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ECONOMICS

In this report:

Malaysia – Inflation contracts for 5th straight month

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Malaysia

Inflation contracts for 5th straight month

On a monthly basis, headline consumer inflation slowed down to 0.7% in July while on annual basis, it remained in the negative region for the fifth consecutive month at -1.3%. This brings the average inflation for the first seven months to -0.9%, which is within our base case of -0.6% and a downside of -1.5%.

With headline inflation envisaging to be in the disinflation region in 2020, added with a poor 2Q2020 GDP at -17.1% y/y, it opens the door for more monetary easing. With the ringgit at a strong level, it also provides ample room for another 25bps OPR cut in September from the current 1.75%. We have factored in a 70% chance of a 50bps OPR cut in September.

- On a monthly basis, headline consumer inflation slowed down to 0.7% in July versus 1% in June. Meanwhile on annual basis, inflation remained in the negative region for the fifth consecutive month at -1.3% from -1.9% in June, bringing the average headline inflation to -0.9%. It accounts for 75% of our lower end of the -1.5% full-year projection and from our base projection of -0.6%.
- Core inflation, a gauge excluding fresh food and administered prices of goods and services, turned flat in July versus 0.1% m/m in June while on annual basis, it read at 1.1% from 1.2% in June. This brings the first seven-month average to 1.3%.
- The higher inflation in July was driven by transport prices, which advanced at 4.9% m/m, despite being relatively lower than June's 7.8% m/m. The retail pump price rose moderately in the month, with RON95, RON97 and diesel at RM1.69/litre (June: RM1.54/litre), RM1.99/litre (June: RM1.84/litre) and RM1.85/litre (June: RM1.71/litre) respectively following a higher average Brent price at US\$43.24 per barrel (June: US\$40.27 per barrel) and WTI at US\$40.71 per barrel (June: US\$38.31 per barrel). In July, Opec+ producers continued reducing the global oil supply by 9.7mil bpd as demand has yet to recover. The compliance was considered high for Opec standards at 97% for the month as top exporters from the Middle East were still pumping below their target, according to a survey.
- The restaurant and hotel segment was the outlier, keeping the lid on higher inflation, sliding 0.1% m/m as compared to -0.4% m/m in June. The recovery movement control order (RMCO) has enabled many sectors to resume operation, including domestic tourism, but consumers remained cautious on recreation and gatherings amidst the pandemic.

- With the headline inflation envisaging to be in the disinflation region in 2020, added with a poor 2Q2020 GDP at -17.1%/y/y, it opens the door for more monetary easing. With the ringgit at a strong level, it provides ample room for another 25bps OPR cut in September from the current 1.75%. We have now factored in a 70% chance of a 50bps OPR cut in September.

Table 1: Malaysia Key Inflation Data (%)

	Jul'19	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May	Jun	Jul
CPI y/y	1.4	1.5	1.1	1.1	0.9	1.0	1.6	1.3	-0.2	-2.9	-2.9	-1.9	-1.3
CPI m/m	0.1	0.2	0.0	0.2	0.1	0.2	0.1	0.0	-1.2	-2.7	0.3	1.0	0.7
Core-CPI y/y	2.0	2.0	1.5	1.4	1.4	1.4	1.6	1.3	1.3	1.3	1.1	1.2	1.1
Core-CPI m/m	0.1	0.3	0.2	0.1	0.3	0.0	0.1	-0.1	0.2	0.1	-0.1	0.1	0.0
USD/MYR avg	4.123	4.187	4.182	4.187	4.155	4.146	4.079	4.163	4.296	4.349	4.336	4.273	4.261
USD/MYR y/y	1.8	2.3	1.0	0.7	-0.7	-0.5	-0.9	2.1	5.4	5.8	4.0	2.7	3.4
Brent avg (USD/barrel)	63.92	59.04	62.83	59.71	63.21	67.31	63.65	55.66	32.01	18.47	29.60	40.27	43.24
Brent y/y	-13.9	-18.6	-20.4	-26.3	-2.4	19.0	7.1	-13.0	-51.6	-74.1	-58.4	-37.3	-32.3
Real Returns	1.6	1.5	1.9	1.9	2.1	2.0	1.2	1.4	2.7	5.4	4.9	3.9	3.1
	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May	Jun	Jul	Aug
OPR	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	1.75	1.75

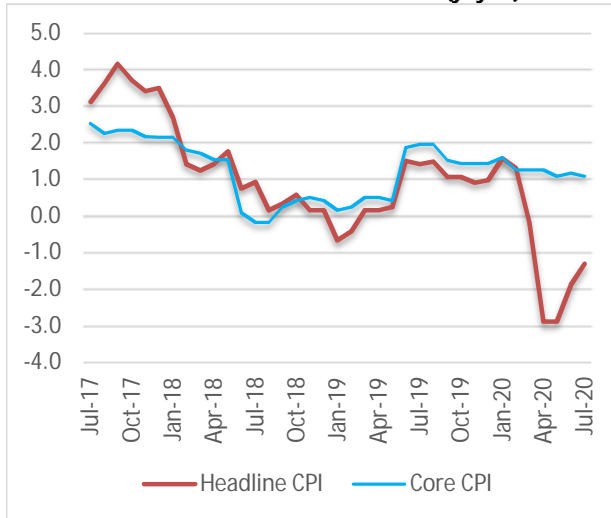
Source: CEIC/AmBank Research

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

	Jul'19	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May	Jun	Jul
Non Food	1.0	0.9	0.5	0.8	0.6	0.6	1.9	1.6	-0.8	-4.8	-4.9	-3.5	-2.6
Food & Non Alcoholic Beverages	2.4	2.6	2.2	1.8	1.5	1.7	0.9	0.8	1.2	1.2	1.2	1.6	1.4
Alcoholic Beverages and Tobacco	2.3	2.5	2.4	2.2	0.4	0.2	0.1	0.2	0.3	0.2	0.2	0.2	0.3
Clothing and Footwear	-1.1	-1.1	-0.9	-1.3	-1.1	-1.0	-1.2	-1.1	-1.3	-1.2	-1.1	-1.1	-0.6
Housing, Water, Electricity, Gas	1.9	1.8	1.6	1.6	1.7	1.7	1.7	1.6	1.6	-2.2	-2.6	-2.6	-2.6
Health	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.2	1.2	1.1	1.1
Transport	-1.9	-2.1	-2.2	-2.3	-2.4	-1.9	3.9	2.4	-8.9	-21.5	-20.8	-14.3	-10.3
Communication	2.1	2.2	-0.1	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Recreation and Culture	2.4	2.3	0.8	0.7	0.8	0.6	0.9	0.7	0.7	0.6	0.7	0.6	0.7
Education	1.4	1.4	1.8	1.9	1.6	1.7	1.7	1.3	1.3	1.2	1.0	0.8	1.2
Restaurant and Hotel	1.7	1.7	1.4	1.2	1.1	1.1	1.1	1.1	0.9	0.7	0.9	0.3	0.2
Misc. Goods & Service	1.8	2.5	2.7	2.2	2.5	2.4	2.5	2.5	2.6	2.3	2.8	3.0	2.9
Durable Goods	1.8	2.6	2.3	2.1	1.9	1.7	1.8	1.6	2.1	2.5	2.9	2.7	2.5
Semi Durable Goods	-0.8	-0.9	-0.7	-0.9	-0.9	-0.8	-1.0	-0.9	-0.9	-0.9	-0.7	-0.8	-0.5
Non-Durable Goods	0.1	0.2	0.2	-0.2	-0.2	-0.1	1.6	1.2	-2.6	-9.5	-9.3	-6.7	-5.4
Services	2.7	2.6	1.9	1.9	1.9	1.9	1.8	1.5	1.5	1.4	1.2	1.3	1.3

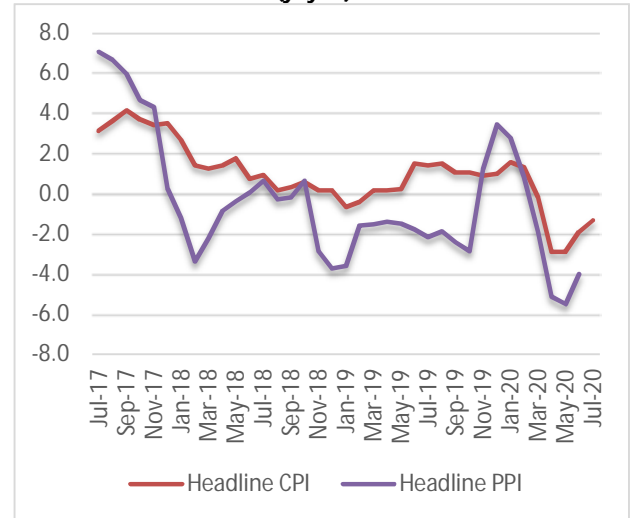
Source: CEIC/AmBank Research

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



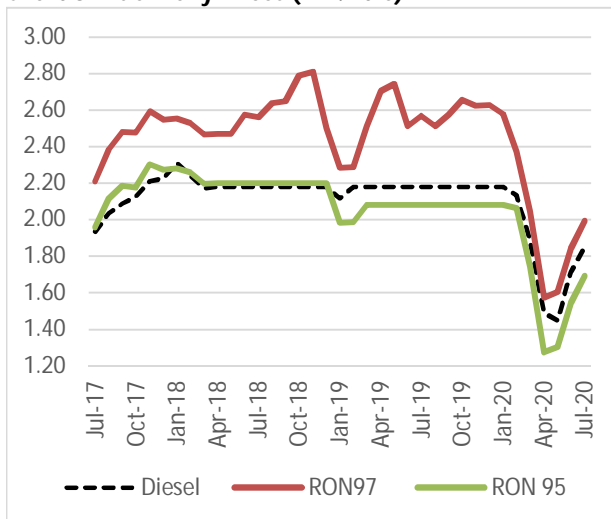
Source: CEIC/AmBank Research

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



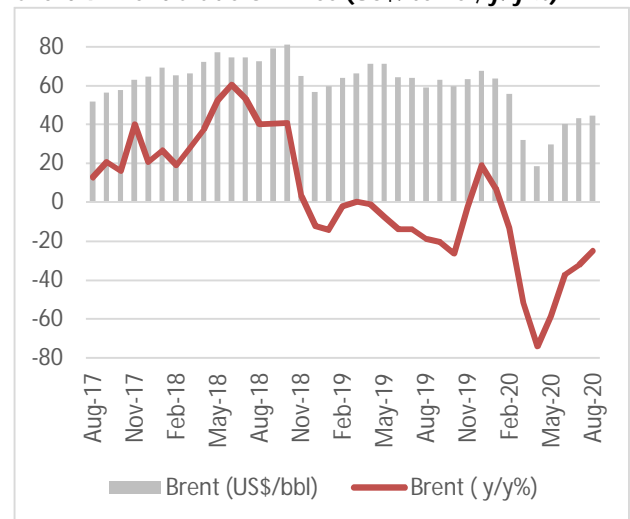
Source: CEIC/AmBank Research

Chart 3: Fuel Daily Prices (RM/litre)



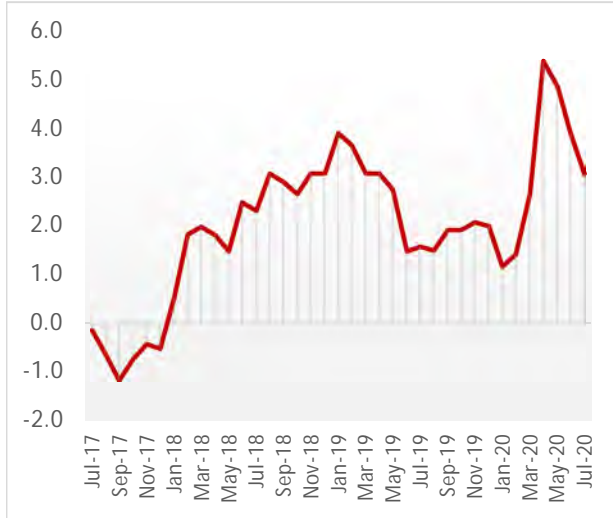
Source: CEIC/AmBank Research

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



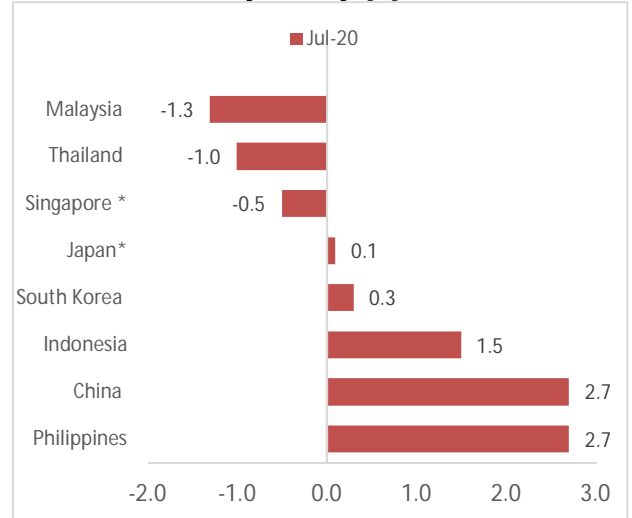
Source: CEIC/AmBank Research

Chart 5: Real Rates (%)



Source: CEIC/AmBank Research

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



Source: CEIC/AmBank Research;

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