



Outthink. Outperform.

**Headline inflation improves further to 2% yoy in May****Economic Update****Core inflation improves to 2.1% yoy as transport costs decline**

Malaysia's headline inflation improved further from 2.1% yoy in April to 2% in May (2.6% in March), the slowest yoy increase since April 2015. The impact from the Goods and Services Tax (GST) on the country's inflation reverted back to normal levels after one year of implementation. This was reflected mainly in clothing & footwear as well as communication, which also resumed its pre-GST negative inflation trend amid rising competition. Furthermore, in tandem with lower crude-oil prices on domestic retail petrol prices, transport costs declined sharply by 5.6% yoy in May (-5.5% in April). The monthly-adjusted domestic retail petrol prices (RON97, RON95 and diesel) were kept unchanged during the month.

**Malaysia-  
CPI**

However, prices of alcoholic beverages & tobacco trended higher at 22.1% yoy in May (20.1% in April), while education costs also increased from 2.1% yoy in April to 2.2% in May. On the other hand, the remaining consumption groups saw easing inflationary pressure, including food & non-alcoholic beverages (4.1% yoy), housing, water, electricity, gas & other fuels (2.4%), furnishing & household equipment (2.2%), health (2%), recreation services & culture (1.5%), and restaurants & hotels (2.5%). In tandem with the sharp declines in costs of transport and communication, non-food CPI slowed from 1.2% yoy in April to 1.1% in May. Core inflation also fell from 2.3% yoy to 2.1% during the same period.

**Fig 1: Consumer price index (CPI), May 2016**

	Weights	%yoy		%yoy			%mom		
		2014	2015	Mar-16	Apr-16	May-16	Mar-16	Apr-16	May-16
Food & Non-alcoholic Beverages	30.2	3.3	3.6	5.0	4.2	4.1	-0.1	0.0	0.3
Alcoholic Beverages & Tobacco	2.9	11.6	13.5	22.7	20.1	22.1	0.1	0.0	0.1
Clothing & Footwear	3.3	-0.2	0.5	0.0	-0.7	-0.9	-0.1	0.1	-0.1
Housing, Water, Electricity & Gas & Other Fuels	23.8	3.4	2.5	3.1	2.6	2.4	0.1	-0.1	0.5
Furnishings, Household Equipment	3.8	1.0	2.7	4.7	2.6	2.2	0.1	0.1	0.0
Health	1.7	2.9	4.5	4.2	2.2	2.0	0.0	-0.1	0.1
Transport	13.7	4.9	-4.5	-8.2	-5.5	-5.6	-4.3	3.3	0.0
Communication	5.2	-0.7	1.9	0.9	-2.1	-2.2	0.0	0.0	0.0
Recreation Services & Culture	4.9	1.5	1.7	2.6	1.6	1.5	0.0	0.0	0.1
Education	1.1	2.4	2.4	2.6	2.1	2.2	0.2	0.1	0.0
Restaurant & Hotels	2.9	4.7	4.1	4.5	2.7	2.5	0.2	0.1	0.2
Miscellaneous Goods & Services	6.5	0.7	4.1	5.1	2.6	2.5	0.2	0.0	0.2
<b>Non-food CPI</b>	<b>69.8</b>	<b>3.1</b>	<b>1.4</b>	<b>1.5</b>	<b>1.2</b>	<b>1.1</b>	<b>-0.9</b>	<b>0.7</b>	<b>0.2</b>
<b>Core CPI</b>	<b>73.2</b>	<b>2.3</b>	<b>3.1</b>	<b>3.6</b>	<b>2.3</b>	<b>2.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
<b>Total CPI</b>	<b>100.0</b>	<b>3.2</b>	<b>2.1</b>	<b>2.6</b>	<b>2.1</b>	<b>2.0</b>	<b>-0.6</b>	<b>0.4</b>	<b>0.3</b>

Source: Department of Statistics (DoS)

**Inflation likely to trend higher to 2.5% in 3Q16E and 2.6% in 4Q16E**

In the first five months of 2016, the country's headline inflation averaged at 2.9%, compared to 1.2% in the corresponding period in 2015. We expect some inflationary pressure during the Ramadan months (June and July), especially in the prices of food. Furthermore, the recent recovery in global oil prices and weaker Ringgit may also add to some inflationary pressure in 2H16. The uncertainty on the extent of cost pass through by business potentially from higher labour costs (ie, higher minimum wage from RM900 per month to RM1,000 per month becomes effective on 1 July 2016), as well as the expiration of the moratorium on the increase of profit margins for fifteen months from April 2015, may also put some pressure on inflation. Nevertheless, we believe the price impact from these factors will be manageable, and full-year inflation should stay within 2.5-3% in 2016 (2.1% in 2015), as compared to the official forecast of 2.5-3.5%. With manageable inflationary pressure, Bank Negara Malaysia (BNM) monetary policy, which has kept the policy rate at 3.25% for 11 straight meetings since a 25bps hike in July 2014, will likely continue to focus on sustaining economic growth and maintaining financial-market stability in the country.

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## Focus Charts

Chart 1: Malaysia inflation

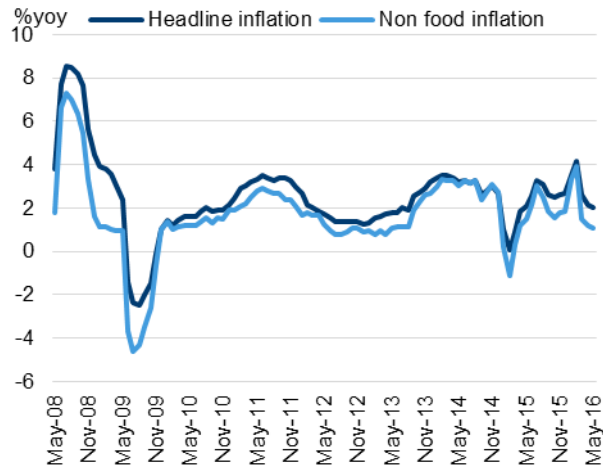


Chart 2: Core inflation and main components

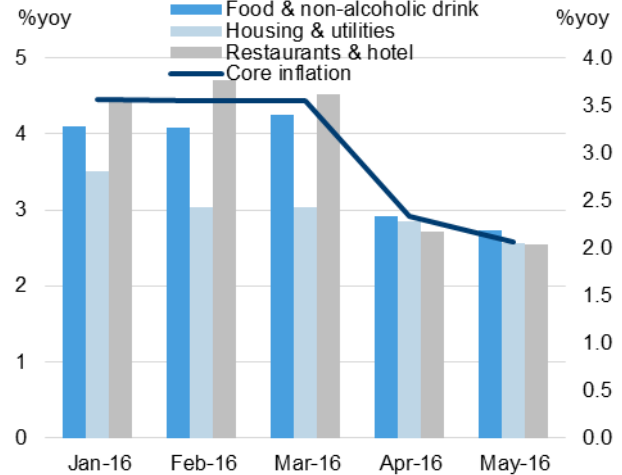


Chart 3: Brent vs transport cost

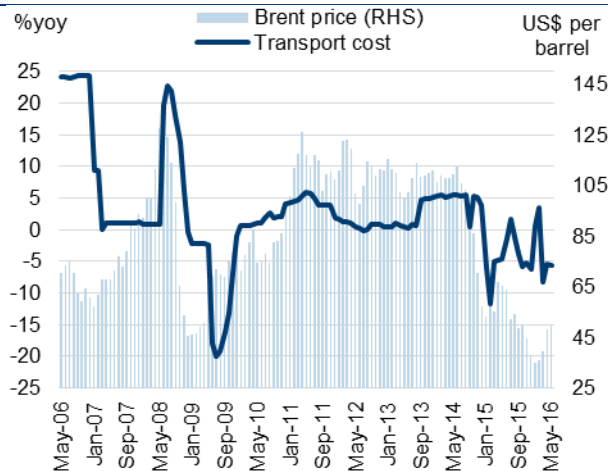


Chart 4: Headline inflation and components

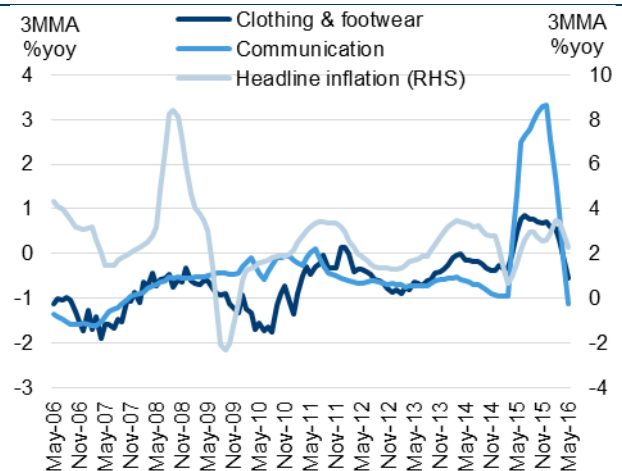


Chart 5: MYR/USD vs REER

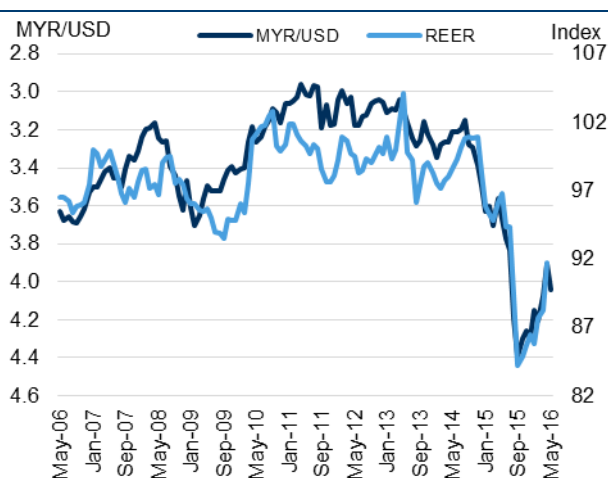
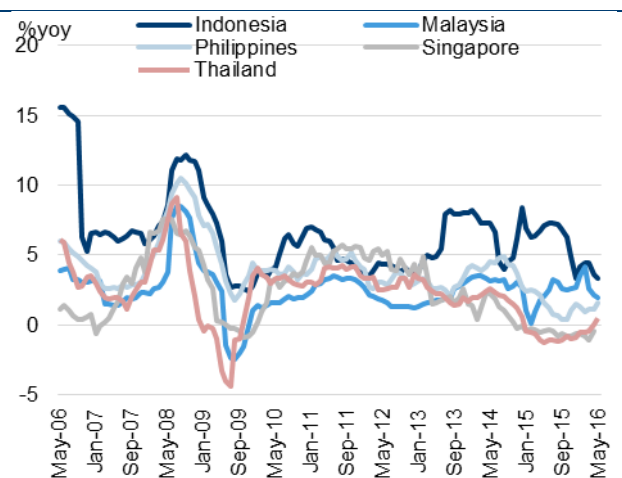


Chart 6: Asean countries inflation



Source: All data for charts sourced from DoS

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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