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FOOD INFLATION RISK: THE CONVERGENCE OF ELEVATED OIL PRICES, RINGGIT DEPRECIATION, AND EL NIÑO

EXECUTIVE SUMMARY

- Malaysia's inflation environment has remained broadly contained in the first eight months of 2026, with headline inflation averaging 1.8%. This moderation has been supported by existing fuel subsidy measures, which have helped mitigate the pass-through of higher global costs to domestic prices. Nevertheless, recent food price developments point to emerging pressures across several essential food categories. While there is currently no evidence of a broad-based food inflation shock, the latest trends suggest that food prices are becoming increasingly vulnerable to supply-side disruptions, adverse weather conditions, and rising production and distribution costs. As such, food inflation is likely to remain a key area of monitoring, given its direct impact on household spending and overall cost-of-living conditions.

- The risk is particularly relevant as Malaysia enters a period where elevated global oil prices, a weaker ringgit and the potential impact of El Niño could place additional upward pressure on food prices in the months ahead. Together, these factors may intensify cost pressures and constrain food supply, increasing the upside risks to inflation.

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- Food inflation risks could become more pronounced should external and domestic cost pressures intensify in the coming months. Although the impact of higher oil prices on food inflation is unlikely to be immediate, energy costs are embedded across the entire food supply chain, including farm machinery operations, fertilizer production, transportation, cold storage, processing and distribution activities. In the near term, producers and distributors may absorb part of the cost increase through existing inventories, contractual arrangements or narrower profit margins. However, as inventories are replenished and higher operating costs become increasingly embedded within the supply chain, the pass-through to wholesale and retail food prices is likely to become more evident.

- At the same time, a weaker ringgit could further amplify food price pressures by raising the domestic-currency cost of imported food products. More importantly, domestic agricultural producers remain dependent on imported inputs such as animal feed, fertilizers, pesticides and other intermediate goods. As a result, currency depreciation may create a dual inflationary effect, whereby imported food becomes more expensive while domestic food production costs also increase, placing upward pressure on overall food prices.

- The evolving El Niño weather pattern presents an additional upside risk to the food inflation outlook. Prolonged dry conditions and adverse weather events could reduce agricultural yields, disrupt production cycles and tighten food supply conditions. Such developments would

compound existing cost pressures and increase the likelihood of stronger food price increases in the period ahead.

- Overall, the key risk stems from the potential convergence of higher global oil prices, sustained ringgit weakness and El Niño-related supply disruptions. Should these factors materialize simultaneously, food inflation could strengthen through both cost-push and supply-side channels, resulting in more persistent food price pressures than currently reflected in headline inflation. While Malaysia's broader inflation environment remains relatively contained for now, these emerging risks warrant close monitoring given their potential implications for household purchasing power and overall cost-of-living conditions.

Food inflation is becoming a more relevant risk

- In August 2026, Malaysia's headline inflation remained contained at 1.9% y-o-y, but underlying food price trends suggest emerging inflationary pressures. Overall food inflation also stood at 1.9% y-o-y, although price movements across food categories became increasingly uneven. While food-at-home inflation remained relatively modest at 1.4% y-o-y, it has been on an upward trend in recent months, reflecting rising prices of essential household staples.

- In particular, inflation for meat, vegetables and eggs accelerated to 3.5%, 2.8% and 5.9% respectively. Meanwhile, food-away-from-home inflation remained elevated at 2.5% y-o-y, indicating persistent cost pressures in the food services segment. Although overall food inflation remains manageable, the recent acceleration in selected key food categories should be monitored closely.

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Chart 1: Food Inflation, y-o-y %

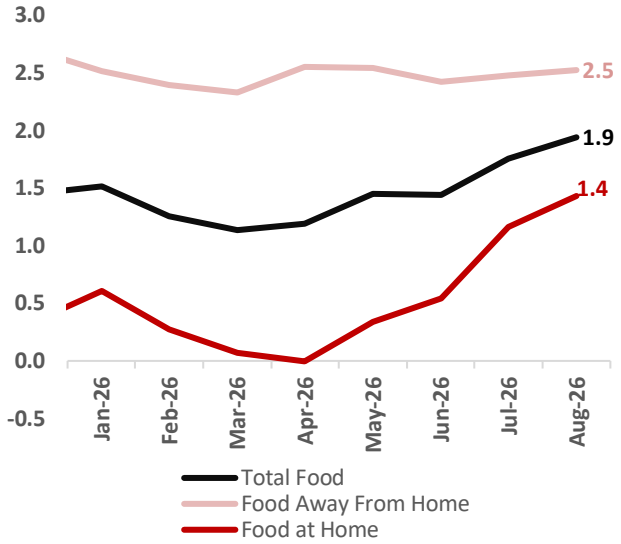
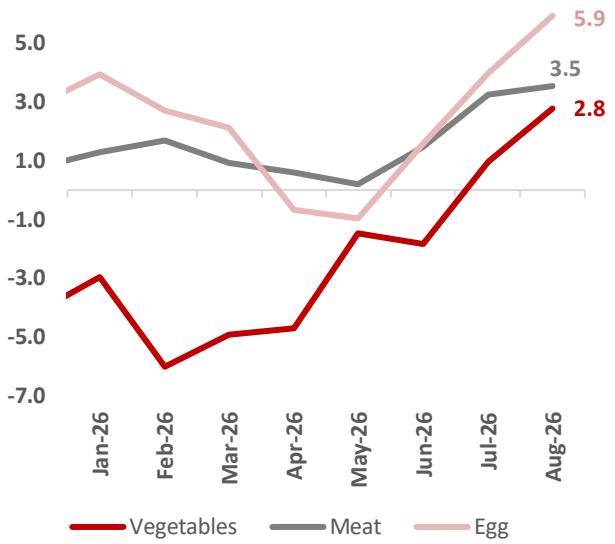


Chart 2: Selected Food at Home, y-o-y %



Sources: DOSM, CEIC, Bank Islam

- This divergence matters because food is an essential component of household spending. While consumers may delay purchases of durable goods or cut back on certain services when prices rise, there is far less flexibility in reducing expenditure on basic food items. Consequently, increases in the prices of frequently purchased essentials such as chicken, meat, eggs, and vegetables can have a disproportionate impact on household budgets and perceptions of living costs, even when overall inflation remains relatively moderate.

- The recent acceleration in several food prices should not be interpreted as evidence that Malaysia has entered a broad-based food inflation cycle. Rather, the latest developments may be viewed as an early indication that food prices are becoming increasingly sensitive to upstream cost pressures and supply-side constraints. While overall food inflation remains relatively contained, rising costs associated with energy, imported agricultural inputs and logistics are beginning to filter through certain segments of the food supply chain. As such, the current trend warrants close monitoring, as persistent cost pressures could lead to a wider and more sustained pass-through to food prices if prevailing supply and cost conditions remain unfavorable.

Chart 3: Food Inflation by Segment

Sub-component	Weightage	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Food and Beverages (FB)	**29.8**	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9
Food	**29.0**	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9
Food Away From Home	13.4	2.5	2.4	2.3	2.6	2.5	2.4	2.5	2.5
Food at Home	15.6	0.6	0.3	0.1	0.0	0.3	0.5	1.2	1.4
Cereals & Cereal Products (CC)	*2.3*	-0.3	-0.5	-0.1	0.2	0.1	0.2	0.2	0.2
Meat	*2.3*	1.3	1.7	0.9	0.6	0.2	1.5	3.2	3.5
Fish & Seafood	*3.9*	2.2	2.5	1.5	1.2	1.6	1.4	1.1	0.9
Milk, Cheese and Eggs (MC)	*1.3*	0.3	0.1	0.0	-0.9	-0.8	0.1	0.8	1.5
Oils & Fats (OF)	*0.7*	0.3	-0.2	-0.2	0.1	0.0	0.2	0.2	0.1
Fruits & nuts	*1.1*	0.5	0.0	0.5	1.8	1.4	1.0	1.1	1.4
Vegetables	*1.8*	-3.0	-6.0	-4.9	-4.7	-1.5	-1.8	1.0	2.8
Sugar, Jam, Honey, Choc & Confect (SJ)	*0.5*	0.7	0.5	0.5	0.4	0.5	0.5	0.4	0.5
Foods Product N.E.C	*1.7*	1.4	1.0	1.0	0.9	0.5	0.6	0.7	1.0
Non-alcoholic beverages	**0.8**	2.6	2.3	0.2	0.4	0.2	0.1	0.1	0.0

Sources: DOSM, CEIC, Bank Islam

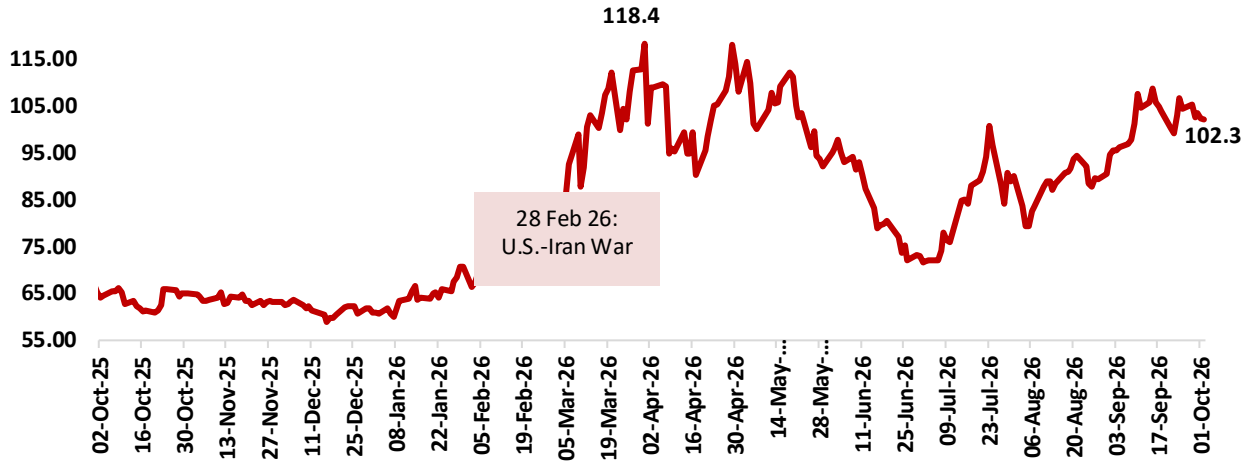
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Higher oil prices could gradually feed into food costs

- The first source of risk stems from elevated global oil prices, given the central role of energy costs across the food supply chain. Energy is a key input for transportation, logistics, agricultural production, food processing, storage and distribution activities. As of 2 October, Brent crude oil prices had surged by more than 40% to USD102.08/barrel from levels prevailing prior to the escalation of U.S.-Iran geopolitical tensions on 28 February. While such a sharp increase in oil prices raises the risk of higher food production and distribution costs, the transmission to consumer food prices is typically neither immediate nor uniform. Producers, wholesalers and

retailers often absorb part of the higher costs through existing inventories, contractual arrangements or margin adjustments. Consequently, the pass-through to food prices tends to occur with a lag, often taking several months before higher energy costs become fully reflected in wholesale and retail food prices. Should oil prices remain elevated for a prolonged period, however, the cumulative impact on production and transportation costs could exert broader upward pressure on food inflation.

Chart 4: Brent Crude Oil, USD/barrel



Sources: Bloomberg, Bank Islam

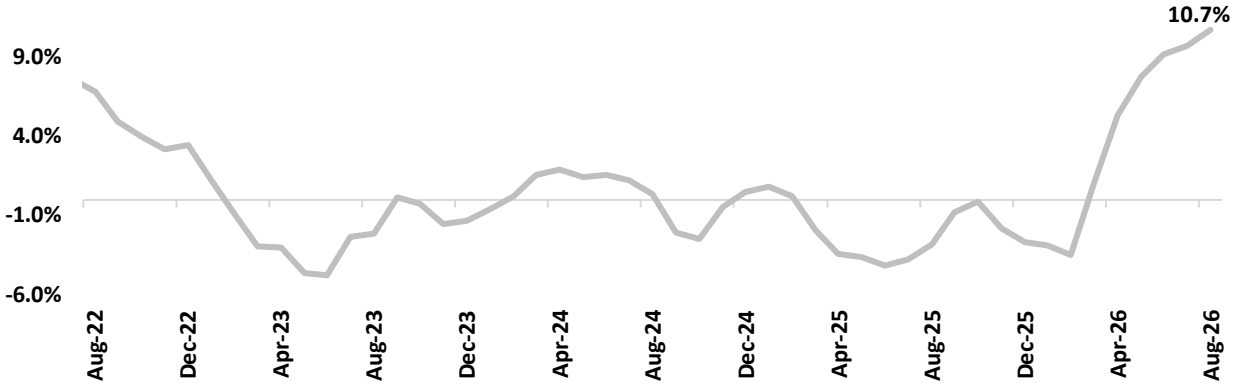
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- For agricultural producers, higher energy costs can increase the cost of operating machinery, transport inputs and moving produce. Fertilizer production is also energy-intensive, while food processors and cold-storage facilities face higher operating and transportation costs. Once food leaves the farm, additional costs arise from transportation to wholesalers, distribution centres, wet markets, supermarkets and restaurants.

- There may be a significant lag between the initial increase in oil prices and its eventual impact on food CPI. Producers and distributors may firstly absorb part of the higher costs through existing inventories, contractual arrangements or profit margins. As these buffers diminish, however, higher operating costs are likely to be passed on gradually to consumers through various stages of the food supply chain.

- The risk becomes more pronounced if elevated oil prices persist for an extended period. While temporary increases can often be absorbed without substantial effects on consumer prices, sustained cost pressures are more likely to become embedded in production and distribution costs. This is already evident in the Producer Price Index (PPI), which recently accelerated to 10.7% y-o-y.

Chart 5: Producer Price Index (PPI), y-o-y %

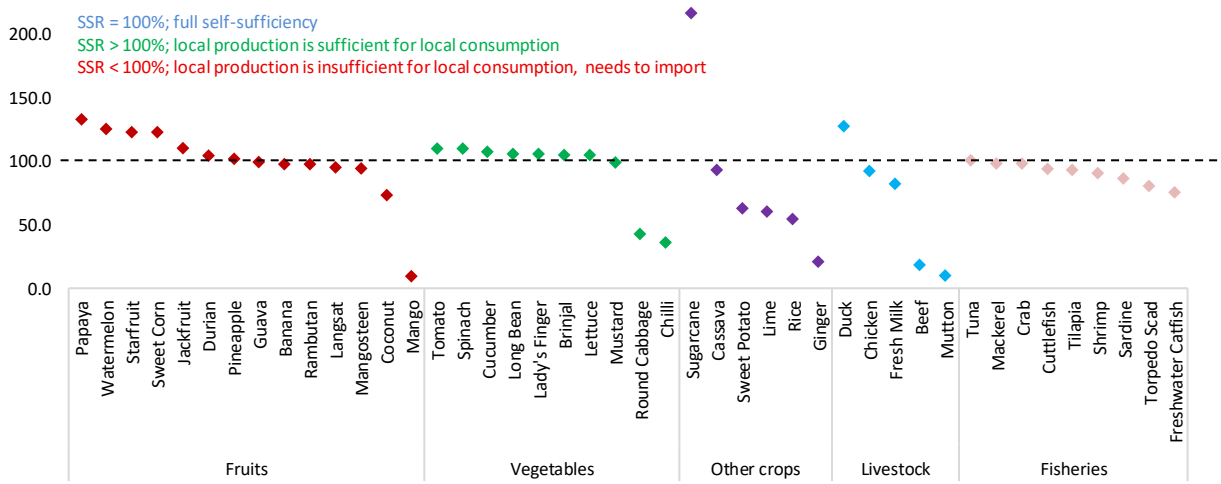


Sources: DOSM, CEIC, Bank Islam

- If these higher input costs continue to persist, they could gradually be passed through to consumers, particularly in food-related categories. Consequently, the duration of the oil price shock will be a key factor in determining whether the recent increase in selected food prices proves temporary or evolves into broader and more persistent inflationary pressures.

Malaysia's import dependence makes food price pass-through more pronounced

Chart 6: Self-Sufficiency Ratio (SRR) of Commodities in 2025



Sources: DOSM, Bank Islam

- Malaysia has been importing food and agricultural commodities for many years to meet domestic consumption needs. Nevertheless, the degree of reliance on imports differs across food categories due to varying levels of domestic production. Although several commodities are largely supported by local output, the self-sufficiency ratio (SSR) for a number of key food items remained below 100% in 2025, indicating that domestic demand exceeded local supply.

- Consequently, Malaysia remains dependent on imports for commodities such as mutton, beef, dairy products, selected crops and certain fish species, making these items relatively more susceptible to changes in global market conditions.

- In 2025, mutton recorded a SSR of only 9.3%, while beef stood at 18.4%, indicating a heavy reliance on imports to meet domestic demand. Similar patterns are observed in selected crop commodities, with SSRs remaining relatively low for chili (35.7%), round cabbage (42.4%) and rice (54.3%). These figures underscore Malaysia's continued dependence on imported supply for several essential food items.

Chart 7: Self-Sufficiency Ratio of Commodities, 2020-2025

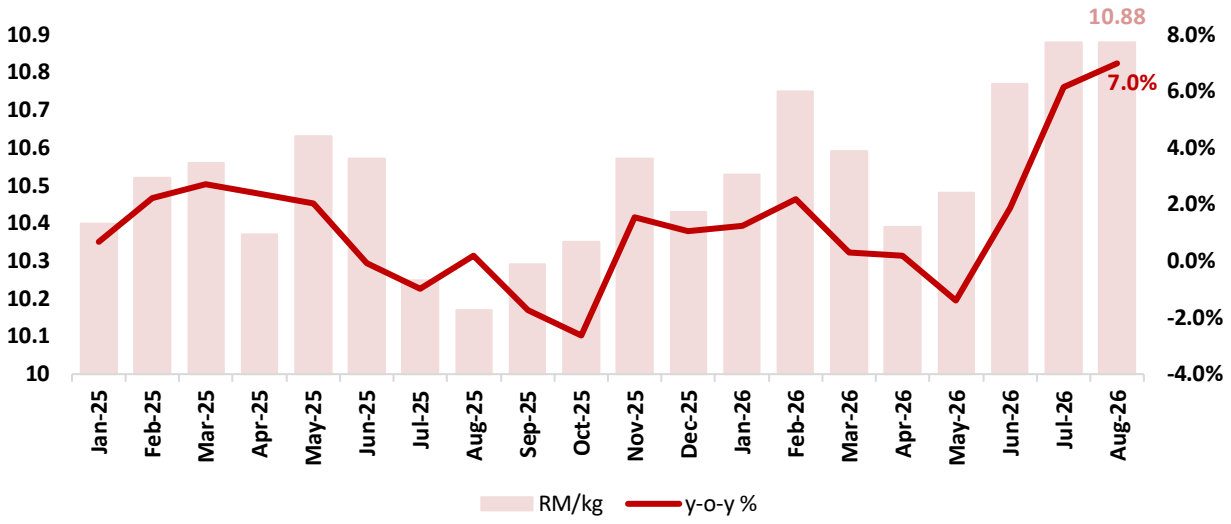
		2020	2021	2022	2023	2024	2025
CROPS	FRUITS						
	Coconut	66.6	69.6	71.6	70.3	69.4	72.8
	Pineapple	104.7	104.3	102.5	102.7	102.1	101.8
	Banana	100.1	102.6	99.3	96.9	97.3	97.5
	Watermelon	139.4	139.5	131.9	131.4	123.1	124.9
	Mango	20.2	16.2	32.0	19.0	20.6	9.6
	Rambutan	98.1	99.4	96.6	100.0	99.4	97.1
	Durian	105.2	108.7	108.9	103.9	103.7	104.1
	Mangosteen	93.1	93.8	90.5	94.7	96.0	93.7
	Jackfruit	109.9	110.8	114.2	109.4	110.1	110.1
	Guava	96.9	100.7	98.0	101.8	100.9	99.0
	Sweet Corn	105.6	106.3	108.6	110.2	113.9	122.0
	Papaya	156.0	146.9	142.3	131.8	142.4	132.3
	Starfruit	117.3	116.7	120.1	120.0	124.1	122.1
	Langsat	96.6	109.5	101.2	135.3	77.2	94.7
	VEGETABLES						
	Round Cabbage	37.5	40.3	45.6	41.0	41.7	42.4
	Tomato	123.7	118.9	118.0	117.3	113.0	109.4
	Chilli	30.9	29.3	29.7	37.1	35.8	35.7
	Cucumber	112.1	111.7	110.6	106.1	105.7	106.7
	Mustard	97.6	97.0	95.9	96.8	96.4	98.2
	Brinjal	112.3	109.6	106.6	111.0	104.1	104.6
	Long Bean	107.2	109.3	106.6	107.8	107.1	105.5
	Lady's Finger	102.2	104.3	103.4	103.8	104.6	105.1
	Spinach	112.0	112.0	109.6	107.8	107.1	109.0
	Lettuce	114.0	107.5	107.3	107.2	104.2	104.4
	OTHER CROPS						
	Cassava	98.4	100.2	100.5	99.6	88.5	92.9
	Sweet Potato	75.6	78.1	73.5	62.4	68.3	62.0
	Sugarcane	157.7	149.4	144.6	161.9	179.7	216.2
	Ginger	18.9	14.6	15.9	16.9	15.5	20.3
	Lime	91.1	82.4	71.5	61.9	67.4	59.5
	Rice	62.1	60.9	57.9	56.2	52.9	54.3
LIVESTOCK	Beef	21.3	18.9	14.7	15.9	16.8	18.4
	Mutton	9.4	10.7	8.7	10.6	8.5	9.3
	Chicken	101.7	100.2	93.5	90.2	92.9	91.8
	Duck	125.2	130.6	130.9	130.9	129.9	127.1
	Fresh Milk	64.2	56.7	57.3	66.8	66.7	81.8
FISHERIES	Shrimp	101.7	100.4	96.5	93.8	93.8	90.5
	Tuna	108.1	98.8	100.9	108.4	108.3	118.6
	Mackerel	88.2	100.7	78.2	74.7	79.8	75.6
	Crab	94.3	104.4	97.8	107.9	100.5	98.6
	Cuttlefish	96.6	80.0	73.8	74.0	75.1	78.7
	Tilapia	99.9	99.0	97.3	98.0	98.0	96.2
	Sardine	80.7	74.9	72.1	83.3	86.2	83.5
	Torpedo Scad	96.7	93.8	91.6	98.0	97.4	103.2
	Freshwater Catfish	98.9	108.3	102.2	101.3	92.3	86.6

Sources: DOSM, Bank Islam

- Moreover, local food production itself often relies on imported inputs such as animal feed, fertilisers and agricultural chemicals, creating an additional channel through which external cost pressures can be transmitted to domestic food prices. Consequently, food price vulnerability depends not only on the volume of domestic production but also on the extent of import dependence throughout the food supply chain. This is also why import dependency should not be assessed solely by the final food product. The more important question is increasingly whether Malaysia is dependent on imports somewhere along the production chain.

- For example, chicken meat may have an SSR close to 92% in 2025, but poultry production still relies on feed inputs that are exposed to global commodity markets. The Food and Agriculture Organization (FAO) estimates Malaysia's maize import requirements at 4.2 million tonnes for the 2026/27 marketing year, around 10% above the average, with sustained poultry demand identified as one of the drivers. Therefore, a high SSR does not necessarily mean that the price of a food commodity is insulated from global shocks. The sharp increase in prices of chicken recently is believed to be driven by the input cost, surging by 7.0% y-o-y to RM10.88/kg.

Chart 8: Chicken Price



Sources: DOSM, Bank Islam

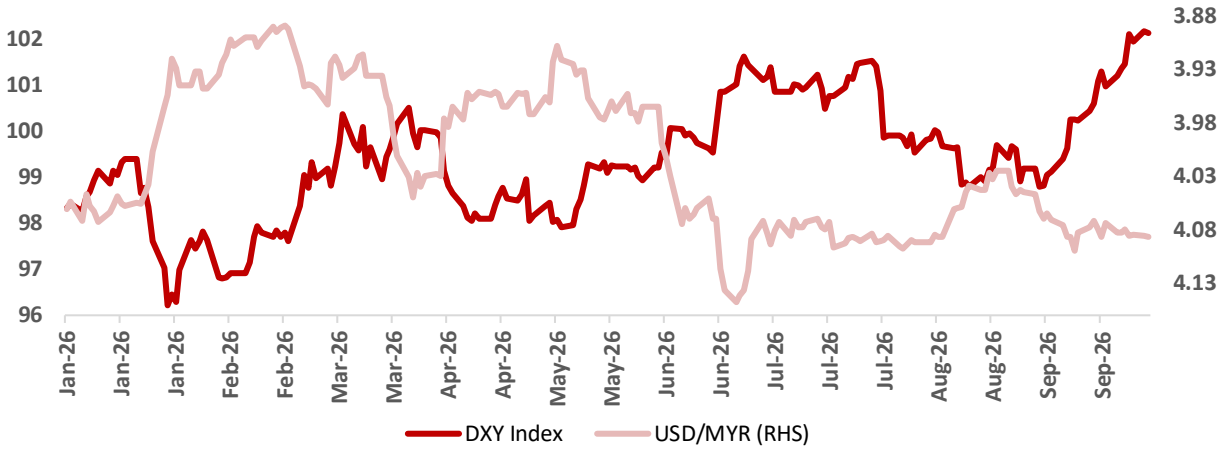
- Furthermore, the effect can be particularly significant for products where there is limited scope to substitute domestic production quickly. Expanding livestock or vegetable production requires land, water, labour, feed, seeds, infrastructure and time. Therefore, a sudden disruption in global supply cannot necessarily be offset immediately by increasing domestic production.

Ringgit depreciation could amplify the cost of imported food and agricultural inputs

- The exchange rate represents a second channel through which external inflationary pressures can affect domestic food prices. A weaker ringgit increases the local-currency cost of imported food products, raising costs for importers and potentially leading to higher retail prices. This channel is particularly relevant for food items where Malaysia remains structurally dependent on imports, including beef, mutton, dairy products and selected vegetables.

- Expectations that the U.S. interest rates could remain elevated for longer have continued to support the U.S. dollar, contributing to periodic depreciation pressures on emerging market currencies, including the ringgit. A stronger U.S. dollar, as reflected in the performance of the U.S. Dollar Index (DXY), raises the cost of trade invoiced in foreign currencies and increases the ringgit cost of imported food and agricultural products.

Chart 9: Ringgit vs U.S. Dollar Index (DXY)



Sources: Bloomberg, Bank Islam

- The risk becomes more pronounced when currency depreciation coincides with elevated global commodity prices. Under such circumstances, Malaysia could face a double-cost effect, whereby higher global oil and commodity prices are amplified by a weaker exchange rate. As many food products and production inputs are either imported directly or priced in U.S. dollars, a weaker ringgit increases the domestic-currency cost of imports, thereby intensifying imported inflation pressures even in the absence of significant supply disruptions.

- This challenge is particularly acute for livestock producers, given their heavy reliance on imported feed ingredients such as corn and soybean meal. Unlike capital expenditure, feed represents a recurring operational cost and constitutes a substantial share of overall livestock production expenses. As a result, prolonged increases in feed costs can gradually erode profit margins, potentially compelling producers to adjust the selling prices of poultry, beef and other meat products to remain financially viable. While the pass-through to consumer prices may initially be limited, the impact could become more visible over time as inventories are replenished and production cycles adjust to the higher cost environment.

- Nevertheless, currency weakness does not automatically translate into a significant food inflation shock. The degree of pass-through depends on several factors, including the magnitude and duration of the depreciation, the ability of importers and retailers to absorb higher costs, prevailing market competition, and broader domestic demand conditions. Government interventions, including price controls and subsidy measures, may also help moderate short-term inflationary pressures. However, should the ringgit remain weak against a strengthening U.S. dollar for an extended period, the risk of imported inflation would increase, placing sustained upward pressure on selected food categories and potentially contributing to broader food price inflation over time.

El Niño Could Turn a Cost Shock into a Supply Shock

- The food-price outlook becomes more vulnerable when external cost pressures coincide with weaker domestic agricultural production. In this regard, the evolving El Niño weather pattern represents an important upside risk to food inflation. According to the FAO, the ongoing El Niño episode is expected to strengthen during 2H26 and persist at least through the January-March 2027 period. As a result, rainfall levels across large parts of Malaysia are projected to remain below historical averages, potentially affecting planting activities, crop development and irrigation-water availability.

- Agriculture depends heavily on water availability, and prolonged heat or below-average rainfall can affect vegetable production, fruit yields and livestock conditions. Lower water availability can increase production costs, while heat stress can affect animal productivity and increase the need for cooling and water management.

- The paddy sector illustrates the potential problem. FAO forecasts Malaysia's 2026 paddy output at 2.1 million tonnes, 4.5% below the five-year average. At the same time, the outlook for the 2027 main crop remains uncertain because of potential weather and water constraints.

Chart 10: Malaysia's Cereal Production, '000 tonnes

Malaysia

Cereal Production

	2021-2025 average	2025	2026 forecast	change 2026/2025
	000 tonnes			percent
Rice (paddy)	2 232	2 200	2 130	-3.2
Maize	62	65	65	0.0
Total	2 293	2 265	2 195	-3.1

Sources: July GIEWS Country Brief Malaysia, Food and Agriculture Organization of the United Nations (FAO UN)

- The effect could be even stronger for commodities where Malaysia already has a low SSR. For selected vegetables, weather-related production disruptions could increase reliance on imports during periods when international supply may also be affected by weather conditions elsewhere.

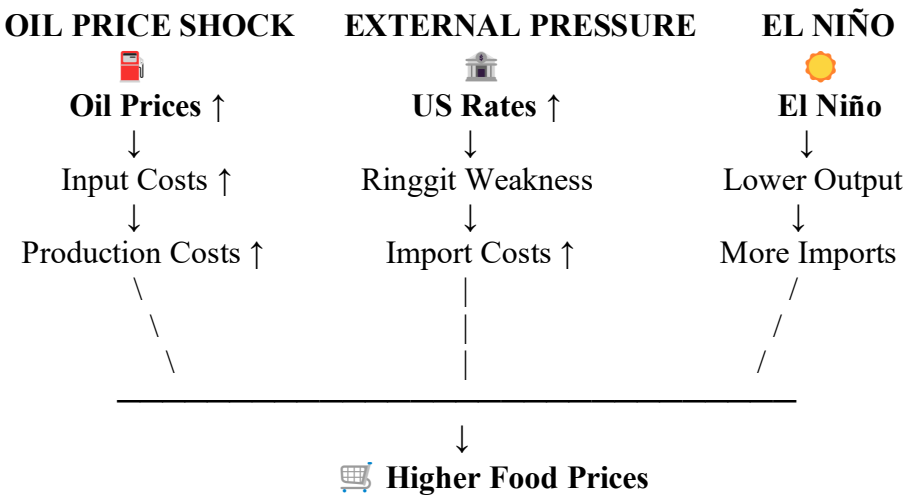
- Therefore, the key risk is not simply "El Niño causes food inflation". Rather, El Niño could reduce the ability of domestic supply to absorb external cost shocks. This is particularly important because climate events can create simultaneous disruptions across several agricultural regions. If Malaysia experiences weaker production while major food-exporting countries also face weather-related supply constraints, the ability to source cheaper alternative imports could become more limited.

The Main Risk Is the Interaction of Oil, Ringgit and Climate

- The key vulnerability in Malaysia's food-price outlook is that inflationary risks may reinforce one another rather than occur in isolation. Elevated oil prices increase production, transportation and distribution costs, while a weaker ringgit raises the cost of imported food products and critical agricultural inputs such as feed, fertilisers and chemicals. Meanwhile, El Niño-related weather disruptions could reduce domestic agricultural output and tighten food supply conditions. Individually, these factors may generate only moderate and manageable inflationary pressures. However, if they materialise simultaneously, their combined effects could amplify food inflation through both cost-push and supply-side channels, resulting in a stronger and more persistent pass-through to retail food prices. As such, while Malaysia has yet to experience a broad-based food inflation cycle, the convergence of higher oil prices, prolonged ringgit weakness and adverse weather conditions represents the most significant upside risk to food prices in the period ahead.

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- The potential transmission can be illustrated as follows:



- The three channels can reinforce each other. This is why food inflation should be monitored through the entire supply chain rather than only through the CPI food index. By the time higher food prices become visible in CPI, some of the cost increases may have already occurred upstream.

- A useful monitoring framework would therefore include four indicators, namely global energy prices, exchange rates, agricultural input prices and domestic food prices. This would allow policymakers and market participants to identify whether an increase in food inflation is temporary and commodity-specific or becoming a broader supply-chain phenomenon.

CONCLUSION

- Malaysia's food inflation remains broadly manageable at present, but emerging price trends suggest that risks are gradually building within the food supply chain. While recent increases have been concentrated in selected food categories, the broader concern is the potential convergence of three key drivers namely elevated oil prices, ringgit weakness, and El Niño-related supply disruptions.

- Higher energy prices could raise transportation, logistics, fertilizer and food processing costs, while exchange rate depreciation may increase the cost of imported food products and agricultural inputs. At the same time, El Niño could reduce domestic agricultural output and increase reliance on imports. Together, these factors have the potential to reinforce one another, creating more persistent food-price pressures than currently reflected in headline inflation.

- The experience during the Russia-Ukraine conflict demonstrated how external shocks can quickly transmit through energy, shipping and agricultural supply chains, resulting in broad-based increases in global food prices. Although Malaysia's inflation remained relatively contained due to policy interventions, the episode highlighted the economy's exposure to imported food and production-input costs.

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- Moving forward, close monitoring of oil prices, exchange rates, agricultural input costs and domestic food prices will be critical in assessing whether current pressures remain temporary or begin to evolve into a more sustained food inflation cycle. While a significant food inflation shock is not the base case at this stage, the balance of risks appears to be shifting upward and warrants continued vigilance.

- The proposed Low Altitude Economy (LAE) framework, which is expected to be unveiled by 4Q26 has the potential to strengthen Malaysia's food security by supporting the wider adoption of drone and low-altitude technologies in agriculture. Applications such as crop monitoring, precision spraying, yield assessment and farm surveillance can help improve agricultural productivity, optimise resource usage and reduce production losses. Over time, these technologies could enhance domestic food production capacity, increase the resilience of the agricultural sector and support Malaysia's broader objective of reducing reliance on imported food.