

23 June 2014

MALAYSIA

May CPI at 3.2% – Stabilizing

Inflation in May 2014 rose +3.2% YoY (May 2014: +3.4% YoY; MIDF: +3.3% YoY; Consensus: +3.3% YoY) on higher prices of “Transport”, “furnishings, household equipment & maintenance”, “health”, “recreation”, “restaurants”, and “miscellaneous goods & services”. “Transport” cost rose +5.5% YoY in May 2014 (April 2014: +5.3% YoY). From the previous month, headline inflation gained +0.1% MoM (April 2014: +0.0% MoM).

“**Alcoholic Beverages & Tobacco**” continues to post double-digit growth since Oct 2013 at +14.1% YoY for May 2014, for the fifth consecutive month. While the alcoholic beverages sub-sector has seen decline in growth since November of last year (May 2014: -0.5% YoY), the tobacco sub-sector has seen a constant double digit growth of 17.6 % YoY in the same period.

Reflecting the electricity tariff hike in Jan 2014, the “Housing, Water, Electricity, Gas and Other Fuels” (HWEGOF) grew moderately to +3.1% YoY from a high of 3.5% YoY Feb 2014 (April 2014: +3.6% YoY). Specifically, the “Electricity, Gas and Other Fuels” sub-group maintained its growth of +5.7% in May 2014 for the fourth consecutive month.

Prices of food & non-alcoholic beverages continue to moderate to +3.3% YoY (April 2014: 3.6%) after reaching a peak of +4.2% YoY in December 2013. This is due to moderate decrease in growth in items such as “rice, bread & cereals” (May 2014 +1.0% YoY; April 2014 +1.0 % YoY), “fish & seafood”, (May 2014: 4.4% YoY; April 2014: 6.2% YoY), “Oil & Fats” (May 2014: +0.1% YoY; April 2014: +0.1% YoY) and “fruits” (May 2014: +3.7% YoY; April 2014: +4.2% YoY). We view this moderate growth due to the absence of festivities. We expect prices to go up in the coming months due to the coming Raya festivities.

Malaysia: Consumer Price Index (CPI, 2010=100)

% YoY	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	YTD 2014	2013
Total	2.9	3.2	3.4	3.5	3.5	3.4	3.2	3.4	2.1
Food and Non Alcoholic Beverages (FNAB)	3.9	4.5	4.2	3.8	3.9	3.6	3.3	3.8	3.6
Alcoholic Beverages and Tobacco	14.2	14.1	14.1	14.1	14.1	14.1	14.1	14.1	6.0
Clothing and Footwear	(0.3)	(0.3)	(0.2)	0.2	(0.1)	(0.1)	(0.2)	(0.1)	(0.6)
Housing, Water, Electricity, Gas & Other Fuels (HWEGF)	2.3	2.4	3.2	3.5	3.6	3.6	3.1	3.4	1.7
Furnishings, Household Equipment and Maintenance	1.6	1.6	1.6	1.5	1.1	1.0	1.2	1.3	1.5
Health	1.8	1.9	2.1	2.2	2.3	2.3	2.4	2.3	1.9
Transport	4.9	5.0	5.3	5.5	5.1	5.3	5.5	5.3	2.0
Communication	(0.6)	(0.6)	(0.4)	(0.6)	(0.5)	(0.6)	(0.7)	(0.6)	(0.7)
Recreation and Culture	0.6	1.8	1.6	1.6	1.6	1.7	1.9	1.7	0.1
Education	2.9	2.9	2.6	2.3	2.3	2.3	2.2	2.3	2.4
Restaurants and Hotels	3.0	3.3	4.2	4.4	4.5	4.8	4.9	4.5	2.4
Miscellaneous Goods and Services	(0.5)	(0.6)	(1.1)	(0.4)	0.1	0.5	1.1	0.0	0.3

Source : Dept of Statistics

We expect the MoM pace in inflation to pick up in coming months but due to low base effect, the YoY will see prices to average by around 3% in 2014, before edging up higher again in 2015 on the Government’s commitments to execute fiscal reforms via subsidy rollback and GST introduction. We expect CPI to average around 3.5% to 4% in 2015, which is in line with BNM forecast of 3.0% to 4.0% for the year. With the economic growth expected to be firmer this year (after a surprise 1Q214 GDP results), there is a heightened risk to inflation expectations as well.

We reiterate our view that expected OPR hike(s) would take place in the second half of 2014 by 25bps. The moderate growth of CPI in May seems to give BNM a breathing space. The hike is inevitable given that various factors such as household debt growing and external debt deteriorating.

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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.