

19 August 2020

Malaysia Consumer Price Index

Deflationary trend continues in July, but at a much slower pace

- **Headline inflation remained in the negative territory for the fifth straight month in July at -1.3% YoY, matching consensus median expectation (-1.3%) but smaller than house estimate (KIBB: -2.2%). However, its deflationary rate is slower than June's -1.9%.**

- The relaxation of the COVID-19 Movement Control Order (MCO) under the Recovery MCO (RMCO) on 10 June has brought back some pent-up demand, but a sharp recovery in Malaysia's inflation could be capped by weak energy prices and extended electricity bill discounts in 2020.
- MoM: eased to a two-month low (0.7%; Jun: 1.0%) due to smaller food price gain (0.1%; Jun: 0.4%) and slower fuel price rebound (4.9%; Jun: 7.8%).
- Core inflation: softest growth in 14 months (1.1%; Jun: 1.2%).

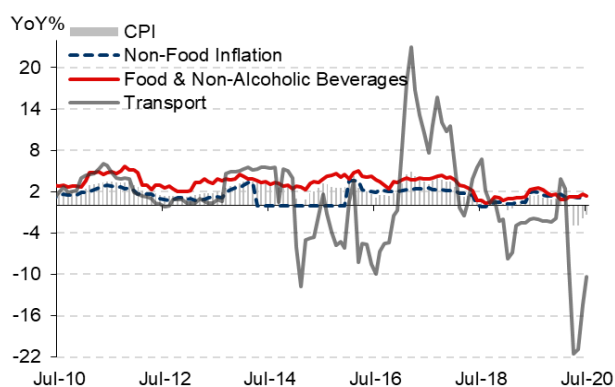
Table 1: Global Inflation (% YoY)

	Feb -20	Mar -20	Apr -20	May -20	Jun -20	Jul -20
Eurozone	1.2	0.7	0.3	0.1	0.3	0.4
China	5.2	4.3	3.3	2.4	2.5	2.7
Korea	1.1	1.0	0.1	-0.3	0.0	0.3
Indonesia	3.0	3.0	2.7	2.2	2.0	1.5
Japan	0.4	0.4	0.1	0.1	0.1	N/A
Singapore	0.3	0.0	-0.7	-0.8	-0.5	N/A
Thailand	0.7	-0.5	-3.0	-3.4	-1.6	-1.0
USA	2.3	1.5	0.3	0.1	0.6	1.0

Source: Bloomberg, Kenanga Research

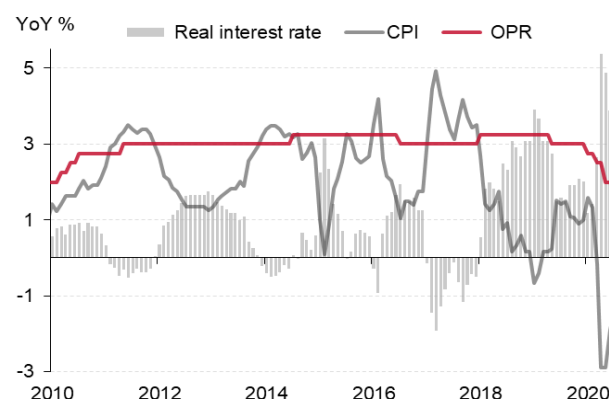
- **Slower YoY decline in transport costs and cheaper electricity bill was partially offset by higher growth in food prices**
 - Transport (-10.3%; Jun: -14.3%): retail fuel price declined by less (RON95: -18.6% YoY; Jun: -25.8%), in line with Brent crude oil price improvement (-32.3% YoY to USD43/bbl; Jun: -37.3% to USD40/bbl).
 - Housing, water, electricity, gas & other fuels (-2.6%; Jun: -2.6%): growth contraction was unchanged for the third straight month as it is impacted by the extended electricity bill discount from April to December.
 - Food and non-alcoholic beverages (1.4%; Jun: 1.6%): growth moderated slightly but almost all subgroups in food index recorded an improvement, reflecting a steady increase in consumer demand.
- **Rising inflation across most advanced and developing economies amid nascent COVID-19 recovery**
 - Eurozone (0.4%): edged up to the highest in 4 months, triggered by higher food, alcohol and tobacco prices.
 - US (1.0%): biggest gain since March, driven by a rise in new and used car prices.
 - China (2.7%): second straight month of expansion as the increase in demand for catering services coupled with a tight supply of pork due to the flood disaster, propelled the food prices higher.
- **2020 CPI forecast maintained at -0.7% (2019: 0.7%) amid lingering deflationary environment, slower growth recovery, limited upside to crude oil price and COVID-19 fears**
 - Inflation appears to be making a slow and gradual comeback as almost all social, business and religious activity, including domestic tourism are resuming their operation during the RMCO period. However, with the global oil demand forecasted to fall steeply this year, coupled with the renewed pandemic fears due to the re-emergence of COVID-19 infections in multiple countries, domestic economic recovery alone will not be enough to bring inflation back into the positive territory for the rest of 2020.
 - Though we see ample room for BNM to embark on a rate cut should the recovery pace weaken due to fears of a new wave of COVID-19 infections, the chances of doing so is less now, given the aggressive monetary policy easing throughout 1H20, MYR295.0b stimulus package allocated to support the economy, as well as the extension of the targeted moratorium period. Therefore, we see a higher probability that BNM would keep the OPR unchanged at 1.75% at its September's MPC meeting.

Graph 1: CPI Growth by Main Categories



Source: Dept. of Statistics, Kenanga Research

Graph 2: Real Interest Rate



Source: Bloomberg, Kenanga Research

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

Base 2010=100	weight	2017	2018	2019	Jul-19	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
CPI	100.0	3.8	1.0	0.7	1.4	1.3	-0.2	-2.9	-2.9	-1.9	-1.3
Core Inflation	70.5	2.3	0.8	1.1	2.0	1.3	1.3	1.3	1.1	1.2	1.1
Food & Non-Alcoholic Beverages	29.5	3.9	1.6	1.6	2.4	0.8	1.2	1.2	1.2	1.6	1.4
Alcoholic Beverages & Tobacco	2.4	0.2	-0.1	1.5	2.3	0.2	0.3	0.2	0.2	0.2	0.3
Clothing & Footwear	3.2	-0.4	-2.0	-1.9	-1.1	-1.1	-1.3	-1.2	-1.1	-1.1	-0.6
Housing, Water, Electricity, Gas & Other Fuels	23.8	2.2	2.0	1.9	1.9	1.6	1.6	-2.2	-2.6	-2.6	-2.6
Furnishing, Household Equipment & Routine Household Maintenance	4.1	2.2	0.4	1.4	3.3	1.0	0.8	0.3	-0.2	-0.2	-0.1
Health	1.9	2.6	0.8	0.6	1.3	1.3	1.4	1.2	1.2	1.1	1.1
Transport	14.6	13.2	1.5	-3.1	-1.9	2.4	-8.9	-21.5	-20.8	-14.3	-10.3
Communication	4.8	-0.3	-1.8	0.4	2.1	1.5	1.5	1.6	1.6	1.6	1.6
Recreation Services & Culture	4.8	1.9	-0.4	0.7	2.4	0.7	0.7	0.6	0.7	0.6	0.7
Education	1.3	1.6	1.1	1.4	1.4	1.3	1.3	1.2	1.0	0.8	1.2
Restaurants & Hotels	2.9	2.5	1.5	1.2	1.7	1.1	0.9	0.7	0.9	0.3	0.2
Miscellaneous Goods & Services	6.7	1.2	-1.4	0.4	1.8	2.5	2.6	2.3	2.8	3.0	2.9

Source: Dept. of Statistics, Kenanga Research

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