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ECONOMICS

In this report:

Malaysia – Fourth straight month in deflation

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Malaysia

Fourth straight month in deflation

Consumer price inflation remained in negative region for the fourth consecutive month in June. It fell as expected by 1.9% y/y, bringing the 1H2020 average to -0.8%. This accounts for 53% of our extreme low full-year projection of -1.5% but slightly below our base full-year projection of -0.6%.

The slower contraction in June was due to higher prices reported in the food and non-alcoholic beverages index. Besides, the core inflation – a gauge excluding fresh food and administered prices of goods and services – climbed gradually by 1.2% y/y in June.

The continued deflationary environment can be seen to provide room for another overnight policy rate (OPR) cut in September by 25bps from the current 1.75%. A cut would provide some comfort to both businesses and households as the 6-month moratorium period is expected to end in September. A lower borrowing cost will also encourage some pent-up demand.

- Consumer price inflation remained in negative region for the fourth consecutive month in June. Inflation fell as expected by 1.9% y/y following a contraction of 2.9% y/y in May. Hence the 1H2020 inflation now averaged at -0.8% which accounts for 53% of our extreme low full-year projection of -1.5% while staying slightly below our base full-year projection of -0.6%.
- The slower contraction in June was due to higher prices reported in the food and non-alcoholic beverages index. This segment saw a rise by 1.6% y/y from 1.2% y/y in May, the fastest gain since January 2020.
- Besides, the core inflation – a gauge excluding fresh food and administered prices of goods and services – climbed gradually by 1.2% y/y in June from 1.1% y/y in May, bringing the first six-month average to 1.3%.

- Meanwhile, transport prices continued to remain in deflation. It dropped by 14.3% y/y, following a contraction of 20.8% y/y in May. Month-on-month, it rose by 7.8%. This is due to slightly higher retail pump prices i.e. RON95, RON97 and diesel — RM1.54/liter (May: RM1.30/liter), RM1.84/liter (May: RM1.60/liter) and RM1.71/liter (RM1.45/liter), respectively, following higher average Brent price at US\$40.27 per barrel (May: US\$29.60 per barrel) and WTI at US\$38.31 per barrel (May: US\$28.80 per barrel). The increase was due to Opec+ reducing output by 9.7 million bpd in June to address the mismatch of supply and demand.
- The continued deflationary environment can be seen to provide room for another OPR cut in September by 25bps from the current 1.75%. A cut would provide some comfort to both businesses and households as the 6-month moratorium period is expected to end in September. Lower borrowing cost will also encourage some pent-up demand.

Table 1: Malaysia Key Inflation Data (%)

	Jun'19	Jul	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May	Jun
CPI y/y	1.5	1.4	1.5	1.1	1.1	0.9	1.0	1.6	1.3	-0.2	-2.9	-2.9	-1.9
CPI m/m	0.0	0.1	0.2	0.0	0.2	0.1	0.2	0.1	0.0	-1.2	-2.7	0.3	1.0
Core-CPI y/y	1.9	2.0	2.0	1.5	1.4	1.4	1.4	1.6	1.3	1.3	1.3	1.1	1.2
Core-CPI m/m	0.0	0.1	0.3	0.2	0.1	0.3	0.0	0.1	-0.1	0.2	0.1	-0.1	0.1
USD/MYR avg	4.160	4.123	4.187	4.182	4.187	4.155	4.146	4.079	4.163	4.296	4.349	4.336	4.273
USD/MYR y/y	4.1	1.8	2.3	1.0	0.7	-0.7	-0.5	-0.9	2.1	5.4	5.8	4.0	2.7
Brent avg (USD/barrel)	64.22	63.92	59.04	62.83	59.71	63.21	67.31	63.65	55.66	32.01	18.47	29.60	40.27
Brent y/y	-13.7	-13.9	-18.6	-20.4	-26.3	-2.4	19.0	7.1	-13.0	-51.6	-74.1	-58.4	-37.3
Real Returns	1.5	1.6	1.5	1.9	1.9	2.1	2.0	1.2	1.4	2.7	5.4	4.9	3.9
	Jul'19	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May	Jun	Jul
OPR	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	1.75

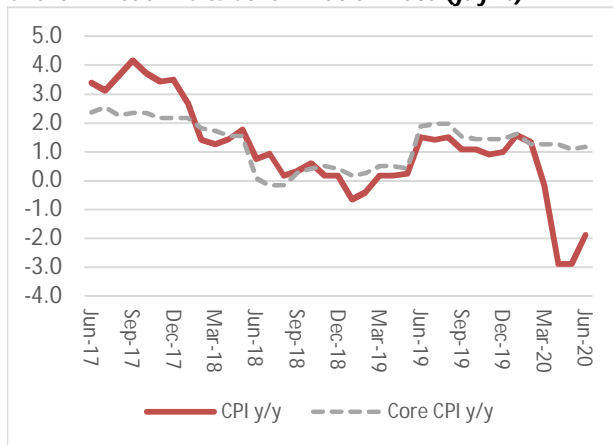
Source: CEIC/AmBank Research

Table 2: Headline CPI and Core Index by Main Group (y/y %)

	Jun'19	Jul	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May	Jun
Non Food	1.1	1.0	0.9	0.5	0.8	0.6	0.6	1.9	1.6	-0.8	-4.8	-4.9	-3.5
Food & Non Alcoholic Beverages	2.3	2.4	2.6	2.2	1.8	1.5	1.7	0.9	0.8	1.2	1.2	1.2	1.6
Alcoholic Beverages and Tobacco	2.1	2.3	2.5	2.4	2.2	0.4	0.2	0.1	0.2	0.3	0.2	0.2	0.2
Clothing and Footwear	-0.7	-1.1	-1.1	-0.9	-1.3	-1.1	-1.0	-1.2	-1.1	-1.3	-1.2	-1.1	-1.1
Housing, Water, Electricity, Gas	2.3	1.9	1.8	1.6	1.6	1.7	1.7	1.7	1.6	1.6	-2.2	-2.6	-2.6
Health	1.2	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.2	1.2	1.1
Transport	-2.1	-1.9	-2.1	-2.2	-2.3	-2.4	-1.9	3.9	2.4	-8.9	-21.5	-20.8	-14.3
Communication	2.1	2.1	2.2	-0.1	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6
Recreation and Culture	2.7	2.4	2.3	0.8	0.7	0.8	0.6	0.9	0.7	0.7	0.6	0.7	0.6
Education	1.4	1.4	1.4	1.8	1.9	1.6	1.7	1.7	1.3	1.3	1.2	1.0	0.8
Restaurant and Hotel	1.6	1.7	1.7	1.4	1.2	1.1	1.1	1.1	1.1	0.9	0.7	0.9	0.3
Misc. Goods & Service	1.4	1.8	2.5	2.7	2.2	2.5	2.4	2.5	2.5	2.6	2.3	2.8	3.0
Durable Goods	1.2	1.8	2.6	2.3	2.1	1.9	1.7	1.8	1.6	2.1	2.5	2.9	2.7
Semi Durable Goods	-0.7	-0.8	-0.9	-0.7	-0.9	-0.9	-0.8	-1.0	-0.9	-0.9	-0.9	-0.7	-0.8
Non-Durable Goods	0.2	0.1	0.2	0.2	-0.2	-0.2	-0.1	1.6	1.2	-2.6	-9.5	-9.3	-6.7
Services	2.6	2.7	2.6	1.9	1.9	1.9	1.9	1.8	1.5	1.5	1.4	1.2	1.3

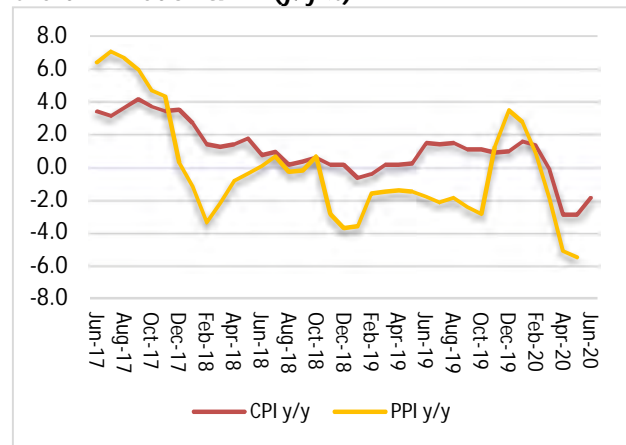
Source: CEIC/AmBank Research

Chart 1: Headline & Core Inflation Rate (y/y %)



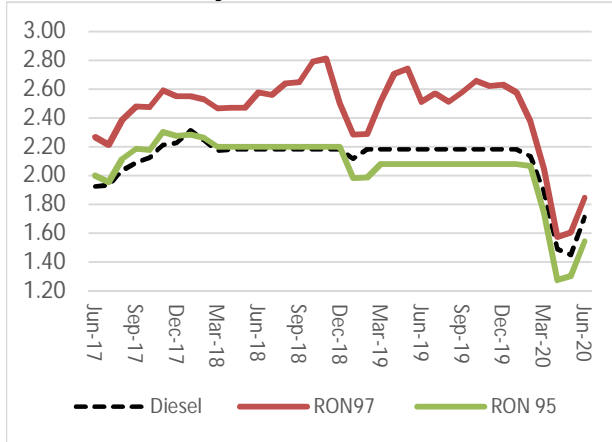
Source: CEIC/AmBank Research

Chart 2: Inflation & PPI (y/y %)



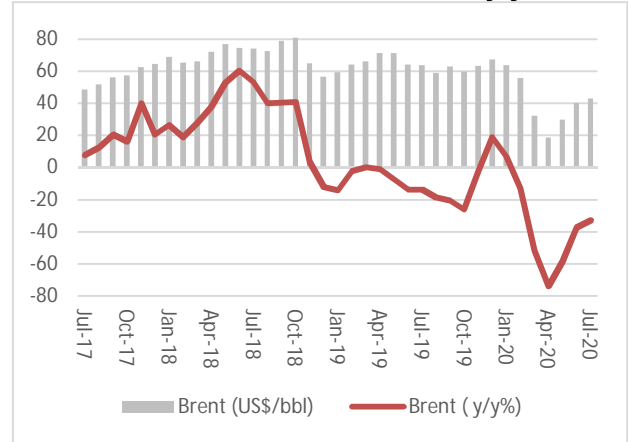
Source: CEIC/AmBank Research

Chart 3: Fuel Daily Prices (RM/liter)



Source: CEIC/AmBank Research

Chart 4: Brent Crude Oil Price (US\$/barrel; y/y %)



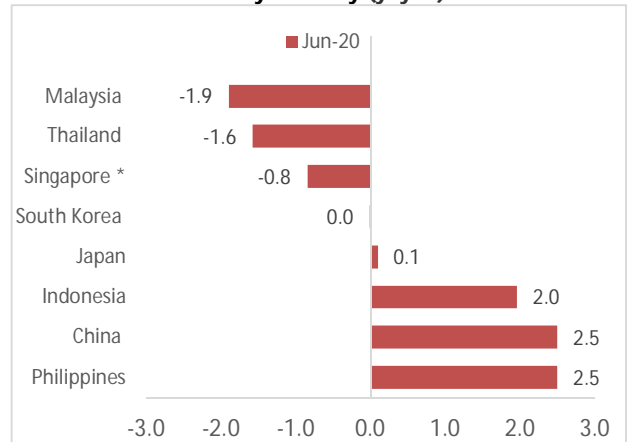
Source: CEIC/AmBank Research

Chart 5: Real Rates (%)



Source: CEIC/AmBank Research

Chart 6: CPI Growth by Country (y/y %)



Source: CEIC/AmBank Research; *as at May 20

Chart 7: Simple Average Wage Growth (%)



Source: CEIC/AmBank Research, Note: Simple average: Wholesale, Retail, Motor vehicle, services, Rubber sector, and manufacturing

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