0.0	0.1	0.0	2.0	2.0	1.9	1.7
Restaurants and Hotels	0.2	0.0	0.1	0.2	2.2	2.0	1.9	1.9
Miscellaneous Goods and Services	0.0	-0.1	0.5	-0.2	1.5	1.5	1.8	1.8
Durable Goods	0.0	-0.1	0.2	-0.1	1.9	1.6	1.7	1.7
Semi Durable Goods	0.1	0.0	0.0	-0.1	-0.4	-0.4	-0.3	-0.4
Non Durable Goods	-0.7	0.7	2.2	-0.1	0.3	0.1	1.4	1.6
Services	0.1	0.0	0.3	0.2	2.4	2.3	2.2	2.2

Source: Department of Statistics, Malaysia; MIDF Research

**Fuel price saw small cut by 5 cents in December a year-end rejoice to consumer.** After seeing steep price increase of 15 cents in the previous two months, fuel prices across all categories were cut by 5 cents in December. RON95 price reached RM1.90 per litre from RM1.85, RON97 at RM2.20, diesel at RM1.85 while Euro-5 diesel was priced at RM1.95 per litre. As a result, sub-indices fuels & lubricants recorded a decline during the month by 2.4% but on year-on-year basis, its deflation narrows to 2.7% from 4.4% last month. We expect items under transport to reflect yearly inflation this year as a result of firmer commodity prices where crude oil is expected to average at USD50pb compared to USD45pb in 2016.

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

Sub Indices	%MoM				%YoY			
	Sep-16	Oct-16	Nov-16	Dec-16	Sep-16	Oct-16	Nov-16	Dec-16
Housing Rental	0.0	0.0	0.7	0.0	2.5	2.5	2.5	2.5
Food Away From Home	0.2	0.1	0.4	0.3	3.4	3.3	3.4	3.5
Fuels & Lubricants for Transportation	-2.7	5.7	8.0	-2.4	-12.1	-11.5	-4.4	-2.7
Telephone & Telefax Services	0.0	0.0	0.0	0.0	-2.7	-2.7	-2.7	-2.7
Electricity	0.0	0.0	0.0	0.0	1.3	1.3	1.3	1.3
Personal Care & Effects Products	0.2	-0.1	0.4	-0.4	1.1	1.4	1.4	1.0
Fresh Fish	0.6	0.1	-0.1	1.3	4.1	4.3	4.4	4.5
Cigarettes	0.0	0.0	0.0	0.0	23.2	23.2	2.0	0.1
Expenses In Restaurants & Cafes	0.2	0.1	0.2	0.2	2.3	10.7	2.2	2.1
Garments	0.2	-0.1	0.0	-0.1	-0.6	-0.6	-0.5	-0.5
Cultural Services	0.0	0.0	0.1	0.0	5.9	5.9	6.0	6.1
Fresh Meat	-3.1	-4.6	0.8	-0.3	5.0	2.4	7.1	3.0
Fresh Vegetables	-1.8	-0.9	4.7	5.3	1.6	-1.6	3.9	5.7
Transportation Repair & Maintenance	-0.1	0.1	0.3	0.2	4.8	4.3	4.3	4.0
Bread & Bakery Products	0.3	0.1	0.1	0.1	1.5	1.5	1.6	1.6
Purchase of Motorcars	0.0	0.0	0.0	-0.1	2.4	2.2	2.3	1.9
Rice	0.1	0.1	0.0	0.0	0.9	1.0	1.0	0.6
Fresh Seafood	-0.5	0.3	-1.0	2.0	6.2	6.8	4.8	8.7
Other Transportation Services (Including Toll)	0.0	0.0	0.0	0.1	13.5	13.5	5.4	5.5
Insurance for Motor Vehicles	-0.1	0.0	0.0	0.1	1.5	1.4	1.1	1.3

Source: Department of Statistics, Malaysia; MIDF Research

**Accelerated regional inflation expected for 2017, driven by higher commodity price.** Indonesia saw the largest price movement in December with 0.6% decline in inflation rate. Prices rose at slower rate as major consumer item such as food and housing rental move up at a more gradual pace compared to the previous month. Meanwhile in Thailand, inflation surged past 1% for the first time in more than 2 years but it was still low when compared regionally. The prospect for higher inflation in the country would be limited due to weak domestic economy expectation. The Philippine saw slight uptick in inflation to 2.6% from 2.5% while Singapore was flat in December, halting the 24-month deflationary trend. Inflation was also recorded at slower pace in China as it declined to 2.1% from 2.3% in November.

**Table 3: Global Headline Inflation**

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
<b>Malaysia</b>	2.1	2.0	1.6	1.1	1.5	1.5	1.4	1.8	1.8
<b>Indonesia</b>	3.6	3.3	3.5	3.2	2.8	3.1	3.3	3.6	3.0
<b>Philippines</b>	1.1	1.6	1.9	1.9	1.8	2.3	2.3	2.5	2.6
<b>Thailand</b>	0.1	0.5	0.4	0.1	0.3	0.4	0.3	0.6	1.1
<b>Singapore</b>	-0.5	-1.6	-0.7	-0.7	-0.3	-0.2	-0.1	0.0	
<b>United States</b>	1.1	1.1	1.0	0.9	1.1	1.5	1.6	1.7	
<b>China</b>	2.3	2.0	1.9	1.8	1.3	1.9	2.1	2.3	2.1
<b>EU</b>	-0.2	-0.1	0.1	0.2	0.3	0.4	0.5	0.6	
<b>Japan</b>	-0.3	-0.5	-0.4	-0.4	-0.5	-0.5	0.1	0.5	

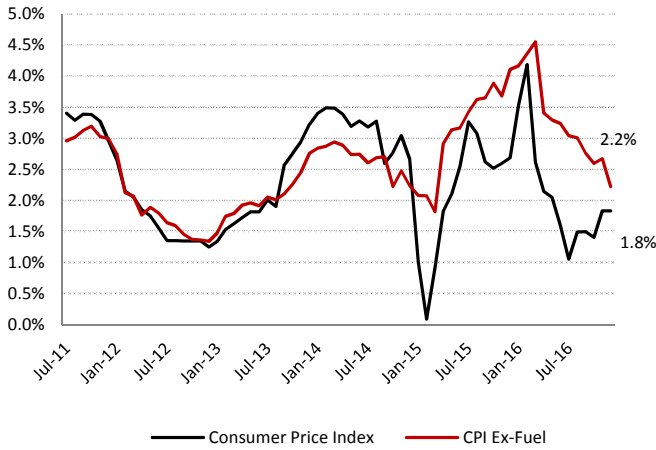
Source: Department of Statistics, Malaysia; MIDF Research

**We expect inflation to increase to 2.8% for 2017 and RON95 to tick up by 10 cents in February.** With the December data, inflation averages at 2.1% in 2016. We expected inflation to pickup in 2017 on the back of the anticipation of oil prices to stabilise higher in 2017, averaging around USD50 per barrel. For 2016, Brent crude oil prices have averaged at USD45pb. Additionally, the anticipated higher economic activity in 2017 i.e GDP at 4.3%yoy from 4.1% 2016 could create tailwinds for higher inflation this year. Our model signals a possible price for RON95 by 10 cents to RM2.20 per litre in February.

**We anticipate there will be one rate cut for 2017 as BNM continues to be accommodative.** As the market expect faster pace of interest rate hike by the Fed, normally it would be wise not to expect a cut in domestic interest rate. However, we think the market was too optimistic on the growth prospect and Trump could disappoint in delivering his key promises i.e fiscal and pro-growth policies. Furthermore, trade prospect is still rather grim as Trump's protectionism could cause global trade activity to suffer while continuous fiscal consolidation effect means accommodative monetary policy rather necessary. Thus, we believe a possible rate cut in 2017 is still in the offing but largely depends on domestic sector developments as well as political and monetary development from the United States. 

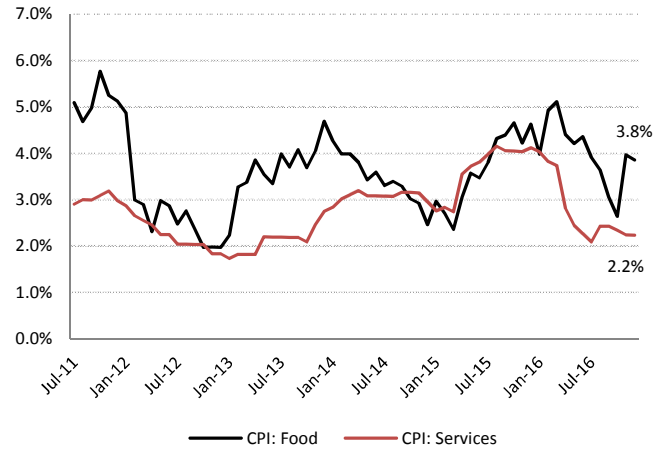


**Chart 1: CPI vs CPI Ex-Fuel**



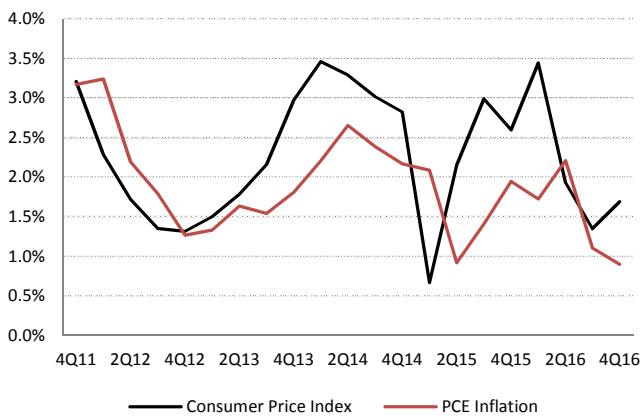
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Food Price Index vs Services Price Index**



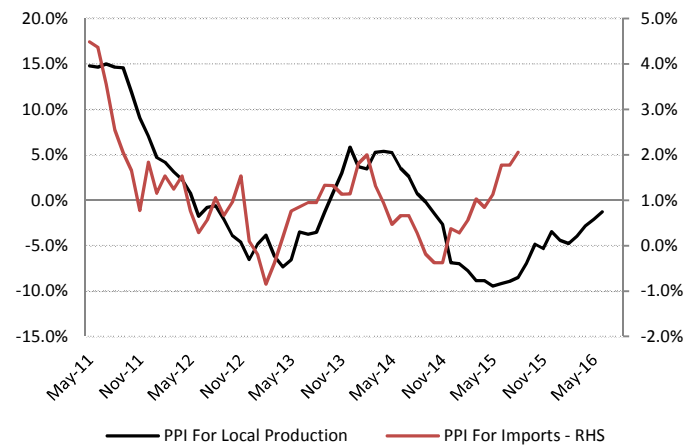
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 3: CPI vs PCE Inflation**



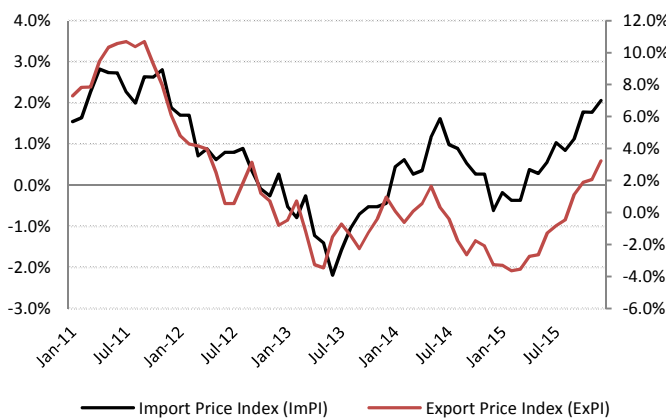
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 4: PPI Local vs PPI Imports**



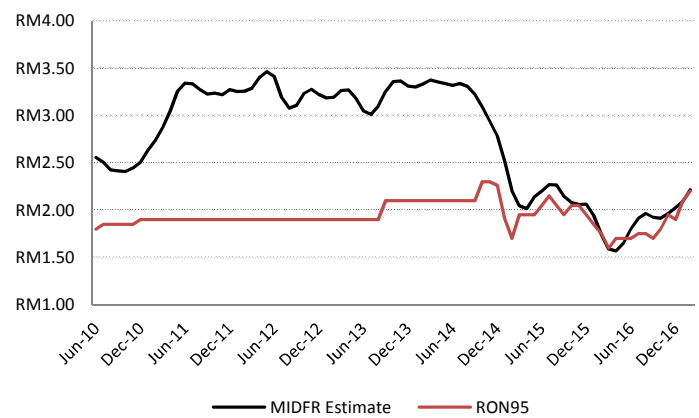
Source: Department of Statistics, Malaysia; MIDF Research

**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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