

Malaysia Consumer Price Index

Remained unchanged at 1.5% YoY in December, while core inflation cooled below the 2.0% level

- The headline inflation remained at an almost three-year low of 1.5% YoY in December, matching house and market estimate**

- In 2023, inflation cooled to an average of 2.5% YoY (2022: 3.3%; KIBB: 2.5%), slightly above its 30-year average of 2.4%, attributable to lower food and transport prices.
- Core inflation (1.9%; Nov: 2.0%): eased to below the 2.0% level for the first time in 22 months, bringing the full-year rate to an unchanged 3.0%.
- 4Q23 (1.6%; 3Q23: 2.0%): cooled further due to a substantial moderation in food prices (2.8%; 3Q23: 4.1%).
- On a MoM basis, headline CPI rose by 0.2% (Nov: 0.0%) while core inflation continued to record a muted growth rate of 0.0%.

- The primary catalyst for the monthly price increases was a resurgence in food, transport, and recreation services prices**

- Food & non-alcoholic beverages (2.3%; Nov: 2.6%): slowed to its lowest level in 26 months but rebounded by 0.3% (Nov: -0.3) on a monthly basis. This can be attributable to an increase in the prices of fresh meat and fish, partly due to the north-east monsoon and increased Christmas demand.
- Transport (0.3%; Nov: 0.1%): rose to a seven-month high, mainly due to a MoM increased in the cost of purchasing vehicles (0.2%; Nov: 0.0%) and air transport expenses (10.9%; Nov: 2.2%).
- Recreation services & culture (1.9%; Nov: 0.6%): surged to a nine-month high, driven primarily by a significant rebound of 24.8% (Nov: -2.7%) in the expenses related to lotteries and other gambling, likely attributed to the year-end holiday season.

- Mixed inflationary trend across economies is setting the stage for a divergence in central banks' policy direction**

- US (3.4%; Nov: 3.1%): hotter-than-expected due to increases in key rent components, used car prices, and airline fares. Coupled with the persistent tightness in the labour market, these readings remain too elevated for the Fed to consider cutting rates as early as March. However, clear signs of a slowdown in prices are emerging, signalling the potential for a rate cut in the upcoming May/June meeting.
- Japan (2.6%; Nov: 2.8%): continued to slow due to lower electricity and gas bills. However, the figure remained above the BoJ's 2.0% target, and there are already signs of sustainable demand-pull inflation, highlighting the case for a possible shift in the central bank's ultra-loose monetary policy.
- China (-0.3%; Nov: -0.5%): third straight month of deflation, attributed by weak domestic demand and low consumer confidence. To avoid "Japanification", the market is urging for stronger fiscal spending and monetary loosening.

- 2024 headline CPI forecast retained at 2.7% (2023: 2.5%), contingent on government policies and geopolitical factors**

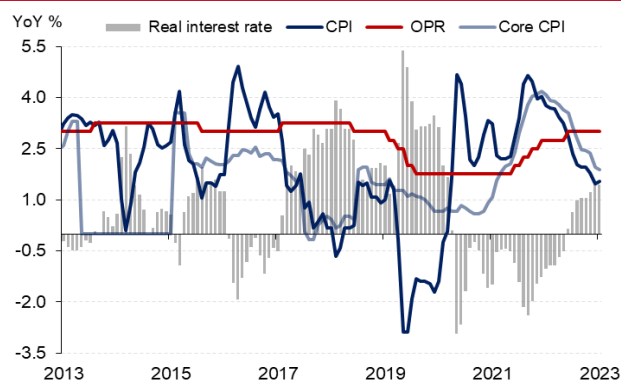
- Potential increases in shipping fees and logistical delays amid the ongoing Red Sea crisis, coupled with prolonged dry and warm weather from the El Niño effect, may elevate Malaysia's food inflation, primarily due to its dependence on food imports. Additionally, the recent hike in water tariffs could also add pressure to overall inflation, although its impact is expected to be limited due to the minimal increase and low inflation weightage. Notably, the subsidy rationalisation for RON 95 and 97, potentially in 3Q24, may lead to a spike in headline inflation, pushing it to average around 3.4% in 2H24.
- Despite inflationary risks, an average inflation rate of 2.7% YoY in 2024 would still result in a positive real interest rate of around 0.3%, given the overnight policy rate (OPR) expected to stay at 3.00%. Furthermore, with our projection of robust GDP growth of 4.9% in 2024, driven by strong domestic demand and a recovery in the manufacturing sector, there seems to be no compelling reason for BNM to adjust the OPR throughout 2024.

Table 1: Global Inflation (% YoY)

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
US	3.2	3.7	3.7	3.2	3.1	3.4
EU	5.3	5.2	4.3	2.9	2.4	2.9
UK	6.8	6.7	6.7	4.6	3.9	4.0
Japan	3.3	3.2	3.0	3.3	2.8	2.6
Korea	2.3	3.4	3.7	3.8	3.3	3.2
Singapore	4.1	4.0	4.1	4.7	3.6	N/A
China	-0.3	0.1	0.0	-0.2	-0.5	-0.3
Indonesia	3.1	3.3	2.3	2.6	2.9	2.6
Thailand	0.4	0.9	0.3	-0.3	-0.4	-0.8

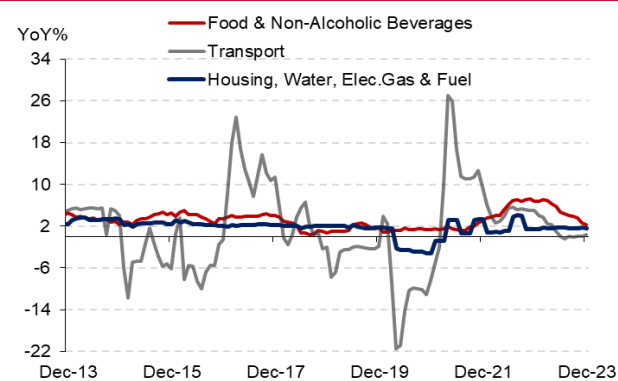
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate, Inflation Rates and OPR



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

23 January 2023

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

Base 2010=100	weight	2020	2021	2022	Dec -22	Jul-23	Aug -23	Sep -23	Oct-23	Nov -23	Dec -23
CPI	100.0	-1.2	2.5	3.3	3.8	2.0	2.0	1.9	1.8	1.5	1.5
Core Inflation	70.5	1.1	0.7	3.0	4.1	2.8	2.5	2.5	2.4	2.0	1.9
Food & Non-Alcoholic Beverages	29.5	1.3	1.7	5.8	6.8	4.4	4.1	3.9	3.6	2.6	2.3
Alcoholic Beverages & Tobacco	2.4	0.3	0.5	0.5	0.7	0.5	0.5	0.7	0.6	0.6	0.6
Clothing & Footwear	3.2	-0.8	-0.4	0.1	0.4	0.1	0.0	0.1	0.0	0.0	0.0
Housing, Water, Electricity, Gas & Other Fuels	23.8	-1.7	1.5	1.8	1.5	1.7	1.6	1.6	1.6	1.7	1.6
Furnishing, Household Equipment & Routine Household Maintenance	4.1	0.2	1.6	3.5	3.7	1.9	1.7	1.5	1.4	1.4	1.4
Health	1.9	1.2	0.4	0.7	1.3	2.0	2.4	2.2	2.4	2.3	2.5
Transport	14.6	-10.0	11.0	4.7	4.9	-0.4	0.0	-0.1	0.0	0.1	0.3
Communication	4.8	1.1	0.0	0.0	-0.1	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
Recreation Services & Culture	4.8	0.5	0.4	2.3	2.4	1.1	1.0	0.6	0.7	0.6	1.9
Education	1.3	1.0	0.2	1.1	1.4	2.0	2.1	2.0	2.1	2.0	2.0
Restaurants & Hotels	2.9	0.4	0.4	5.0	7.4	5.0	4.7	4.4	4.6	4.3	3.7
Miscellaneous Goods & Services	6.7	2.6	0.5	2.0	2.3	2.6	2.4	2.5	2.3	2.3	2.7

Source: Dept. of Statistics, Kenanga Research

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