

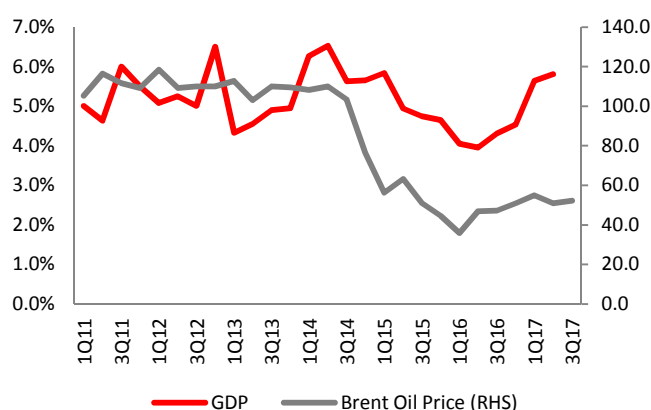
ECONOMIC REVIEW | September 2017 Consumer Price Index

Transportation Cost Drive September’s Inflation to Five-Months High at 4.3%

- *Bright outlook underpinned by oil price recovery. Malaysia’s economy has been on upward trends since second half of 2016. The rising trends are in tandem with recovery in global oil price which started to hover above \$50 since the fourth quarter of 2016. Consequently, Malaysian government revenue for the first half of 2017 recorded at RM97.1 billion, higher than corresponding period in 2016 of RM96.3 billion.*
- *Headline inflation up as expected. Headline inflation rose by 4.3% in September, at par with market expectations. So far, the average inflation rate for three quarters in 2017 is 4%, slightly above our yearly forecast of 3.8%. The recent uptick in overall prices was mainly driven by rise in fuel and transport prices.*
- *Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for inflation in 2017, projecting a slight slowing down in overall prices for the final quarter of 2017.*

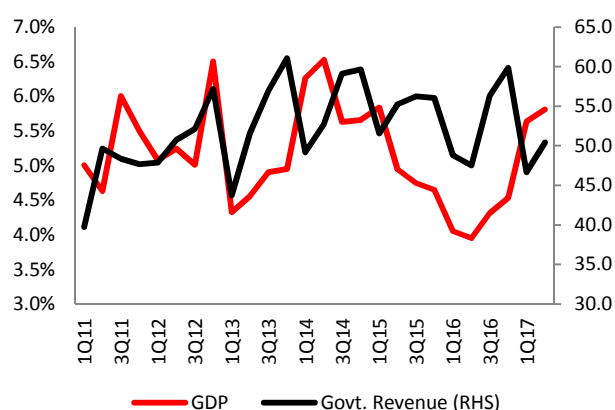
Bright outlook underpinned by oil price recovery. Malaysia’s economy has been on upward trends since second half of 2016. The rising trends are in tandem with recovery in global oil price which started to hover above \$50 since the fourth quarter of 2016. Consequently, Malaysian government revenue for the first half of 2017 recorded at RM97.1 billion, higher than corresponding period in 2016 of RM96.3 billion. Moving forward, we expect government will receive higher than expected revenue especially via oil-related channel in the second half this year due to gradual improvement in global oil prices. Apart from that, Malaysia’s budget deficit can be tapered down and more development expenditures can be included in the Budget 2018.

Chart 1: GDP (YoY%) vs Brent Oil (\$ Per Barrel)



Source: CEIC; MIDFR

Chart 2: GDP (YoY%) vs Govt. Rev. (RM Billion)



Source: CEIC; MIDFR

Bless of oil price. Based on our analysis, we found that an increase of oil price by will lead to significantly better economic performance. Net exports, government spending and private spending indicate higher growth in the respective years of which oil prices are on the uptrend. The effect of industry diversification of petroleum sector from upstream to downstream business activities over the years help magnify the impact. Plus, even with a small shock in the sector it will give significant impact to the domestic economy given that petroleum sector has strong value added multiplier and high backward & forward linkages. However, increase in global oil price will translate into higher local fuel pump prices. Higher pump prices transmitted into overall prices increase via higher transportation cost..

Table 1: Economic Impact Analysis (Assumption: Increase in Oil Price by 25%)

Economic Growth (YoY%)	1991	2000	2010
Private Consumption	0.3	0.3	0.7
Government Consumption	0.2	0.1	0.2
Investment	0.5	1.2	0.7
Net Exports	(22.9)	10.7	11.1
<i>Exports of Goods & Services</i>	2.6	2.0	2.6
<i>Imports of Goods & Services</i>	0.2	0.3	0.3
Gross Domestic Product	0.5	2.6	2.6

Source: DOSM, MIDFR

Headline inflation up as expected. Headline inflation rose by 4.3% in September, at par with market expectations. So far, the average inflation rate for three quarters in 2017 is 4%, slightly above our yearly forecast of 3.8%. The recent uptick in overall prices was mainly driven by rise in fuel and transport prices. Among others, increase in global commodity prices due to hurricane Harvey and Irma gave positive knock-on effects on Malaysia's overall prices especially fuel-related items. In spite of this, we view the shock in prices is only temporary. Core inflation stays at 2.4% similar to August's, lowest in eight months.

Table 2: Consumer Price Indices

Indices	MoM%			YoY%		
	Jul-17	Aug-17	Sep-17	Jul-17	Aug-17	Sep-17
CPI	(0.1)	0.9	0.3	3.2	3.7	4.3
Core CPI	0.1	0.5	0.1	2.6	2.4	2.4
Non Food	(0.3)	1.2	0.5	2.7	3.4	4.2
Food and Non Alcoholic Beverages	0.2	0.4	0.0	4.2	4.3	4.6
Alcoholic Beverages and Tobacco	0.0	0.0	0.0	0.1	0.1	0.1
Clothing and Footwear	(0.2)	(0.1)	0.2	(0.4)	(0.3)	(0.3)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.6	0.0	2.2	2.4	2.4
Furnishings, Household Equipment and Maintenance	0.7	0.1	0.1	2.6	2.7	2.8
Health	0.3	0.1	0.2	2.9	2.7	2.5
Transport	(1.1)	4.6	2.0	7.7	11.7	15.8
Communication	0.0	0.0	(0.1)	(0.3)	(0.3)	(0.3)
Recreation and Culture	0.1	(0.1)	0.0	2.6	0.4	0.4
Education	0.0	0.0	0.0	1.6	1.6	1.6
Restaurants and Hotels	0.2	0.5	0.1	2.6	2.8	2.6
Miscellaneous Goods and Services	0.3	(0.2)	0.2	1.1	0.9	1.1
Durable Goods	0.1	0.0	0.1	1.1	1.1	1.2
Semi Durable Goods	(0.1)	(0.2)	0.3	(0.2)	(0.3)	(0.1)
Non-Durable Goods	(0.2)	1.7	0.6	4.2	5.8	7.2
Services	0.1	0.4	0.2	3.0	2.6	2.7

Source: DOSM, MIDFR

Thanks to rise in global commodity prices. Referring to Brent oil price, the price grew by 17.4%yoy to \$55.3 per barrel in September as compared to the same month of last year, at \$47.1. Hence, the differential translates into higher fuel pump prices in September. For example, price of RON95 in August averaging at RM2.11 per litre whereas in September, the average price was RM2.18. We observed that transport inflation as well as price of fuels & lubricants rose by 15.8%yoy and 27.9%yoy respectively last month. Moving forward, average Brent oil price and RON95 for the first three weeks of October registered at \$56.8 and RM2.17 respectively. At this juncture, we can anticipate that October's inflation rate to remain above 4% with fuel-related items remain as dominant driving factors.

Table 3: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Jul-17	Aug-17	Sep-17	Jul-17	Aug-17	Sep-17
Rice	0.3	0.0	0.2	0.6	0.5	0.6
Fresh Meat	2.2	0.9	(4.7)	0.3	1.1	(0.6)
Fresh Seafood	(0.7)	0.6	(0.1)	6.4	8.2	8.7
Oils	0.0	0.0	0.1	48.9	48.9	49.1
Fresh Fruits	0.5	(0.2)	0.7	1.3	0.8	1.6
Fresh Vegetables	(2.4)	(1.0)	0.2	3.9	3.4	5.6
Food Away From Home	0.3	0.4	0.5	4.9	4.8	5.1
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	0.0	0.0	0.0	0.0
Pharmaceutical Products	0.4	0.0	0.2	3.2	2.8	2.6
Fuels & Lubricants for Transportation	(1.9)	7.9	3.3	11.8	20.4	27.9
Transportation Repair & Maintenance	0.2	0.5	0.1	3.4	3.6	3.7
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	3.1	3.1	1.2
Expenses In Restaurants & Cafes	0.2	0.5	0.2	2.8	3.1	3.1
Insurance For Motor Vehicles	0.0	0.0	0.0	0.2	0.0	0.1

Source: DOSM, MIDFR

States inflation remains steady. Inflation rate across all states had upward ride in September, similar trend with national's inflation. Hike in fuel and transport prices are major factors pushing the inflation rates. Melaka recorded the highest rate at 4.9% as compared to other states. Other than fuel-related items, tourism activity in the state is another reason given that prices of restaurant and hotel grew strongly by 5.4%, fastest than other states. In spite of this, we maintain our view that the second half of 2017 will see inflation in every state to grow at moderate pace due to stability in fuel prices and seasonal factors.

Table 4: States Headline Inflation (YoY%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Johor	3.5	5.2	5.7	5.0	4.3	4.0	3.6	4.1	4.7
Kedah	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8	4.5
Kelantan	3.1	4.1	4.7	4.0	3.6	3.0	2.6	3.5	3.8
Kuala Lumpur	3.7	4.8	5.0	4.5	4.2	3.8	3.6	3.7	3.8
Melaka	3.4	4.7	5.3	4.7	4.4	4.0	3.5	4.1	4.9
Negeri Sembilan	3.4	5.3	5.8	4.9	4.4	3.9	3.5	4.0	4.8
Pahang	2.6	4.0	4.3	3.7	3.3	2.8	2.5	3.0	3.4
Penang	3.5	4.6	5.0	4.4	4.4	4.0	3.8	4.0	4.6
Perak	2.6	4.0	4.5	3.8	3.2	2.9	2.7	3.3	3.9
Perlis	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8	4.5
Sabah	2.5	3.5	4.1	3.4	3.1	2.8	2.8	3.1	3.7
Sarawak	2.4	3.5	4.0	3.3	3.0	2.8	2.5	2.9	3.5
Selangor	2.9	4.4	4.9	4.2	4.0	3.5	3.1	3.7	4.3
Terengganu	2.6	3.9	4.3	3.6	3.0	2.4	2.1	2.9	3.4

Source: DOSM, MIDFR

Knock-on effects of hurricanes attack on global inflation. After five months of tapering down, the US headline inflation surged to 2.2% from 1.6% low in June 2017. The rise in inflation was mainly due to hike in gasoline prices caused by the hurricane Harvey and Irma. We viewed the latest inflation trend as one-off and only give temporary effect. Not just the US, inflation in other economies are experiencing slight hike in overall price growth due to the hurricanes attack which cause an uptick in global commodity prices. Nevertheless, we foresee global inflation will remain expanding at faster pace in October given that level of global commodity prices stay higher than the first half average prices.

Table 5: Global Headline Inflation (YoY%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Malaysia	3.2	4.5	5.1	4.4	3.9	3.6	3.2	3.7	4.3
Indonesia	3.5	3.8	3.6	4.2	4.3	4.4	3.9	3.8	3.7
Philippines	2.7	3.3	3.4	3.4	3.1	2.7	2.8	3.1	3.4
Thailand	1.6	1.4	0.8	0.4	0.0	0.0	0.2	0.3	0.9
Singapore	0.6	0.9	0.8	0.5	0.8	0.6	0.2	0.5	0.4
China	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6
Japan	0.5	0.3	0.2	0.4	0.4	0.3	0.4	0.7	
EU	1.7	2.0	1.6	2.0	1.6	1.5	1.5	1.7	1.8
United States	2.5	2.8	2.4	2.2	1.9	1.6	1.7	1.9	2.2

Source: CEIC, MIDFR


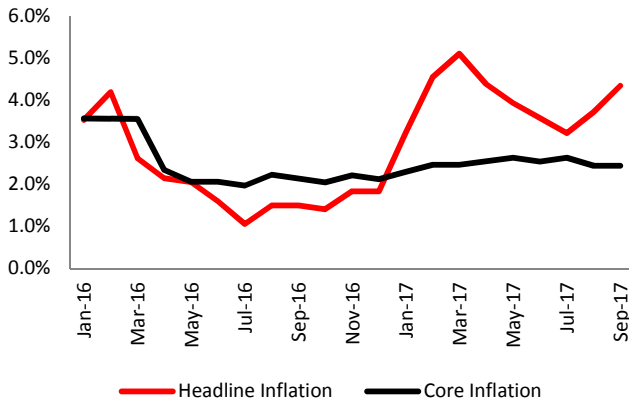
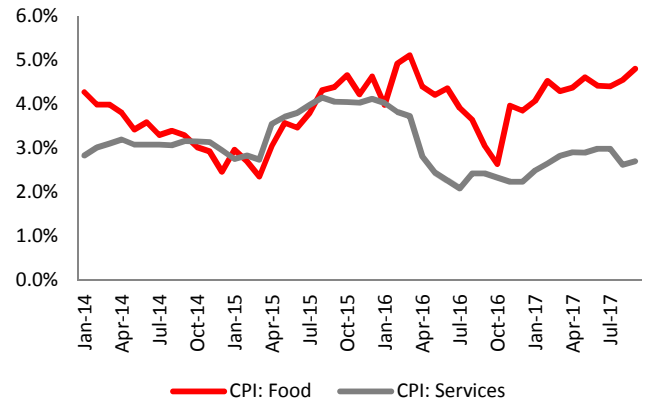
Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for inflation in 2017, projecting a slight slowing down in overall prices for the final quarter of 2017. Among others, unfavourable base effect, moderating commodity prices and modest appreciation of MYR are dragging factors on Malaysia's inflation outlook for the fourth quarter. 

Chart 3: CPI vs Core CPI (YoY%)



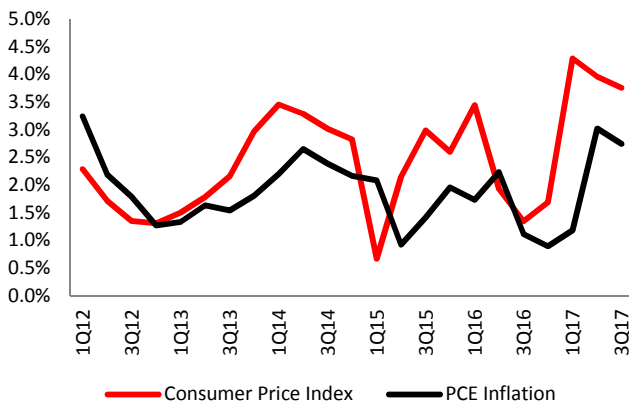
Source: DOSM, MIDFR

Chart 4: Food Inflation vs Services Inflation (YoY%)



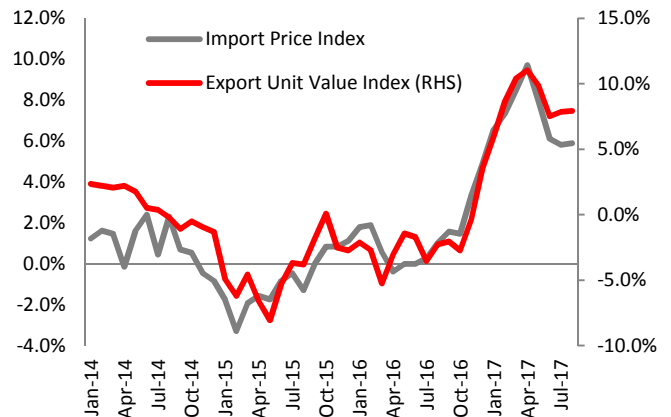
Source: DOSM, MIDFR

Chart 5: CPI vs PCE Inflation (YoY%)



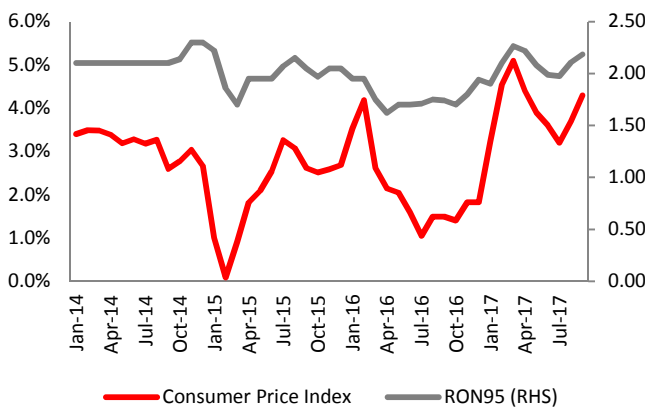
Source: DOSM, MIDFR

Chart 6: Price Index of Imports & Exports (YoY%)



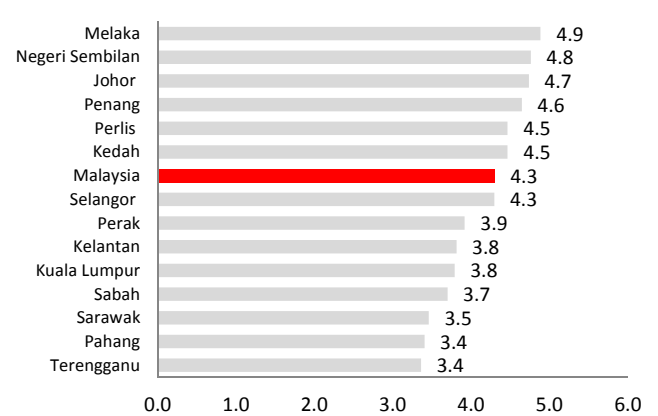
Source: DOSM, MIDFR

Chart 7: CPI (YoY%) vs RON95 (RM per litre)



Source: Bloomberg, MIDFR

Chart 8: Inflation by States in September (YoY%)



Source: DOSM, MIDFR

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