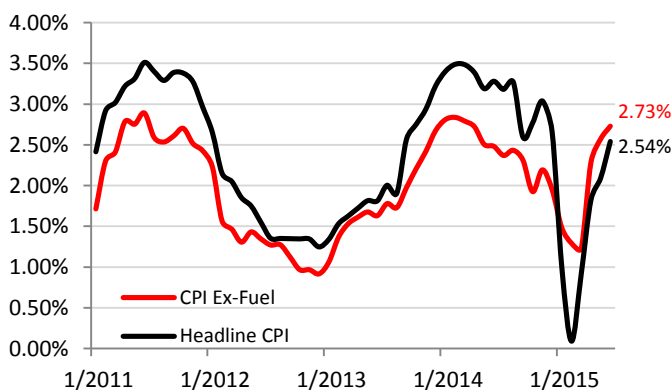


ECONOMIC UPDATE

MALAYSIA – June CPI: Highest Inflation Year-to-Date

- *Headline inflation increased to 2.54% YoY due to higher oil price in June. The figure is the highest YTD, while the overall inflation rate for the first half of 2015 remained low at 1.41% YoY. This figure is significantly lower than that of 2014 where the inflation rate for the first half of 2014 was at 3.37% YoY.*
- *The oil price is getting closer to the figure last year, where the price for RON95 in June was at RM2.05/litre compared to RM2.10/litre for the whole Jan-Sep 2014. As such, the gap between headline inflation and inflation ex-fuel has become smaller, and it is expected that headline inflation will surpass inflation ex-fuel in July as the oil price was more expensive at RM2.15/litre.*
- *We maintain our inflation target of 2.0%-2.5% for year 2015. We are expecting YoY inflation to gradually increase up until October, when the retail oil price in Malaysia started to face increment due to subsidy rationalisation. We forecast July 2015 CPI to be at 2.55% YoY.*

Highest headline inflation YTD. CPI increased by 2.54% YoY in June, the highest increment for the first half of 2015. The higher figure was mainly attributed to the smaller gap in oil price, where the price for RON95 in June was set at RM2.05/litre which is the highest value since the oil pricing mechanism changed into managed floating, but still five cents cheaper compared to the oil price for June 2014. Overall, for the first half of 2015, CPI has increased by 1.41% YoY, a significant decrease compared to 3.37% for the same period last year.

Chart 1: YoY Inflation

Source: DoS, CEIC, MIDF Research

The gap between headline inflation and 'inflation ex-fuel' is getting closer.

Inflation ex-fuel, where we took out the fuel price from CPI calculation, increased to 2.73% YoY in June. Despite the higher figure compared to the headline inflation, the gap is becoming closer as compared to the May value, where inflation ex-fuel was at 2.54% against headline inflation at 2.09%. We are expecting the gap to become closer in July, or a possibility that the headline inflation to exceed inflation ex-fuel for the first time in 2015, as the oil price increased again in July 2015 to RM2.15/litre, exceeding the oil price in July 2014 of RM2.10/litre. However, the gap should widen in the coming months as global oil price is expected to fall slightly due to the Iran sanction relief.

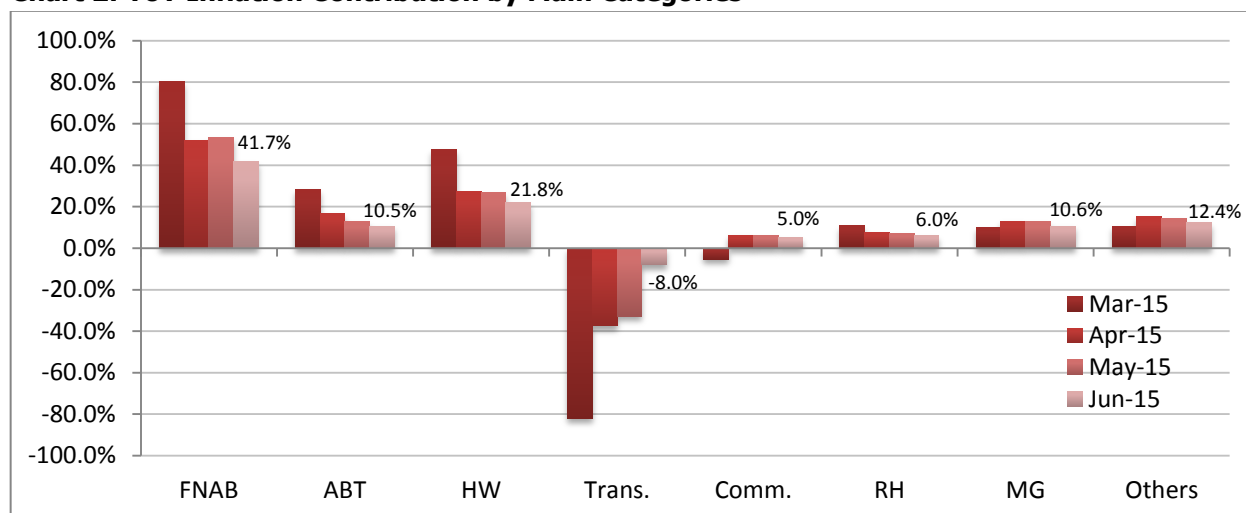
Transport category leads the MoM inflation. By looking at the major categories, the one that push up inflation in June is undeniably transport category. Transport index increased by 3.01% MoM in June, compared to 0.19% in May. Among the sub categories of the transport index, the ones that led the price increase in June on MoM basis were oil price with an increase of 4.91% and air transportation with 4.13% increment. However it should be noted that it is a seasonal trend for air transportation index to shoot up every June each year, as such the increment should not be associated with the increase of oil price.

Table 1: Inflation According to Main Categories

	%MoM				%YoY				%YTD
	March 2015	April 2015	May 2015	June 2015	March 2015	April 2015	May 2015	June 2015	
FNAB	(0.34)	0.77	0.42	0.42	2.27	3.15	3.49	3.39	2.97
ABT	0.00	2.15	(1.53)	0.15	10.60	12.98	11.26	11.33	11.23
CF	0.41	0.81	0.10	(0.30)	(0.20)	0.71	0.91	0.71	0.24
HW	(0.36)	0.36	0.72	0.00	1.94	2.31	2.58	2.48	2.31
FH	0.09	2.16	0.37	0.55	0.19	2.35	2.63	3.19	1.49
Health	0.36	1.87	0.26	0.44	3.59	5.04	5.03	5.00	4.22
Transport	7.96	0.28	0.19	3.01	(4.94)	(4.76)	(4.66)	(1.44)	(5.61)
Communication	0.00	3.09	0.10	0.00	(0.92)	2.35	2.56	2.56	0.77
RC	(0.19)	0.95	0.19	0.09	0.57	1.53	1.62	1.71	1.11
Education	0.09	0.54	(0.09)	0.18	2.19	2.65	2.46	2.55	2.36
Restaurants and Hotels	0.34	1.85	0.41	0.25	2.85	4.30	4.46	4.53	3.75
MG	0.28	2.52	0.27	0.18	1.52	4.08	4.36	4.55	2.98
Overall	0.91	0.90	0.36	0.62	0.91	1.82	2.09	2.54	1.41

Source: DoS, CEIC, MIDF Research

Food and non-alcoholic beverages once again became the main contributor for inflation YoY. FNAB contributes to 41.7% of the YoY inflation in June, down from 51.6% in May. This was followed by Housing, Water, Electricity, Gas & Other Fuels category which contributes 21.8% against 27.3% in May and Miscellaneous Goods & Services category with a share of 10.6%, also a drop from 13.0% in the previous month. Most of the drops were mainly due to the smaller decrease in transport index, where the fall in CPI contributed by the category improved from -37.3% in May to -8.0% in June.

Chart 2: YoY Inflation Contribution by Main Categories

Source: DoS, CEIC, MIDF Research

We forecast July 2015 CPI to be at 2.55% YoY. We are expecting that generally food products will be higher due to the festive season along with clothing and footwear. The forecast is also based on the fact that fuel price has increased again in July 2015, to a level higher than the previous year. We also maintain our inflation target of 2.0%-2.5% for year 2015.

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