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ECONOMICS

In this report:

Malaysia – Aug PPI rallies to nine-month high

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Malaysia

Aug PPI rallies to nine-month high

August's Producer Price Index (PPI) grew at the fastest pace in nine months, rising 1% compared to 0.4% in July, on a monthly basis. Meanwhile the PPI remained in the disinflationary region on a yearly basis, for the sixth consecutive month at -2.8% from -3.5%. This brings the average for the first eight months to -2.4%. The stronger inflation in August was boosted by the ongoing recovery in global commodity prices despite the heightened concerns of lower crude demand.

All in all, the PPI is moving towards stabilization with key indicators much higher than during the peak of the Covid-19 pandemic in April and May. However, concerns over the second wave of the virus are likely to shake the PPI performance.

- August's Producer Price Index (PPI) grew at the fastest pace in nine months, rising 1% compared to 0.4% in July, on a monthly basis. The improvement in the PPI was boosted by the ongoing recovery in global commodity prices despite the heightened concerns of lower crude demand.
- Meanwhile, the PPI remained in the disinflationary region on a yearly basis, for the sixth consecutive month at -2.8% from -3.5%. This brings the average for the first eight months to -2.4%.
- Looking at the sectors' contribution, the PPI in August was supported by the agriculture, mining and manufacturing. On monthly basis, all three sectors rose strongly by 6%, 3% and 0.5% from 0.9%, 8.3% and -0.2%, respectively compared to the previous month.
- The agriculture segment benefitted from the crude palm oil price which climbed 7.4% m/m to RM2,787 per tonne on average, in August. Exports of CPO to China surged 2.2% m/m to 295K tonnes (July: 288.7K) as the country's reserves drop. Meanwhile, exports to India – the world's largest CPO buyer – fell 27.6% m/m to 330K tonnes (July: 455K) as the Indian economy is reducing the dependency in order to aid the domestic industry to utilize higher refining capacity.
- The mining sector reflected the gradual recovery in global crude oil prices. Brent crude prices rose 3.5% m/m on average at US\$44.74 per barrel following overall oil consumption recovering around the world. Separately, Opec also reduced its production cuts in August, pumping nearly 1mbpd higher than the July output.

- Stronger local and foreign demand boosted the moderation in the manufacturing sector. The upward price pressure of the sector re-emerged after five months of being deflationary amidst the ongoing restrictions and conundrums. The headline manufacturing PMI for August showed that factory activities slowed down slightly to 49.3 versus 50 in July – a slid from the threshold between expansionary and contractionary.
- However, the downside pressure on the PPI came from electricity & gas supply at -0.2% m/m from -0.5% m/m in July.
- Looking at the stages of production (SOP), crude materials for further processing recorded a continued increase of 4.3% m/m, despite being relatively slower from 4.9% m/m. Both intermediate and finished good products picked up to 0.3% m/m and 0.7% m/m compared to -0.8% m/m and -0.1% m/m, respectively in the previous month.
- All in all, the PPI is moving towards stabilization with key indicators much higher than during the peak of Covid-19 pandemic in April and May. However, the concerns over the second wave of the virus is likely to shake the PPI performance.

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

	Aug'19	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug
PPI (y/y)	-1.9	-2.4	-2.9	1.2	3.5	2.8	0.9	-1.9	-5.1	-5.5	-4.0	-3.5	-2.8
PPI (m/m)	0.2	0.7	-0.2	1.3	0.8	-0.1	-1.3	-3.0	-2.7	-0.2	0.6	0.4	1.0
CPI	1.5	1.1	1.1	0.9	1.0	1.6	1.3	-0.2	-2.9	-2.9	-1.9	-1.3	-1.4
Crude Materials	-7.5	-8.5	-11.4	5.9	16.0	10.7	0.1	-13.9	-28.9	-26.6	-17.6	-13.0	-8.7
Intermediate	-1.7	-1.8	-1.4	-0.4	0.4	1.0	1.5	0.8	0.4	-0.9	-1.0	-1.9	-2.0
Finished Goods	1.8	1.3	0.7	1.4	1.2	0.8	0.2	0.7	1.1	0.2	-0.3	-0.4	0.0
MYR/USD (Avg Monthly)	4.187	4.182	4.187	4.155	4.146	4.079	4.163	4.296	4.349	4.336	4.273	4.261	4.185
MYR/USD	2.3	1.0	0.7	-0.7	-0.5	-0.9	2.1	5.4	5.8	4.0	2.7	3.4	0.0

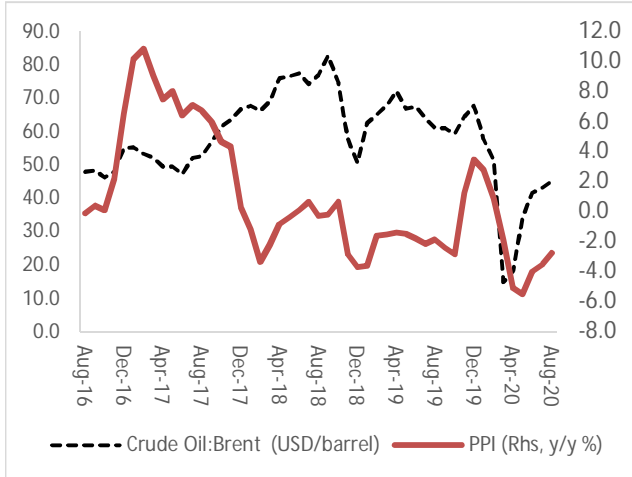
Source: CEIC/AmBank Research

Table 2: PPI for Local Production (%)

	Aug'19	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug
Agriculture (y/y)	-0.9	-1.1	1.5	19.9	21.9	18.0	9.2	13.4	8.7	5.5	15.1	14.6	15.6
Agriculture (m/m)	5.2	-0.7	-0.2	10.5	2.6	3.8	-7.3	-2.1	-3.2	-4.5	10.3	0.9	6.0
Mining (y/y)	-10.9	-14.4	-18.2	6.4	19.3	9.2	-5.2	-35.8	-58.3	-52.7	-42.5	-37.0	-33.7
Mining (m/m)	-2.0	6.0	-2.5	8.9	2.1	-6.8	-9.1	-31.9	-30.6	16.6	10.9	8.3	3.0
Manufacturing (y/y)	-1.0	-1.0	-1.3	-0.7	0.5	0.9	0.8	0.6	0.1	-0.8	-1.2	-1.3	-0.9
Manufacturing (m/m)	0.0	0.3	0.1	-0.2	0.6	0.4	0.1	-0.2	-0.7	-0.8	-0.8	-0.2	0.5
Electricity & Gas (y/y)	2.2	1.3	1.3	0.6	1.2	1.0	1.6	-0.3	0.2	-0.2	-0.6	-1.3	-1.9
Electricity & Gas (m/m)	0.4	-0.9	-0.1	-0.3	0.7	0.1	0.3	0.2	-0.3	-0.3	-0.6	-0.5	-0.2
Water Supply (y/y)	-2.6	-2.8	-1.8	-2.3	-2.9	-1.2	-0.8	-0.3	-1.0	-1.1	-1.2	-0.6	0.7
Water Supply (m/m)	0.2	0.0	0.0	0.1	0.0	0.0	-0.6	0.7	-0.6	-0.3	-0.3	0.2	1.5

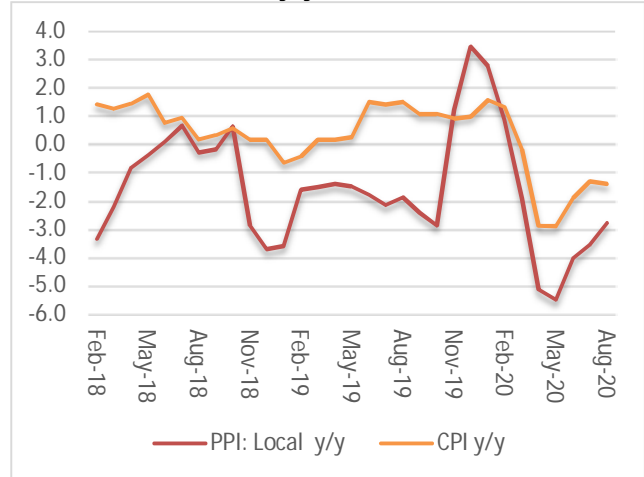
Source: CEIC/AmBank Research

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



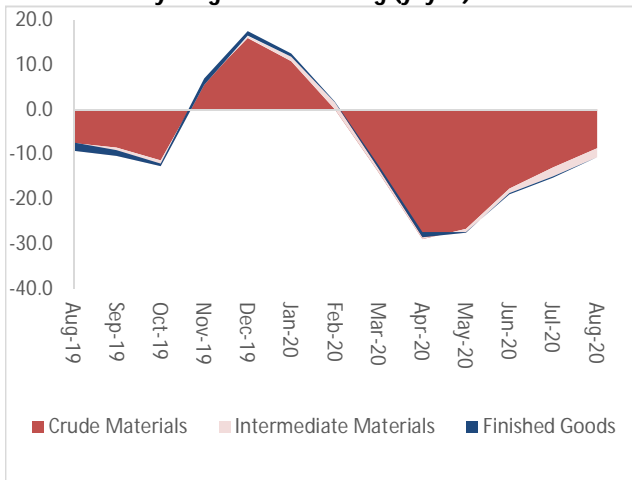
Source: CEIC/AmBank Research

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



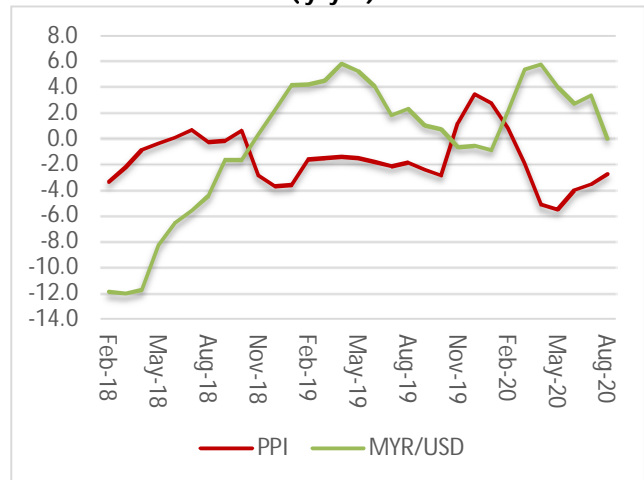
Source: CEIC/AmBank Research

Chart 3: PPI by Stage of Processing (y/y %)



Source: CEIC/AmBank Research

Chart 4: PPI vs MYR/USD (y/y %)



Source: CEIC/AmBank Research

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