



Outthink. Outperform.

Headline inflation improves to 4.4% yoy in April**Economic Update****Core inflation remained steady at 2.5% yoy during the month**

Malaysia's headline inflation improved by 4.4% in April after rising sharply to 5.1% yoy in the prior month. This is slightly lower than market expectations of 4.5%. Excluding volatile items and administered prices of goods and services, core inflation remained steady at 2.5% for the third straight month.

**Malaysia-
CPI**

Starting from April, the government began fixing the ceiling price of domestic fuel prices on a weekly basis rather than on a monthly basis, in which the announcement is made every Wednesday and will come into force at midnight the following day. This decision made is to better liberalise the domestic retail pump price based on the global market price. On average, the domestic retail pump prices, ie, RON 95, RON 97 and diesel fell MoM by RM0.12, RM0.14 and RM0.08, respectively, in April. This is reflected in the transportation price index, which slowed from 23.0% yoy in March to 16.7% yoy in April.

Fig 1: Consumer price index (CPI), April 2017

	Weights	%yoy			%yoy			%mom	
		2015	2016	Feb-16	Mar-17	Apr-17	Feb-16	Mar-17	Apr-17
Food & Non-alcoholic Beverages	30.2	3.6	3.9	4.3	4.1	4.1	0.9	-0.3	0.1
Alcoholic Beverages & Tobacco	2.9	13.5	17.2	0.2	0.2	0.2	0.0	0.1	0.0
Clothing & Footwear	3.3	0.5	-0.4	-0.2	-0.2	-0.1	0.2	-0.1	0.2
Housing, Water, Electricity & Gas & Other Fuels	23.8	2.5	2.4	2.2	2.1	2.2	0.7	0.0	0.0
Furnishings, Household Equipment	3.8	2.7	2.4	1.5	1.5	1.9	0.4	0.1	0.4
Health	1.7	4.5	2.7	2.4	2.6	2.8	0.3	0.2	0.2
Transport	13.7	-4.5	-4.6	17.9	23.0	16.7	5.5	-0.3	-1.9
Communication	5.2	1.9	-1.5	-0.3	-0.2	-0.3	-0.1	0.1	-0.1
Recreation Services & Culture	4.9	1.7	2.5	3.1	3.0	3.0	0.4	-0.2	0.0
Education	1.1	2.4	2.1	1.7	1.7	1.7	0.2	0.1	0.1
Restaurant & Hotels	2.9	4.1	2.8	2.3	2.3	2.4	0.6	0.2	0.2
Miscellaneous Goods & Services	6.5	4.1	2.9	1.4	1.3	1.5	0.3	0.1	0.2
Non food CPI	69.8	1.4	1.3	4.7	5.6	4.5	1.4	0.0	-0.4
Core CPI	73.2	3.1	2.5	2.5	2.5	2.5	0.5	0.1	0.2
Total CPI	100.0	2.1	2.1	4.5	5.1	4.4	1.3	-0.1	-0.3

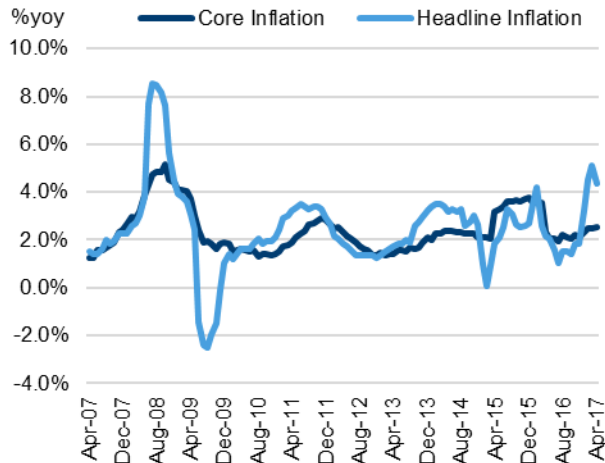
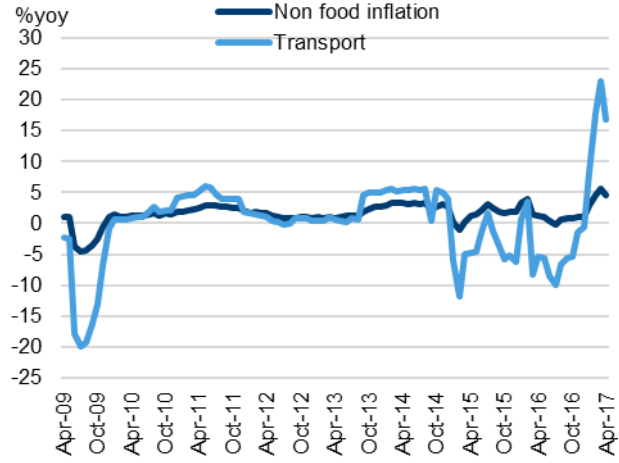
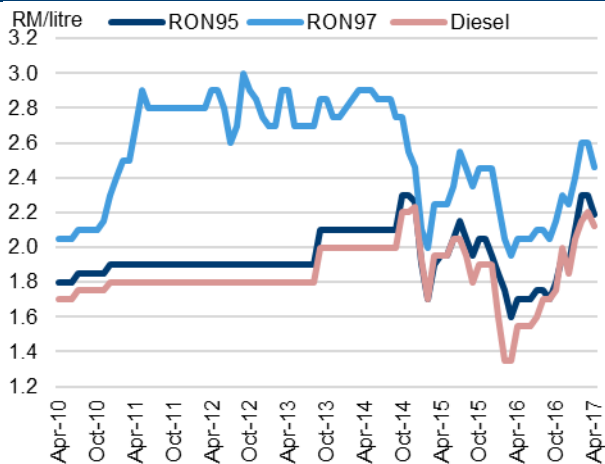
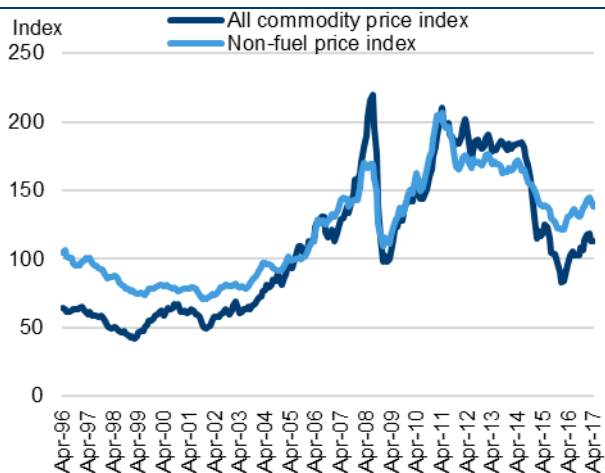
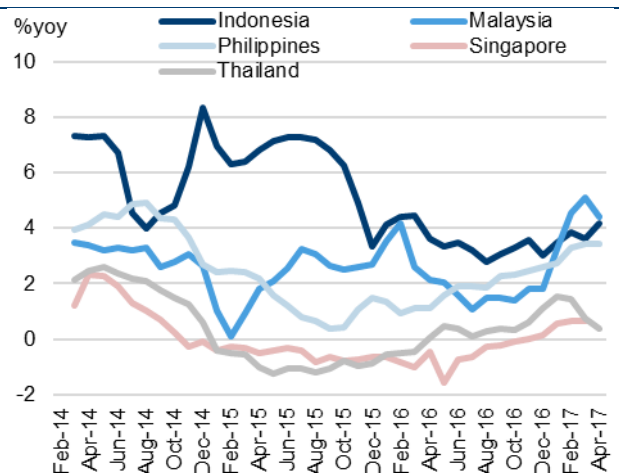
Source: Department of Statistics (DoS)

Among the 12 sub-indices, food and non-alcoholic beverages remained one of the main contributors to the inflationary pressure, with a 4.1% yoy increase in its price index. This is followed by recreation, services and culture price index at 3.0% yoy and the health price index at 2.8% yoy. On the other hand, two of the components which experienced a decrease in price on a yearly basis are the clothing and footwear price index, which fell by 0.1% and the communication price index which declined by 0.3%. Furnishings and household equipment experienced the largest acceleration in April, as the price index rose by 1.9% yoy in April as compared to 1.5% yoy in March.

In the first four months of the year, the country's headline inflation averaged about 4.3% yoy. Despite being higher than the official forecast of 3-4%, and our forecast of 3.5%, the number is not surprising in our view, as it has been expected that the number in the first half will be higher than in the second half due to the low-base effect. We believe that in the months ahead, inflation will likely to moderate further, though it will be highly dependent on the direction of the global oil price. Malaysia's producer price index, which measures inflation at the producer/manufacturer level also slowed from 10.8% yoy in February to 9% yoy in March, attributed to stability in global commodity and energy prices. In the recent MPC meeting, the BNM kept its rate unchanged at 3.0% for the fifth consecutive meeting, and noted that headline inflation is in line with their expectations, and projected the pressure to moderate in second half of the year on the back of stable domestic demand conditions.

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Focus Charts**Chart 1: Malaysia's inflation****Chart 2: Non-food inflation****Chart 3: Domestic retail petrol prices****Chart 4: Producer price index****Chart 5: Global commodity price index****Chart 6: Asean inflation comparison**

Source: All data for charts sourced from DoS, CEIC, IMF

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HOLD	Total return is expected to be between -5% and +10% over a 12-month period
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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.

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