Malaysia Consumer Price Index (Mar-26)

Base effects and transport costs push headline to a 16-month high

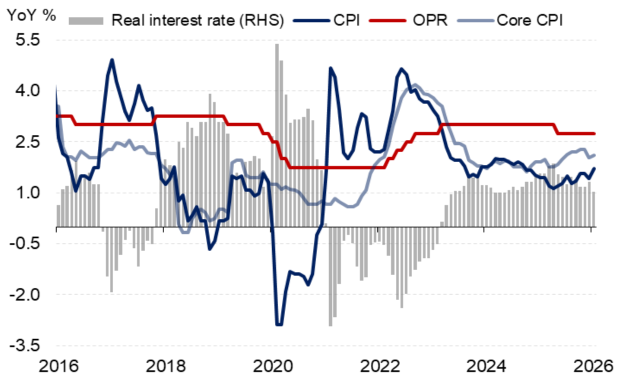
- **Headline inflation rose to 1.7% YoY in March (Feb: 1.4%), driven primarily by base effects and higher transport costs. The print matched consensus but came in below our 1.8% forecast**
  - Despite the headline uptick, momentum remained contained. Prices rose just 0.29% MoM (Feb: 0.22%), conforming the base-effect nature of the YoY rise. Transport inflation came in stronger than expected, but food prices recorded monthly deflation, delivering a partial downside offset.
  - Core inflation edged higher to 2.1% YoY (Feb: 2.0%), with 0.2% MoM (Feb: 0.1%) increase, reflecting firmer services and transport-related price pressures.
- **Price gains were concentrated in transport and selected services components**
  - **Transport** (1.6%; Feb: -0.7%): surged to a near three-year high, led by sharp increases in diesel prices (18.5% MoM) and petrol prices (3.3% MoM), alongside higher domestic air fares (15.0% MoM).
  - **Information & Communication** (1.4%; Feb: 0.5%): rose to its highest level since September 2020, supported by a 6.1% increase in subscription costs for audio-visual content, streaming services, and related rentals.
  - **Personal Care, Social Protection & Miscellaneous Goods & Services** (7.0%; Feb: 6.9%): continued to edge up, reaching another record high, driven by sustained increases in jewellery and watch prices.
  - **Food and Beverages** (1.1%; Feb: 1.3%): eased to a six-year low, as food-at-home prices fell 0.3% MoM (Feb: -0.2%)
- **Hormuz closure ignites global inflation momentum**
  - **US** (3.3%; Feb: 2.4%): soared to a near two-year high as the US-Israel conflict with Iran push gasoline prices higher. Core inflation rose more moderately to 2.6% (Feb: 2.5%). The Fed remains on high alert as the West Asia crisis unfolds.
  - **EU** (2.5%; Feb: 1.9%): breached the ECB's 2.0% target, driven by a sharp surge in energy costs. The ECB signalled it will hike rates if conditions deteriorate further. Europe's heavy reliance on oil and gas imports leaves the region vulnerable.
  - **China** (1.0%; Feb: 1.3%): headline inflation slowed, but PPI grew for the first time in three years as the conflict disrupted energy markets. Despite China's relative insulation, the growth drag gives the PBoC room for ease further.
- **We maintain our 2.1% inflation forecast for 2026 (2025: 1.4%), with risks skewed toward a more persistent food-driven pass-through, as the government absorbs near-term price pressures through subsidies and a firmer ringgit,**
  - Strait of Hormuz disruptions expose structural vulnerabilities in Malaysia's import basket, affecting majority of imported crude feedstock and key fertiliser inputs. **This raises food security concerns beyond the cyclical price outlook.** Higher energy and fertiliser costs lift upstream production costs, which then feed through into staples such as rice, poultry and vegetables. Even with continued targeted fiscal transfers, affordability is likely to deteriorate as transport, logistics, and farm-gate costs rise together. The key risk: if food inflation becomes more persistent and broad-based, pass-through into real consumption could weigh on Malaysia's main growth engine.
  - **Policy outlook:** BNM is likely to keep the OPR on hold at 2.75%. While stronger energy-linked fiscal revenues provide some cyclical buffer, the policy challenge is shifting from managing headline shocks to containing second-round inflation effects. We expect BNM to tolerate moderately higher headline inflation to safeguard growth, with a firmer ringgit partially offsetting imported cost pressures.

Table 1: Global Inflation (% YoY)

	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
US	N/A	2.7	2.7	2.4	2.4	3.3
EU	2.1	2.1	2.0	1.7	1.9	2.5
UK	3.6	3.2	3.4	3.0	3.0	N/A
Japan	3.0	2.9	2.1	1.5	1.3	N/A
S. Korea	2.4	2.4	2.3	2.0	2.0	2.2
Singapore	1.2	1.2	1.2	1.4	1.2	N/A
China	0.2	0.7	0.8	0.2	1.3	1.0
Indonesia	2.9	2.7	2.9	3.5	4.8	3.5
Thailand	-0.8	-0.5	-0.3	-0.7	-0.9	-0.1

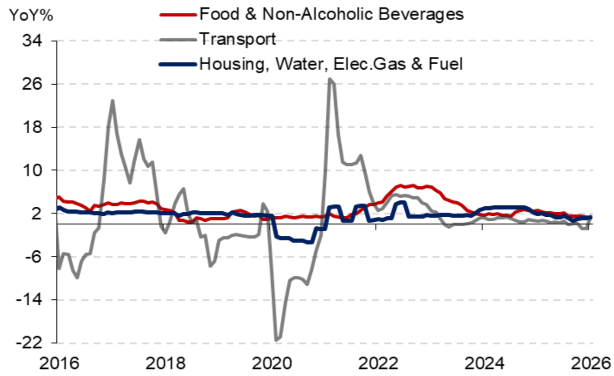
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate, Inflation Rates and OPR



Source: Macrobond, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Macrobond, Kenanga Research

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

Base 2010=100	*weight*	2023	2024	2025	Mar-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
CPI	***100.0***	**2.5**	**1.8**	**1.4**	**1.4**	**1.3**	**1.4**	**1.6**	**1.6**	**1.4**	**1.7**
Core Inflation		3.0	1.8	2.0	1.9	2.2	2.2	2.3	2.3	**2.0**	**2.1**
Food & Beverages	29.8	4.8	2.0	2.0	2.5	1.5	1.5	1.5	1.5	**1.3**	**1.1**
Alcoholic Beverages & Tobacco	1.9	0.7	0.7	0.9	0.8	0.3	2.4	2.5	2.5	**2.6**	**2.7**
Clothing & Footwear	2.7	0.2	-0.3	-0.2	-0.2	-0.3	-0.1	0.1	0.0	**0.0**	**-0.1**
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.7	3.0	1.6	1.9	1.1	0.7	0.9	1.2	**1.1**	**1.2**
Furnishing, Household Equipment & Routine Household Maintenance	4.3	2.3	0.7	0.2	0.2	0.3	0.2	0.3	0.2	**0.2**	**0.1**
Health	2.7	2.1	1.8	1.2	1.0	1.5	1.5	1.5	1.4	**1.2**	**1.4**
Transport	11.3	1.1	0.9	0.5	0.7	-0.1	0.2	0.1	-0.7	**-0.7**	**1.6**
Information & Communication	6.6	-2.9	-1.5	-4.2	-5.4	-2.4	-1.3	0.9	0.7	**0.5**	**1.4**
Recreation, Sport & Culture	3.0	1.5	1.8	1.1	1.7	1.2	1.2	0.8	0.9	**0.8**	**1.0**
Education	1.3	1.9	1.5	2.3	2.2	2.4	2.6	2.8	3.2	**2.8**	**2.5**
Restaurants & Accommodation Services	3.4	5.5	3.1	3.2	2.9	3.4	3.4	3.1	3.0	**2.5**	**2.6**
Personal Care, Social Protection & Miscellaneous Goods & Services	9.8	2.5	3.0	4.4	3.6	6.0	5.6	5.7	6.6	**6.9**	**7.0**

Source: Macrobond, Kenanga Research

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