

ECONOMIC REVIEW | October 2016 Consumer Price Index

October Saw Inflation Edges Lower at 1.4%

- Inflation fell to 3-month low at 1.4% in October vs 1.5% consensus. Headline inflation moderated slightly in October to 1.4%y from 1.5% in September as food and transportation items saw prices at slower pace. In particular, for fresh meat, inflation fell almost by half to 2.4% in the month vs 5.0% in September. Core inflation also moderated during the month from 2.1% to 2.0% in October. .
- Hike in RON95 prices for two consecutive months pushed inflation higher. RON95 price rose 10 cents in October to RM1.80 per litre from RM1.70 in September and another 15 cents in November to RM1.95 per litre. The hike in October saw the sub-item fuels & lubricants gained 5.7%mom; thus deflation on year-on-year terms narrows to 11.5%. We expect this sub-items to cause deflation to narrow further to 10.0%, arising from the fuel price hike in November
- We maintain our inflation of 2.3% for 2016 and 2.8% for 2017. We expected inflation to pickup in 2017 on the back of the anticipation of oil prices to stabilize higher in 2017, averaging around USD50 per barrel. Year-to-date, Brent crude oil prices has averaged about USD43.8pb. In addition, we forecast higher economic activity in 2017 - GDP at 4.3%yoy from estimated 4.1% for 2016, which should give inflation some tailwind.

Inflation fell to 3-month low at 1.4% in October vs 1.5% consensus. Headline inflation moderated slightly in October to 1.4%y from 1.5% in September as food and transportation items saw prices at slower pace. In particular, for fresh meat inflation fell almost by half to 2.4% in the month vs 5.0% in September. However, as with most food items, fresh meat prices are highly volatile. Fresh vegetables dropped for the first time in 9 months, as prices fell 1.6%yoy. Durable goods declined to 1.6% vs 1.9% in September, led by more moderate pace of inflation in restaurant and hotels items. As a result, core inflation also moderated during the month from 2.1% to 2.0% in October.

Table 1: Consumer Price Indices

Indices	%MoM				%YoY			
	Jul-16	Aug-16	Sep-16	Oct-16	Jul-16	Aug-16	Sep-16	Oct-16
CPI	0.3	0.4	-0.3	0.3	1.1	1.5	1.5	1.4
Core CPI	0.1	0.5	0.1	0.0	2.0	2.2	2.1	2.0
Non Food	0.3	0.5	-0.3	0.6	-0.2	0.6	0.8	0.9
Food and Non Alcoholic Beverages	0.3	0.2	-0.2	-0.3	3.8	3.5	3.0	2.5
Alcoholic Beverages and Tobacco	0.1	-0.1	0.0	0.1	19.9	19.7	19.7	19.8
Clothing and Footwear	-0.2	-0.2	0.2	0.0	-0.6	-0.6	-0.6	-0.5
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.4	0.0	0.0	2.4	2.1	2.1	2.1
Furnishings, Household Equipment and Maintenance	0.2	0.0	0.0	0.2	1.5	1.3	1.3	1.5
Health	0.1	0.3	0.3	0.3	2.0	2.2	2.2	2.3
Transport	1.5	0.8	-1.6	3.1	-9.9	-6.7	-5.5	-5.5
Communication	0.0	0.0	-0.1	0.0	-2.3	-2.4	-2.6	-2.6
Recreation and Culture	0.5	2.1	0.0	0.1	1.7	3.6	3.4	3.5
Education	0.1	0.0	0.0	0.0	2.2	2.0	2.0	2.0
Restaurants and Hotels	0.2	0.2	0.2	0.0	2.1	2.1	2.2	2.0
Miscellaneous Goods and Services	0.4	0.1	0.0	-0.1	2.4	2.5	1.5	1.5
Durable Goods	0.3	0.0	0.0	-0.1	2.7	2.9	1.9	1.6
Semi Durable Goods	-0.1	-0.1	0.1	0.0	-0.4	-0.4	-0.4	-0.4
Non Durable Goods	0.7	0.1	-0.7	0.7	-0.3	0.3	0.3	0.1
Services	0.1	0.8	0.1	0.0	2.1	2.4	2.4	2.3

Source: Department of Statistics, Malaysia; MIDF Research

Hike in RON95 prices for two consecutive months to push inflation higher. RON95 price rose 10 cents in October to RM1.80 per litre from RM1.70 in September, and another 15 cents in November to RM1.95 per litre. The hike in October saw the sub-item fuels & lubricants gained 5.7%mom thus deflation on year-on-year terms narrows to 11.5%. We expect this sub-item to see deflation narrow further to 10.0% due to fuel price hike in November.

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

Sub Indices	%MoM				%YoY			
	Jul-16	Aug-16	Sep-16	Oct-16	Jul-16	Aug-16	Sep-16	Oct-16
Housing Rental	-0.6	1.2	0.0	0.0	1.9	2.5	2.5	2.5
Food Away From Home	-0.4	1.1	0.2	0.1	2.5	3.4	3.4	3.3
Fuels & Lubricants for Transportation	0.0	3.0	-2.7	5.7	-20.3	-14.0	-12.1	-11.5
Telephone & Telefax Services	0.0	0.0	0.0	0.0	-2.6	-2.6	-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	0.3	-0.2	0.2	-0.1	1.6	1.2	1.1	1.4
Fresh Fish	-0.6	1.3	0.6	0.1	3.5	4.1	4.1	4.3
Cigarettes	-0.1	0.1	0.0	0.0	23.1	23.2	23.2	23.2
Expenses In Restaurants & Cafes	-0.3	0.6	0.2	0.1	2.2	2.5	2.3	10.7
Garments	0.3	-0.5	0.2	-0.1	-0.1	-0.6	-0.6	-0.6
Cultural Services	0.1	5.1	0.0	0.0	1.0	6.1	5.9	5.9
Fresh Meat	-3.2	9.6	-3.1	-4.6	-0.5	8.5	5.0	2.4
Fresh Vegetables	-3.4	-1.2	-1.8	-0.9	7.5	3.1	1.6	-1.6
Transportation Repair & Maintenance	-0.4	1.1	-0.1	0.1	4.8	5.3	4.8	4.3
Bread & Bakery Products	-0.1	0.2	0.3	0.1	1.2	1.1	1.5	1.5
Purchase of Motorcars	0.0	0.0	0.0	0.0	2.3	2.4	2.4	2.2
Rice	0.0	0.1	0.1	0.1	0.7	0.7	0.9	1.0
Fresh Seafood	-2.8	2.6	-0.5	0.3	5.4	7.5	6.2	6.8
Other Transportation Services (Including Toll)	0.0	5.4	0.0	0.0	7.6	13.4	13.5	13.5
Insurance for Motor Vehicles	-0.3	0.5	-0.1	0.0	1.4	1.8	1.5	1.4

Source: Department of Statistics, Malaysia; MIDF Research

24 straight months of deflation for Singapore, Japan first rise in 8 months. Deflation continues for Singapore in October for the 24th successive month at 0.1% but it was smallest fall in two years. Cost of housing & utilities dropped at a slower pace while prices of food eased. Core inflation rose to 1.1%yoy – the highest since June and up from 0.9% in September. In Japan, prices rose by 0.1%, marking the first time inflation occurred in 8 months which was boosted by higher fresh food prices. However, core inflation is still in the red, hence stretching the deflation streak since April this year. Overall, we note higher inflationary pressure for the countries observed. China’s inflation went up by 0.2% to 2.2% in October, the highest since April, as food prices increased at faster pace. US saw inflation went up a notch by 0.1% while Indonesia consumer prices rose by 0.2% to 3.3%.

Table 3: Global Headline Inflation

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
Malaysia	2.6	2.1	2.0	1.6	1.1	1.5	1.5	1.4
Indonesia	4.4	3.6	3.3	3.5	3.2	2.8	3.1	3.3
Philippines	1.1	1.1	1.6	1.9	1.9	1.8	2.3	2.3
Thailand	-0.5	0.1	0.5	0.4	0.1	0.3	0.4	0.3
Singapore	-1.0	-0.5	-1.6	-0.7	-0.7	-0.3	-0.2	-0.1
United States	0.9	1.1	1.1	1.0	0.9	1.1	1.5	1.6
China	2.3	2.3	2.0	1.9	1.8	1.3	1.9	2.1
EU	0.0	-0.2	-0.1	0.1	0.2	0.3	0.4	0.5
Japan	0.0	-0.3	-0.5	-0.4	-0.4	-0.5	-0.5	0.1

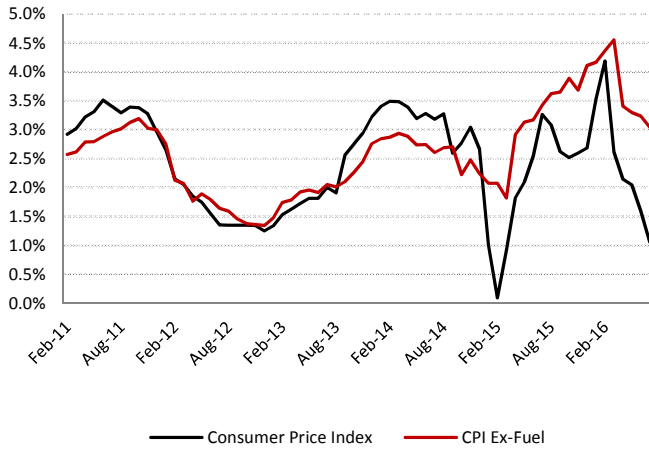
Source: Department of Statistics, Malaysia; MIDF Research

We maintain our inflation of 2.3% for 2016 and 2.8% for 2017. We expected inflation to pickup in 2017 on the back of the anticipation of oil to stabilise at higher prices in 2017, averaging at around USD50 per barrel. Year-to-date, Brent crude oil prices has averaged at USD43.8pb. In addition, we forecast higher economic activity in 2017 - GDP at 4.3%yoy from estimated 4.1% for 2016 which should give inflation some tailwind.

The year ended with OPR unchanged in November and we anticipate there will be one rate cut next year. BNM has no specific target inflation target unlike the Federal Reserve and we anticipate the central bank to continue taking a pragmatic move and accommodative to domestic growth. While we expect world trade to remain subdued, external trade should see higher year-on-year growth in 2017, hence delivering the much needed boost for a higher GDP figure. We think domestic consumption will still be under pressure especially as the government continues its consolidation process, targeting fiscal deficit to narrow to 3.0% from estimated 3.1% this year. Thus, we believe a rate cut will lend the domestic economy the needed support for higher growth.

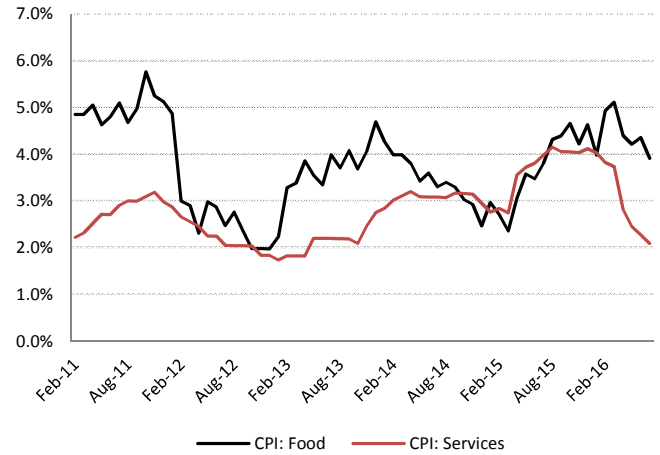


Chart 1: CPI vs CPI Ex-Fuel



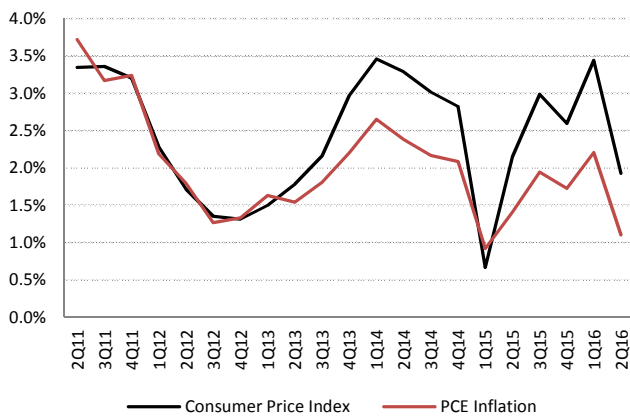
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Food Price Index vs Services Price Index



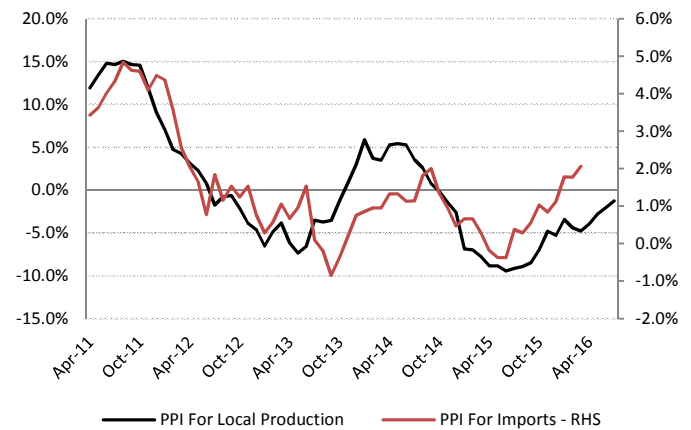
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: CPI vs PCE Inflation



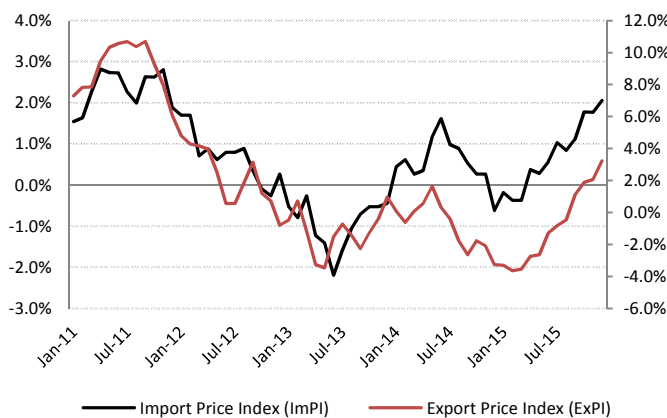
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: PPI Local vs PPI Imports



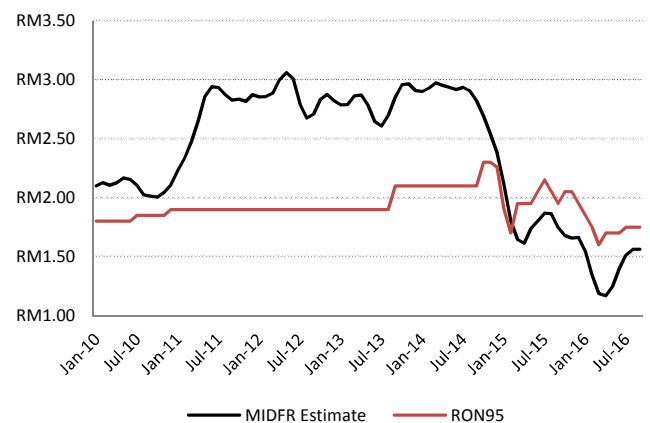
Source: Department of Statistics, Malaysia; MIDF Research

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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