

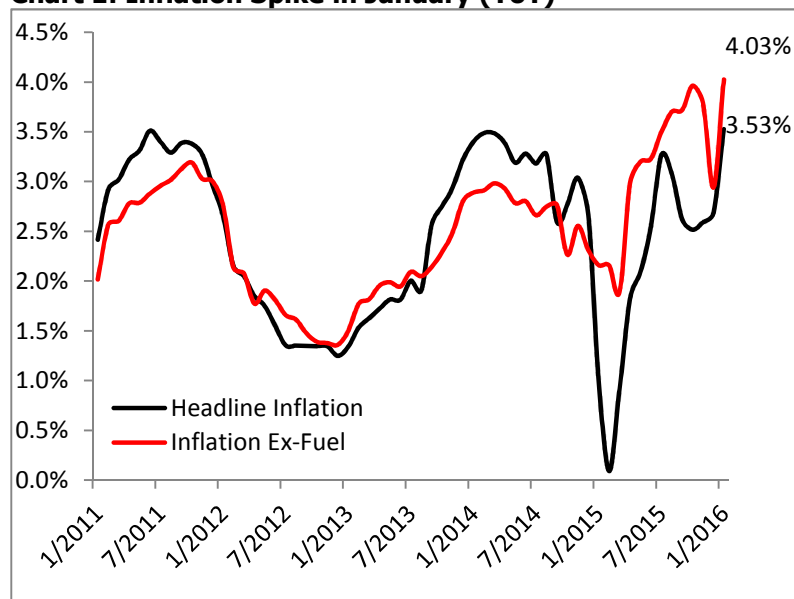
ECONOMIC REVIEW | January 2015 Consumer Price Index

January's Inflation Figure Slightly below Expectation

- *Headline inflation grew by 3.5% in January on year-on-year basis, slightly below our expectation of 3.6%yoy. The consensus surveyed by Bloomberg was also higher at 3.7%yoy. Food and non-alcoholic beverages (FNAB) index moderated, increasing only by 3.91%yoy as compared to 4.56% in the previous month.*
- *Inflation ex-fuel, where we took out the fuel price from the CPI basket, surged to 4.03% in January compared to 2.94% in December 15' whilst the headline inflation rose to 3.53%. Both were record figure since the base year was set to year 2010. We had previously anticipated that the gap in pump prices to narrow relative to previous year. However, recent developments suggest that the oversupply issue would remain in the short term as there is no indication that OPEC would agree to a production cut.*
- *The inflation expectation for year 2016 remains unchanged at 2.90%, while we are expecting inflation in February to be at 4.20%. The latest development of the oil market points to a possible lengthened period of low oil prices in 1H16. Nonetheless, we expect that the headline inflation figure in second half of the year to notch higher as oil prices are expected to rebound gradually. A rebound in crude oil prices will lead to higher pump price and give rise to higher inflation overall.*

Inflation in January settles slightly below market expectation. Headline inflation grew by 3.5% in January, year-on-year basis, slightly below our expectation of 3.6%yoy. The consensus surveyed by Bloomberg was also higher at 3.7%yoy. Food and non-alcoholic beverages (FNAB) index moderated, increasing only by 3.91%yoy. This is the first time for FNAB to fall below 4.0% after five consecutive months of inflation rate above 4.0%, where it was 4.6% in December. Similarly, transports category was back in the positive territory, rising by 0.58%yoy after a streak of negative inflation rate due to low pump price.

Chart 1: Inflation Spike in January (YoY)



Source: DoS, CEIC, MIDF Research

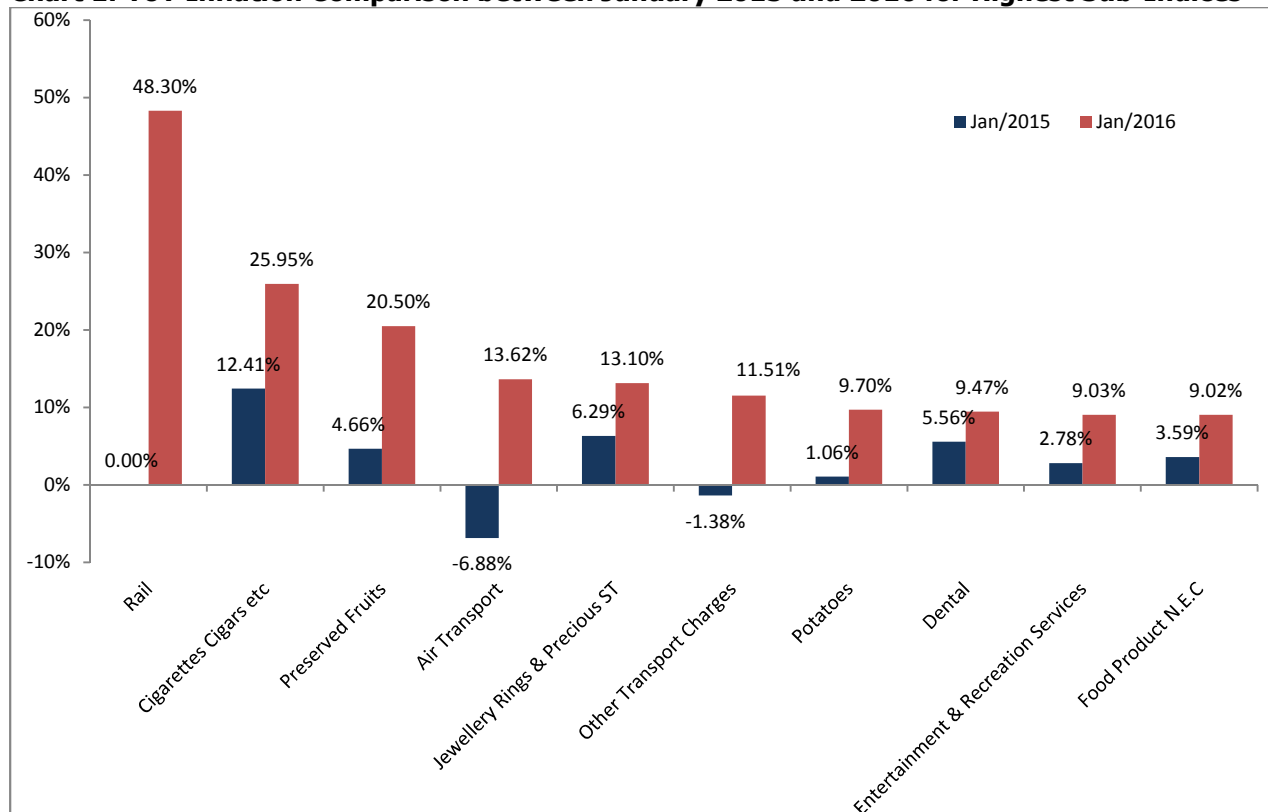
Inflation ex-fuel surged past 4.00%, headline inflation rose to 3.53%. Inflation ex-fuel, where we took out the fuel price from the CPI basket, surged to 4.03% in January as compared to 2.94% in December 15' whilst the headline inflation rose to 3.53%. Both were record figure since the base year was set to year 2010. We had previously anticipated that the gap in pump prices to narrow relative to previous year. However, recent developments suggest that the oversupply issue would remain in the short term there is no indication that OPEC would agree to a production cut.

Table 1: Inflation According to Main Categories

	%MoM				%YoY			
	Nov 2015	Dec 2015	Jan 2016	2015	Nov 2015	Dec 2015	Jan 2016	2015
FNAB	(0.25)	0.75	0.58	0.36	4.14	4.56	3.91	3.63
ABT	17.52	1.73	(0.06)	0.56	20.67	22.75	22.59	13.38
CF	0.00	(0.1)	0.02	0.03	0.61	0.82	0.41	0.49
HW	0.53	0.00	0.18	0.16	2.45	2.45	3.10	5.43
FH	0.18	0.09	0.27	0.14	3.84	4.23	4.12	2.67
Health	0.09	0.26	0.26	0.22	4.40	4.58	4.57	4.43
Transport	0.36	(2.26)	(2.87)	0.52	(5.24)	(6.17)	0.58	(4.51)
Communication	0.00	(0.10)	(2.39)	0.01	3.39	3.29	0.93	1.96
RC	0.19	0.00	0.09	0.17	2.57	2.57	2.28	1.71
Education	0.09	0.27	0.71	0.20	2.45	2.63	2.61	2.41
RH	0.24	0.24	0.08	0.52	4.57	4.74	4.47	4.18
MG	0.27	(0.18)	0.45	0.16	5.88	5.39	5.46	4.15
Overall	0.61	0.00	0.26	0.29	2.59	2.68	3.53	2.10

Source: DoS, CEIC, MIDF Research


Chart 1: YoY Inflation Comparison between January 2015 and 2016 for Highest Sub-Indices



Source: DoS, CEIC, MIDF Research

Inflation is expected to surge to 4.20%yoy in February due to higher pump price. As aforementioned, the inflation for the transports category rebounded after 5 consecutive months of deflation, growing by 0.58%yoy. The gap of pump price relative to last year has narrowed and will turn positive in February 16' where pump price is 5 cents more expensive (February 15': RM1.70 per litre). On this score, inflation could rise to 4.20%yoy in February barring unforeseen deflation in other components in the basket. For the following months, we believe that pump price to remain status quo as crude oil prices are seen to remain weak in 1H16.

We maintain our expectation of 25 basis points interest rate cut. We have earlier anticipated 25 basis points amid multiple distressing headwinds in the global and domestic market. In particular, private consumption has dropped to average at 6.0%yoy in 2015, well below the range in 2011-2014 of 7.0% – 8.0%yoy. In addition, the last two quarters have seen the private consumption fell further, averaging at 4.5%yoy. This is rather alarming as softening domestic demand puts Malaysia vulnerable to external shock. Despite a rise in inflation in January and possibly in February, inflation is likely to remain low in 1H2016. Thus, in dealing with the threat of softening domestic demand, the cut in interest rate is still on the horizon.

The inflation expectation for year 2016 remains unchanged at 2.90%. The latest development of the oil market points to a possible lengthened period of low oil prices in 1H16. Nonetheless, we expect that the headline inflation figure in second half of the year to notch higher as oil prices are expected to rebound gradually. A rebound in crude oil prices will lead to higher pump price and give rise to higher inflation overall. 

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