

Malaysia Consumer Price Index

Remained stable at 2.0% YoY in June despite a sharp increase in diesel prices

- **The headline inflation rate remained unchanged at 2.0% YoY in June, marginally exceeding both the house forecast and market consensus of 2.2%, due to the limited impact of diesel subsidy rationalisation**

- Despite a substantial 41.9% MoM increase in diesel price on average in June, the transport component rose by only 0.5% MoM, partly due to the low diesel CPI weight. While not as high as expected, this still contributed to inflationary pressure, alongside higher food and services prices.
- On a MoM basis, headline inflation slowed to 0.15% (May: 0.30%), mainly driven by muted housing costs (0.0%; May: 0.6%) and a drop in miscellaneous prices (-0.1%; May: 0.3%).
- Core inflation remained unchanged at 1.9% YoY (May: 1.9%) but moderated by 0.1% MoM (May: 0.4%), due to a drop in core transport cost.

- **MoM increase in key components did little to increase the pace of inflation**

- Food & non-alcoholic beverages (2.0%; May: 1.8%): rebounded marginally as food at home accelerated by 0.5% MoM (May: 0.2%), due to a sharp rebound in fish prices (0.9% MoM; May: -1.1%) and continued increase in vegetables costs.
- Transport (1.2%; May: 0.9%): increased to a three-month high and rebounded sharply on a MoM basis (0.5%; May: -0.1%), due to a 15.8% increase (May: 0.0%) in diesel costs and a 14.0% rebound (May: -12.5%) in domestic flight costs.
- Recreation services & culture (1.9%; May: 1.9%): remained unchanged but continued to increase by 0.3% MoM, driven by a notable increase in prices of video game computers, game consoles, game apps & software (19.1%; May: -16.0%).
- Restaurant & hotel (3.3%; May: 3.2%): rose marginally to a two-month high, partly due to a MoM rebound in hotel costs (0.3%, May: -0.4%), potentially driven by a resurgence in summer tourism.

- **Mixed inflation trends across advanced and developing economies, with most central banks expected to cut soon**

- US (3.0%; May: 3.3%): moderated to a 13-month low. On a MoM basis, it fell for the first time in four years, driven by a decline in gasoline prices and a moderation in shelter costs. This increases the likelihood of a Fed rate cut in September.
- UK (2.0%; May: 2.0%): despite remaining unchanged, it exceeds consensus expectations, with services inflation remaining stubbornly high due to rising hotel and restaurant prices. This complicates the Bank of England's rate decision in August.
- China (0.2%; May: 0.3%): edged down to a three-month low due to a sharper-than-expected decline in food prices, spurring the People's Bank of China to surprisingly cut the loan prime rate by 10 basis points recently.

- **2024 headline CPI forecast revised down to 2.2% from 2.7% (2023: 2.5%) after excluding RON95 subsidy rationalisation**

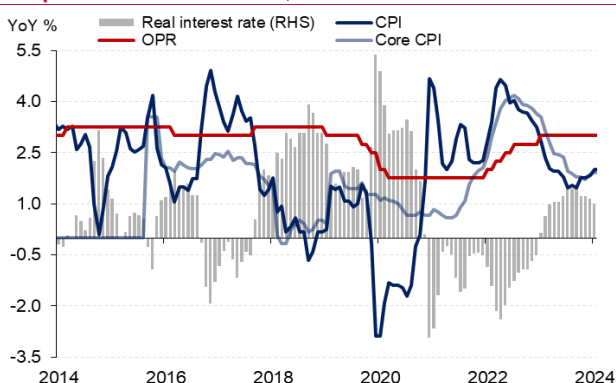
- We expect the pace of inflation to increase to an average of 2.6% in 2H24, driven primarily by the pass-through effects of diesel subsidy rationalisation, increased consumer spending following the withdrawal of EPF's Account 3, and higher costs of imported goods due to the ongoing Red Sea crisis. However, we have lowered our 2024 inflation projection to 2.2% as we push the timeline for RON95 fuel subsidy rationalisation to 2H25, due to PM Anwar's statement to delay its planned implementation. Coupled with a planned salary increase of over 13.0% for civil servants in December, inflation may accelerate to an average of around 3.8% in 2025.
- Given the manageable inflation outlook and solid domestic growth prospects, Bank Negara Malaysia is likely to maintain status quo and keep the overnight policy rate unchanged at 3.00% for at least the next 12 months.

Table 1: Global Inflation (% YoY)

| | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 |
|-----------|--------|--------|--------|--------|--------|--------|
| US | 3.1 | 3.2 | 3.5 | 3.4 | 3.3 | 3.0 |
| EU | 2.8 | 2.6 | 2.4 | 2.4 | 2.6 | 2.5 |
| UK | 4.0 | 3.4 | 3.2 | 2.3 | 2.0 | 2.0 |
| Japan | 2.2 | 2.8 | 2.7 | 2.5 | 2.8 | 2.8 |
| Korea | 2.8 | 3.1 | 3.1 | 2.9 | 2.7 | 2.4 |
| Singapore | 2.9 | 3.4 | 2.7 | 2.7 | 3.1 | 2.4 |
| China | -0.8 | 0.7 | 0.1 | 0.3 | 0.3 | 0.2 |
| Indonesia | 2.6 | 2.8 | 3.1 | 3.0 | 2.8 | 2.5 |
| Thailand | -1.1 | -0.8 | -0.5 | 0.2 | 1.5 | 0.6 |

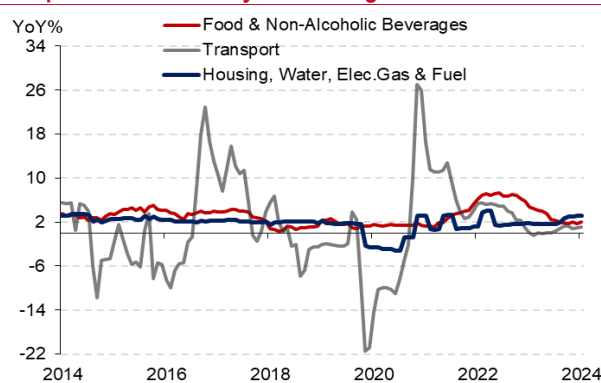
Source: Bloomberg, Kenanga Research

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

25 July 2024

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

| Base 2010=100 | weight | 2021 | 2022 | 2023 | Jun-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 |
|---|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| CPI | 100.0 | 2.5 | 3.3 | 2.5 | 2.4 | 1.5 | 1.8 | 1.8 | 1.8 | 2.0 | 2.0 |
| Core Inflation | | 0.7 | 3.0 | 3.0 | 3.1 | 1.8 | 1.8 | 1.7 | 1.9 | 1.9 | 1.9 |
| Food & Non-Alcoholic Beverages | 29.8 | 1.7 | 5.8 | 4.8 | 4.7 | 2.0 | 1.9 | 1.7 | 2.0 | 1.8 | 2.0 |
| Alcoholic Beverages & Tobacco | 1.9 | 0.5 | 0.5 | 0.7 | 0.6 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 |
| Clothing & Footwear | 2.7 | -0.4 | 0.1 | 0.2 | 0.1 | -0.2 | -0.2 | -0.2 | -0.3 | -0.2 | -0.1 |
| Housing, Water, Electricity, Gas & Other Fuels | 23.2 | 1.5 | 1.8 | 1.7 | 1.8 | 2.0 | 2.7 | 3.0 | 3.0 | 3.2 | 3.2 |
| Furnishing, Household Equipment & Routine Household Maintenance | 4.3 | 1.6 | 3.5 | 2.3 | 2.3 | 1.0 | 0.9 | 0.9 | 1.0 | 0.8 | 0.9 |
| Health | 2.7 | 0.4 | 0.7 | 2.1 | 2.0 | 2.4 | 2.2 | 2.1 | 2.3 | 2.2 | 1.8 |
| Transport | 11.3 | 11.0 | 4.7 | 1.1 | 0.0 | 0.7 | 1.2 | 1.3 | 0.8 | 0.9 | 1.2 |
| Communication | 6.6 | 0.0 | 0.0 | -2.9 | -3.6 | -2.4 | -2.4 | -2.4 | -2.5 | 0.4 | 0.3 |
| Recreation Services & Culture | 3.0 | 0.4 | 2.3 | 1.5 | 1.6 | 0.8 | 1.6 | 1.5 | 2.0 | 1.9 | 1.9 |
| Education | 1.3 | 0.2 | 1.1 | 1.9 | 1.9 | 1.7 | 1.5 | 1.5 | 1.4 | 1.5 | 1.7 |
| Restaurants & Hotels | 3.4 | 0.4 | 5.0 | 5.5 | 5.4 | 3.2 | 2.9 | 3.0 | 3.5 | 3.2 | 3.3 |
| Miscellaneous Goods & Services | 9.8 | 0.5 | 2.0 | 2.5 | 2.6 | 2.5 | 2.5 | 2.6 | 3.1 | 3.0 | 2.8 |

Source: Dept. of Statistics, Kenanga Research

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