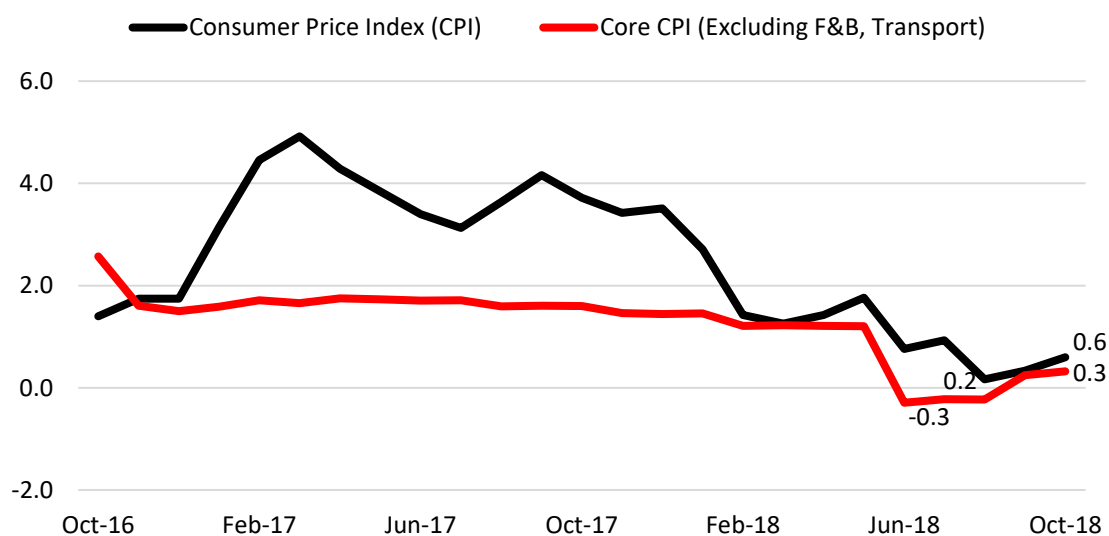


Rising inflation rate – slowly but surely

Facts

- Malaysia Consumer Price Index (CPI) rose 0.6% year-on-year (y-o-y) in October from 0.3% increases in the previous month. (Consensus: 0.6%, Bank Islam: 0.7%). This was mainly attributed by the Food & Non Alcoholic Beverages (Oct: 1.2% vs. Sept: 0.5%) and Transport (Oct: 0.8% vs. Sept: 0.3%) indices while Housing, Water, Electricity, Gas & Other Fuels which accounted for 23.8% of total CPI, sustained at 2.1% for two consecutive months.
- On further scrutiny, Food at Home Index increased from -0.7% in September to 0.3% in October owing to higher Fish & Seafood (Oct: 0.8% vs. Sep: 0.4%) and Vegetables (Oct: 3.0% vs. Sep: -1.2%). Meanwhile, there was a slight increase in Food Away From Home to 2.7% in October from 2.6% in the preceding month. Similarly, Restaurants & Hotels sub-indices increased from 1.0% in September to 1.2% in October which is tandem with the implementation of Sales and Services Tax (SST) commencing 1 September 2018.
- Higher Transport sub indices was mainly due to 1.8% increases (Sep: 0.9%) in Fuels & Lubcrating Personal Transport Equipment (8.5% of total CPI). This was largely underpinned by higher RON97 prices in October (Oct: RM2.79 vs Sept: RM2.65) .
- Our Core CPI which excludes Food & Non-Alcoholic Beverages and Transport rose by 0.3% by after rising by 0.2% previously. Cummulatively, CPI posted 1.1% increases for 10M2018, significantly lower from 3.9% in the same period last year. Likewise, Core CPI dipped to 0.6% in 10M2018 from 1.7% previously.

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



Source: CEIC

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

	Weight	Jul-18	Aug-18	Sep-18	Oct-18	10M2017	10M2018
Consumer Price Index	100.0%	0.9%	0.2%	0.3%	0.6%	3.9%	1.1%
Food and Non Alcoholic Beverages	29.5%	0.7%	0.4%	0.5%	1.2%	3.9%	1.8%
Alcoholic Beverages and Tobacco	2.4%	-0.8%	-1.0%	-0.9%	-0.8%	0.1%	-0.4%
Clothing and Footwear	3.2%	-3.0%	-2.9%	-3.2%	-3.1%	-0.3%	-1.8%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	2.0%	2.1%	2.1%	2.2%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	-1.7%	-1.7%	-0.8%	-0.3%	2.1%	0.5%
Health	1.9%	0.0%	0.0%	-0.2%	-0.2%	2.6%	1.0%
Transport	14.6%	6.7%	2.1%	0.3%	0.8%	13.7%	2.4%
Communication	4.8%	-3.9%	-4.0%	-1.7%	-1.5%	-0.3%	-1.8%
Recreation and Culture	4.8%	-2.4%	-2.2%	-0.2%	-0.2%	2.2%	-0.5%
Education	1.3%	1.0%	1.1%	1.1%	1.1%	1.7%	1.1%
Restaurants and Hotels	2.9%	1.0%	0.7%	1.0%	1.2%	2.5%	1.6%
Miscellaneous Goods and Services	6.7%	-3.0%	-3.0%	-3.0%	-2.8%	1.3%	-1.2%
Core CPI (excluding F&B and Transport)		-0.2%	-0.2%	0.2%	0.3%	1.7%	0.6%

Source: CEIC & Strategic Management Bank Islam

Our view

From the observed data, we can infer that the inflation rate is gradually rising after the reintroduction of the Sales and Services Tax (SST) in September. The news flows suggests prices are expected to go up again in November especially for food related items due to increase in manufacturing and material costs. It was reported in the news that Malaysia's Gardenia Bakeries (KL) Sdn Bhd has confirmed that it has increased the prices of several of its best known products in the market starting November 2018¹. This is resulting from the upward pressure on its manufacturing, operation, distribution costs as well as other costs incurred. These are the products that have already experienced a price increase:

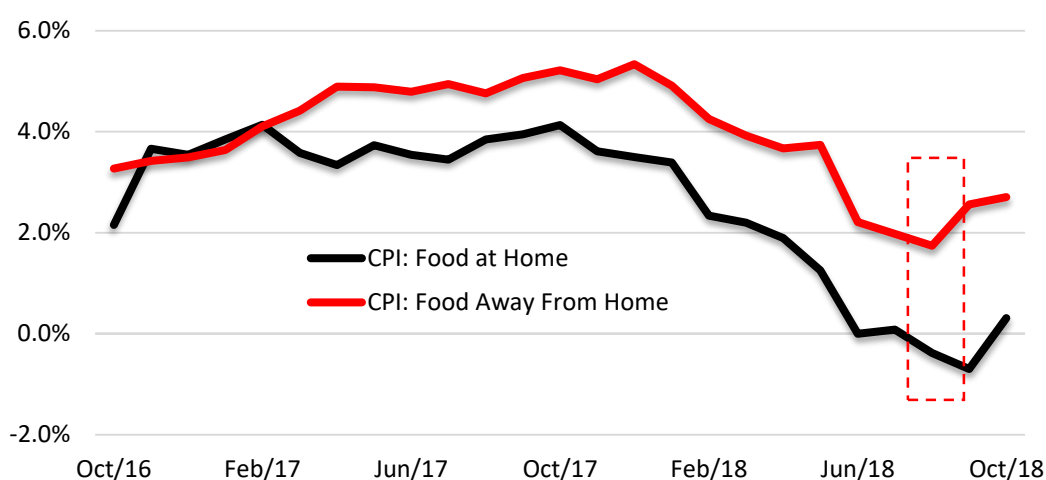
1. Auntie Rosie's Original Homestyle and Natural Pandan Kaya spread (RM2.85 to RM3.00)
2. Delicia Milky Chocolate spread (RM6.70 to RM7.20)
3. Hazelnut Chocolate spread (RM8.60 to RM9.10)
4. Delicia Butterscotch, Choco Raisin, Raspberry Milk and Cranberries and Butter Raisin loaves (RM4.35 to RM4.50)
5. Cream Rolls in vanilla, corn, butterscotch and chocolate (RM0.80 to RM0.85)

However, other products like sliced bread, Squiggles and Twiggies will not be affected by the costs increased.

¹ <https://www.worldofbuzz.com/prices-of-some-gardenia-products-will-be-more-expensive-from-nov-1-heres-why/>

For tobacco industry, the cigarette prices are set to go up at the end of October 2018 following the imposition of 10% Sales Tax. Already, the share prices of related companies have responded positively to such news². Furthermore, the sub-indices for food at home and food away from home have increased moderately from the preceding month which indirectly contributed to the increase of CPI growth (see Chart 2). This indicates that the producers and sellers have slowly increased their prices as in the face of cost of doing business. As such, consumers' purchasing power are expected to be affected.

Chart 2: Food at Home & Food Away from Home sub-indices y-o-y%

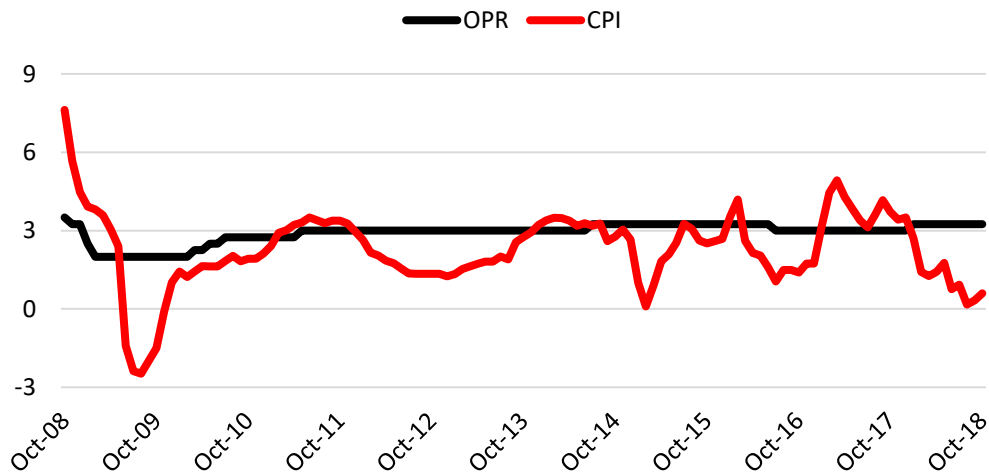


Source: CEIC

Higher inflation rate would inadvertently result in further discussion on the central bank policy rate. This is especially true when regional central banks have been raising their interest rates amidst volatility in the capital flows (see Table 2 & 3). Moreover, robust economic growth in the US would lead to higher Federal Fund Rate (FFR). Already, the market is anticipating another 25bps FFR hike in December 2018 and perhaps, few more rounds in 2019. **Be that as it may, we believe the BNM would incline to keep the Overnight Policy Rate (OPR) at 3.25% next year.** The message of higher downside risks in 2019 was well telegraphed from the recent 3Q2018 GDP announcement. Therefore, it would be perplexing to expect higher rates at a time when growth prospect is envisaged to be more challenging.

² <http://www.theedgemarkets.com/article/bat-shares-17-cigarette-price-hike-looms>

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



Source: CEIC

Table 2: Consumer Price Index (CPI) y-o-y% across countries

Countries	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Malaysia	2.7%	1.4%	1.3%	1.4%	1.8%	0.8%	0.9%	0.2%	0.3%	0.6%
Indonesia	3.3%	3.2%	3.4%	3.4%	3.2%	3.1%	3.2%	3.2%	2.9%	3.2%
Singapore	0.0%	0.5%	0.2%	0.1%	0.4%	0.6%	0.6%	0.7%	0.7%	N/A
China	1.5%	2.9%	2.1%	1.8%	1.8%	1.9%	2.1%	2.3%	2.5%	2.5%
Philippines	3.4%	3.8%	4.3%	4.5%	4.6%	5.2%	5.7%	6.4%	6.7%	6.7%
Thailand	0.7%	0.4%	0.8%	1.1%	1.5%	1.4%	1.5%	1.6%	1.3%	1.2%
India	5.1%	4.4%	4.3%	4.6%	4.9%	4.9%	4.2%	3.7%	3.7%	3.3%
Japan	1.4%	1.5%	1.1%	0.6%	0.7%	0.7%	0.9%	1.3%	1.2%	1.4%
United States	2.1%	2.2%	2.4%	2.5%	2.8%	2.9%	2.9%	2.7%	2.3%	2.5%
European Union	1.3%	1.1%	1.3%	1.3%	1.9%	2.0%	2.1%	2.0%	2.1%	2.2%

Source: Bloomberg

Table 3: Central bank policy rates

	Aug-18	Sep-18	Oct-18	Nov-18	Y-T-D
Advanced countries					
US (Fed Fund Rate)	2.00	2.25	2.25	2.25	0.75
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	0.00
Euro Zone (Main Refinancing Rate)	0.00	0.00	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.25
Canada (ON Lending Rate)	1.50	1.50	1.75	1.75	0.75
Latin America					
Mexico (ON Rate)	7.75	7.75	7.75	7.75	0.50
Brazil (Selic Rate)	6.50	6.50	6.50	6.50	-0.50
Argentina (7D Reference Rate)	45.00	65.00	73.52	73.52	44.77
Eastern Europe					
Russia (Key Rate)	7.25	7.50	7.50	7.50	-0.25
Ukraine (Discount Rate)	17.00	17.00	17.00	17.00	2.50
Turkey (1W Repo Rate)	17.25	24.00	24.00	24.00	16.00
Asia					
China (12M Lending Rate)	4.35	4.35	4.35	4.35	0.00
India (Repo Rate)	6.50	6.50	6.50	6.50	0.50
Indonesia (7D Repo Rate)	5.50	5.75	5.75	5.75	1.50
Thailand (1D Repo Rate)	1.50	1.50	1.50	1.50	0.00
South Korea (Base Rate)	1.50	1.50	1.50	1.50	0.00
Philippines (O/N Lending Rate)	4.00	4.50	4.50	4.50	1.50
Australia (Cash Rate)	1.50	1.50	1.50	1.50	0.00
New Zealand (Cash Rate)	1.75	1.75	1.75	1.75	0.00
Malaysia (OPR)	3.25	3.25	3.25	3.25	0.25

Source: Bloomberg

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