

Malaysia Consumer Price Index

Deflation persisted at an unchanged rate in May

- **Headline inflation contracted at an unchanged rate of -2.9% YoY in May, a tad below expectation (consensus and KIBB estimate: -2.8%; Apr: -2.9%)**

- Weakness in demand conditions and energy prices continued to linger, albeit easing slightly as more economic activities were allowed to resume under the Conditional Movement Control Order (MCO) which lasted from 4 May until 9 June.
- MoM: rose at the fastest pace in 20 months (0.3%; Apr: -2.7%) underpinned by rising food prices (0.3%; Apr: -0.1%), coinciding with the Eid festivities.
- Core inflation: softest growth in a year (1.1%; Apr: 1.3%).

Table 1: Global Inflation (% YoY)

	Dec -19	Jan -20	Feb -20	Mar -20	Apr -20	May -20
Eurozone	1.3	1.4	1.2	0.7	0.3	0.1
China	4.5	5.4	5.2	4.3	3.3	2.4
Korea	0.7	1.5	1.1	1.0	0.1	-0.3
Indonesia	2.6	2.7	3.0	3.0	2.7	2.2
Japan	0.8	0.7	0.4	0.4	0.1	0.1
Singapore	0.8	0.8	0.3	0.0	-0.7	-0.8
Thailand	0.9	1.1	0.7	-0.5	-3.0	-3.4
USA	2.3	2.5	2.3	1.5	0.3	0.1

Source: Bloomberg, Kenanga Research

- **Smaller drop in fuel price was equally offset by cheaper electricity cost**

- Transport (-20.8%; Apr: -21.5%): retail oil price declined by less (RON95: -37.3% YoY; Apr: -38.7%), tracking the improvement in global oil price as more nations embarked on a partial economic reopening. It rebounded by 1.0% MoM, a 14-month high, from -13.5% in April.
- Housing, water, electricity, gas & other fuels (-2.6%; Apr: -2.2%): fell to a fresh record low as the government provides a six-month electricity bill discount from April to September.

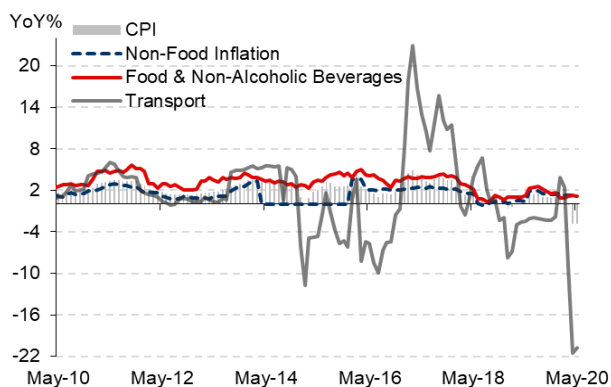
- **Weaker inflationary pressure across most advanced and developing economies**

- Eurozone (0.1%): softest growth in almost four years, reflecting a steep deceleration in energy prices (-12.0% YoY).
- US (0.1%): registered its lowest reading in over four years as cheaper gasoline offset rising groceries cost.
- China (2.4%): decreased to a 14-month low on easing pork prices as the government boosted supply by releasing frozen pork reserves and expanding imports.

- **2020 CPI forecast maintained at -0.7% (2019: 0.7%), with the deflationary environment expected to persist amid the COVID-19 pandemic**

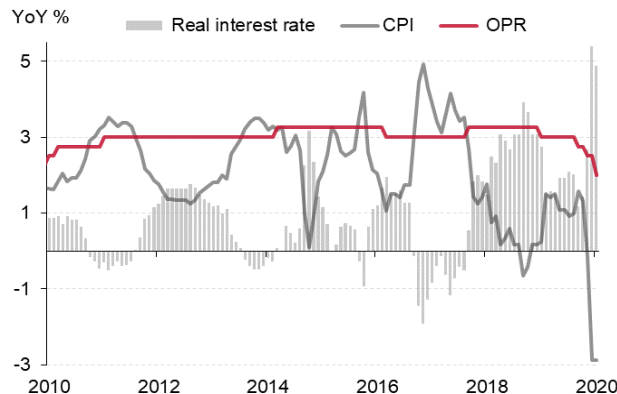
- The implementation of the Recovery MCO (RMCO) on 10 June until 31 August, which entails a resumption of almost all social, business and religious activities, including interstate travel and domestic tourism, is expected to provide some support to prices. Nonetheless, deflation will likely remain on hampered consumer confidence amid surging unemployment and worries over a second wave of COVID-19.
- Given the subdued price pressure and active monetary easing by central banks of major advanced economies, we view that the BNM has ample room to embark on a 25 basis points OPR cut at the next Monetary Policy Committee meeting in July, to further reinforce the fiscal measures deployed under the PRIHATIN and PENJANA packages.

Graph 1: CPI Growth by Main Categories



Source: Dept. of Statistics, Kenanga Research

Graph 2: Real Interest Rate



Source: Bloomberg, Kenanga Research

25 June 2020

Table 2: Malaysia Consumer Price Index Growth Trend (% YoY)

Base 2010=100	weight	2017	2018	2019	May -19	Dec -19	Jan -20	Feb -20	Mar -20	Apr -20	May -20
CPI	100.0	3.8	1.0	0.7	0.2	1.0	1.6	1.3	-0.2	-2.9	-2.9
Core Inflation	70.5	2.3	0.8	1.1	0.4	1.4	1.6	1.3	1.3	1.3	1.1
Food & Non-Alcoholic Beverages	29.5	3.9	1.6	1.6	1.2	1.7	0.9	0.8	1.2	1.2	1.2
Alcoholic Beverages & Tobacco	2.4	0.2	-0.1	1.5	1.3	0.2	0.1	0.2	0.3	0.2	0.2
Clothing & Footwear	3.2	-0.4	-2.0	-1.9	-3.2	-1.0	-1.2	-1.1	-1.3	-1.2	-1.1
Housing, Water, Electricity, Gas & Other Fuels	23.8	2.2	2.0	1.9	1.8	1.7	1.7	1.6	1.6	-2.2	-2.6
Furnishing, Household Equipment & Routine Household Maintenance	4.1	2.2	0.4	1.4	0.5	1.4	1.2	1.0	0.8	0.3	-0.2
Health	1.9	2.6	0.8	0.6	-0.3	1.4	1.4	1.3	1.4	1.2	1.2
Transport	14.6	13.2	1.5	-3.1	-2.5	-1.9	3.9	2.4	-8.9	-21.5	-20.8
Communication	4.8	-0.3	-1.8	0.4	-0.9	1.5	1.5	1.5	1.5	1.6	1.6
Recreation Services & Culture	4.8	1.9	-0.4	0.7	-0.4	0.6	0.9	0.7	0.7	0.6	0.7
Education	1.3	1.6	1.1	1.4	1.2	1.7	1.7	1.3	1.3	1.2	1.0
Restaurants & Hotels	2.9	2.5	1.5	1.2	0.6	1.1	1.1	1.1	0.9	0.7	0.9
Miscellaneous Goods & Services	6.7	1.2	-1.4	0.4	-2.1	2.4	2.5	2.5	2.6	2.3	2.8

Source: Dept. of Statistics, Kenanga Research

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