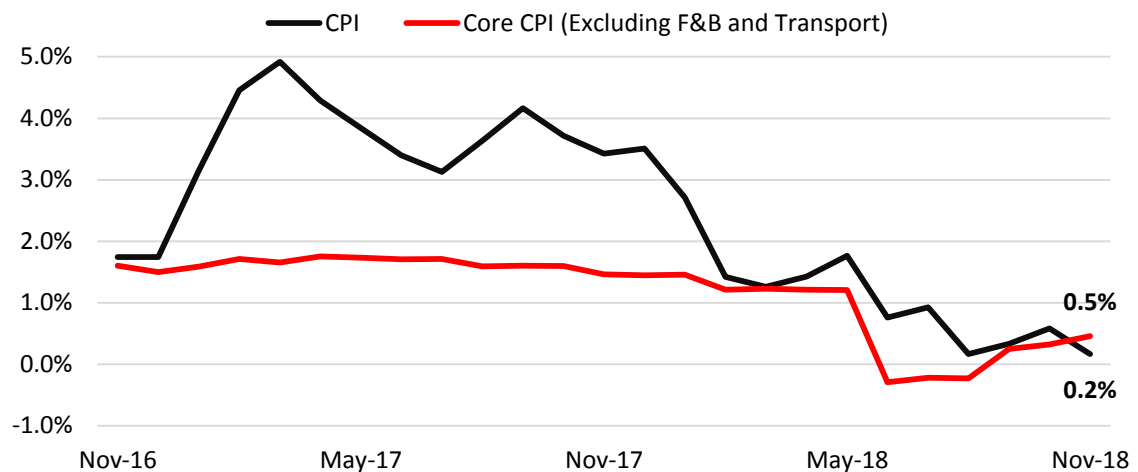


## Inflation rate rises modestly in November

### Facts

- The Consumer Price Index (CPI) moderated to 0.2% year-on-year (y-o-y) in November from 0.6% increases in the preceding month. (Consensus: 0.4%, Bank Islam: 0.4%). This was underpinned by modest gain in Food and Non-Alcoholic Beverages (Nov: 1.1% vs. Oct: 1.2%), Housing, Water, Electricity, Gas and Other Fuels (Nov: 2.0% vs. Oct: 2.1%) while Transport (14.6% of total CPI) fell by 2.3% (Oct: 0.8%) during November.
- As for Food & Non-Alcoholic Beverages sub-indices, Food at Home Index contracted by 0.2% (Oct: 0.3%). This is in tandem with the declined in prices of daily products such as meat (Nov: -2.2% vs. Oct: -0.3%), fish and seafood (Nov: 0.5% vs. Oct: 0.8%) as well as the food products (Nov: -0.7% vs. -0.4%). However, there was a marginal increased in Food Away From Home (Nov: 3.3% vs. Oct: 2.7%).
- On the contrary, Alcoholic Beverages and Tobacco and Education were both higher by 1.0% (Oct: -0.8%) and 1.4% (Oct: 1.1%) in November respectively while Restaurants and Hotels sustained 1.2% increases for two consecutive months.
- Our Core CPI, which excludes Food & Non-Alcoholic Beverages and Transport gradually on the rise by 0.5% in November from 0.3% in October (Sep: 0.2%). So prices are rising albeit at moderate pace.
- For a period between January and November, Malaysia's inflation rate was marginally higher by 1.0% compared to 3.8% recorded in the same period last year. Similarly, Core CPI dipped to 0.6% in 11M2018 from 1.6% in the same period last year.

Chart 1: Malaysia's Inflation rate y-o-y %



Source: CEIC

**Table 1: Consumer Price Index (CPI) y-o-y%**

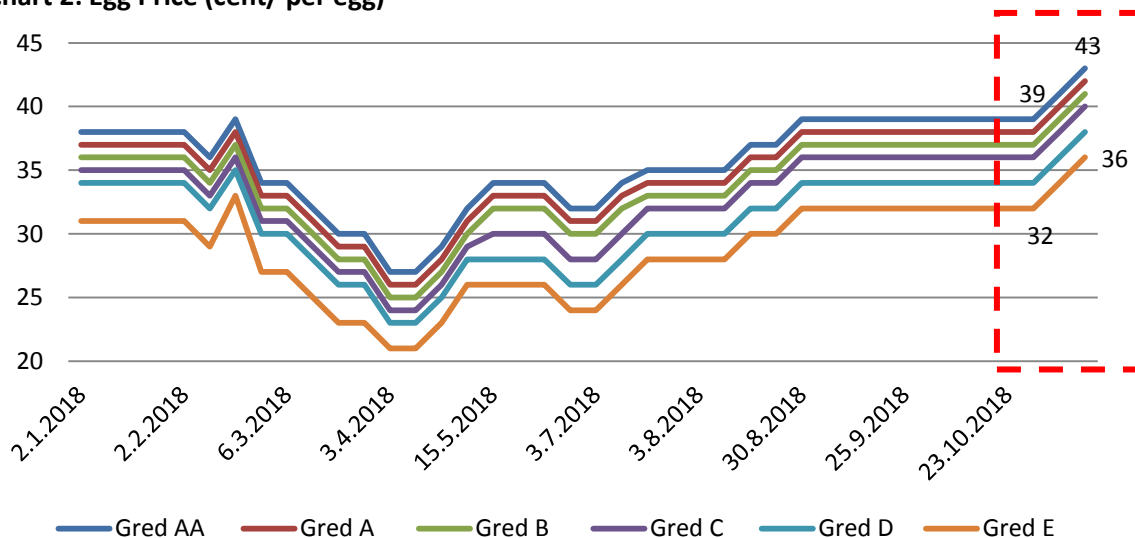
	Weight	Aug-18	Sep-18	Oct-18	Nov-18	11M2017	11M2018
<b>Consumer Price Index</b>	<b>100.0%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.6%</b>	<b>0.2%</b>	<b>3.8%</b>	<b>1.0%</b>
Food and Non Alcoholic Beverages	29.5%	0.4%	0.5%	1.2%	1.1%	3.9%	1.7%
Alcoholic Beverages and Tobacco	2.4%	-1.0%	-0.9%	-0.8%	1.0%	0.1%	-0.2%
Clothing and Footwear	3.2%	-2.9%	-3.2%	-3.1%	-3.1%	-0.3%	-1.9%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	2.1%	2.1%	2.0%	2.2%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	-1.7%	-0.8%	-0.3%	-0.1%	2.2%	0.4%
Health	1.9%	0.0%	-0.2%	-0.2%	-0.2%	2.6%	0.9%
Transport	14.6%	2.1%	0.3%	0.8%	-2.3%	13.4%	1.9%
Communication	4.8%	-4.0%	-1.6%	-1.5%	-1.3%	-0.3%	-1.8%
Recreation and Culture	4.8%	-2.2%	-0.2%	-0.2%	-0.3%	2.0%	-0.5%
Education	1.3%	1.1%	1.1%	1.1%	1.4%	1.6%	1.1%
Restaurants and Hotels	2.9%	0.7%	1.1%	1.2%	1.2%	2.5%	1.5%
Miscellaneous Goods and Services	6.7%	-3.0%	-3.0%	-2.8%	-2.6%	1.2%	-1.3%
<b>Core CPI (excluding F&amp;B and Transport)</b>		<b>-0.2%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.5%</b>	<b>1.6%</b>	<b>0.6%</b>

Source: CEIC & Strategic Management Bank Islam

## Our view

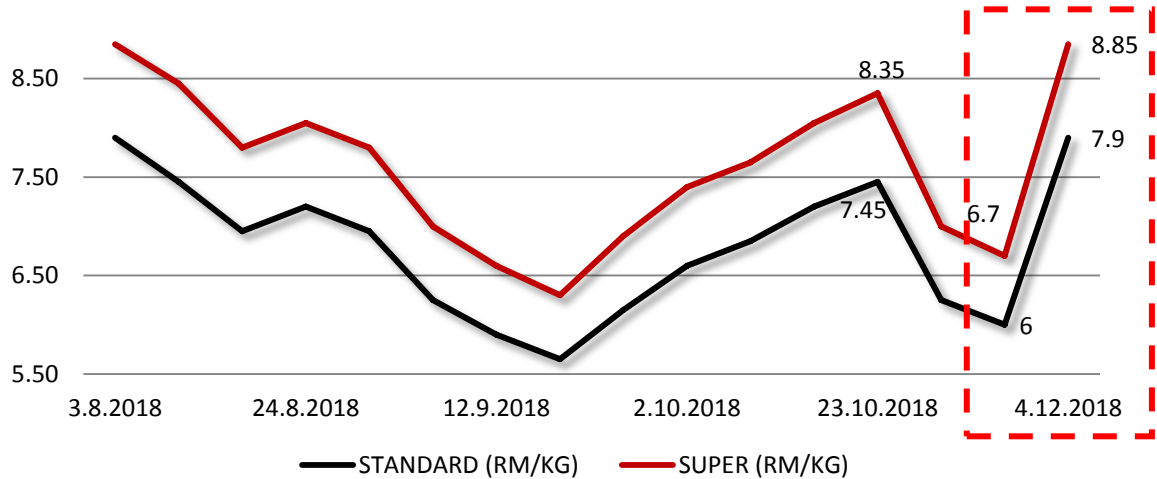
Don't be fooled by the marginal rise in inflation rate. Higher cost of living is real and it is here to stay. Take a look at the price of egg and chicken meat (See Chart 2 & 3). The price of egg has gone up from RM0.32/egg in November to RM0.36/egg as of December (increased by RM0.04 for all grades) and the price of chicken meat rose from RM6.00/kg in November to RM7.90/kg in December. This could really explain higher prices for Food Away from Home as restaurant operators would be inclined to raise its selling price. In view of high tendency to spend among Malaysians, raising the final price is a smart thing to do to earn better margins.

**Chart 2: Egg Price (cent/ per egg)**



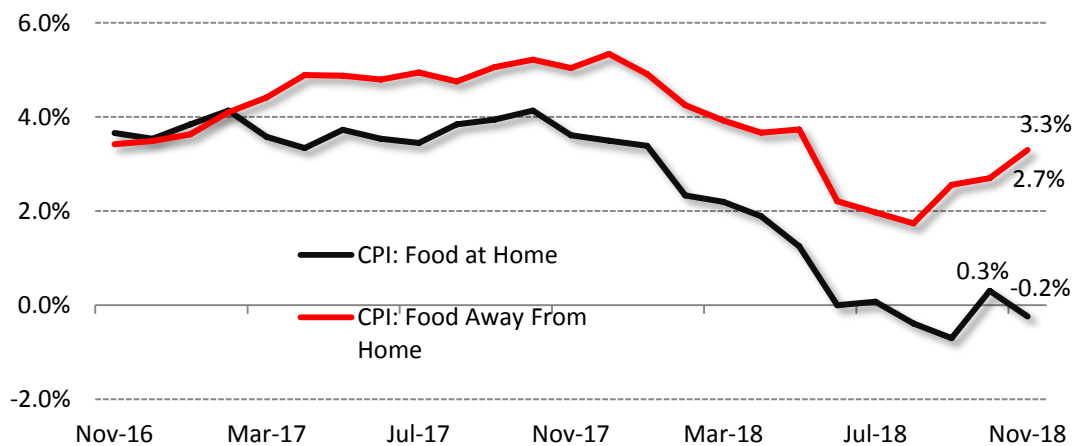
Source: Department of Veterinary Services Malaysia

**Chart 3: Chicken Meat Retail Price (RM/kilogram)**



Source: Department of Veterinary Services Malaysia

**Chart 4: Food at Home & Food Away from Home sub-indices y-o-y %**



Source: CEIC

As for fuel prices, the Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) has set the price of RON 97 petrol at RM2.81 per litre, representing two cents increase from October (RM2.79 per liter). As such, those who drive fancy cars may have to fork up more cash to pay for the latest RON97 prices. Meanwhile, the price for RON 95 petrol and diesel remain unchanged since May 2018. As for smokers, bad news for them. The British American Tobacco (BAT) has raised their cigarette prices to as high as RM18 per pack. This was in response to an increase of more than 40% on cigarette excise duties imposed by the government. The new prices for cigarette are as follows:

**Table 2: Prices for BAT cigarette products per pack:**

Products	Price (RM)
Dunhill	17.00
Benson and Hedges	17.00
Kent	17.00
Pall Mall	15.50
Peter Stuyvesant	15.50
Shuang Xi	18.00
Lucky Strike Plain	17.50

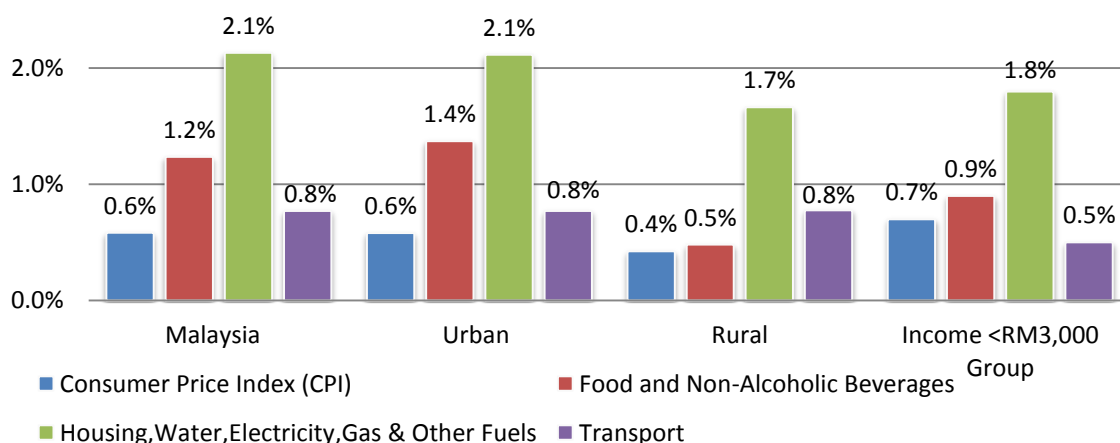
Source: Media

Similarly, JT International Bhd. (JTI Malaysia) has also increased their cigarette prices after receiving guidelines on the retail selling prices from the Ministry of Health (MOH). The price of JTI cigarette products will increase by 40 cents. With the latest price change, Mevius cigarettes now selling at RM17.40, Winston for RM15.90 per pack or RM17.90 per pack (non-filter) and LD for RM11.90.

From October's data, Malaysian income group who earned less than RM3,000.00 per month faced higher headline inflation rate of 0.7% compared to the national CPI and Urban CPI at 0.6% (see Chart 5). This would mean lower income group purchasing power is deteriorating. Following this, government initiatives such as Bantuan Sara Hidup (BSH) and targeted fuels subsidies should provide some buffer in order for this group to have better living standards.

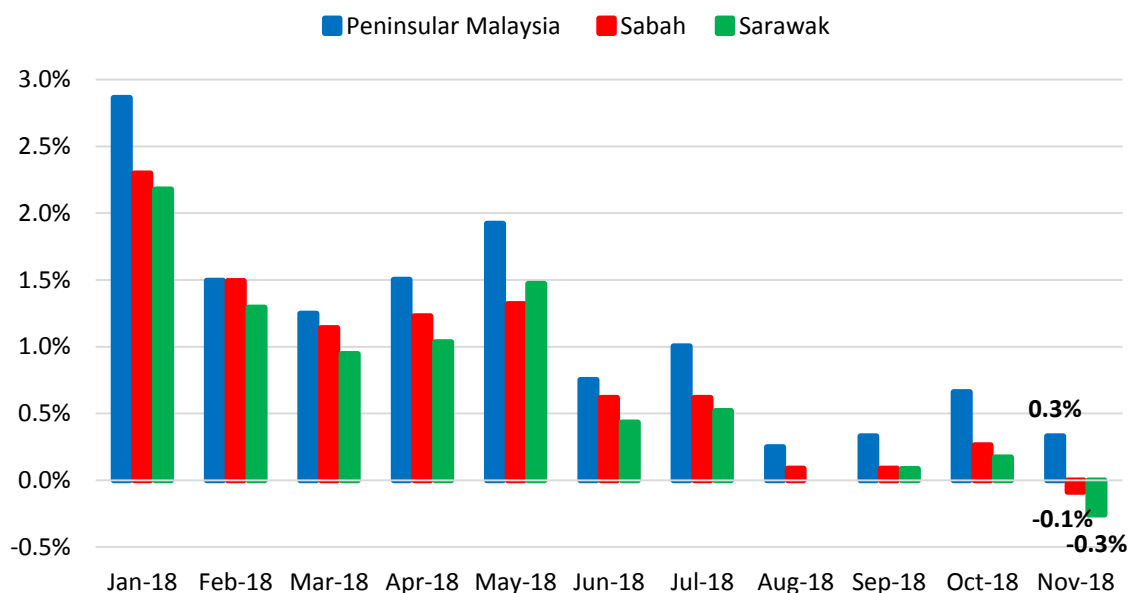
On a different note, lower inflation rate suggests that the BNM has more policy space. Having said that, we believe **our central bank would be keen to maintain the Overnight Policy Rate (OPR) at 3.25% throughout 2019**, judging from the volatility in the foreign fund flows. At the same time, the FOMC is expected to increase the Federal Fund Rate (FFR) further in 2019, resulting in market uncertainties and the widening of interest rate differentials between the OPR and FFR. All in all, the inflation rate is expected to be higher in 2019 due to lower base in 2018, weaker exchange rate and perhaps, the implementation of Automatic Price Mechanism (APM) in 2Q2019 would translate into higher general prices next year. **We are projecting inflation rate to rise 2.2% in 2019 from an estimated 1.1% in 2018.**

**Chart 5: CPI by Group Segment in October (y-o-y %)**



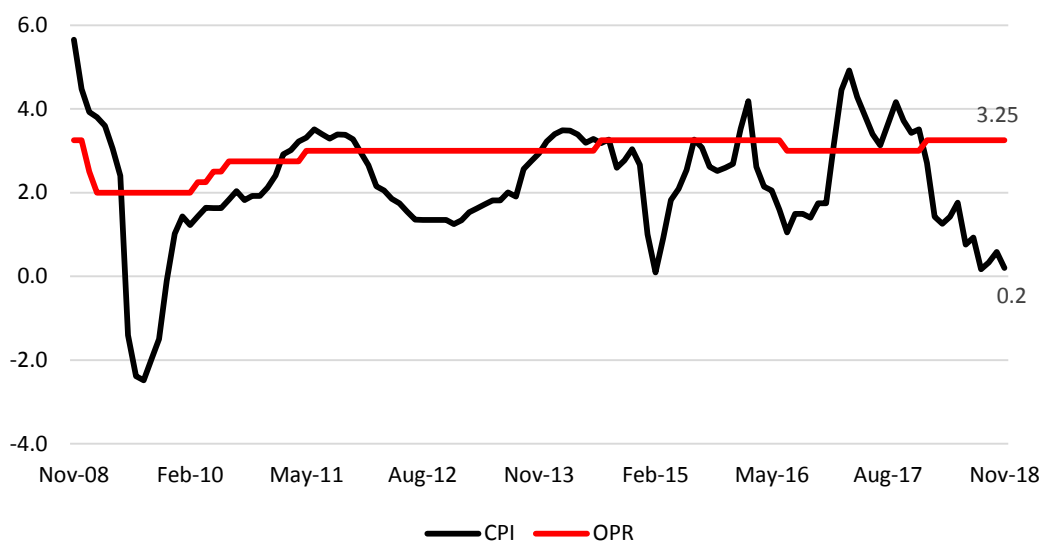
Source: CEIC, Ministry of Domestic Trade and Consumer Affairs

**Chart 6: CPI for Peninsular Malaysia, Sabah and Sarawak y-o-y %**



Source: CEIC

**Chart 7: CPI y-o-y % vs. OPR**



Source: CEIC

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