

ECONOMIC REVIEW | October 2018 Consumer Price Index

Inflation is Trending Upward but Remains Below 1% for the Fifth Consecutive Months

- *Inflation is on an upward trend. Consumer price index increased 0.6%yoy in Oct-18, doubled the rate recorded in the preceding month, slightly lower than our forecast of 0.7%yoy and matched market estimates. We have expected the inflation rate to continue on upward trend during the month. However, the three-month high figure still remain below 1% for the fifth consecutive month despite the reintroduction of SST, probably due to the significant impact of RON95 fuel subsidization.*
- *Fuel-related inflation increased. The average price of Brent crude oil went above \$80 per barrel, an increase of 39.4%yoy in Oct-18 (\$79 per barrel in Sep-18). The new four-year high price was mainly due to Iran and Saudi supply worries. In contrast, growth of retail fuel price remained low at 0.9%yoy during the month. In tandem, prices of fuels & lubricants grew faster from 0.9%yoy to 1.8%yoy in Oct-18.*
- *Tepid inflation for 2018 at 1.3%. Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first ten months which registered at 1.1% compared to 3.9% in the same period last year.*

Inflation is on an upward trend. Consumer price index increased 0.6%yoy in Oct-18, doubled the rate recorded in the preceding month, slightly lower than our forecast of 0.7%yoy and matched market estimates. We have expected the inflation rate to continue trending upward during the month. However, the three-month high figure still remain below 1% for the fifth consecutive month despite the reintroduction of SST, probably due to the significant impact of RON95 fuel subsidization. Transport prices increased by 0.8%yoy (0.3%yoy in Sep-18) but stay below 1% for second consecutive month. Meanwhile, core inflation rate increased further to 0.4%yoy (0.3%yoy in Sep-18). Looking ahead, Malaysia's inflation is expected to gradually increase in the upcoming months.

Food inflation surged. Food and non-alcoholic beverages inflation jumped to 1.2%yoy in Oct-18, continuing its uptrend since Aug-18. Prices for fresh meat and fresh vegetables rebounded to 0.6%yoy and 3.2%yoy respectively (-2%yoy and -1.7%yoy respectively in Sep-18). Prices for other fresh food such as seafood and fruits on top of prices for food away increased at a faster rate in Oct-18.

Fuel-related inflation increased. The average price of Brent crude oil went above \$80 per barrel, an increase of 39.4%yoy in Oct-18 (\$79 per barrel in Sep-18). The new four-year high price was mainly due to Iran and Saudi supply worries. Oil prices rose on the signs of a further fall in Iran's oil exports in Oct-18 from 1.6M bpd in Sep-18, ahead of the US sanctions against Iran that are set to start in Nov-18. Meanwhile, Saudi continues to face political pressure over the death of journalist Jamal Khashoggi which provoked fears that supplies from the world's top crude exporter may be affected. In contrast, growth of retail fuel price remained low at 0.9%yoy during the month. In tandem, prices of fuels & lubricants grew faster from 0.9%yoy to 1.8%yoy in Oct-18. At this juncture, we expect 2018's fuel-related inflation to moderate amid higher base effects and subsidization of domestic fuel price.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Aug-18	Sep-18	Oct-18	Aug-18	Sep-18	Oct-18
CPI	0.2	0.4	0.2	0.2	0.3	0.6
Non Food	0.3	0.5	0.0	0.2	0.4	0.4
Food and Non Alcoholic Beverages	0.0	0.2	0.5	0.4	0.5	1.2
Alcoholic Beverages and Tobacco	(0.1)	0.1	0.2	(1.0)	(0.9)	(0.8)
Clothing and Footwear	0.0	(0.1)	0.0	(2.9)	(3.2)	(3.1)
Housing, Water, Electricity, Gas & Other Fuels	0.6	0.2	0.0	2.0	2.1	2.1
Furnishings, Household Equipment and Maintenance	0.1	1.0	0.4	(1.7)	(0.8)	(0.3)
Health	0.1	0.0	0.0	0.0	(0.2)	(0.2)
Transport	0.1	0.3	0.3	2.1	0.3	0.8
Communication	(0.1)	2.3	0.0	(4.0)	(1.6)	(1.5)
Recreation and Culture	0.1	2.1	0.1	(2.2)	(0.2)	(0.2)
Education	0.1	0.0	0.0	1.1	1.1	1.1
Restaurants and Hotels	0.2	0.5	0.2	0.7	1.1	1.2
Miscellaneous Goods and Services	(0.2)	0.2	0.3	(3.0)	(3.0)	(2.8)
Durable Goods	(0.2)	0.5	0.1	(5.0)	(4.5)	(4.3)
Semi Durable Goods	0.0	(0.1)	0.0	(3.1)	(3.5)	(3.4)
Non-Durable Goods	0.0	(0.1)	0.3	0.2	(0.4)	0.2
Services	0.4	0.7	0.2	1.1	1.6	1.7
Core CPI	0.3	0.6	0.2	(0.2)	0.3	0.4

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Aug-18	Sep-18	Oct-18	Aug-18	Sep-18	Oct-18
Rice	0.1	0.2	0.0	0.5	0.5	0.6
Fresh Meat	(0.8)	(3.9)	1.8	(2.8)	(2.0)	0.6
Fresh Seafood	(0.4)	(1.6)	0.0	2.7	1.1	1.9
Oils & Fats	(0.2)	(0.1)	(0.2)	(0.4)	(0.6)	(0.8)
Fresh Fruits	1.0	(0.6)	(0.4)	1.4	0.0	0.2
Fresh Vegetables	(0.5)	(0.7)	4.5	(0.8)	(1.7)	3.2
Food Away From Home	0.1	1.3	0.4	1.7	2.6	2.7
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	1.4	0.0	(0.4)	1.0	1.0
Pharmaceutical Products	0.0	0.1	0.0	(0.8)	(0.9)	(1.1)
Fuels & Lubricants for Transportation	0.2	0.0	0.4	4.2	0.9	1.8
Transportation Repair & Maintenance	0.0	0.6	0.3	1.1	1.7	1.6
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	3.7	3.7	3.2
Expenses In Restaurants & Cafes	0.2	0.3	0.1	1.8	1.8	1.8
Insurance For Motor Vehicles	0.0	0.4	0.8	(3.1)	(2.6)	(1.8)

Source: CEIC, MIDFR

Inflation across states on the rise. Inflation in Peninsular Malaysia went up to 0.7%yoy, surpassed national average of 0.6%yoy in Oct-18. KL, Negeri Sembilan, Selangor & Putrajaya and Penang recorded inflation above the national average with KL increased the most at 1.3%yoy. Similarly, inflation in Sabah and Sarawak edged up to 0.3%yoy and 0.2%yoy respectively however remain below national average. Transport inflation increased for both Peninsular and Sarawak but maintained for Sabah.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Aug-18	Sep-18	Oct-18	Aug-18	Sep-18	Oct-18
Peninsular Malaysia;	0.2	0.4	0.2	0.2	0.3	0.7
Food	0.1	0.1	0.6	0.5	0.6	1.4
Food at Home	(0.1)	(0.8)	0.7	(0.4)	(0.7)	0.5
Food Away From Home	0.1	1.3	0.4	1.7	2.6	2.7
Utilities	0.7	0.2	0.0	2.1	2.3	2.3
Transport	0.1	0.3	0.3	2.0	0.3	0.8
Sabah;	0.2	0.3	0.0	0.1	0.1	0.3
Food	0.3	0.1	0.0	0.4	0.1	0.5
Food at Home	0.3	(0.3)	(0.1)	(0.6)	(1.3)	(0.6)
Food Away From Home	0.3	1.3	0.2	3.4	4.2	4.0
Utilities	0.4	0.2	0.0	1.3	1.5	1.5
Transport	0.2	0.0	0.3	2.4	0.7	0.7
Sarawak;	0.2	0.4	0.1	0.0	0.1	0.2
Food	0.2	0.5	0.2	0.9	1.0	1.1
Food at Home	0.2	0.0	0.1	0.8	0.3	0.6
Food Away From Home	0.1	1.6	0.4	1.3	2.5	2.6
Utilities	0.2	0.2	0.0	0.5	0.7	0.6
Transport	0.1	0.2	0.2	2.8	0.7	1.0

Source: DOSM, MIDFR

US inflation up in Oct-18. The US headline inflation rate increased to 2.5%yoy in Oct-18 after being on a downward trend since Jul-18. The jump from 2.3%yoy posted in Sep-18 was mainly due to prices of fuel oil and gasoline. Prices rose faster for fuel oil by 26.2%yoy (23.4%yoy in Sep-18) and gasoline by 16.1%yoy (9.1%yoy in Sep-18). The data provides more support for a Dec-18 interest rate hike by the Fed. Similarly, other key countries such as Japan and the EU saw their inflation went up to 1.4%yoy and 2.2%yoy respectively in Oct-18. Meanwhile, China maintained its inflation rate at 2.5%yoy in the same month. Among ASEAN countries, prices increased at a faster pace of 3.2%yoy for Indonesia and stayed at the same level of 6.7%yoy for Philippines. The 6.7%yoy for Philippines suggests that inflation had peaked for the year and is likely to taper off slowly going into the year-end. However, as the inflation remains well above the central bank's inflation target, there is a possibility for another rate hike in their December FOMC meeting. Moving forward, we foresee global inflation to pick up steadily in 2H18 amid of escalating trade spat, rising commodity prices and normalising monetary policy in major economies.

Table 4: Global Headline Inflation (YoY%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Malaysia	1.3	1.4	1.8	0.8	0.9	0.2	0.3	0.6
Indonesia	3.4	3.4	3.2	3.1	3.2	3.2	2.9	3.2
Philippines	4.3	4.5	4.6	5.2	5.7	6.4	6.7	6.7
Thailand	0.8	1.1	1.5	1.4	1.5	1.6	1.3	1.2
Singapore	0.2	0.1	0.4	0.6	0.6	0.7	0.7	
China	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5
Japan	1.1	0.7	0.6	0.7	1.0	1.3	1.2	1.4
EU	1.5	1.5	2.0	2.1	2.2	2.2	2.1	2.2
United States	2.4	2.4	2.7	2.8	2.9	2.7	2.3	2.5

Source: CEIC, MIDFR


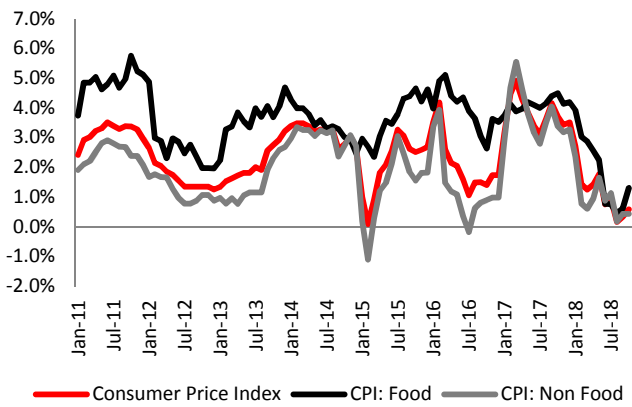
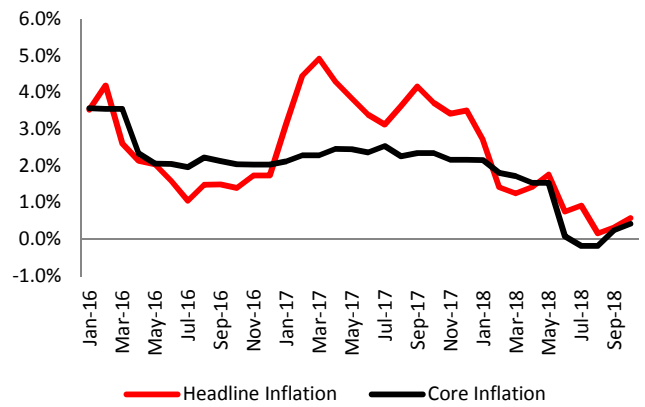
Tepid inflation for 2018 at 1.3%. Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first ten months which registered at 1.1% compared to 3.9% in the same period last year. We expect inflationary pressure mainly from fuel-related items to calm, consistent with gradual rise in global commodity prices on top of pass-through effect from a strengthening ringgit (USD/MYR average: 4.32 in 2017; 4.00f in 2018) and subsidy of domestic fuel price. In line with our expectation, overnight policy rate was left unchanged at 3.25% in the final scheduled MPC meeting of the year which took place on 8th November. 

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



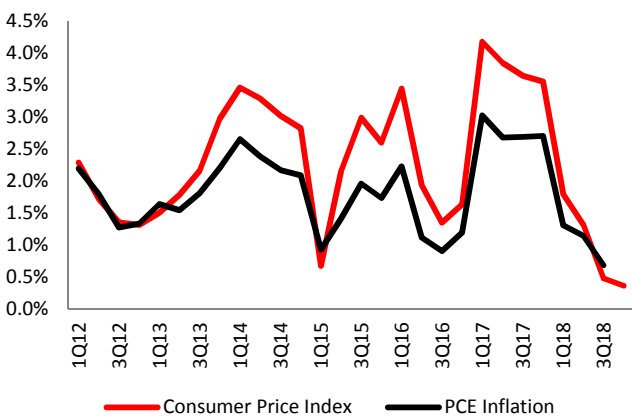
Source: CEIC, MIDFR

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



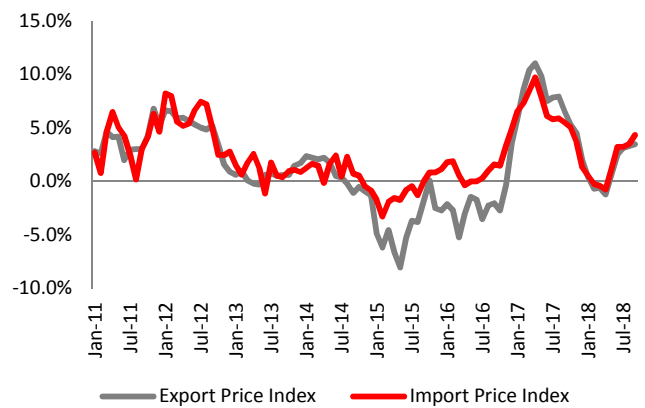
Source: CEIC, MIDFR

Chart 3: CPI vs PCE Inflation (YoY%)



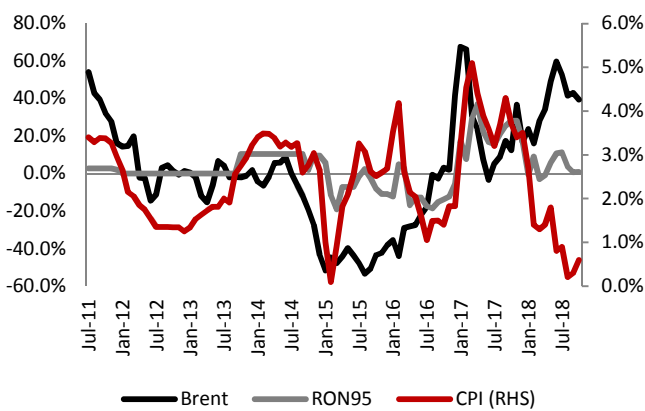
Source: CEIC, MIDFR

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



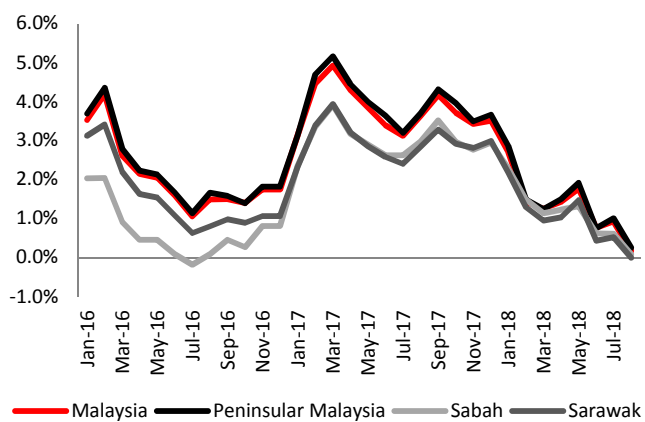
Source: CEIC, MIDFR

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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