

Welcome back inflation!

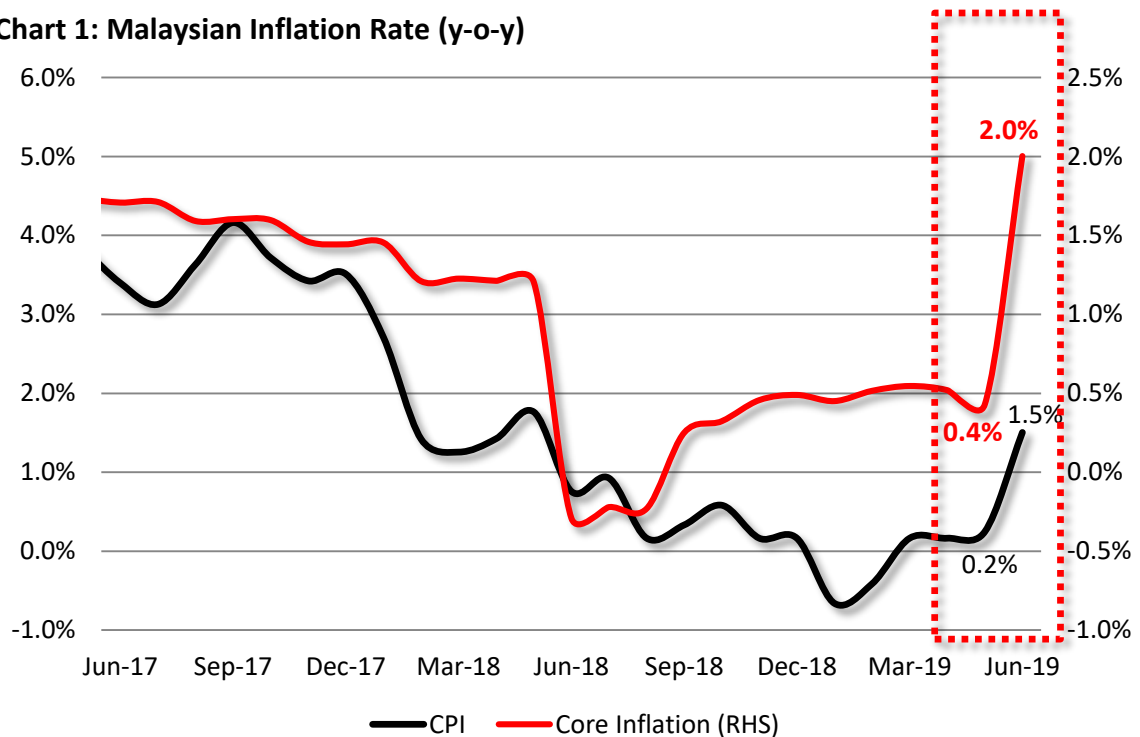
Facts

- Malaysian Consumer Price Index (CPI) edged up by 1.5% year-on-year (y-o-y) in June (May: 0.2% Consensus: 1.5%), recording the highest print since May 2018 (1.8%). Increasing prices of Furnishings, Household Equipment and Maintenance (June: 3.1% vs. May: 0.5%), Food & Non Alcoholic Beverages (June: 2.3% vs. May: 1.2%), Housing, Water, Electricity, Gas & Other Fuels (June: 2.3% vs. May: 1.8%), Alcoholic Beverages & Tobacco (June: 2.1% vs. May: 1.3%) were the key drivers to the overall uptick in CPI. These indices contributed for 59.8% of total headline inflation.
- Within the Food & Non-Alcoholic Beverages sub-indices, prices of Food at Home increased from 0.2% in May to 0.9% in June. This was predominantly driven by upward pressure in the prices of Rice, Bread & Other Cereals (June: 0.8% vs. May: -0.3%), Milk & Eggs (June: 2.5% vs. May: 0.7%), Vegetables (June: 5.2% vs. May: 4.5%) and Food Away From Home (June: 4.2% vs. May: 2.9%).
- With regards to Housing, Water, Electricity, Gas & Other Fuels sub-indices, the prices for Material for Maintenance & Repair Dwelling and Electricity rose by 2.9% (May: 0.0%) and 5.0% (May: 1.0%) respectively during June.
- Additionally, Recreation & Culture (June: 2.7% vs. May: -0.4%), Communication (June: 2.1% vs. May: -0.9%), Health (June: 1.2% vs. May: -0.3%), as well as Miscellaneous Goods & Services (June: 1.4% vs. May: -2.1%) were higher during June.
- On the other hand, Clothing & Footwear (June: -0.7% vs. May: -3.2%) and Transport (June: -2.1% vs. May: -2.5%) continue to record negative growth albeit at a softer pace during June.
- At states level, prices were rising at a fast clip in Pulau Pinang (June: 2.2% vs. May: 0.7%), Federal Territory Kuala Lumpur (June: 2.2% vs. May: 0.5%) and Selangor & Federal Territory Putrajaya (June: 1.7% vs. May: 0.2%). Similarly, inflation rate in Melaka, Sarawak, Terengganu, Kedah & Perlis rebounded by 1.1% (May: -0.5%), 1.0% (May: -0.3%), 0.9% (May: -0.3%) and 0.8% (May: -0.3%) respectively during June.
- Our core inflation, which excludes Food & Non-Alcoholic Beverages and Transport, accelerated to 2.0% in June as compared to 0.4% in the previous month.
- On cumulative basis, the inflation rate is still soft at 0.2% in the first half of 2019 (1H2018: 1.6%) while the Core CPI moderated to 0.7% in 1H2019 (1H2018: 1.0%).

Table 1: Consumer Price Index (CPI)

	Weight	Feb-19	Mar-19	Apr-19	May-19	Jun-19	1H2018	1H2019
Consumer Price Index	100.0%	-0.4%	0.2%	0.2%	0.2%	1.5%	1.6%	0.2%
Food and Non Alcoholic Beverages	29.5%	1.0%	1.1%	1.1%	1.2%	2.3%	2.5%	1.3%
Alcoholic Beverages and Tobacco	2.4%	1.1%	1.1%	1.2%	1.3%	2.1%	0.0%	1.3%
Clothing and Footwear	3.2%	-3.2%	-3.0%	-3.2%	-3.2%	-0.7%	-1.1%	-2.8%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	2.0%	2.0%	1.8%	2.3%	2.0%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	0.1%	0.3%	0.2%	0.5%	3.1%	1.5%	0.6%
Health	1.9%	-0.4%	-0.2%	-0.3%	-0.3%	1.2%	1.8%	-0.1%
Transport	14.6%	-6.8%	-3.0%	-2.6%	-2.5%	-2.1%	2.2%	-4.1%
Communication	4.8%	-1.2%	-1.1%	-1.1%	-0.9%	2.1%	-1.2%	-0.6%
Recreation and Culture	4.8%	-0.4%	-0.4%	-0.4%	-0.4%	2.7%	0.0%	0.1%
Education	1.3%	1.3%	1.3%	1.2%	1.2%	1.4%	1.1%	1.2%
Restaurants and Hotels	2.9%	1.3%	1.0%	0.8%	0.6%	1.6%	1.9%	1.1%
Miscellaneous Goods and Services	6.7%	-2.2%	-2.0%	-2.0%	-2.1%	1.4%	0.0%	-1.6%
Core CPI (excluding F&B and Transport)		0.5%	0.5%	0.5%	0.4%	2.0%	1.0%	0.7%

Chart 1: Malaysian Inflation Rate (y-o-y)

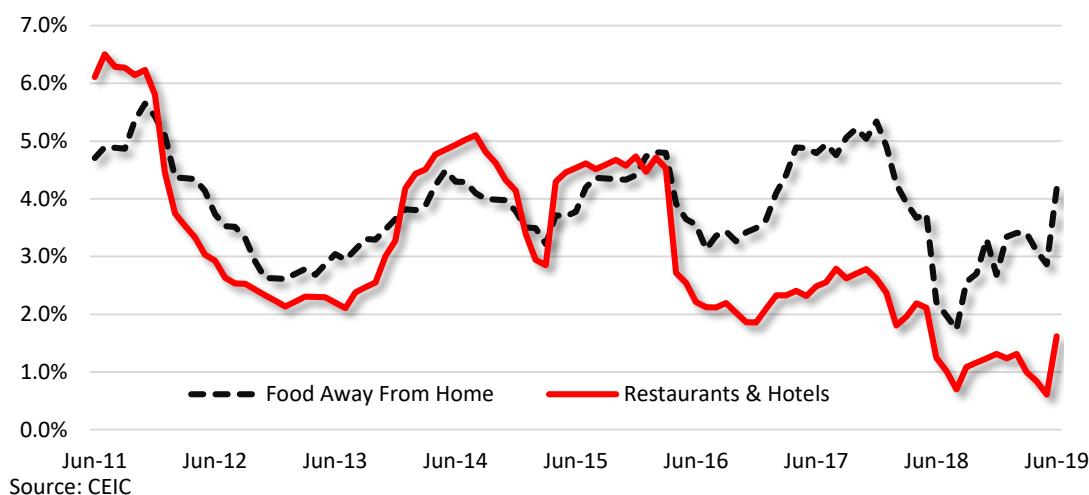


Source: CEIC

Our view

The inflation rate has picked up in June and it was mainly driven by the low base effect due to the abolishment of Goods and Services Tax (GST) last year for 3 months, commencing from June to August. So the price level has been on the rise although it has accelerated sharply in June. The Department of Statistics Malaysia (DOSM) Chief Statistician, Dato' Sri Dr. Mohd Uzir Mahidin mentioned that out of 552 items covered in the CPI, 381 items reported positive growth in June 2019 against the same period last year¹. This would mean 69.0% of the total products prices have increased gradually. The index of goods which posted price appreciation in most states during June were Fresh Chilly Red (+40.5%), Cucumbers (+37.7%), Fresh Chilly Green (+22.7%), Bird's Eye Chillies (+22.3%), Yoghurt (+13.9%), Cockles (13.8%) and Tomatoes (+12.6%).

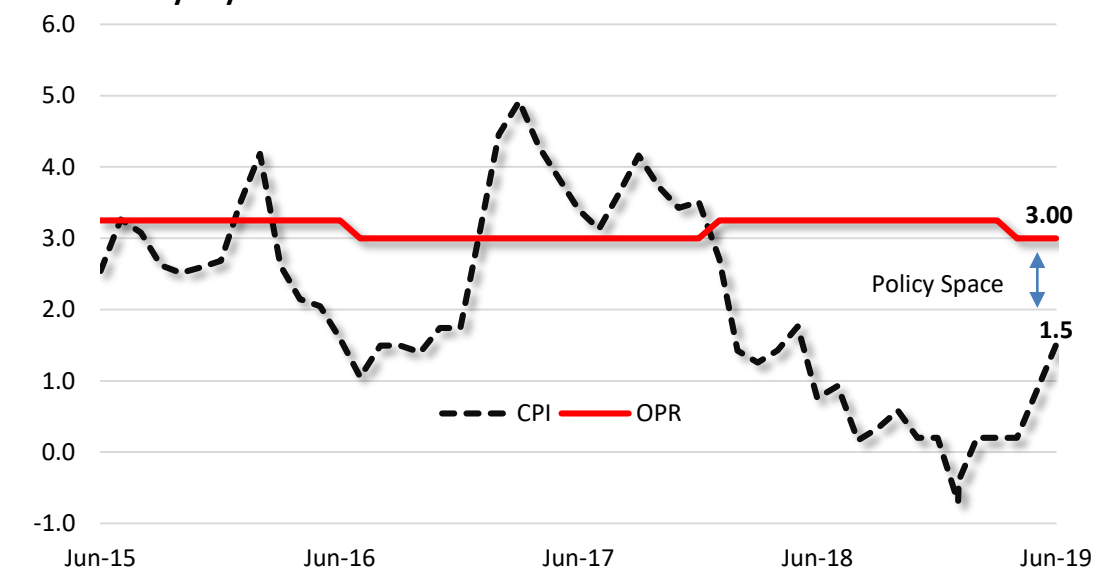
Chart 2: Food Away from Home sub-indices vs. Restaurants & Hotels, y-o-y%



As we can see from the Chart 2, Food Away from Home sub-indices rose significantly from 2.9% in May to 4.2% in June. According to DOSM, the price increases can be seen in the price of Burger, Fried Chicken, Pizza and Sea Food Other Than Fish which contributed to the rise of the index of this sub-group. Against such backdrop, food operators have been raising their product prices and high tendency to spend among Malaysians would perpetuate the price level. Although higher inflation rate would mean less room to provide additional monetary stimulus, the current backdrop suggests that the BNM has the ability to cut the OPR again. This is in view of weak demand condition as the economy is currently operating below its potential growth circa 4.8%. Nonetheless, the FTSE Russell review which is due in September will be closely watched. It matters most for the passive foreign funds who tracks World Government Bond Index (WGBI) and holds significant amount of Malaysia's MGS and GII in their fixed income portfolio. The delisting could potentially result in foreign funds to offload their holdings in Malaysian govies and this could have serious repercussion to USDMYR. All things considered, **we maintained our full year 2019 inflation target at 0.7% (2018: 1.0%) and OPR of 3.00%, at least for now.**

¹ <https://www.theedgemarkets.com/article/malaysias-june-cpi-15-yoy-zero-rated-gst-effect>

Chart 3: CPI y-o-y % vs. OPR %



Source: CEIC

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