

4 May 2020



ECONOMICS

In this report:

Malaysia – Expect PPI to remain depressed

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES



AmBank Group

Your Bank. Malaysia's Bank. AmBank.™

AmBank Research

Monday, 04 May 2020

Dr. Anthony Dass

Chief Economist/Head

anthony-dass@ambankgroup.com

03-20322972

Munesh Nair Muralidharan

Economist

munesh-nair@ambankgroup.com

03-20362255

Nur Iman Binti Mohamed Azhar

Economist

iman-azhar@ambankgroup.com

03-20363020

Malaysia

Expect PPI to remain depressed

March's factory gate inflation dipped into deflation at 1.9% y/y – the lowest since October 2019 primarily dragged by poor crude oil prices. Brent fell by 49.7% y/y to average US\$26.69 per barrel in March. Drag also came from utilities OSHA's, electricity and water.

Going forward, the factory gate inflation is more likely to be in the negative growth trajectory. However, the downside will be limited in view of the low base comparison. With low producer price, we expect the impact on consumer price will also be muted. We expect consumer inflation to hover between +0.3% and -1.5%.

- March's factory gate inflation fell into deflation for the first time since October 2019. In the month of March, the headline PPI fell by 1.9% y/y from +0.9% y/y in February. This brings the 1Q2020 average to 0.6%. On monthly basis, the headline PPI fell 3.0% m/m in March from -1.3% m/m in the previous month.
- Poor PPI was mainly due to the sharp fall in mining, down by 35.8% y/y in March – sharpest drop in nearly five years, from -5.2% y/y in February. Drag was due to sharp drop in crude oil prices, with Brent down by 49.7% y/y to average US\$26.69 per barrel from US\$33.73 per barrel average in February (US\$67.03 per barrel in March 2019).
- At the same time, softer price was seen in (1) electricity and gas supply down by -0.3% y/y from +1.6% y/y in February; and (2) water supply fell by -0.3% y/y in March from -0.8% y/y in the previous month. Meanwhile, manufacturing cost rose at a slower pace by 0.6% y/y growth from 0.8% y/y in February. However, the downside pressure was cushioned by the increase in agriculture, forestry and fishing prices, up 13.4% y/y from 9.2% y/y in February.
- Looking at price pressure by stage of processing, crude materials declined by 13.9% y/y from +0.1% y/y in February while the intermediate goods prices slowed down to 0.8% y/y from 1.5% y/y in February. However, prices of finished goods rose faster to 0.7% y/y in March from 0.2% y/y in February.
- Going forward, the factory gate inflation is more likely to be in the negative growth trajectory. However, the downside will be limited in view of the low base comparison. With low producer price, we expect the impact on consumer price will also be muted. We expect consumer inflation to hover between +0.3% and -1.5%.

Table 1: PPI Index & Stage of Processing YoY (%)

	Mar'19	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar
PPI	-1.5	-1.4	-1.5	-1.8	-2.2	-1.9	-2.4	-2.9	1.2	3.5	2.8	0.9	-1.9
CPI	0.2	0.2	0.2	1.5	1.4	1.5	1.1	1.1	0.9	1.0	1.6	1.3	-0.2
Crude Materials	-3.0	-1.5	-5.0	-7.0	-7.7	-7.5	-8.5	-11.4	5.9	16.0	10.7	0.1	-13.9
Intermediate	-1.3	-1.8	-0.8	-1.4	-1.8	-1.7	-1.8	-1.4	-0.4	0.4	1.0	1.5	0.8
Finished Goods	-0.6	-0.4	0.1	1.3	1.3	1.8	1.3	0.7	1.4	1.2	0.8	0.2	0.7
MYR/USD (Avg Monthly)	4.077	4.113	4.168	4.160	4.123	4.187	4.182	4.187	4.155	4.146	4.079	4.163	4.296
MYR/USD	4.5	5.8	5.3	4.1	1.8	2.3	1.0	0.7	-0.7	-0.5	-0.9	2.1	5.4

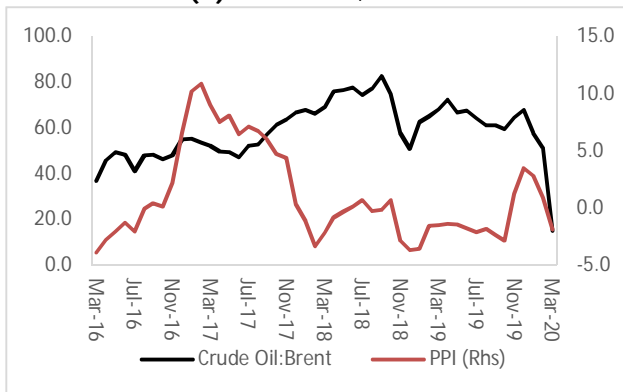
Source: CEIC/AmBank Research

Table 2: PPI for Local Production YoY (%)

	Mar'19	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar
Agriculture	-14.2	-11.9	-12.8	-9.2	-6.5	-0.9	-1.1	1.5	19.9	21.9	18.0	9.2	13.4
Mining	3.0	1.4	-0.4	-6.4	-9.9	-10.9	-14.4	-18.2	6.4	19.3	9.2	-5.2	-35.8
Manufacturing	-0.8	-0.8	-0.6	-0.8	-0.9	-1.0	-1.0	-1.3	-0.7	0.5	0.9	0.8	0.6
Electricity & Gas	2.1	1.5	1.2	1.8	1.5	2.2	1.3	1.3	0.6	1.2	1.0	1.6	-0.3
Water Supply	-1.7	-2.6	-2.3	-1.8	-2.8	-2.6	-2.8	-1.8	-2.3	-2.9	-1.2	-0.8	-0.3

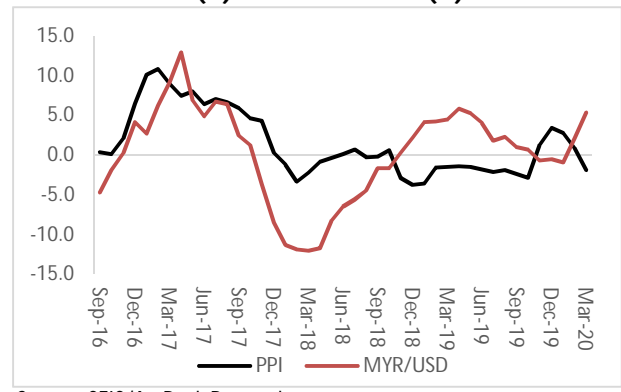
Source: CEIC/AmBank Research

Chart 1: PPI YoY (%) & Brent US\$/bbl



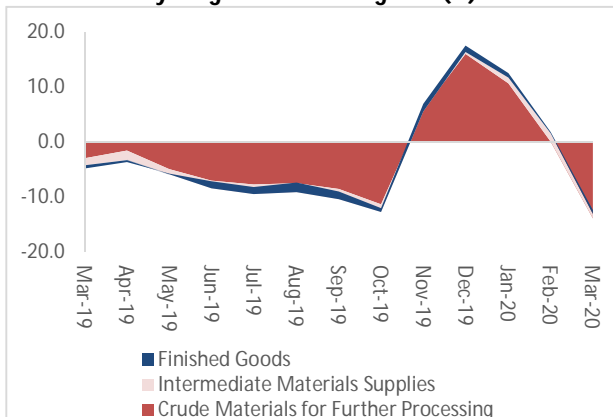
Source: CEIC/AmBank Research

Chart 2: PPI YoY (%) & USD/MYR YoY (%)



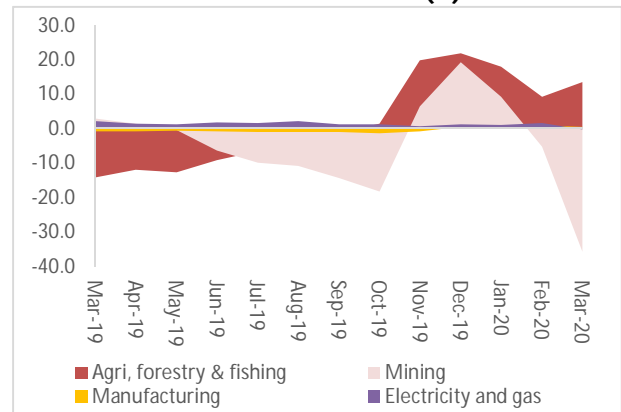
Source: CEIC/AmBank Research

Chart 3: PPI by Stage of Processing YoY (%)



Source: CEIC/AmBank Research

Chart 4: PPI for Local Production YoY (%)



Source: CEIC/AmBank Research

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmBank (M) Berhad (“AmBank”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmBank recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmBank believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmBank has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmBank’s views as of this date and are subject to change without notice. Notwithstanding that, AmBank has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmBank’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmBank’s prior written consent. AmBank, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmBank is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.