

Malaysia Consumer Price Index

Cooled further in July, but upside risks to prices remained elevated

- **The headline inflation slowed to an almost two-year low of 2.0% in July (Jun: 2.4%), slightly below the consensus and house forecast of 2.1%**

- The continued deceleration in price pressures was mainly attributable to a MoM deflation recorded in three components, namely miscellaneous goods & services (weight: 6.7%), communication (4.8%) and recreation services & culture (4.8%). Despite a 0.4% increase in food inflation, CPI marginally eased to 0.08% MoM (Jun: 0.15%).
- Similarly, core inflation cooled further to a 14-month low of 2.8% YoY (Jun: 3.1%). The core component experienced muted inflationary pressure on a MoM basis (Jun: 0.2%).

- **Broad-based slowdown, driven mainly by transport, communication and recreation services & culture indices**

- Transport (-0.4%; Jun: 0.0%): fell into a deflation for the first time since February 2021, driven by cheaper air fares (2.7%; Jun: 11.4%) and lower cost of operating personal transport equipment (-0.8%; Jun: -0.6%).
- Communication (-3.7%; Jun: -3.6%): growth contraction edged lower, on the back of falling telephone & telefax equipment prices (-1.0; Jun: -0.7%) amid mid-year and July 7 sales.
- Recreation services & culture (1.1%; Jun: 1.6%): eased to a 16-month low, primarily due to cheaper entertainment costs (1.0%; Jun: 1.8%) and a continued drop in prices of audio-visual, photographic and information processing equipment (-2.3%; Jun: -1.7%).
- Food & non-alcoholic beverages (4.4%; Jun: 4.7%): eased to its lowest level in 15 months due to a moderation in prices of food at home (3.0%; Jun: 3.2%) and food away from home (6.2%; Jun: 6.8%). However, on a MoM basis, food inflation increased by 0.4% (Jun: 0.1%) due to higher fruits (0.4%; Jun: 0.1%) and vegetables (0.7%; Jun: 0.1%) prices.

- **Weak inflationary pressure across advanced and developing economies amid subdued demand**

- US (3.2%; Jun: 3.0%): edged up marginally due to the base effect, but core CPI trended lower to 4.7% YoY (Jun: 4.8%), primarily due to easing prices of used vehicles and electronics. However, persistent inflationary pressures in the services sector amid solid wage gains adds to the uncertainty of the Fed's monetary policy outlook.
- Korea (2.3%; Jun: 2.7%): eased further to its lowest level in more than two years due to a fall in transportation costs. However, as risks to inflation remain elevated, the Bank of Korea may likely maintain its hawkish stance.
- China (-0.3%; Jun: 0.0%): turned negative, recording its first YoY deflation in 29 months. However, on a MoM basis, CPI increased by 0.2% MoM (Jun: -0.2%), marking the end of five straight months of deflation. This increase is partly due to People Bank of China's reduction of its key short-term policy rates in June.

- **2023 headline inflation forecast retained at 2.9% (2022: 3.3%) amid growing uncertainties over prices**

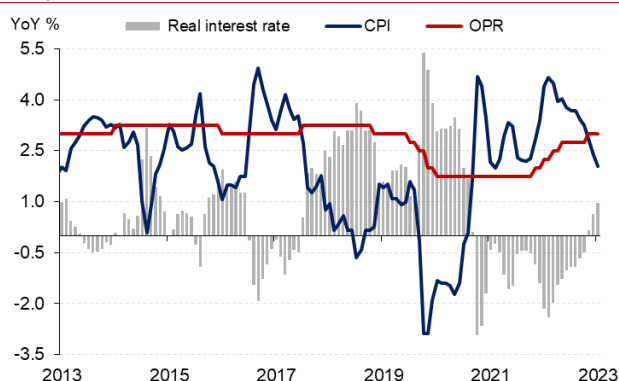
- Despite signs of growing disinflationary pressure due to relatively weak consumer demand and a global economic slowdown, the potential for a pick-up in commodity prices, extreme weather conditions, the collapse of the Black Sea deal, and India's bans on sugar and rice exports could lead to higher food and transport costs in the next three to nine months. These upside risks to prices might offset the disinflation on the supply side, pushing up inflation to around 2.6% in 2H23.
- As inflation is still expected to fall on the lower end of the BNM's forecast range of 2.8 - 3.8% in 2023, the central bank is expected to maintain status quo and keep the overnight policy rate unchanged at 3.00%.

Table 1: Global Inflation (% YoY)

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
US	6.0	5.0	4.9	4.0	3.0	3.2
EU	8.5	6.9	7.0	6.1	5.5	5.3
UK	10.4	10.1	8.7	8.7	7.9	6.8
Japan	3.3	3.2	3.5	3.2	3.3	3.3
Korea	4.8	4.2	3.7	3.3	2.7	2.3
Singapore	6.3	5.5	5.7	5.1	4.5	4.1
China	1.0	0.7	0.1	0.2	0.0	-0.3
Indonesia	5.5	5.0	4.3	4.0	3.5	3.1
Thailand	3.8	2.8	2.7	0.5	0.2	0.4

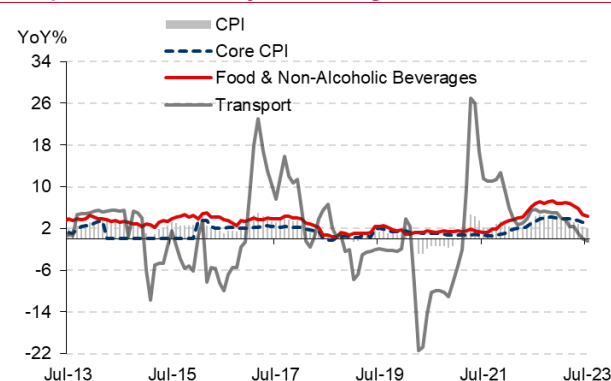
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

28 August 2023

Table 2: Malaysia Consumer Price Index Growth Trend (% YoY)

Base 2010=100	weight	2020	2021	2022	Jul-22	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
CPI	100.0	-1.2	2.5	3.3	4.4	3.7	3.4	3.3	2.8	2.4	2.0
Core Inflation	70.5	1.1	0.7	3.0	3.4	3.9	3.8	3.6	3.5	3.1	2.8
Food & Non-Alcoholic Beverages	29.5	1.3	1.7	5.8	6.9	7.0	6.9	6.3	5.9	4.7	4.4
Alcoholic Beverages & Tobacco	2.4	0.3	0.5	0.5	0.6	0.8	0.6	0.6	0.7	0.6	0.5
Clothing & Footwear	3.2	-0.8	-0.4	0.1	0.3	0.4	0.5	0.5	0.4	0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.8	-1.7	1.5	1.8	3.8	1.7	1.6	1.6	1.8	1.8	1.7
Furnishing, Household Equipment & Routine Household Maintenance	4.1	0.2	1.6	3.5	4.0	3.4	3.1	3.0	2.7	2.3	1.9
Health	1.9	1.2	0.4	0.7	0.8	1.8	2.2	2.1	1.9	2.0	2.0
Transport	14.6	-10.0	11.0	4.7	5.6	3.7	2.4	2.3	1.0	0.0	-0.4
Communication	4.8	1.1	0.0	0.0	0.0	-1.4	-1.4	-1.4	-3.7	-3.6	-3.7
Recreation Services & Culture	4.8	0.5	0.4	2.3	2.5	1.7	1.9	1.8	1.8	1.6	1.1
Education	1.3	1.0	0.2	1.1	1.2	1.6	1.7	1.6	1.9	1.9	2.0
Restaurants & Hotels	2.9	0.4	0.4	5.0	5.8	7.4	7.2	6.6	6.7	5.4	5.0
Miscellaneous Goods & Services	6.7	2.6	0.5	2.0	2.1	2.5	2.1	2.5	2.9	2.6	2.6

Source: Dept. of Statistics, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

