

MODEST INFLATION IN JUNE

23 JULY 2021

ECONOMIC RESEARCH

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INFLATION RATE APPEARS TO HAVE PEAKED

01

Headline
Inflation

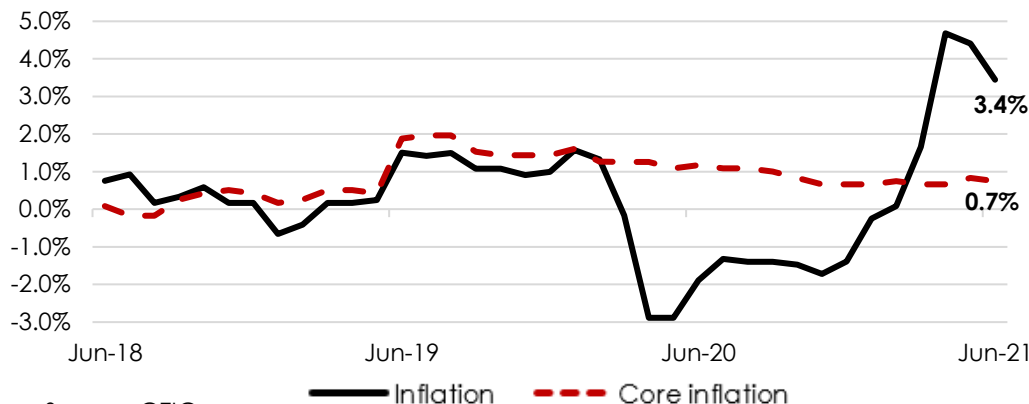
June
3.4%
May
4.4%

02

Core
Inflation

June
0.7%
May
0.8%

Inflation Rate, y-o-y% (June 2017- June 2021)



Food & Non-
Alcoholic
Beverages



June
1.3%
May
1.5%

Alcoholic
Beverages &
Tobacco



June
0.7%
May
0.7%

Clothing &
Footwear



June
-0.4%
May
-0.5%

Housing, Water,
Electricity, Gas &
Other Fuels



June
3.2%
May
3.2%

Furnishings,
Household
Equipment & Routine
Household
Maintenance



June
2.0%
May
2.1%

Health



June
0.5%
May
0.6%

Transport



June
16.6%
May
26.0%

Communication



June
0.0%
May
0.0%

Recreation Services &
Culture



June
0.6%
May
0.6%

Education



June
0.5%
May
0.3%

Restaurants &
Hotels



June
0.5%
May
0.2%

Miscellaneous
Goods & Services



June
0.3%
May
0.7%

CORE INFLATION REMAINED AT SUB 1%

	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	1Q2021	2Q2021	1H2020	1H2021
Consumer Price Index	100.0%	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	0.5%	4.1%	-0.8%	2.2%
Food & Non-Alcoholic Beverages	29.5%	1.5%	1.4%	1.5%	1.9%	1.5%	1.3%	1.5%	1.6%	1.2%	1.5%
Alcoholic Beverages & Tobacco	2.4%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.2%	0.7%
Clothing & Footwear	3.2%	-0.4%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%	-0.4%	-0.5%	-1.1%	-0.4%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-0.7%	-0.8%	-0.8%	3.1%	3.2%	3.2%	-0.8%	3.2%	-0.4%	1.2%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	0.2%	0.3%	0.9%	1.6%	2.1%	2.0%	0.4%	1.9%	0.5%	1.1%
Health	1.9%	0.7%	0.7%	0.5%	0.5%	0.6%	0.5%	0.6%	0.6%	1.3%	0.6%
Transport	14.6%	-5.1%	-2.0%	9.8%	27.0%	26.0%	16.6%	0.5%	23.0%	-10.0%	10.8%
Communication	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	0.0%
Recreation Services & Culture	4.8%	0.1%	0.1%	0.5%	0.7%	0.6%	0.6%	0.2%	0.6%	0.7%	0.4%
Education	1.3%	0.2%	0.1%	0.0%	0.2%	0.3%	0.5%	0.1%	0.3%	1.2%	0.2%
Restaurants & Hotels	2.9%	-0.1%	-0.3%	0.0%	0.2%	0.2%	0.5%	-0.1%	0.3%	0.8%	0.1%
Miscellaneous Goods & Services	6.7%	1.8%	1.6%	1.0%	1.2%	0.7%	0.3%	1.5%	0.7%	2.6%	1.1%
Core CPI		0.7%	0.7%	0.7%	0.7%	0.8%	0.7%	0.7%	0.7%	1.3%	0.7%

Sources: DOSM, CEIC

1

Malaysia's Consumer Price Index (CPI) continued to see a modest growth of 3.4% year-on-year (y-o-y) in June, after rising by 4.4% in the preceding month (**Consensus: 4.5%, Bank Islam: 4.0%**).

2

This was mainly attributed by slower price increases in Food & Non-Alcoholic Beverages (June: 1.3% vs. May: 1.5%), Furnishings, Household Equipment & Routine Household Maintenance (June: 2.0% vs. May: 2.1%) and Miscellaneous Goods & Services (June: 0.3% vs. May: 0.7%). In addition, Transport still maintain its double-digit growth at 16.6% in June though at a slower pace compared to 26.0% in the preceding month.

3

On a separate note, higher costs were recorded in Education (June: 0.5% vs. May: 0.3%) and Restaurants & Hotels (June: 0.5% vs. May: 0.2%) in June.

4

On the other hand, prices of Alcoholic, Beverages & Tobacco (June: 0.7% vs. May: 0.7%), Communication (June: 0.0% vs. May: 0.0%) and Recreation, Services & Culture (June: 0.6% vs. May: 0.6%) were unchanged in June.

5

Core CPI which excludes most volatiles items of fresh food, as well as administered prices of goods and services softened by 0.7% in June (May: 0.8%).

6

On a quarterly basis, the inflation rate surged by 4.1% in 2Q2021 (1Q2021: 0.5%) while the core inflation remains at 0.7% in the same period (1Q2021: 0.7%). As for 1H2021, the headline CPI rose by 2.2% from a 0.8% drop in 1H2020. However, the core inflation grew at a slower rate of 0.7% in 1H2021 after increasing by 1.3% in 1H2020.

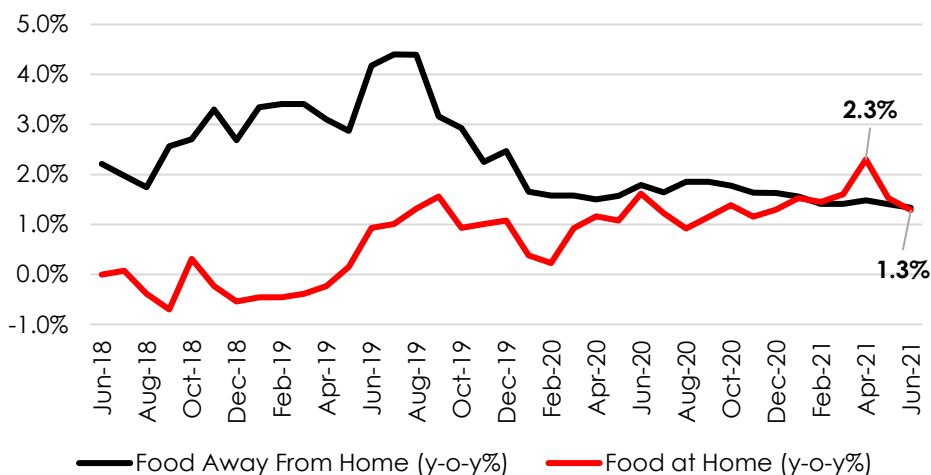
Consumer Price Index	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	1Q2021	2Q2021	1H2020	1H2021
Malaysia	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	0.5%	4.1%	-0.8%	2.2%
Indonesia	1.6%	1.4%	1.4%	1.4%	1.7%	1.3%	1.4%	1.5%	2.6%	1.5%
Philippines	4.2%	4.7%	4.5%	4.5%	4.5%	4.1%	4.5%	4.4%	2.5%	4.4%
Thailand	-0.3%	-1.2%	-0.1%	3.4%	2.4%	1.2%	-0.5%	2.4%	-1.1%	0.9%
Singapore	0.2%	0.7%	1.3%	2.1%	2.4%	2.4%	0.8%	2.3%	-0.2%	1.5%
China	-0.3%	-0.2%	0.4%	0.9%	1.3%	1.1%	0.0%	1.1%	3.9%	0.5%
India	4.1%	5.0%	5.5%	4.2%	6.3%	6.3%	4.9%	5.6%	6.6%	5.2%
U.S.	1.4%	1.7%	2.6%	4.2%	5.0%	5.4%	1.9%	4.8%	1.3%	3.3%

Sources: CEIC, DOSM

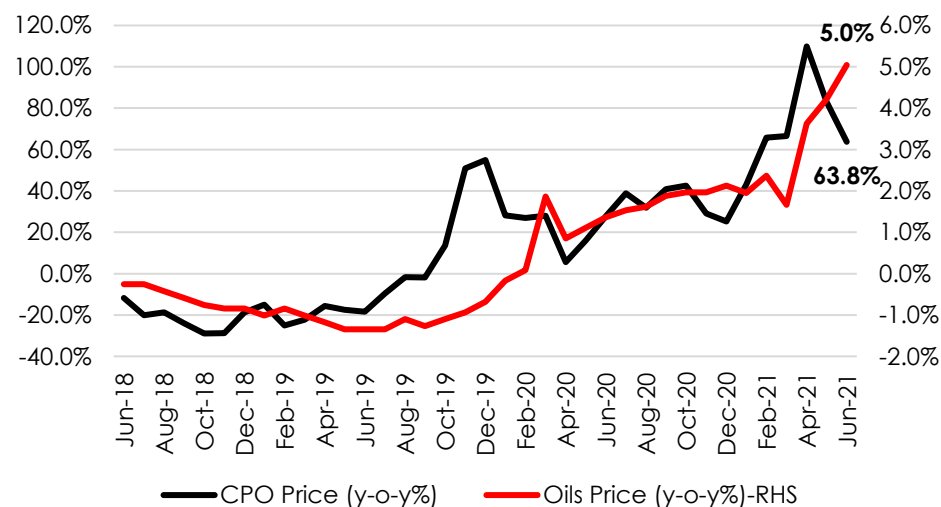
- ✓ Malaysia's growth in the CPI during June was in conformity with some of its regional peers which grew at a softer pace with regard to their respective CPI. In fact, Malaysia's CPI was the third largest amongst its Asian peers after India and Philippines for the month of June.
- ✓ India's CPI growth reached 6.3% in June (May: 6.3%) on account of higher food and energy prices. The Food CPI accelerated to 5.2% in June (May: 5.0%) boosted by the sharp rise in prices of Oils and Fats which surged by 34.8% in June (May: 30.9%). Meanwhile, the CPI for Fuel and Light grew by 12.7% during the same month (May: 11.9%).
- ✓ It was notable that India did not just record the highest inflation in 2Q2021 at 5.6% (1Q2021: 4.9%) but also on a cumulative basis (6M2021: 5.2% vs. 6M2020: 6.6%).
- ✓ On the contrary, the U.S. bucked the trend seen in Asian countries by recording a higher inflation rate in June at 5.4% (May: 5.0%). The sharp rise in Used Cars & Trucks sub index to 45.2% in June from 29.7% in the preceding month has received greater attention from the market observer. This was given the fact that the significant increase was highly associated with the shortages of semiconductor chips which has become prevalent in the new vehicle parts.
- ✓ Therefore the shift to used vehicles among the US citizens suggests that consumer demand has really picked up.

FOOD INFLATION IS HERE TO STAY

Food Away From Home vs. Food At Home



CPO Price* vs. Oils Price



Source: CEIC

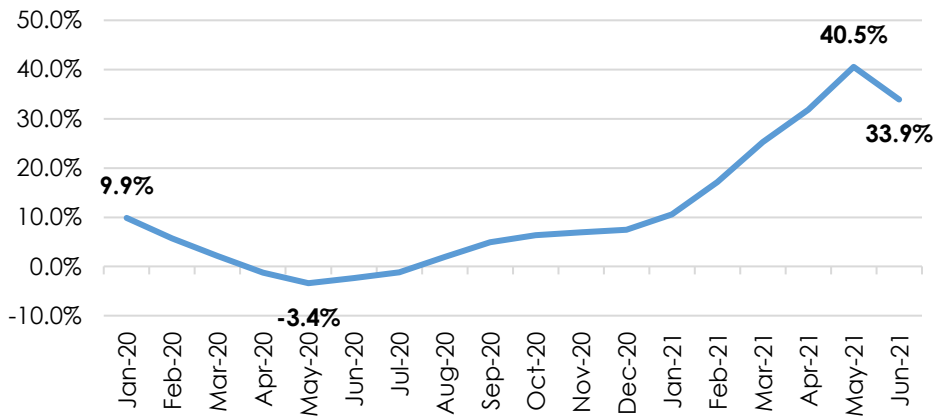
* Local delivery month end spot price

Source: CEIC

- ✓ Generally speaking, food inflation has moderated by 1.3% in June (May: 1.5%) as both Food At Home (June: 1.3% vs. May: 1.5%) and Food Away From Home (June: 1.3% vs. May: 1.4%) softened during the month. The decline in Fresh Meat sub index which accounted for 1.9% (May: 1.4%) of total CPI was the main driver for modest gain in the food sub index.
- ✓ Nevertheless, there were some of the food items which recorded higher costs such as Fresh Fish (June: 3.5% vs. May: 3.1%), Eggs (June: 2.0% vs. May: -1.5%), Oils (June: 5.0% vs. May: 4.2%) and Sugar (June: 0.3% vs. May: 0.1%).
- ✓ It was reported in the news that bottled cooking oil has gone up significantly between RM4 to RM7 per bottle during the month of June. The rise was in tandem with the sharp increase in the Crude Palm Oil (CPO) price which averaged at RM3,810 per MT in June this year (June 2020 average: RM2,429 per MT). The relevant ministries have indicated that only cooking oil sold in polybags are capped at RM2.50 per kg. In a nutshell, slower price increases would mean price level remains elevated.

GLOBAL FOOD PRICES HAVE SOFTENED BUT ONLY SLIGHTLY

Growth in the Food Price Index, y-o-y%



Source: FAO

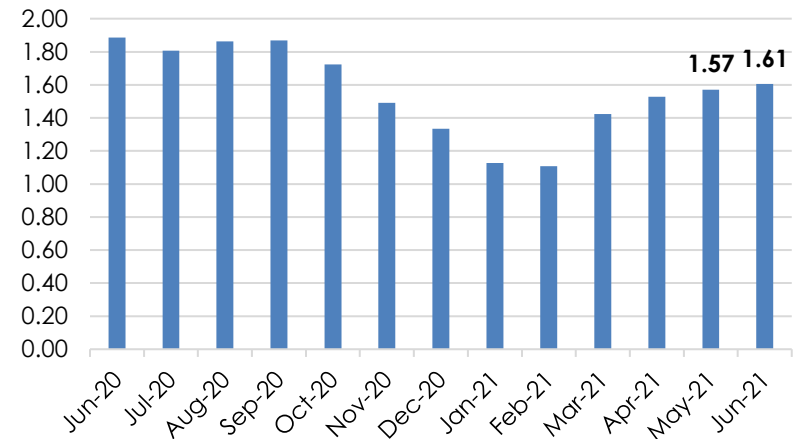
Year-on-year changes (%) in components of the Food Price Index

Month	Meat	Dairy	Cereals	Oils	Sugar
Jan-21	-7.4%	7.1%	23.6%	27.7%	7.6%
Feb-21	-2.7%	9.9%	26.5%	51.0%	9.5%
Mar-21	1.3%	15.7%	26.5%	86.3%	30.1%
Apr-21	7.7%	24.4%	26.5%	99.5%	58.3%
May-21	12.5%	28.3%	36.3%	124.5%	57.4%
Jun-21	15.6%	22.0%	33.8%	81.8%	43.8%

Source: FAO

- ✓ On a global scale, the Food and Agriculture Organization of the United Nations (FAO) Food Price Index (FPI) recorded 33.9% y-o-y increases in June, a tad lower from 40.5% in May. This in line with the lower inflation recorded in Malaysia's food prices.
- ✓ All sub-components of the index such as price of dairy, cereals, oils and sugar experienced a moderation in terms of their y-o-y growth in June due to the rise in inventories amid high production activities in many parts of the world (refer to the table above). For example, Malaysia's crude palm oil inventory reached an eight-month high in June of 1.61 million tonnes (May: 1.57 million tonnes).
- ✓ However, there is an exception for the price of meat which recorded a stronger growth in June at 15.6% (May: 12.5%) amid the tightening of export supplies caused by low poultry meat inventories in countries such as the U.S.

Malaysia's Crude Palm Oil Inventory, million tonnes



Source: CEIC

LOW BASE EFFECT FOR FUEL PRICES CONTINUES WEAR OFF

Year-on-year changes (%) in average fuel prices

Month	Price (RM per litre)			Year-on-year change (%)		
	RON95	RON97	Diesel	RON95	RON97	Diesel
Apr-21	2.05	2.55	2.15	60.8%	61.9%	44.2%
May-21	2.05	2.60	2.15	57.1%	62.1%	48.3%
Jun-21	2.05	2.65	2.15	32.8%	43.8%	25.5%

Source: CEIC

- ✓ The Organization of Petroleum Exporting Countries Plus (OPEC)+ agreed on 18 July to raise overall production by 400,000 barrels per day starting in August this year until they are once again operating at pre-pandemic capacity. This move is a part of the initiative to phase out 5.8 million barrels per day (mbpd) of oil production cuts by September 2022.
- ✓ Production limits on five countries (the United Arab Emirates (UAE), Iraq, Kuwait, Saudi Arabia and Russia) were also raised for next year starting in May 2022.
- ✓ As such, the total production quotas have been raised to 43.9 mbpd beginning in August until end of April next year compared to the limit of 38.1 mbpd in July this year.
- ✓ Overall, higher oil production should prevent any abrupt rise in the Brent crude oil price as oil inventories have recently shrunk amid ongoing vaccination programs which have led to a gradual reopening of business activities in many countries.
- ✓ With the Brent crude oil price not expected to see a huge increase due to higher production, fuel prices in Malaysia will likely follow suit due to the high correlation between the price of RON95 with Brent crude oil price at 76.1%.

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- ✓ On further scrutiny, costs of Transport have increased particularly for the Fuels & Lubricants For Personal Transport Equipment which rose by 32.8% in June but moderated from the 56.1% growth recorded in May.
- ✓ Likewise, latest data showed that the double-digit y-o-y increases for average fuel prices of RON95, RON97 and Diesel have been slowing down in June compared to the preceding month.
- ✓ This indicates that the low base factor for fuel price continues wear off as retail prices for RON95, RON97 and Diesel were gradually on the rise in 2H2020.

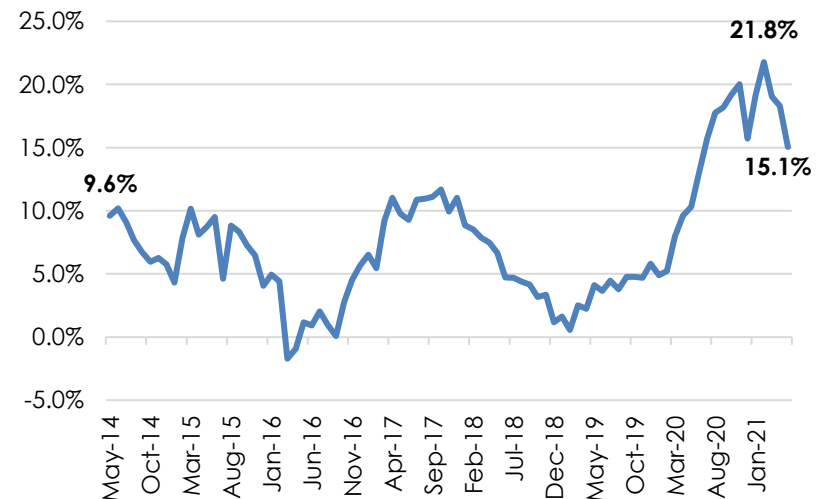
OPEC+ Production Quota (million barrels per day)

Country	Production Quota In July 2021(mbpd)	Production Quota From August 2021 Until End April 2022 (mbpd)	Production Quota Effective From May 2022 (mbpd)
UAE	2.7	3.2	3.5
Saudi Arabia	9.5	11.0	11.5
Kuwait	2.4	2.8	3.0
Iraq	4.0	4.7	4.8
Russia	9.5	11.0	11.5
Others	9.9	11.2	11.2
Total OPEC+	38.1	43.9	45.5

Source: OPEC+

- ✓ Latest news reported that eight states in Malaysia namely, Kelantan, Pahang, Perlis, Perak, Terengganu, Penang, Sabah and Sarawak have transitioned into the Phase 2 of the National Recovery Plan (NRP) which allows an expanded list of businesses to reopen at 80.0% capacity.
- ✓ The enhanced movement control order (EMCO) in certain parts of Kuala Lumpur and Selangor had also been lifted on 16 July, enabling industrial activities such as rubber glove manufacturing which predominantly reside in Klang (which was previously under the EMCO) to resume operations at a 60.0% working capacity according to the standard operating procedures (SOPs) under the Phase 1 of the NRP.
- ✓ As more production capacity is allowed, we opine that the pressure on the supply chain will be eased and subsequently prevent a huge supply and demand imbalance. With that, inflationary pressures could be mitigated.
- ✓ While the inflation rate is expected to trend lower in the coming months, we believe that consumer demand will support prices especially in 4Q2021, assuming that the country has transitioned into the remaining phases of the NRP as vaccination efforts have been progressing very well. Henceforth, **we reiterate our CPI growth forecast of 2.5% in 2021 following a -1.1% growth in 2020.**
- ✓ In terms of monetary policy, we still believe that the current conditions do not provide grounds for either a hike or a cut in the Overnight Policy Rate (OPR).
- ✓ The country's output gap (the difference between actual and potential GDP) is estimated to be around -5.0% this year. This indicates that there is spare capacity in the economy which does not warrant for a rate hike.
- ✓ Apart from that, the expansionary fiscal policy implemented by the government combined with robust external demand suggests that excessive monetary policy accommodation is unwarranted.
- ✓ Additionally, the country's M1 (currency in circulation plus demand deposits) growth has been increasing by a double-digit pace since May last year (May 2021: 15.1% y-o-y vs. April 2021: 18.3%). As such, the amount of cash in the hands of the public are sizeable. Henceforth, consumer spending is expected to make a strong comeback next year, assuming many businesses have reopened on a larger scale particularly the ones in the travel and leisure sector. Therefore, a higher OPR would make a compelling case in 2022.

**Growth in Malaysia's M1 Money Supply,
y-o-y%**



Source: CEIC

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