Malaysia Consumer Price Index (Aug-26)

Inflation edges up to 1.9% as energy costs seep back into prices

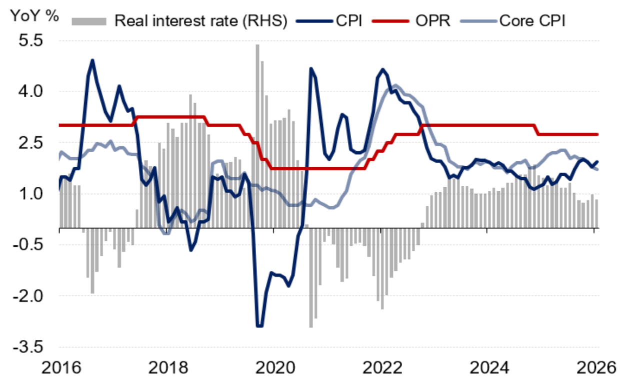
- **Headline inflation increased to 1.9% YoY in August (Jul: 1.8%), slighlty above our forecast and consensus of 1.8%**
  - After two months of flat prices, CPI rose 0.3% MoM (Jul: 0.0%), with 10 of 13 groups posting monthly gains. Transport (0.6% MoM), miscellaneous goods (0.5%) and housing (0.4%) led the pickup, while food rose a steady 0.2%.
  - Core inflation eased to 1.7% YoY (Jul: 1.8%), but only due to a high base. On a monthly basis, core rose 0.3% (Jul: 0.0%), led by housing and personal care costs.
- **Transport, housing and food lead the pickup**
  - **Transport** (2.0%; Jul: 1.4%): prices rebounded 0.6% MoM (Jun: -1.1%) as airfares surged, with domestic air travel up 15.0% MoM. Diesel and petrol also rose 0.9% MoM and 0.8% MoM respectively amid higher global crude oil prices.
  - **Housing, Water, Electricity, Gas & Other Fuels** (2.1%; Jul: 1.8%): rose to the highest level since February 2025. Electricity and gas costs climbed 3.3% (Jul: 2.0%) as the fuel surcharge for Peninsular households using more than 600 kWh rose to 3.80 sen/kWh (Jul: 3.59 sen). Rentals (0.4% MoM) and maintenance fees (0.5% MoM) also rose.
  - **Food & Beverages** (1.9%; Jul: 1.8%): reached the highest level since September 2025 on food at home (1.4%; Jul: 1.2%). Vegetables jumped 2.8% (Jul: 1.0%), led by tomatoes (38.2%), while chicken prices rose 8.0% (Jul: 6.7%).
- **Energy shock revives global inflation, pulling the Fed and ECB back into tightening**
  - **US** (3.4%; Jul: 3.4%): held steady as the renewed energy shock offset softer underlying pressures, with core inflation easing to 2.4%. The Fed still hiked 25 bps to 3.75-4.00% in September to stop energy costs from broadening out.
  - **EU** (3.2%; Jul: 2.9%): rose to match its May peak as the Iran war and Hormuz disruption lifted crude, refined products, and natural gas costs, with energy inflation reaching 14.3%. The ECB raised the deposit rate by 25 bps in September. With core inflation easing to 2.4%, we see little appetite to risk a recession over what remains a textbook supply shock.
  - **China** (0.8%; Jul: 0.5%): quickened as higher energy costs tied to the West Asia war lifted transport prices. Domestic demand stays subdued, and export resilience continues to mask weak consumption. Policymakers have expanded loan-interest subsidies and signalled further fiscal support, but piecemeal measures have yet to spark a broader recovery.
- **We lower our 2026 inflation forecast to 1.9% (from 2.1%), as subsidies continue to absorb the global energy shock**
  - **Energy risks:** The breakdown of the US-Iran ceasefire keeps the Strait of Hormuz disrupted, and crude has climbed back above USD100.0/barrel in September. A prolonged disruption would raise the risk of broader second-round effects through transport, food, and production costs. This remains the key upside risk to our outlook.
  - **Domestic impact:** Global energy prices are reaching consumers through unsubsidised channels rather than at the pump. RON95 stays fixed at RM1.99 under BUDI95, but airfares and freight-sensitive food items continue to rise. Electricity bill protection now covers households using up to 800kWh, up from 600kWh, from September to December. This caps fuel surcharge pass-through and trims headline inflation marginally in 4Q26. Weather-related supply disruptions add further upside risk to vegetable and poultry prices into year-end.
  - **Policy outlook:** We expect BNM to hold the OPR at 2.75% through 2026, even as the Fed and ECB resume hiking. With inflation below 2.0%, the real policy rate stays positive, giving BNM room to look through supply-driven price moves. The MGS curve supports this view. The steepening through September came from the long end, reflecting rising global term premium rather than bets on domestic tightening. BNM is likely to stay on hold unless energy costs generate persistent second-round pressures.

Table 1: Global Inflation (% YoY)

	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
US	3.3	3.8	4.2	3.5	3.4	3.4
EU	2.6	3.0	3.2	2.8	2.9	3.2
UK	3.3	2.8	2.8	2.6	2.9	3.1
Japan	1.5	1.4	1.5	1.6	1.9	1.9
S. Korea	2.2	2.6	3.1	3.2	2.8	3.1
Singapore	1.8	1.8	1.8	1.9	2.2	N/A
China	1.0	1.2	1.2	1.0	0.5	0.8
Indonesia	3.5	2.4	3.1	3.3	2.9	3.2
Thailand	-0.1	2.9	2.8	2.4	1.9	2.5

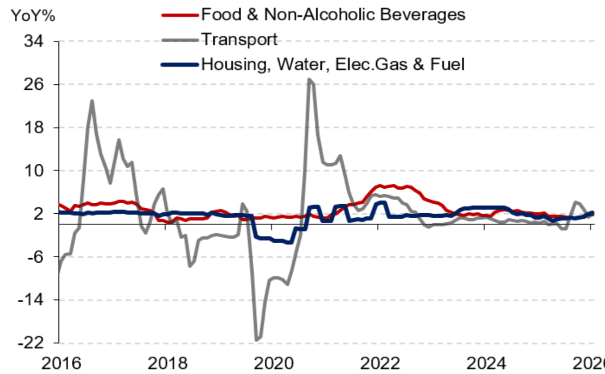
Source: Bloomberg, Kenanga Research

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**	**Aug -25**	**Mar -26**	**Apr -26**	**May -26**	**Jun -26**	**Jul -26**	**Aug -26**
CPI	***100.0***	**2.5**	**1.8**	**1.4**	**1.3**	**1.7**	**1.9**	**2.0**	**1.9**	**1.8**	**1.9**
Core Inflation		3.0	1.8	2.0	2.0	2.1	2.0	2.0	1.9	1.8	1.7
Food & Beverages	29.8	4.8	2.0	2.0	2.0	1.1	1.2	1.4	1.4	1.8	1.9
Alcoholic Beverages & Tobacco	1.9	0.7	0.7	0.9	0.4	2.7	2.8	2.8	2.8	2.7	2.8
Clothing & Footwear	2.7	0.2	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.7	3.0	1.6	1.2	1.2	1.1	1.2	1.4	1.8	2.1
Furnishing, Household Equipment & Routine Household Maintenance	4.3	2.3	0.7	0.2	0.2	0.1	0.4	0.4	0.4	0.3	0.4
Health	2.7	2.1	1.8	1.2	1.1	1.4	1.4	1.2	1.2	1.1	1.3
Transport	11.3	1.1	0.9	0.5	0.2	1.6	4.1	3.8	2.8	1.4	2.0
Information & Communication	6.6	-2.9	-1.5	-4.2	-5.6	1.4	2.0	2.1	2.4	3.4	2.6
Recreation, Sport & Culture	3.0	1.5	1.8	1.1	0.9	1.0	0.9	1.1	1.1	1.2	1.1
Education	1.3	1.9	1.5	2.3	2.4	2.5	2.4	2.2	2.1	2.0	1.9
Restaurants & Accommodation Services	3.4	5.5	3.1	3.2	3.5	2.6	2.6	2.5	2.6	2.0	2.1
Personal Care, Social Protection & Miscellaneous Goods & Services	9.8	2.5	3.0	4.4	4.0	7.0	4.8	4.8	3.4	2.9	3.2

Source: Macrobond, Kenanga Research

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