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CPI posted slower decline at 1.9% in June

Facts

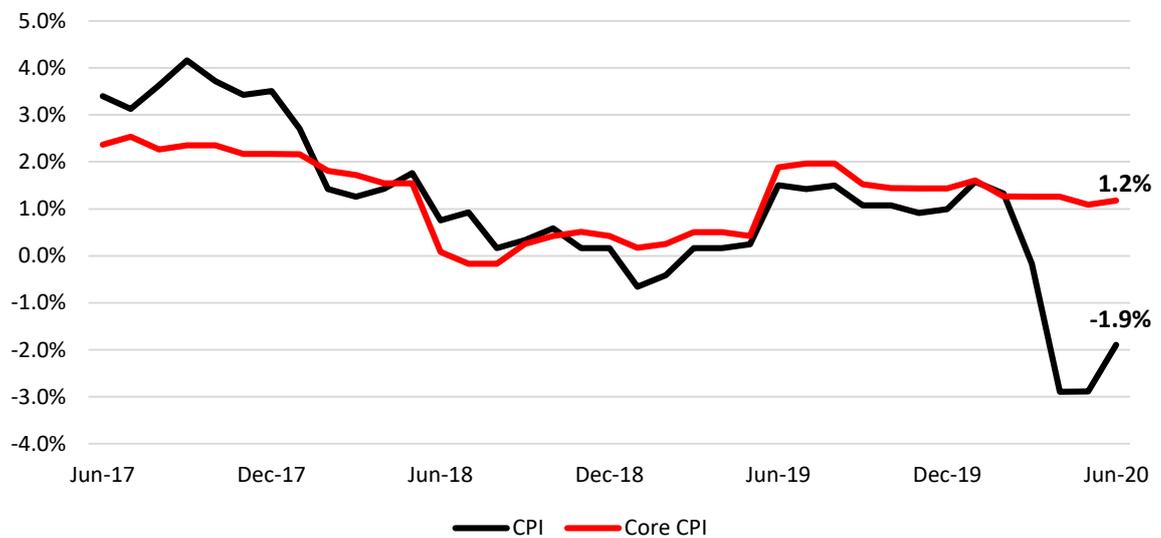
- Malaysia's Consumer Price Index (CPI) continued to fall by 1.9% year-on-year (y-o-y) in June albeit at a softer pace as compared to -2.9% in May (Consensus: -1.8% , Bank Islam: -2.5%). The overall downturn was weighed by Transport (June: -14.3% vs. May: -20.8%), Housing, Water, Electricity, Gas & Other Fuels (June: -2.6% vs. May: -2.6%) and Clothing & Footwear (June: -1.1% vs. May: -1.1%) during June. These accounted for 41.6% of total CPI.
- Within the Transport (14.6% of total CPI) sub-indices, Operation of Personal Transport Equipment and Fuel & Lubricating Equipment have slumped by -17.0% (May: -25.0%) and -25.3% (May: -37.0%) in June. This was mainly driven by lower fuel prices whereby RON95, RON97 and Diesel which have been selling by an average price of RM1.54 per litre (June 2019: RM2.08 per litre), RM1.84 per litre (June 2019: RM2.51 per litre) and RM1.71 per litre (June 2019: RM2.18 per litre) during June respectively.
- Nonetheless, price for Food & Non-Alcoholic Beverages and Miscellaneous Goods & Services were higher by 1.6% (May: 1.2%) and 3.0% (May: 2.8%) in June. Apart from that, inflation for Health, Restaurants & Hotels and Recreation Services & Culture moderated by 1.1% (May: 1.2%), 0.3% (May: 0.9%) and 0.6% (May: 0.7%) in June while Alcoholic Beverages & Tobacco maintained at 0.2% (May: 0.2%).
- On the other hand, the Core CPI increased by 1.2% in June from 1.1% recorded in the preceding month, reflecting the inflationary pressure persisted.
- Cumulatively, inflation rate plummeted by 0.8% during first six months this year from 0.2% in the same period last year. Meanwhile, core inflation rate rose by 1.3% in 1H2020 from 0.6% increment in 1H2019. Hence, we are not in a deflationary state as depicted by the headline CPI.

Table 1: Consumer Price Index (CPI)

	Weight	Feb-20	Mar-20	Apr-20	May-20	Jun-20	1H2019	1H2020
Consumer Price Index	100.0%	1.3%	-0.2%	-2.9%	-2.9%	-1.9%	0.2%	-0.8%
Food & Non-Alcoholic Beverages	29.5%	0.8%	1.2%	1.2%	1.2%	1.6%	1.3%	1.2%
Alcoholic Beverages & Tobacco	2.4%	0.2%	0.3%	0.2%	0.2%	0.2%	1.3%	0.2%
Clothing & Footwear	3.2%	-1.1%	-1.3%	-1.2%	-1.1%	-1.1%	-2.8%	-1.1%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	1.6%	1.6%	-2.2%	-2.6%	-2.6%	2.0%	-0.4%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	1.0%	0.8%	0.3%	-0.2%	-0.2%	0.6%	0.5%
Health	1.9%	1.3%	1.4%	1.2%	1.2%	1.1%	-0.1%	1.3%
Transport	14.6%	2.4%	-8.9%	-21.5%	-20.8%	-14.3%	-4.1%	-10.0%
Communication	4.8%	1.5%	1.5%	1.6%	1.6%	1.6%	-0.6%	1.5%
Recreation Services & Culture	4.8%	0.7%	0.7%	0.6%	0.7%	0.6%	0.1%	0.7%
Education	1.3%	1.3%	1.3%	1.2%	1.0%	0.8%	1.2%	1.2%
Restaurants & Hotels	2.9%	1.1%	0.9%	0.7%	0.9%	0.3%	1.1%	0.8%
Miscellaneous Goods & Services	6.7%	2.5%	2.6%	2.3%	2.8%	3.0%	-1.6%	2.6%
Core CPI		1.3%	1.3%	1.3%	1.1%	1.2%	0.6%	1.3%

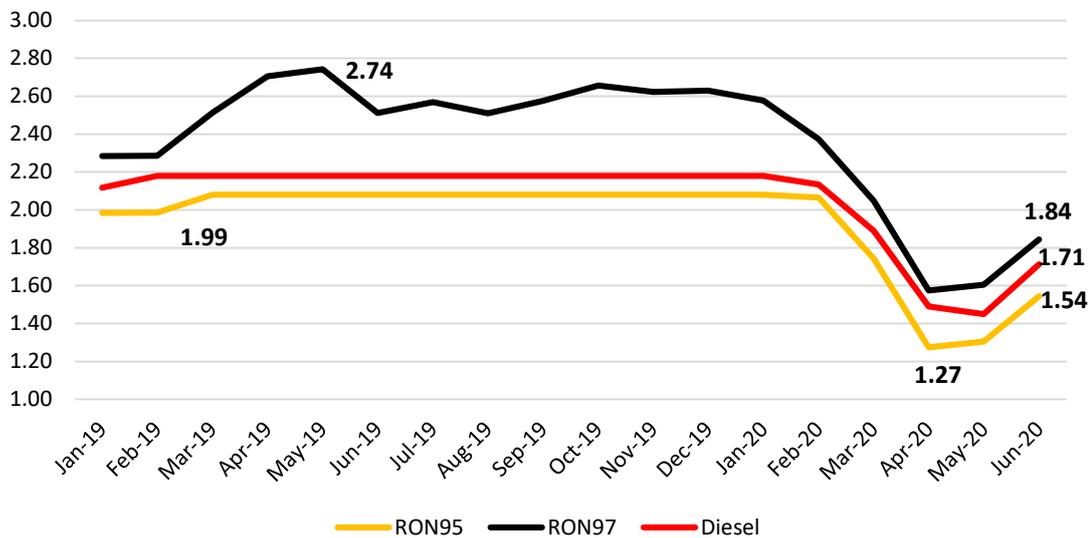
Sources: DOSM, CEIC, Bank Islam

Chart 1: Malaysian Inflation Rate, y-o-y%



Source: CEIC

Chart 2: Average Fuel Prices (RM / litre)



Source: CEIC

Our view

The inflation rate has been muted for the fourth straight month since the implementation of Movement Control Order (MCO) in March. Nonetheless, prices of foods are still on the rise based on the costs of Food & Non-Alcoholic Beverages (June: 1.6% vs. May: 1.2%). On further scrutiny, Food at Home and Food Away From Home indices have increased steadily by 1.6% and 1.8% in June from 1.1% and 1.6% respectively in May. Within Food at Home, among index of goods which registered higher prices in June were Meat (June: 5.7% vs. May: 2.7%), Food Products not elsewhere classified (June: 2.8% vs. May: 2.6%), Oil & Fats (June: 1.4% vs. May: 1.2%), Fruits (June: 1.1% vs. May: 0.9%), as well as Rice, Bread & Other Cereals (June: 0.9% vs. May: 0.7%). This indicates that the prices of foods are still at its elevated level despite slower general price movement in June.

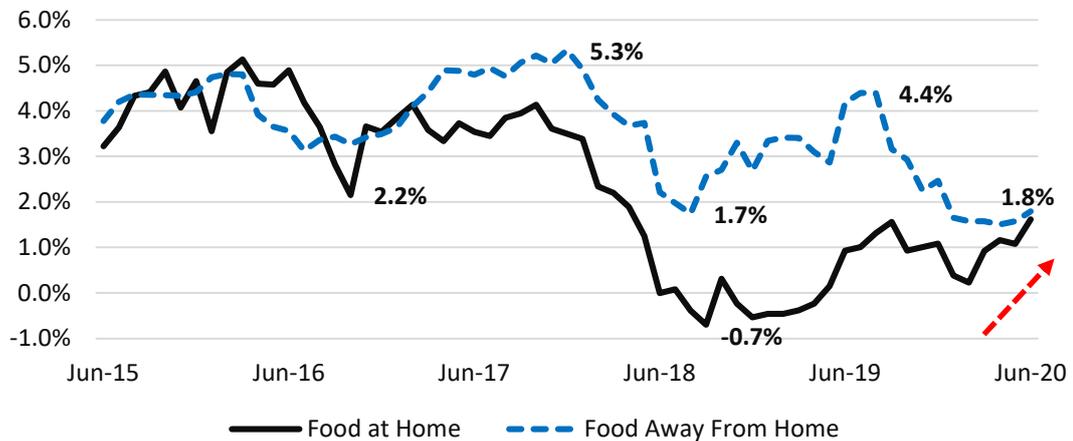
In addition, the price of standard chicken meat rose from RM7.55/kg in May to RM8.85/kg in June. This could really explain why Food Away from Home sub-indices increase as restaurants operators would tend to raise up their products prices resulting from higher costs of production. Be that as it may, Domestic Trade and Consumer Affairs Ministry (KPDNHEP) through its Enforcement Division has continued to monitor and carry out inspection on current chicken prices to avoid profiteering activities among the suppliers.

In relation to the equity market, the FBM KLCI was down by -0.6% after closing at 1,586.98 points on 22 July 2020. Amongst the constituents of the FBM KLCI index, plantation companies such as Kuala Lumpur Kepong Berhad, IOI Corporation and Sime Darby Plantation were top gainers for the day as higher inflation for food in June meant that demand for palm oil usage strengthened. In terms of sectors, we observed that the Bursa Malaysia Transportation index advanced by 1.0% on Wednesday, making it the sector with the fourth largest gain. The positive movement could be attributable to the lower fuel prices reflected by the -14.3% y-o-y drop in prices for Transport in June. This in turn means lesser operating costs for logistics players involved in trucking and express delivery.

For now, gains in glove makers are losing steam amidst the news of a vaccine. Notwithstanding this, the lesser decline in the nation's inflation rate signals a gradual path of recovery and a potential production of vaccine in the near future could spell increased interest in stocks related to the overall economy namely, the banking sector. Therefore, we expect the FBM KLCI to remain range bound in the near term.

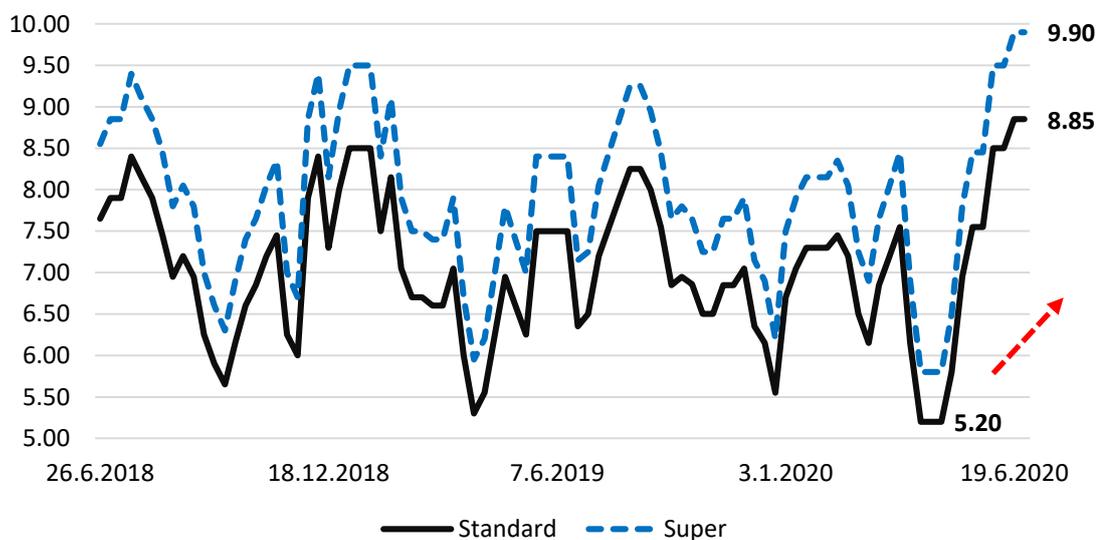
All in all, we are maintaining our full year forecast for Malaysia's inflation rate at -0.5% in 2020 from 0.7% in the previous year as we believe the Covid-19 pandemic has hampered consumption, affecting demand for goods and services. As for the Overnight Policy Rate (OPR), we see no compelling reasons to cut the benchmark rate at the upcoming meeting in September although rooms for further monetary accommodation is wide open. Maintained OPR at 1.75% in 2020 and perhaps in the 2021.

Chart 3: Food at Home and Food Away from Home, y-o-y%



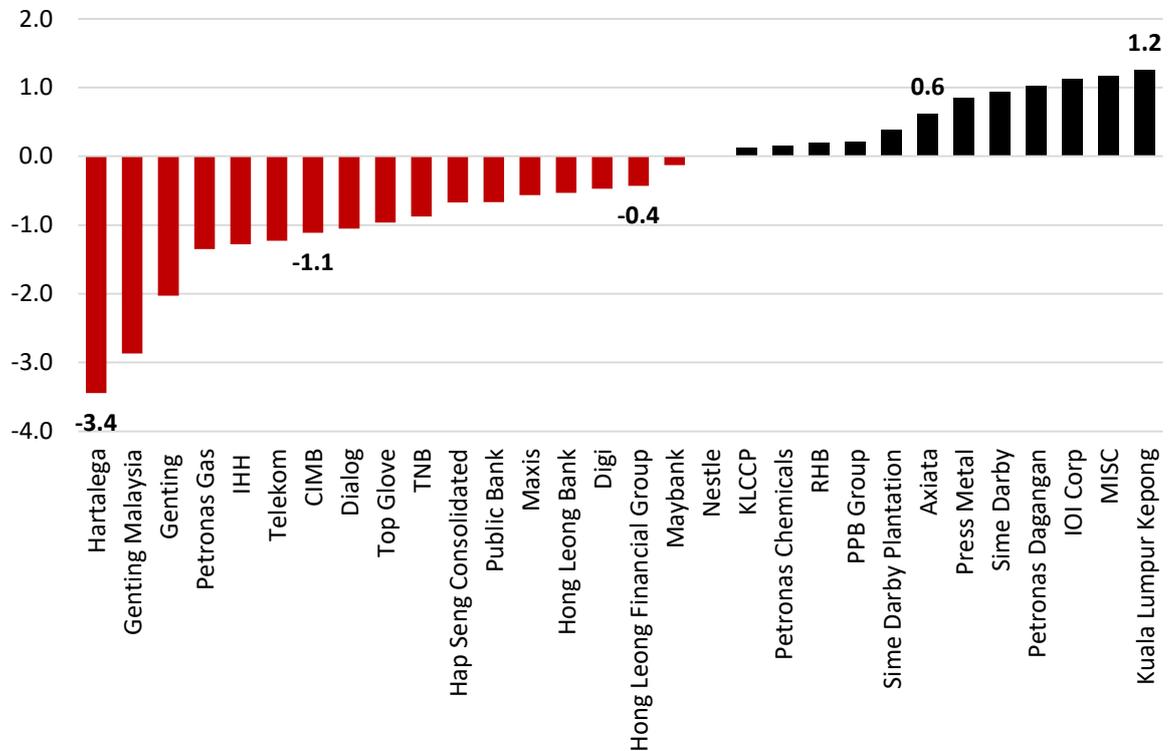
Source: CEIC

Chart 4: Chicken meat retail price (RM/kilogram)



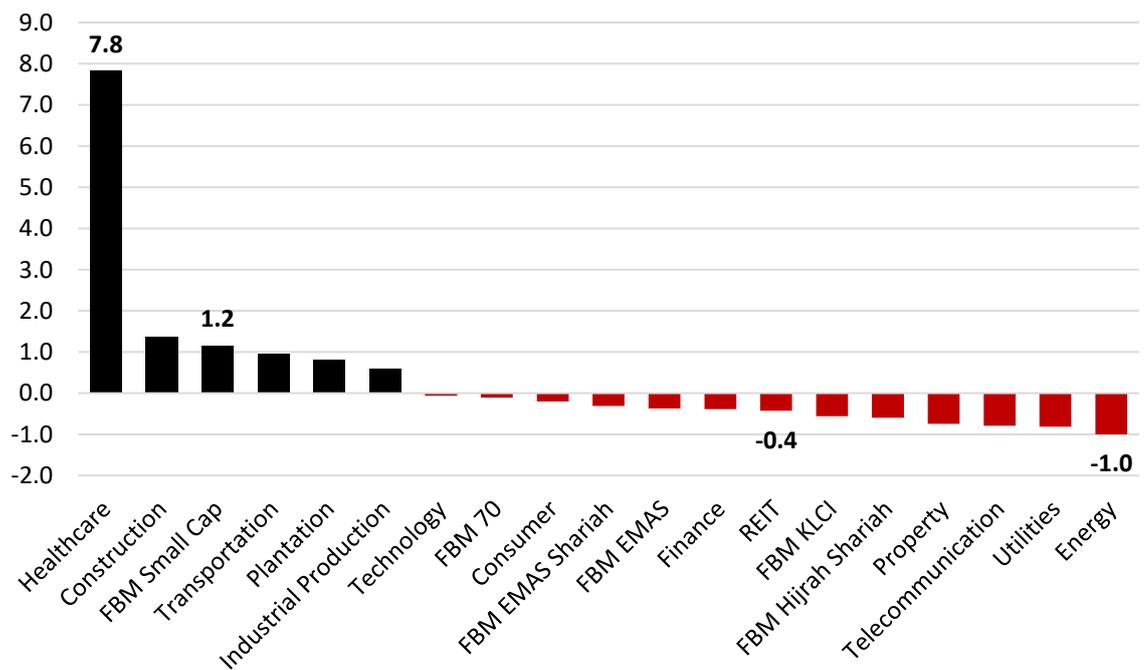
Source: Department of Veterinary Services Malaysia

Chart 5: Gainers and losers of the FBM KLCI Index constituents on 22 July 2020 (%)



Source: Bloomberg

Chart 6: Daily performance of Bursa Malaysia sectoral indices on 22 July 2020 (%)



Source: Bloomberg

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