



From the Desk
of the
Chief Economist

BANK ISLAM

CPI SAW NEGATIVE GROWTH FOR THE EIGHTH CONSECUTIVE MONTH IN OCTOBER

25 NOVEMBER 2020

ECONOMIC RESEARCH

DR. MOHD AFZANIZAM ABDUL RASHID

ADAM MOHAMED RAHIM

SHAFIZ BIN JAMALUDDIN

NOR JANNAH ABDULLAH

INFLATION CONTINUED TO DECLINE IN OCTOBER 2020

1

Malaysia's Consumer Price Index (CPI) deepened by 1.5% year-on-year (y-o-y) in October after it dropped by 1.4% previously (Consensus: -1.4%, Bank Islam: -1.4%).

3

Apart from that, price for Clothing & Footwear registered slower decrease at 0.4% (September: -0.6%) while cost of Housing, Water, Electricity, Gas & Other Fuels remained at -0.3% in October (September: -0.3%).

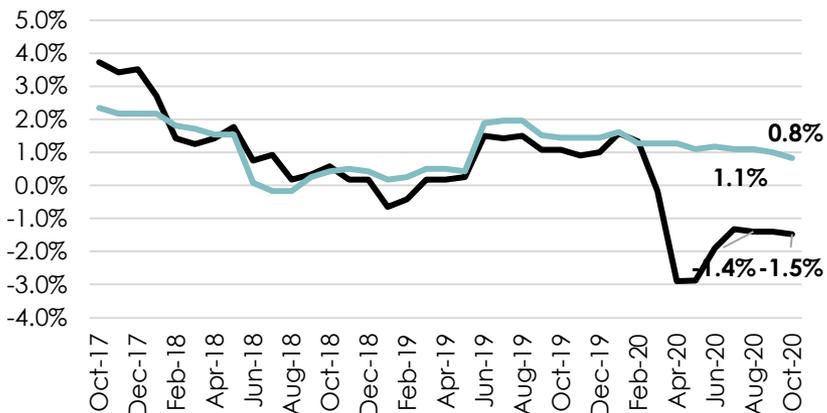
2

The fall was propelled by Transport cost which posted a double-digit decline at 10.2% in October from -9.9% recorded in September.

4

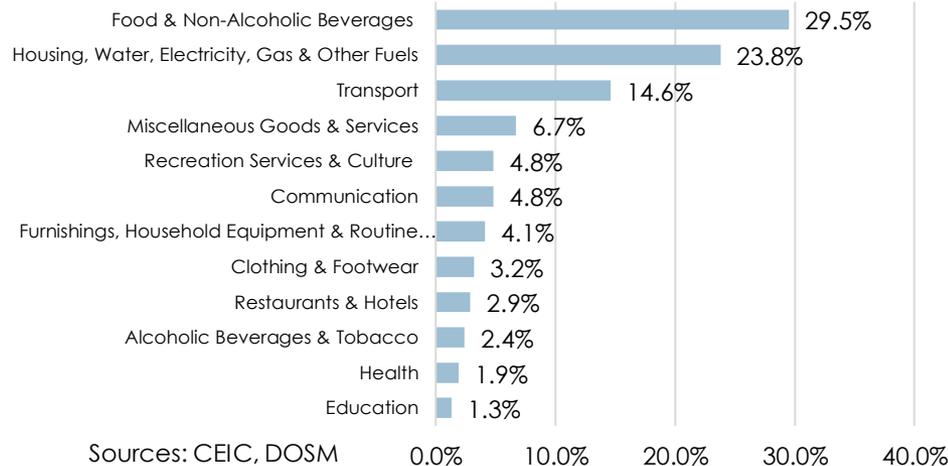
On the other hand, the inflationary trend persisted for Alcoholic Beverages & Tobacco (October: 0.5% vs. September: 0.5%), Furnishings, Household Equipment & Routine Household Maintenance (October: 0.1% vs. September: 0.1%), Health (October: 1.1% vs. September: 1.1%), Education (October: 0.7% vs. September: 0.7%) and Restaurants & Hotels (October: 0.1% vs. September: 0.1%) during October. These products accounted for 12.6% of total CPI.

Inflation, y-o-y%



Sources: CEIC, DOSM — CPI — Core CPI

Weightage, % of total CPI



Sources: CEIC, DOSM

HIGHER PRICES WERE SEEN IN A FEW PRODUCTS

5

Be that as it may, price for Food & Non-Alcoholic Beverages which forms a sizeable share of 29.5% from the total CPI continued to increase for the third consecutive month (October: 1.5% vs. September: 1.4%).

7

Core CPI which excludes most volatiles items of fresh food, as well as administered prices of goods and services softened by 0.8% in October from 1.0% in September.

6

By the same token, inflation for Recreation Services & Culture and Miscellaneous Goods & Services were higher by 0.2% (September: 0.1%) and 2.8% (September: 2.7%) in October.

8

On a cumulative basis, the inflation rate fell by 1.1% in 10M2020 from 0.6% in the same period last year. On the contrary, the Core CPI inched up by 1.2% in 10M2020 as compared to 1.1% in 10M2019.

Y-o-y%	Weight	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	10M2019	10M2020
Consumer Price Index	100.0%	-2.9%	-1.9%	-1.3%	-1.4%	-1.4%	-1.5%	0.6%	-1.1%
Food & Non-Alcoholic Beverages	29.5%	1.2%	1.6%	1.4%	1.3%	1.4%	1.5%	1.7%	1.2%
Alcoholic Beverages & Tobacco	2.4%	0.2%	0.2%	0.3%	0.3%	0.5%	0.5%	1.7%	0.3%
Clothing & Footwear	3.2%	-1.1%	-1.1%	-0.6%	-0.6%	-0.6%	-0.4%	-2.1%	-0.9%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-2.6%	-2.6%	-2.6%	-3.0%	-3.0%	-3.0%	1.9%	-1.4%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	-0.2%	-0.2%	-0.1%	-0.1%	0.1%	0.1%	1.4%	0.3%
Health	1.9%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	0.5%	1.2%
Transport	14.6%	-20.8%	-14.3%	-10.3%	-9.9%	-9.9%	-10.2%	-3.3%	-10.0%
Communication	4.8%	1.6%	1.6%	1.6%	1.6%	1.6%	0.0%	0.2%	1.4%
Recreation Services & Culture	4.8%	0.7%	0.6%	0.7%	0.6%	0.1%	0.2%	0.7%	0.6%
Education	1.3%	1.0%	0.8%	1.2%	1.1%	0.7%	0.7%	1.4%	1.1%
Restaurants & Hotels	2.9%	0.9%	0.3%	0.2%	0.1%	0.1%	0.1%	1.3%	0.5%
Miscellaneous Goods & Services	6.7%	2.8%	3.0%	2.9%	3.1%	2.7%	2.8%	0.0%	2.7%
Core CPI		1.1%	1.2%	1.1%	1.1%	1.0%	0.8%	1.1%	1.2%

Sources: CEIC, DOSM

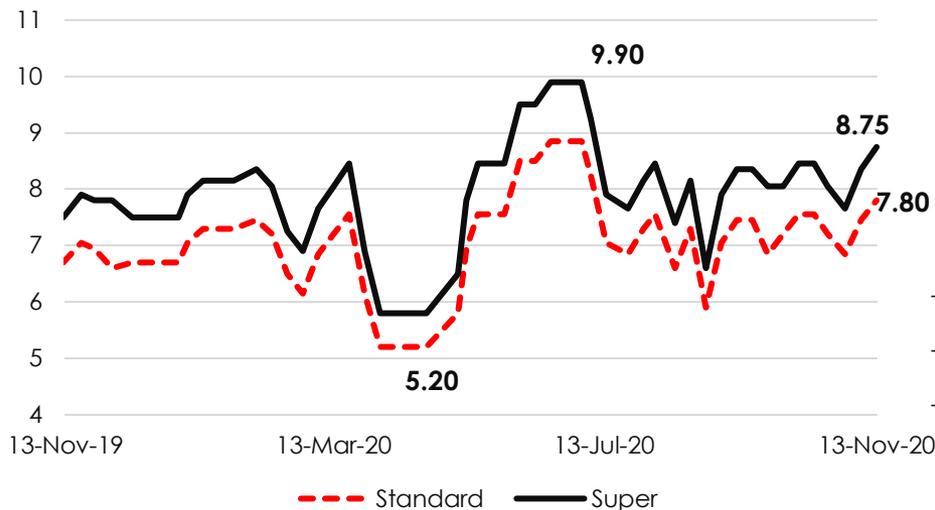
Consumer Price Index (Y-o-y%)	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	10M2019	10M2020
Nationwide	1.6%	1.3%	-0.2%	-2.9%	-2.9%	-1.9%	-1.3%	-1.4%	-1.4%	-1.5%	0.6%	-1.1%
Kuala Lumpur	1.8%	1.5%	0.2%	-2.0%	-1.9%	-1.3%	-1.0%	-0.9%	-0.8%	-0.8%	1.2%	-0.5%
Selangor & Putrajaya	2.1%	1.6%	0.3%	-2.3%	-2.2%	-1.3%	-0.7%	-0.7%	-0.8%	-0.8%	0.8%	-0.5%
Melaka	0.9%	0.6%	-0.9%	-3.6%	-3.6%	-2.6%	-2.2%	-2.2%	-2.2%	-2.3%	0.0%	-1.8%
Negeri Sembilan	1.6%	1.1%	-0.6%	-3.7%	-3.6%	-2.4%	-1.8%	-1.9%	-1.9%	-2.0%	0.7%	-1.5%
Johor	1.8%	1.4%	-0.2%	-3.4%	-3.4%	-2.2%	-1.7%	-1.7%	-1.9%	-2.1%	0.6%	-1.3%
Pahang	1.5%	1.5%	-0.1%	-3.1%	-3.1%	-1.7%	-1.3%	-1.4%	-1.4%	-1.8%	0.2%	-1.1%
Kelantan	1.0%	0.9%	-0.4%	-3.3%	-3.7%	-2.4%	-1.6%	-1.7%	-1.7%	-1.7%	0.4%	-1.5%
Terengganu	1.2%	1.1%	-0.6%	-3.5%	-3.6%	-2.1%	-1.2%	-1.3%	-1.4%	-1.4%	0.0%	-1.3%
Kedah & Perlis	1.4%	1.1%	-0.8%	-3.9%	-3.7%	-2.5%	-1.9%	-2.1%	-2.2%	-2.3%	0.0%	-1.7%
Pulau Pinang	1.6%	1.3%	0.1%	-2.4%	-2.3%	-1.4%	-1.1%	-1.1%	-1.2%	-1.2%	1.1%	-0.8%
Sabah	1.0%	0.8%	-0.9%	-3.7%	-3.6%	-2.7%	-2.1%	-2.2%	-2.2%	-2.3%	0.1%	-1.8%
Sarawak	1.2%	1.1%	-0.9%	-3.8%	-3.8%	-2.6%	-1.9%	-2.1%	-2.1%	-2.1%	0.0%	-1.7%

Source: CEIC, DOSM

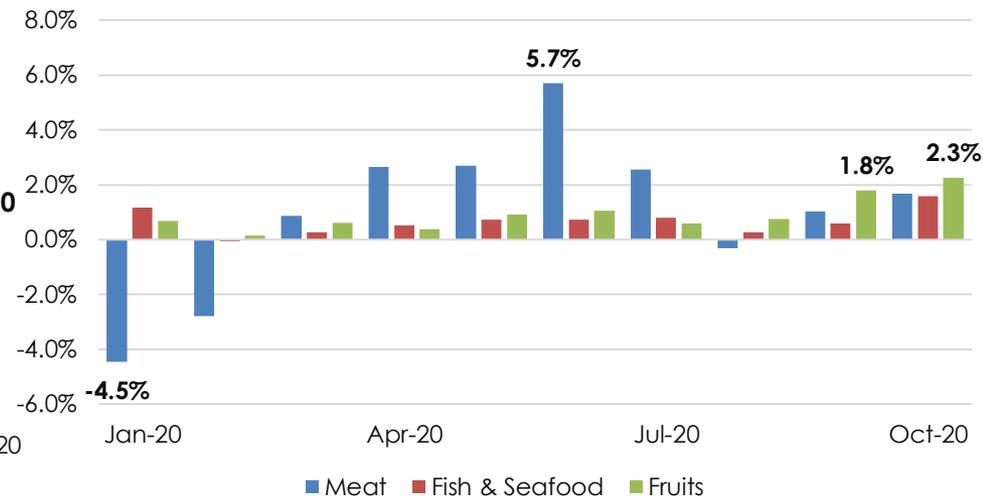
- ✓ All states and territories in Malaysia observed a decline in CPI for October 2020 with Melaka, Sabah, Kedah & Perlis chalking the worst fall of -2.3% while Selangor & Putrajaya and Kuala Lumpur marked the lowest drop at -0.8%.
- ✓ Overall, all states except Selangor & Putrajaya, Kuala Lumpur, Terengganu and Pulau Pinang recorded a larger decline in CPI relative to the national level in October 2020.
- ✓ For 10M2020, Selangor & Putrajaya and Kuala Lumpur saw the smallest decline in CPI, dropping by only -0.5%.

- ✓ The headline CPI has been on the declining trend for the eighth straight month since March 2020, primarily driven by the transport sub index in light of cheaper global crude oil prices and weaker demand conditions due to the Covid-19 crisis.
- ✓ Notwithstanding this, the prices of foods remained high. This can be seen in price of Fruits (October: 2.3% vs. September: 1.8%), Meat (October: 1.7% vs. September: 1.0%) and Fish & Seafoods (October: 1.6% vs. September: 0.6%) which gradually increased during October.
- ✓ Apart from that, data from the Department of Veterinary Services Malaysia showed that prices of chicken meat rose by 16.4% to RM7.80 per kilogram (kg) as at 13 November 2020 from RM6.70/kg on 12 November last year (30 October 2020: RM6.85/kg vs. 25 September 2020: RM6.85/kg).
- ✓ These could really explain why the costs of living remain to be the main concern among Malaysians as prices of goods especially products that are deemed essentials are still at an elevated level.

Chicken Price (RM/kg)



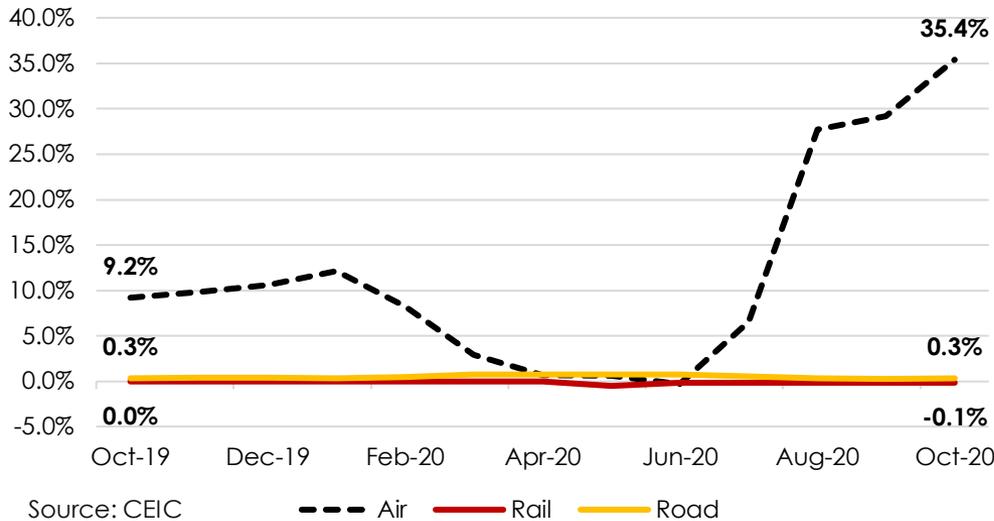
Costs of Essentials Goods, y-o-y%



Sources: CEIC, DOSM, Department of Veterinary Services Malaysia

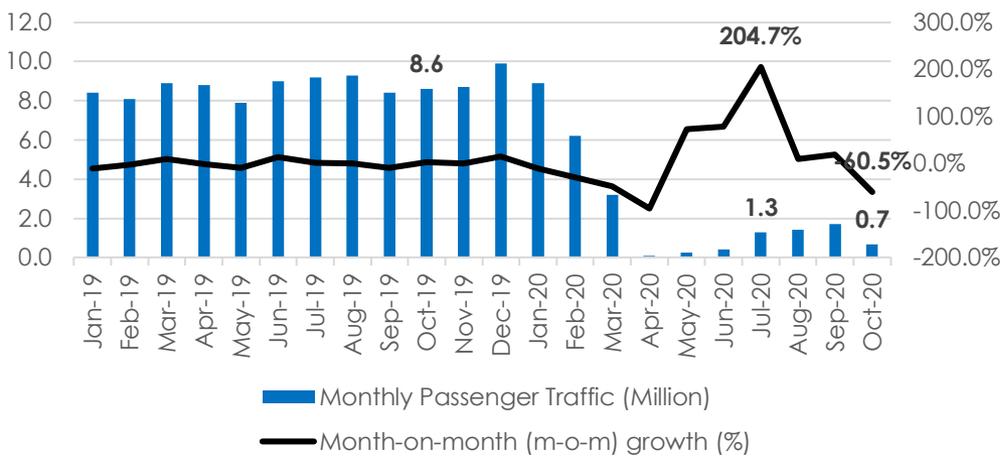
OUR VIEW – AIR PASSENGER TRANSPORT INFLATION ROSE STRONGLY

Passenger Transport Inflation, y-o-y%



- ✓ Amongst the passenger transport category, inflation for air transport jumped the most by 35.4% in October (September: 29.2%).
- ✓ Malaysia Airports Holdings Berhad's (MAHB) traffic performance in October was largely affected by the resurgence of Covid-19 cases, resulting in the re-imposition of Conditional Movement Control Order (CMCO) for Selangor, Kuala Lumpur and Putrajaya to control the contagion effective from 14 October 2020 to 6 December 2020.
- ✓ With only travellers with permission from the authorities being allowed to fly, we opine that airlines may have had to increase ticket prices since leisure domestic and international travel was not allowed under the CMCO.
- ✓ The substantial increase in inflation for air passenger transport was however partially weighed down by other components such as Fuel and Lubricating Equipment and Operation of Personal Transport Equipment which declined by 19.8% and 13.2% respectively in October 2020.

Monthly Passenger Traffic at Malaysia Airports

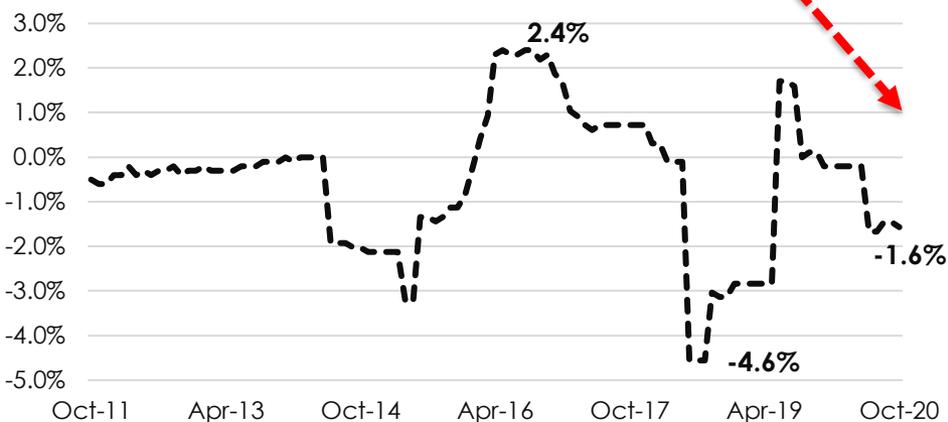


Costs of Fuels & Lubricating Personal Transport Equipment, y-o-y%



Source: CEIC

Costs of Purchase Vehicles - Motorcars, y-o-y%



Source: CEIC

- ✓ As mentioned earlier, costs of transport have continued to drop particularly for fuel and lubricating personal transport equipment (October: -19.8% vs. September: -19.1%) in light of cheaper crude oil prices globally. It has the highest weightage of about 8.5% out of the 12.3% that operation of personal transport equipment contributes to total transport. Therefore, this could give huge impacts to the overall price level.
- ✓ On further scrutiny, average fuel prices for RON95 (October 2020: RM1.67 vs. October 2019: RM2.08), RON97 (October 2020: RM1.97 vs. October 2019: RM2.66) and Diesel (October 2020: RM1.72 vs. October 2019: RM2.18) were lower by 19.5%, 25.7% and 21.2% during October.
- ✓ In addition, prices for vehicles particularly motorcars have also declined (October: -1.6% vs. September: -1.5%) as the government has exempted the sales tax on all locally-assembled vehicles for a six-month period from 15 June 2020 to 31 December this year.
- ✓ We foresee that there will be further downward pressure on transport inflation as a whole for November as the CMCO was expanded to include all states in Peninsular Malaysia except Pahang, Kelantan and Perlis. Nevertheless, the Deepavali festivities in November could push other components such as food and non-alcoholic beverage.
- ✓ Therefore, **we have revised our full year forecast for CPI to -1.1%** (2019: 0.7%) from -0.5% previously as we believe that the balance of risks to the inflation outlook is tilted to the downside in 2020 due to weaker demand conditions amid the ongoing pandemic.

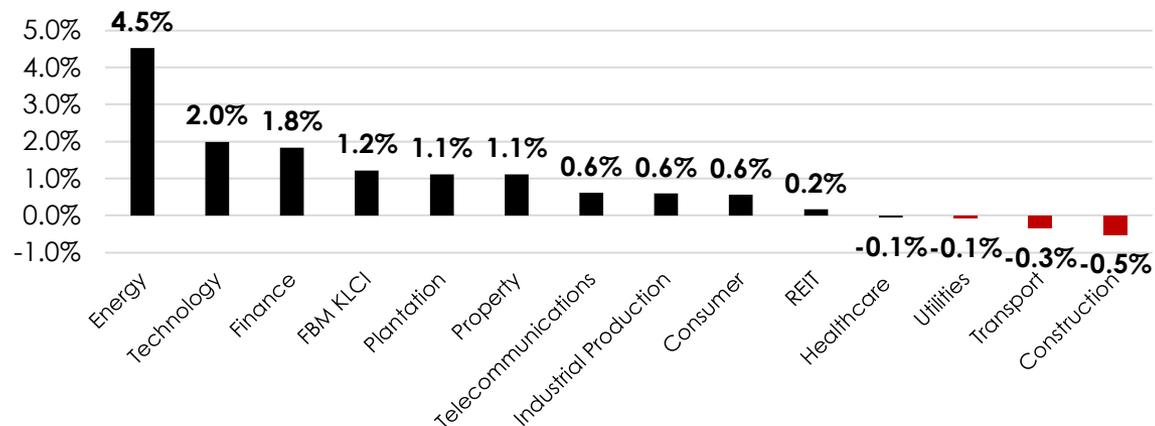
- ✓ In relation to the equity market, the FBM KLCI was up by 1.2% after closing at 1,597.6 points on 25 November 2020 amid knee jerk reactions from the latest political jitters. Amongst the constituents of the FBM KLCI index, telecommunication related counters such as Telekom Malaysia was the largest gainer with a 5.2% gain amid a 26.1% y-o-y increase in its net profit for 3Q2020.
- ✓ Meanwhile, consumer related counters such as Nestle only gained 0.4% for the day, coinciding with the stable inflation rate for food and non-alcoholic beverages. As such, the Bursa Malaysia Consumer rose by 0.6% on Tuesday.
- ✓ A Biden presidency and the signing of the Regional Comprehensive Economic Partnership (RECP) would likely see a liberalisation in global trade. This will serve as an additional catalyst for the local equity market which is expected to improve (seen through higher expected earnings per share (EPS) of the FBM KLCI). Henceforth, there is a high possibility that investors may allocate more weightage in the equity market compared to safe haven assets.
- ✓ However, investor sentiment will be dampened if the Budget 2021 does not get passed at the parliament on 26 November 2020.

Earnings Growth Trajectory of the FBM KLCI

Year	Earnings Per Share (EPS) of FBM KLCI	Year-on-year (y-o-y) EPS Growth
2021F	93.1	8.1%
2020E	86.1	-3.8%
2019	89.6	12.9%
2018	79.3	-26.5%
2017	107.9	9.8%
2016	98.3	4.4%
2015	94.2	-13.0%

Source: Bloomberg
ECONOMIC RESEARCH

Sectoral Performance on 25 November 2020



Source: Bursa

- ✓ The lower inflation rate undoubtedly provides the policy space for the monetary authorities to lower the OPR. Notwithstanding this, we reiterate that Bank Negara Malaysia would keep the benchmark rate unchanged at 1.75% well into 2021, barring any unforeseen circumstances from the pandemic.
- ✓ As such, a potential shift of investors from the bond market to the equity market amid emerging signs of economic recovery may lead to a rise in bond yields. As seen from the Ministry of Finance's (MOF) Economic and Fiscal outlook 2021, the government is projecting higher fiscal deficits in 2020 and 2021 which would mean there would be more issuances of MGS and GII to fund the development expenditure. An expected higher development expenditure of RM68.2 billion (39.2% y-o-y) in 2021 is crucial to finance the infrastructure projects to propel economic growth.
- ✓ This factor could also lead to higher bond yields in light of the incoming supply. To date, the total issuance for MGS and GII stood at RM126.6 billion compared to RM95.2 billion in the 9M2019.

MGS and GII Issuance (RM Billion)



Source: CEIC, Bond Info Hub
ECONOMIC RESEARCH

10-Y MGS Yields (%)



Source: Bloomberg, worldgovernmentbonds.com

THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.

Assuring Trust. Delivering Value

