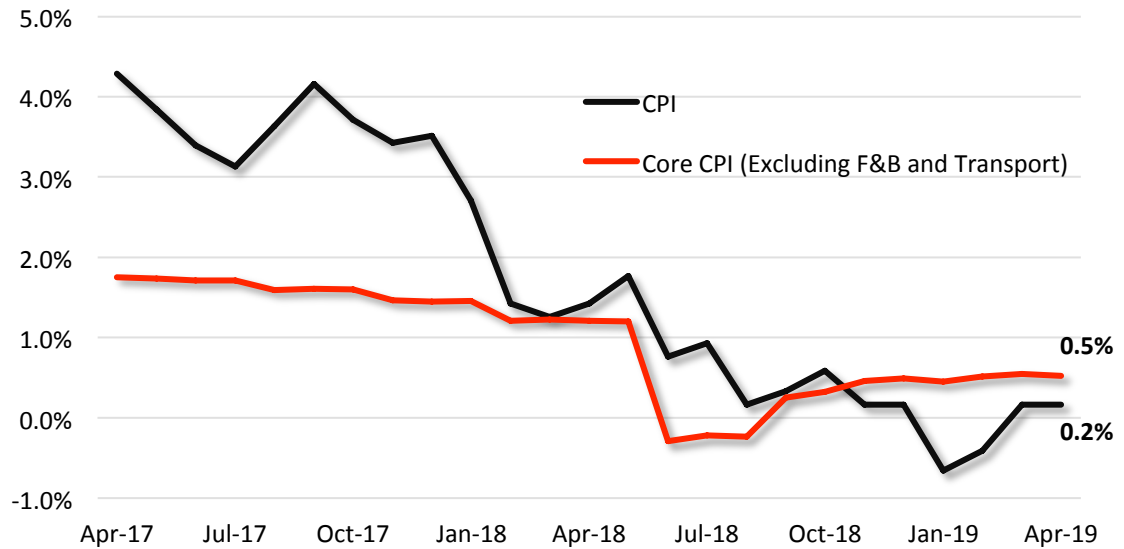


Softer CPI at 0.2% in April

Facts

- Malaysian Consumer Price Index (CPI) maintained at 0.2% year-on-year (y-o-y) in April (March: 0.2%), slightly lower than the market consensus of 0.4% (Bank Islam: 0.4%). The modest print was mainly attributed by the slower contraction in Transport (April: -2.6% vs. Mar: -3.0%). Additionally, Food & Non-Alcoholic Beverages and Housing, Water, Electricity, Gas & Other Fuels sustained at 1.1% (Mar: 1.1%) and 2.0% (Mar: 2.0%) respectively in April. These indices accounted for 67.9% of headline inflation.
- As for the Food & Non-Alcoholic Beverages sub-indices, prices for Milk & Eggs and Food Away from Home have softened in April, growing by 1.9% (Mar: 2.0%) and 3.1% (Mar: 3.4%). Nonetheless, meat prices contracted further by 3.6% in April as compared to -1.1% in the preceding month.
- Within the Transport sub-indices, Fuels & Lubricating Personal Transport Equipment which accounted for 8.5% of total CPI slumped 4.2% in April (Mar: -4.8%) albeit at a slower pace as prices of RON95 was gradually rising from RM1.98 per liter in January 2019 to RM2.08 per liter in March 2019 which has been fixed at this price presumably until June this year.
- Meanwhile, Clothing & Footwear (April: -3.2% vs. Mar: 3.0%), Health (April: -0.3% vs. -0.2%), Communication (April: -1.1% vs. Mar: -1.1%), Recreation & Culture (April: -0.4% vs. Mar: -0.4%), as well as Miscellaneous Goods & Services (April: -0.2% vs. Mar: -0.2%) recorded negative growth in April have also weighed down on the overall inflation rate.
- At the states level, inflation in the Federal Territory Kuala Lumpur, Pulau Pinang, as well Negeri Sembilan moderated by 0.7% (Mar: 0.9%), 0.2% (Mar: 0.6%) and 0.2% (Mar: 0.3%) respectively. Nonetheless, higher prices can be seen in Selangor & Federal Territory Putrajaya (April: 0.4% vs. Mar: 0.3%), Johor (April: 0.7% vs. Mar: 0.2%) and Pahang (April: 0.5% vs. Mar: -0.2%).
- Our core inflation which excludes Food & Non-Alcoholic Beverages maintained at 0.5% for six consecutive months since November 2018. This indicates that the upward pressure on domestic prices have been on the rise although the pace is generally modest.
- Broadly speaking, the Malaysian CPI registered a deflation of 0.2% in the first four months of 2019 (4M2018: 1.7%) while the Core Inflation softened to 0.4% in 4M2019 (4M2018: 1.3%).

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



Source: CEIC

Table 1: Consumer Price Index (CPI)

	Weight	Jan-19	Feb-19	Mar-19	Apr-19	4M2018	4M2019
Consumer Price Index	100.0%	-0.7%	-0.4%	0.2%	0.2%	1.7%	-0.2%
Food and Non Alcoholic Beverages	29.5%	1.0%	1.0%	1.1%	1.1%	3.0%	1.0%
Alcoholic Beverages and Tobacco	2.4%	1.1%	1.1%	1.1%	1.2%	0.2%	1.2%
Clothing and Footwear	3.2%	-3.3%	-3.2%	-3.0%	-3.2%	-0.6%	-3.1%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	-0.3%	0.1%	0.3%	0.2%	2.1%	0.1%
Health	1.9%	-0.5%	-0.4%	-0.2%	-0.3%	2.1%	-0.4%
Transport	14.6%	-7.8%	-6.8%	-3.0%	-2.6%	1.0%	-5.0%
Communication	4.8%	-1.2%	-1.2%	-1.1%	-1.1%	-0.6%	-1.2%
Recreation and Culture	4.8%	-0.4%	-0.4%	-0.4%	-0.4%	0.5%	-0.4%
Education	1.3%	0.9%	1.3%	1.3%	1.2%	1.1%	1.2%
Restaurants and Hotels	2.9%	1.2%	1.3%	1.0%	0.8%	2.1%	1.1%
Miscellaneous Goods and Services	6.7%	-2.4%	-2.2%	-2.0%	-2.0%	0.5%	-2.1%
Core CPI (excluding F&B and Transport)		0.5%	0.5%	0.5%	0.5%	1.3%	0.5%

Source: CEIC & Strategic Management Bank Islam

Our view

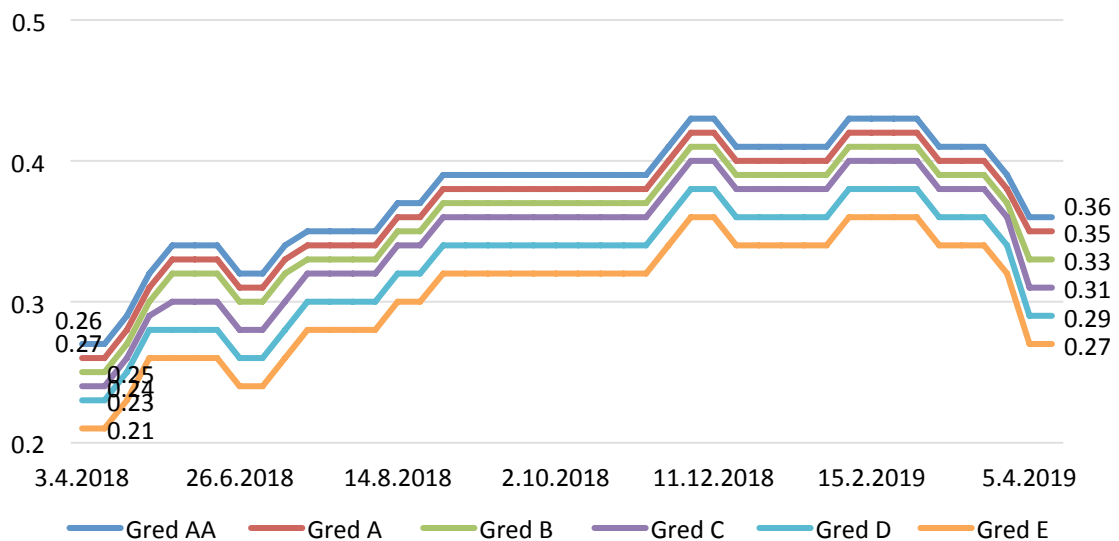
Inflation rate was fairly subdued in April. However, higher costs of living narratives are still relevant if we slice and dice the numbers. According to the Department of Statistics Malaysia (DOSM), prices of goods which increased during April includes Eggs (+13.7%), Cockles (+9.7%), Round Cabbage (+5.4%), Spanish Mackerel (Fish) (+3.2%), Bananas (+3.2%), Choy Sam (+3.0%), Prawns (+1.8%) and Apples (+1.6%). Data from the Department of Veterinary Services Malaysia also indicates prices of eggs are also edging up (see Table 2). Year-on-year basis, the price of eggs with different grades have risen significantly in the region of 25.0% to 30.0% in April 2019. This could really explain why the costs of living remain the main concern among Malaysians as prices of goods especially products that are deemed essentials are still at elevated level.

Table 2: Egg prices (RM/egg)

Date	Price (cents/egg)					
	Grade AA	Grade A	Grade B	Grade C	Grade D	Grade E
3/4/2018	0.27	0.26	0.25	0.24	0.23	0.21
10/4/2018	0.27	0.26	0.25	0.24	0.23	0.21
17/4/2018	0.29	0.28	0.27	0.26	0.25	0.23
25/4/2018	0.32	0.31	0.3	0.29	0.28	0.26
5/4/2019	0.36	0.35	0.33	0.31	0.29	0.27
12/4/2019	0.36	0.35	0.33	0.31	0.29	0.27

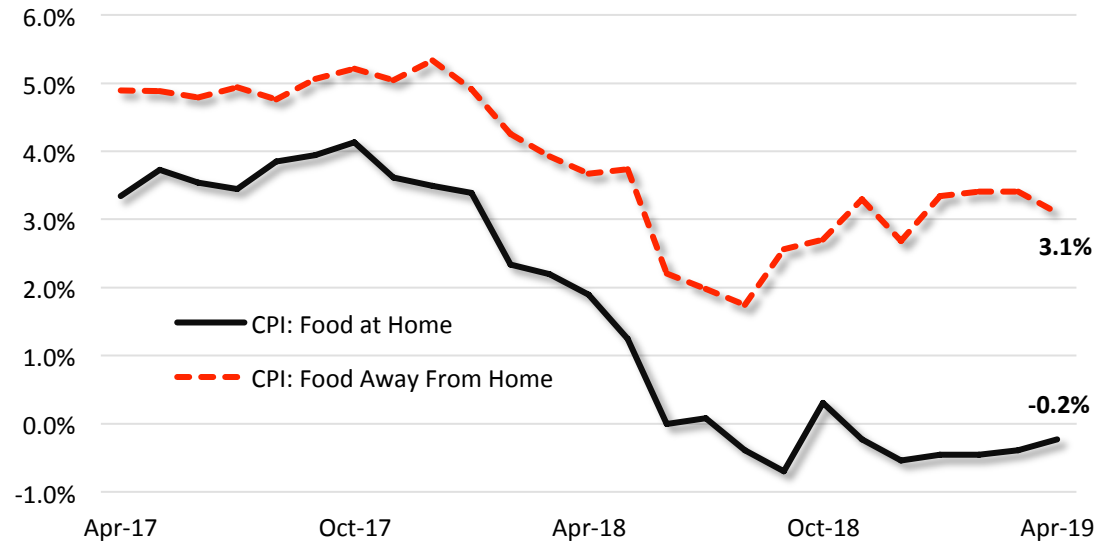
Source: Department of Veterinary Services Malaysia

Chart 2: Egg price (RM/egg)



Source: Department of Veterinary Services Malaysia

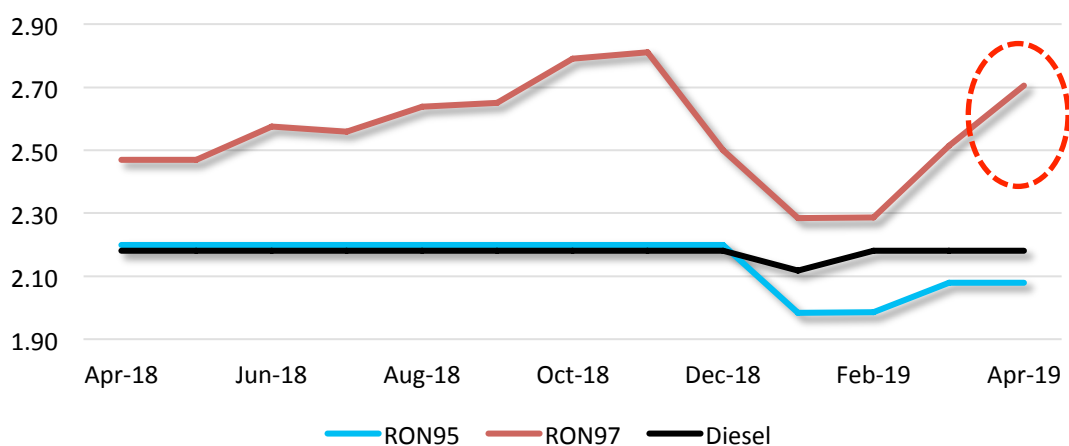
Chart 3: Food at Home & Food Away from Home sub-indices y-o-y%



Source: CEIC

Upon further scrutiny, the sub-indices for Food at Home has slowly increased although y-o-y comparison is still negative. Meanwhile, Food Away from Home increased moderately from the preceding month, suggesting that the transmission from the rise of raw material prices have been very effective. In other words, food operators have been charging higher prices to consumers in response to rising input prices. As such, consumers' purchasing power has deteriorated especially those who are at the lower income cohort which typically spent most of their income towards food. Another important point to note is that the slower increase in the overall CPI level was partly resulting from the lower fuel prices. This was due to the government initiative to cap prices of RON95 and Diesel at RM2.08 and RM2.18 per litre respectively. RON95 commands higher share in CPI and it has significant influence whenever there is a change in the price level. RON97 prices saw significant increases from RM2.47 per litre in April last year to RM2.70 per litre in April 2019. However, the usage among Malaysians are fairly low and therefore, the impact may not be felt to the average citizens.

Chart 4: Average Petrol prices in Malaysia (RM per liter)



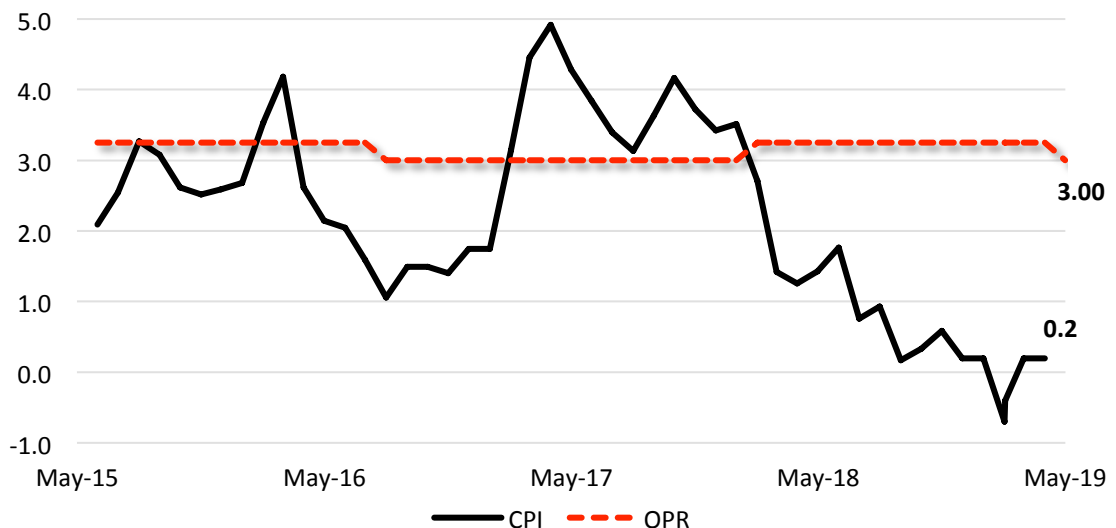
Source: CEIC

For Internal Circulation

All in all, lower inflation rate has allowed more policy space to Bank Negara Malaysia (BNM) and this was reflected in their latest decision to reduce the Overnight Policy Rate (OPR) by 25 basis points to 3.00% on 7th May 2019. The move was none other than to support the slowing economic growth in Malaysia as evidenced by the 4.5% GDP expansion in the first three months of this year. In the recent news flow, Tenaga Nasional Berhad has indicated that the electricity tariff is expected to remain unchanged although prices of coal and natural gas have come down to USD90 per tonne and RM28.00 per MMBTU respectively. This was due to both prices are still higher compared to the base rate of USD75 per tonne and RM27.20 per MMBTU for coal and natural gas. Apart from that, the sugar tax of 40 cents per liter which was supposed to be implemented on 1 April has been delayed to 1 July. As such, CPI should increase steadily in the 2H2019. Despite that, **we maintained our full year 2019 inflation target of 1.3% (2018: 1.0%).**

As for the OPR, the monetary policy space is widely open with real interest rate currently stands at 2.80% (OPR less inflation rate). In addition, the prevailing US Federal Fund Rate (FFR) at 2.50% also suggests 50 basis points buffer relative to OPR. This signals another 25 basis points OPR cut would not be detrimental to the ringgit especially when Malaysia's current account in the balance of payment remain in surplus. The latest external event has pointed to considerable downside risks as the trade conflict between the US and China is likely to affect the technology sector. As such, we believe BNM has become increasingly data-dependent based on our recent communication with them (see our previous notes on 1Q2019 GDP). **In that sense, there is scope for additional monetary easing should the BNM decided to do so. But for now, OPR should stay as it is.**

Chart 5: CPI y-o-y % vs. OPR %



Source: CEIC

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