

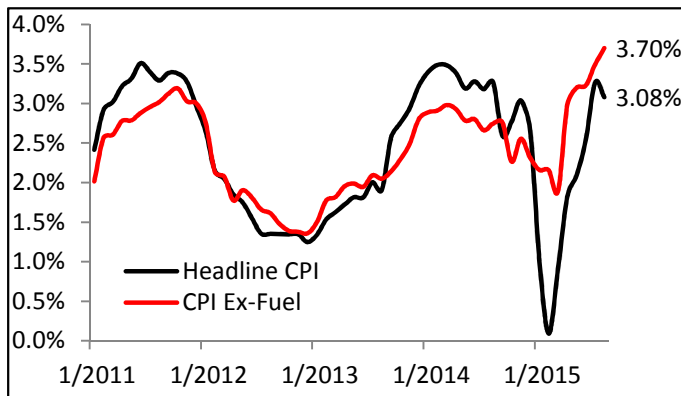
ECONOMIC REVIEW | August 2015 Consumer Price Index

Lower Oil Price Curbs Imported Inflation

- *Malaysia headline inflation moderated to 3.08% in August from 3.26% in the previous month due to the lower domestic oil price in August. However when the oil price is excluded from the equation, the inflation surged to a much higher level of 3.70% as compared to July's inflation ex-fuel of 3.49%.*
- *Currently there are higher inflationary pressure coming from imported inflation and upward momentum from GST implementation. However, since Malaysia's domestic pump price follows the 3-month moving average global market prices, domestic inflation could be curbed at a moderate level for the rest of the year.*
- *We are maintaining our inflation target of 2.0%-2.5% for 2015. We are forecasting September 2015 CPI to be at 2.70%yoy.*

Headline inflation moderated to 3.08% despite weaker Ringgit. The headline inflation is slightly lower than the 12-month high July 2015 inflation of 3.26%. The decline was mostly due to the decline of domestic pump price in August, which was lower by RM0.05 (-2.38%) relative to August 2014. According to the data provided by Department of Statistics, the oil price constitutes 8.77% of the CPI basket, the third highest after house rental at 17.24% and food away from home of 10.04%. Year-to-date CPI has grown by +1.85%, in line with our 2015 forecast of 2.2%.

Chart 1: YoY Inflation



Source: DoS, CEIC, MIDF Research

Without the oil price, inflation is at the highest level since global financial crisis. Inflation ex-fuel, removing pump price from the CPI basket, continues its upward momentum to 3.70% in August compared to 3.49% in July. The value is the highest post global financial crisis and is believed to be contributed by both weaker Ringgit and GST implementation.

The food category is leading the inflationary pressure. The food and non-alcoholic beverages ticked up higher at 4.24% in August compared to 3.81% in the previous month, contributing 44.3% to the month's inflation figure. Among the food sub category, fresh vegetables, fresh meat, fresh fish, fresh fruits, fresh seafoods and butter are showing significant increases in the price levels. As a sizable amount of these products are imported, we believe that the higher prices were due to imported inflation caused by weaker Ringgit in August.

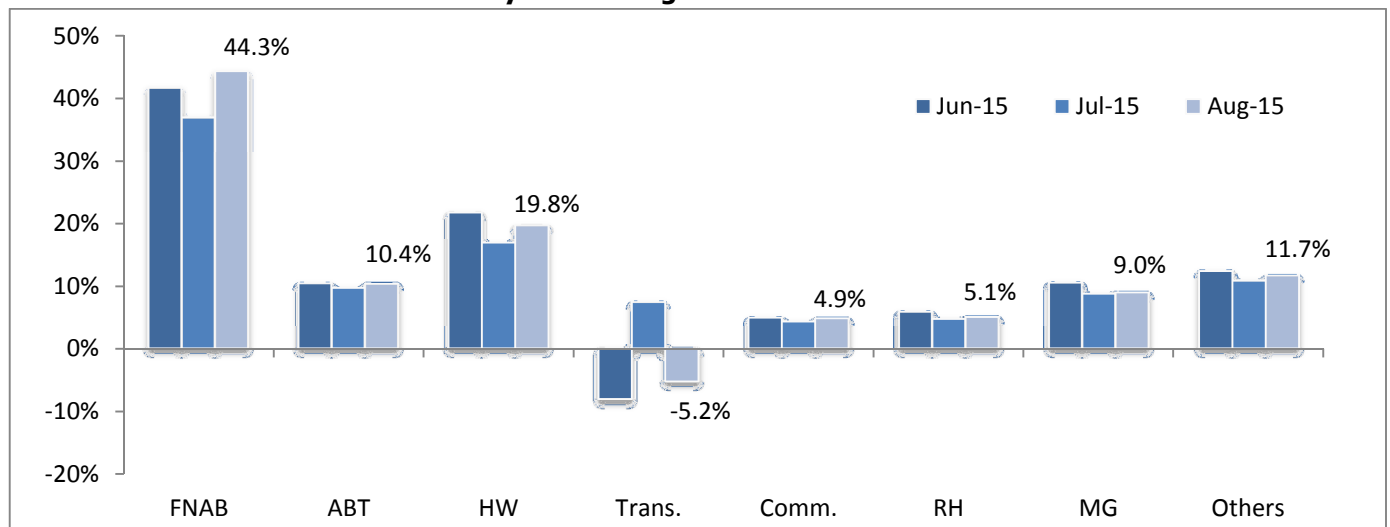
There is no change in the CPI on month-on-month basis. The CPI remained at 113.9 in August, resulting in a 0% change on MoM basis. However it should be noted that the unchanged CPI is not a result of a stagnant price, but rather due to the higher price of foods which had offset the deflationary pressure coming from the lower pump price. Recall that when the pump price was reduced to RM1.70 per litre in February, the CPI was down by 0.63% mom. Housing and electricity category led the MoM increase with 0.72%, followed by food and beverages with 0.50%.

Table 1: Inflation According to Main Categories

	%MoM				%YoY				%YTD
	May 2015	June 2015	July 2015	August 2015	May 2015	June 2015	July 2015	August 2015	
FNAB	0.42	0.42	0.76	0.50	3.49	3.39	3.81	4.24	2.97
ABT	(1.53)	0.15	1.77	0.07	11.26	11.33	13.30	13.38	11.23
CF	0.10	(0.30)	(0.20)	(0.20)	0.91	0.71	0.92	0.71	0.24
HW	0.72	0.00	0.00	0.72	2.58	2.48	2.48	2.65	2.31
FH	0.37	0.55	0.36	0.27	2.63	3.19	3.86	3.75	1.49
Health	0.26	0.44	0.09	0.09	5.03	5.00	4.81	4.71	4.22
Transport	0.19	3.01	3.11	(2.66)	(4.66)	(1.44)	1.62	(1.17)	(5.61)
Communication	0.10	0.00	0.10	0.10	2.56	2.56	2.76	2.97	0.77
RC	0.19	0.09	0.19	0.19	1.62	1.71	1.90	2.10	1.11
Education	(0.09)	0.18	0.00	0.27	2.46	2.55	2.37	2.45	2.36
RH	0.41	0.25	0.25	0.24	4.46	4.53	4.61	4.51	3.75
MG	0.27	0.18	0.18	0.00	4.36	4.55	4.74	4.55	2.98
Overall	0.36	0.62	0.80	0.00	2.09	2.54	3.08	3.26	1.85

Source: DoS, CEIC, MIDF Research

Chart 2: YoY Inflation Contribution by Main Categories



Source: DoS, CEIC, MIDF Research

We forecast September 2015 inflation to be at 2.70%. The upward momentum from higher imported inflation and GST implementation is expected to continue to be a catalyst for higher headline inflation. However the low pump price at RM1.95 per litre is expected to curb the inflationary pressure and will continue to do so in the coming months. We are maintaining our 2015 average CPI forecast within the range of 2.0-2.5%.



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