Economic Update

Malaysia-CPI

Headline inflation improved to 3.2% yoy in July

Transportation cost moderated further for the month

Malaysia's headline inflation continued to trend lower for the fourth consecutive month, improving from 3.6% yoy in June to 3.2% in July. This was also slightly lower than market expectations of 3.4%, due to the lower transportation cost. However, core inflation, which excludes volatile and administered prices of goods and services, rose slightly from 2.5% yoy in June to 2.6% in July. On a cumulative basis, the country's inflation rate rose by an average of 4.0% yoy in January-July 2017, from 2.4% in the corresponding period last year.

The cost of transport slowed for the fourth consecutive month, from the year's high of 23% yoy in March to 7.7% in July, falling below double-digit rates for the first time since January 2017. Domestic retail petrol prices (i.e. RON95) has been trending lower from RM2.30 per litre in March to an average of RM1.96 per litre in July, also 4 cents lower from the average price of RM2.00 per litre in June. Prices of food & non-alcoholic beverages improved further to 4.2% yoy in July (4.3% in June), its second consecutive month of improvement despite the festive season during the month. Prices of food away from home, which contribute about 11.1% to the overall CPI basket, rose to 4.9% yoy in July (4.8% in June), but was offset by the improvement in prices of food at home, which trended lower from 4.2% yoy in June to 4.1% in July.

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

		%yoy		%yoy			%mom		
	Weights	2015	2016	May-17	Jun-17	Jul-17	May-17	Jun-17	Jul-17
Food & Non-alcoholic Beverages	30.2	3.6	3.9	4.4	4.3	4.2	0.5	0.4	0.2
Alcoholic Beverages & Tobacco	2.9	13.5	17.2	0.2	0.1	0.1	0.1	-0.1	0.0
Clothing & Footwear	3.3	0.5	-0.4	-0.2	-0.4	-0.4	-0.2	-0.2	-0.2
Housing, Water, Electricity & Gas & Other Fuels	23.8	2.5	2.4	2.2	2.2	2.2	0.5	0.0	0.0
Furnishings, Household Equipment	3.8	2.7	2.4	2.1	2.1	2.6	0.3	0.0	0.7
Health	1.7	4.5	2.7	2.9	2.6	2.9	0.2	0.2	0.3
Transport	13.7	-4.5	-4.6	13.1	10.5	7.7	-3.2	-2.4	-1.1
Communication	5.2	1.9	-1.5	-0.3	-0.3	-0.3	0.0	0.0	0.0
Recreation Services & Culture	4.9	1.7	2.5	2.9	3.0	2.6	0.0	0.1	0.1
Education	1.1	2.4	2.1	1.7	1.7	1.6	0.0	0.1	0.0
Restaurant & Hotels	2.9	4.1	2.8	2.3	2.5	2.6	0.2	0.1	0.2
Miscellaneous Goods & Services	6.5	4.1	2.9	1.3	1.2	1.1	0.0	-0.1	0.3
Non food CPI	**69.8**	**1.4**	**1.3**	**3.7**	**3.2**	**2.7**	**-0.5**	**-0.4**	**-0.2**
Core CPI	**73.2**	**3.1**	**2.5**	**2.6**	**2.5**	**2.6**	**0.3**	**0.0**	**0.2**
Total CPI	**100.0**	**2.1**	**2.1**	**3.9**	**3.6**	**3.2**	**-0.2**	**-0.2**	**-0.1**

Source: Department of Statistics (DoS)

In the months ahead, the country's headline inflation may trend higher with some pressure from domestic retail petrol prices on transport costs. However, the cost of recreation services & culture, which already improved from 3% yoy in June to 2.6% in July, may trend lower due to the offset from the price hike in the cultural services cost in August 2016. The recreation services & culture index, which contribute approximately 4.9% to the overall CPI, is likely to fall further, possibly below 1% level in August. However, with producer price index (PPI), which measures inflation at the producer/ manufacturer level, lower at 6.4% yoy in June (8% in May), we expect cost-push inflation to remain manageable. For 2017 as a whole, we are maintaining our inflation forecast at 3.5%, and project 2.2% for 2018 (2.1% in 2016).

Going forward, we believe the stance of the country's monetary policy will remain accommodative and the economy will continue to be well supported by healthy domestic demand. We are maintaining our view that BNM will likely keep its overnight policy rate (OPR) at 3.00% throughout 2017.

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Focus Charts

Chart 1: Headline inflation

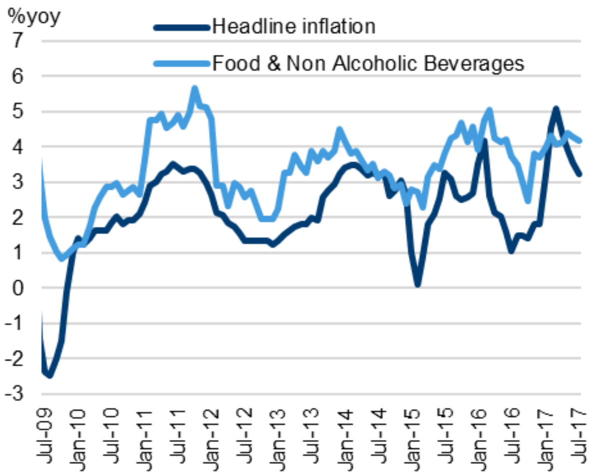


Chart 2: CPI vs PPI

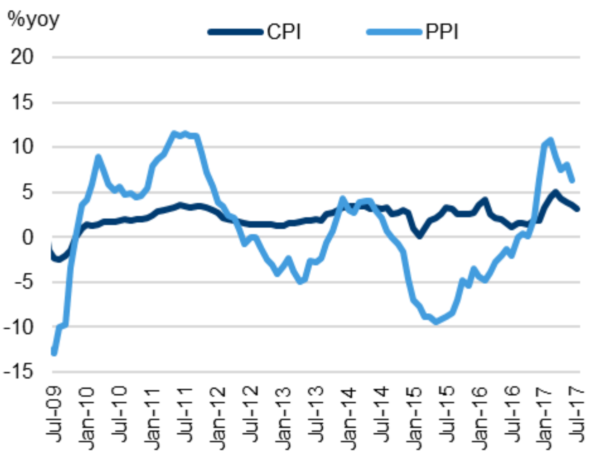


Chart 3: Core inflation contribution

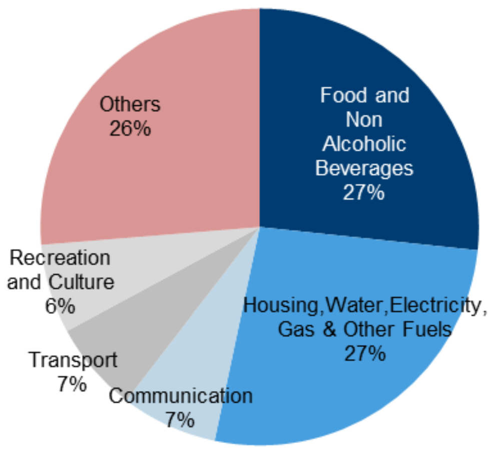


Chart 4: CPI breakdown (1)

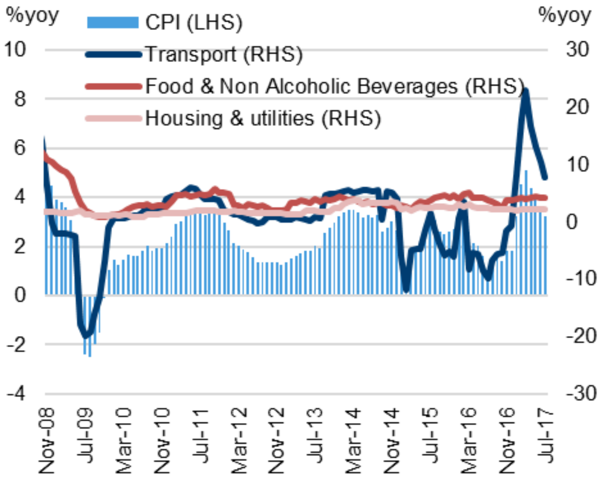


Chart 5: Core inflation breakdown

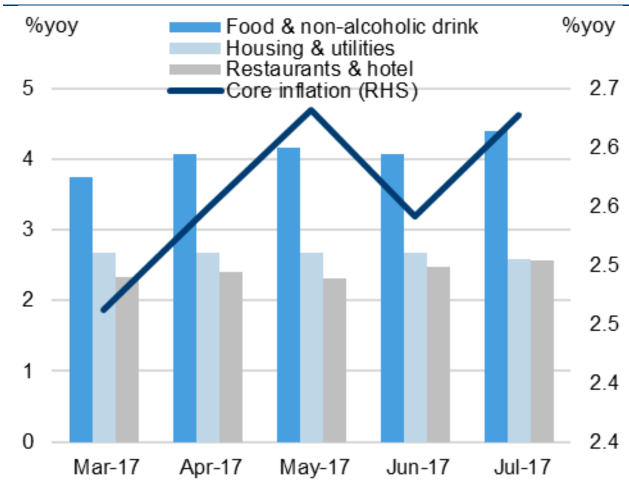
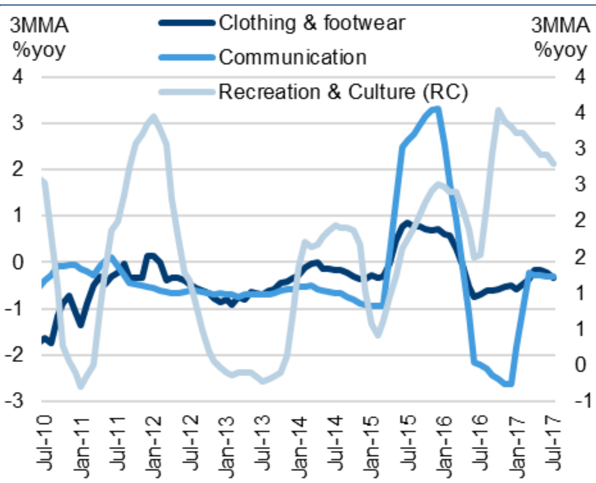


Chart 6: CPI breakdown (2)



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

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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