

2 October 2014

## MALAYSIA

### **Fuel price hike – marginal impact on CPI now, fiscal savings to be channelled into other sectors.**

Government raised fuel prices raised by 20sen effective today in keeping its pledge to rationalise the fuel subsidy. Impact on CPI for this year is marginal given that the quantum of increase as share of the index is smaller than that seen last year. CPI is expected to average 3.0 – 3.2% this year, still well within our expectation of 3.0 – 3.5% with fuel price hike and no further electricity tariff adjustments. The subsidy cut could save the government by about RM1 billion, about the same amount estimated from the impact of the hike last year. That would not see any significant impact on fiscal expenditure, given that the Federal Government had already projected 15.6% YoY decline in total subsidies to be spent this year.

Any savings would be channelled back to social spending. The much faster than expected GDP growth would still allow the deficit target to be met at 3.5% this year, despite higher spending. The impact on overall CPI next year has yet to be seen, with GST coming into effect April 1 but if inflation expectation is well-anchored, CPI is likely to be still within our expectation of 3.5 – 4.0% in 2015.

**Marginal impact on CPI; still well within our expectation.** The 20sen hike represents about 9.5% jump from the previous price of RM2.10 per litre for RON95 and 10% for diesel, which is smaller than the 10.5% and 11.1% percentage increase seen last year. As such, the impact on the CPI index for October onwards would see perhaps only 0.5 – 0.6% MoM jump from September index level. The hike last year caused the index jumped 0.8% MoM in September index (the hike took effect 3 September 2013). Assuming that the index continues to edge up by 0.1 – 0.3% up to December, that would bring the overall index to rise by 3.0 – 3.1% for the whole of 2014, well within our expectation of 3.0 – 3.5% for this year.

**Government is serious in its pledge to rationalise the fuel subsidy.** We always hold the view of the programme to continue, although remain uncertain over the degree of cut in the subsidy, exact timing and frequency. The recent move indicates that the government would stick to its pledge but any degree of change or introduction of any new targeted programme would be done in gradual steps so as to avoid creating big shock to economic pricing of the economy.

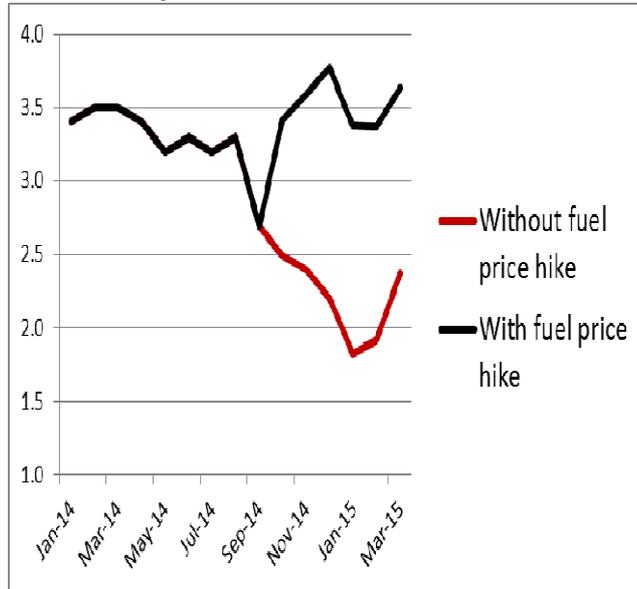
**The fuel subsidy cut would save the Government by another RM1 billion, which should be widely expected, electricity tariff hike unlikely,** as shown in its budgeted Operating Expenditure in the Economic Report 2013/2014. For 2014, the Federal Government expects total Subsidy expenditure to amount to RM39.41 billion, a decline of 15.6% YoY from the RM46.7 billion estimated for 2013. The actual amount spent in 2013 however was even much lower at RM43.5 billion (2012: RM44.1bn). For the first half of 2014, the Federal Government had only spent RM18.2 billion or 46.1% of its allocation for the whole year.

**The savings will likely be channelled to other economic services and social spending, deficit target likely to be met.** Based on historical trend, we expect the subsidy amount to fall in the 3Q 14 but rebound sharply in the final quarter of the year and therefore the actual amount spent would still be well within the allocation target. Nonetheless, savings from the subsidy cut will be channelled to other social spending. As noted from the fiscal account, the share of Subsidy as a percentage of Total Operating Expenditure was smaller at 18.1% vs 20.5% in 2013 (budget target: 21.6%). Last year's budget saw the amount of spending on Economic Services as a % of Total Development Expenditure was projected to increase to 64.8% from 61.8% in 2013. We expect that while total expenditure may be slightly higher this year, the much faster-than-expected growth in GDP would enable the government to hit its deficit target of 3.5% of GDP (2013: -3.9%).

**The impact on overall CPI next year has yet to be seen, with GST coming into effect April 1** but if inflation expectation is well-anchored, CPI is likely to be still within our expectation of 3.5 – 4.0% in 2015. Demand-pull

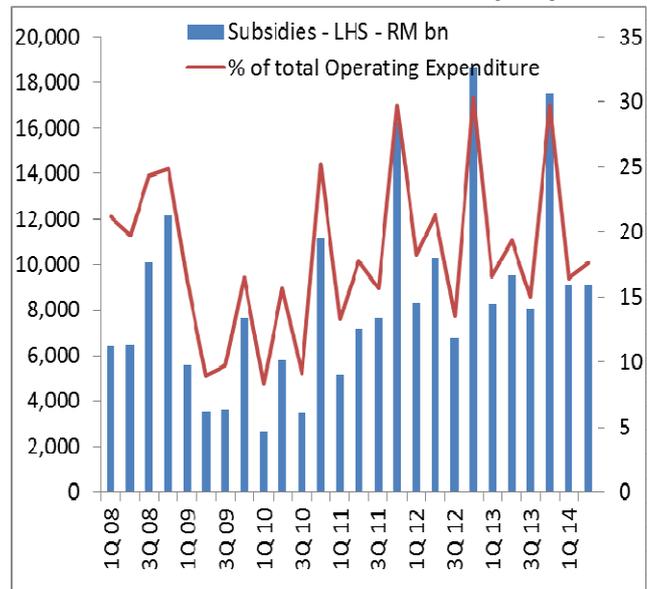
factors may not be as strong as that seen in 2H 2013 – 1H 2014 but inflation expectation may remain elevated and that still pose a policy concern.

**Chart 1: Projected inflation until March 2015 \***



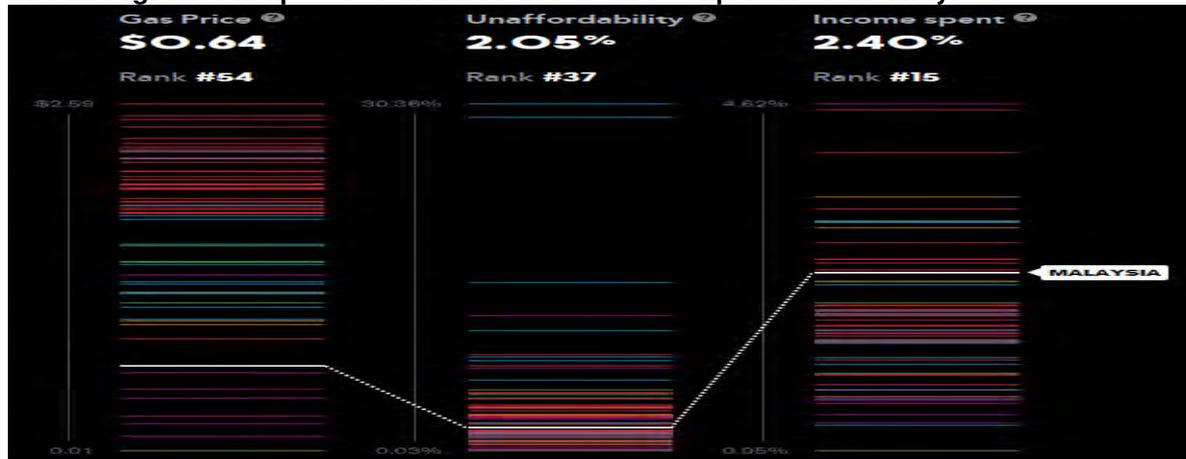
Source: BNM, MIDFR estimates

**Chart 2: Federal Government - Subsidy Expenditure**



Source: BNM

**Chart 3: Malaysia still ranks as one of the cheapest gasoline prices in the 61-country ranking by Bloomberg. The cheapest is Venezuela and the most expensive is Norway.**



**Table 1: What matters is the amount spent from income - Prices and affordability of regional peers**

	Gasoline (US\$/litre)	Income spent on total gas purchases
Indonesia	0.99	3.08
Philippines	1.18	1.64
Thailand	1.18	2.24
Singapore	1.73	0.74

Source: Bloomberg

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

## 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 <i>rise</i> 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	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> 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.