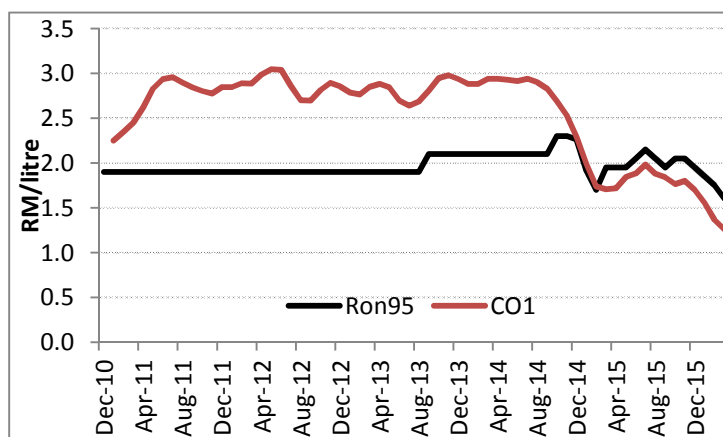


ECONOMIC REVIEW | Fuel Price Reduction

15 sen cut in RON95 to dampen inflationary expectations

- The price of RON95 petrol has been cut by 15 sen in March to RM1.60/litre, while that of RON97 reduced by 10 sen to RM1.95/litre. The price for RON95 is now the lowest since 2006, beating the previous low in February last year of RM1.75/litre.
- The petrol price for petrol generally tracks the 3-month moving average price of the Brent crude oil, although the price differentials have been tweaked from time to time. As the moving average is stabilizing now and the Ringgit is also less volatile, there is less likelihood for the petrol price to fall further.
- The cut in petrol price is expected to have a benign impact on consumer outlook. We are revising downwards our inflation forecast to 3.6% from 3.9% for year 2016, as well as our February inflation forecast to 4.1% from 4.2%.

RON95 was cut by 15 sen to RM1.60/litre in March. RON95, the petrol oil that is used by majority of consumers, was cut by 15 sen in March leading to RM1.60/litre for the month. This price movement confirmed our expectation that the petrol price was set by looking at the average price for the last 3-months. The global oil price for February was slightly higher as compared to the price in January, as such if the petrol price was set according to the oil price one-month prior, the petrol price should at least be set at the same level, if not at a higher level.



10 sen drop of RON95 would lead to a deflationary impact by approximately 35 basis points. From the past movement of the inflation data, it could be observed that by cutting 10 sen of RON95, the inflation rate would be reduced by 35 basis points, while increasing the petrol price by 10 sen would lead to an increase of 40 basis points to the inflation rate. The petrol price contributes approximately 8.7% to the overall consumer price index.

Source: CEIC, MIDF Research

The petrol price was roughly following 3-month moving average. Overall, we observe that the petrol price was following 3-month moving average of the Brent crude, with a one-off adjustment for the difference between the two from time to time i.e. March 2015 (+0.25/litre), May 2015 (+0.15/litre) and October 2015 (+0.30/litre). However, it should be noted that all of the calculations are at best only an estimate, as we do not possess the exact cost of the refinery and price of MOPS95, which is the true benchmark for Malaysia petrol price.

Table 1: RON95 vs MIDFR Estimate

	RON95	RON95 (MoM Diff)	MIDFR Estimate	CPI (YoY)	CPI (MoM)	Trans. Index (MoM)
Jan-15	1.91	-0.35	1.99	1.00%	-1.07%	-9.39%
Feb-15	1.70	-0.21	1.74	0.09%	-0.63%	-5.95%
Mar-15	1.95	0.25	1.96	0.91%	0.91%	7.96%
Apr-15	1.95	0.00	1.97	1.82%	0.90%	0.28%
May-15	1.95	0.00	1.99	2.09%	0.36%	0.19%
Jun-15	2.05	0.10	2.03	2.54%	0.62%	3.01%
Jul-15	2.15	0.10	2.13	3.26%	0.80%	3.11%
Aug-15	2.05	-0.10	2.03	3.08%	0.00%	-2.66%
Sep-15	1.95	-0.10	1.99	2.62%	-0.26%	-2.82%
Oct-15	2.05	0.10	2.06	2.52%	0.44%	3.00%
Nov-15	2.05	0.00	2.10	2.59%	0.61%	0.36%
Dec-15	1.95	-0.10	2.00	2.68%	0.00%	-2.26%
Jan-16	1.85	-0.10	1.85	3.53%	-0.26%	-2.87%
Feb-16	1.75	-0.10	1.66			

Source: DoS, CEIC, MIDF Research

On the same day, wheat flour subsidy for the 25-kg bag has been removed. The aid for 25-kg bag wheat flour has been removed, leading the price to increase by approximately 24.4% from RM33.75 to RM42.00. However, the 1-kg bag wheat flour subsidy, which is mostly used by retail consumers, will continue. Although 'flour & others cereals grains' contribute 0.37% to the overall CPI, the impact may not be reflected in the sub-index as the 1-kg bag wheat flour price remains the same. The indirect impact, particularly the impact of the subsidy removal towards food away from home which constitutes 10.04% of the CPI, could be noteworthy, albeit the impact to the overall CPI is at best marginal.

Due to this finding, we are revising our inflation forecast for year 2016 to 2.6%. Due to the petrol price, we are revising our inflation forecast for year 2016 to 2.6% and 4.1% for February, down from the previous 2.9% and 4.2% respectively. This forecast is based on the assumption that the oil price will remain low for the first half of 2016, and will begin to rebound in the second half, in line with the expectation of our oil and gas analyst.



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