

Malaysia CPI, June 2015

GST follow through impact persists

- Headline inflation in Jun 2015 surged +2.5% YoY, pushing inflation in 2Q 2015 higher at +2.1% YoY (1Q 2015: +0.7% YoY).
- The pick-up in inflation was due to GST follow through impact, increase in cigarette prices as well as upward adjustment in domestic fuel prices in June.
- Revised our 2015 inflation forecast to 2.0%-2.5% from 2.5%-3.5% earlier.

Inflation rate in June 2015 surged +2.5% YoY (May 2015: +2.1% YoY; Maybank-KE: +2.4% YoY; Consensus: +2.4% YoY) and +0.6% MoM (May 2015: +0.4% MoM) after averaging +0.7% YoY in 1Q 2015. Headline inflation rate in 1H 2015 was +1.4% YoY with +2.1% YoY for 2Q 2015 (post GST) period, suggesting the follow through impact of higher inflation from the introduction of 6.0% Goods and Services Tax (GST) on 1 Apr 2015.

The pick-up in inflation was contributed the most by prices of **“Food and Non-Alcoholic Beverages” (FNAB)** which jumped +3.4% YoY in Jun 2015 (May 2015: +3.5% YoY). This was followed by **“Housing, Water, Electricity, Gas and Other Fuels” (HWEGOF)** which rose +2.5% YoY (May 2015: +2.6% YoY) with the MoM rise at +0.7% MoM (May 2015: +0.7% MoM). Meanwhile, **“Alcoholic Beverages & Tobacco”** maintained its double-digit rise (Jun 2015: +11.3% YoY; May 2015: +11.3% YoY) due to cigarette price hike from the 12% increase in tobacco excise duty effective Nov 2014. Announcement by British American Tobacco (BAT) to raise cigarette prices by MYR0.30/pack starting 29 Jun 2015 after absorbing GST since 1 Apr 2015 would keep **“Alcoholic Beverages & Tobacco”** elevated in 2H 2015.

“Services” inflation rate remained elevated at +3.8% YoY in Jun 2015 (May 2015: +3.7% YoY) as key **“Services”** components of CPI maintained higher price increases i.e. **“Recreation Services & Culture”** (Jun 2015: +1.7% YoY; May 2015: +1.6% YoY), **“Restaurants & Hotels”** (Jun 2015: +4.5% YoY; May 2015: +4.5% YoY), **“Health”** (Jun 2015: +5.0% YoY; May 2015: +5.0% YoY) and **“Miscellaneous Goods & Services”** (Jun 2015: +4.6% YoY; May 2015: +4.4% YoY).

“Transport” was again the notable exception as it fell -1.4% YoY (May 2015: -4.7% YoY), reflecting the continued pass through of low crude oil prices onto petrol and diesel prices via the **“managed float”** retail fuel price mechanism since Dec 2014. The decline is despite prices raised on 1 Jun 2015 to MYR2.35/litre for RON97 and MYR2.05/litre for both RON95 and diesel. This is followed by another round of price increase on 1 Jul 2015 to MYR2.55/litre for RON97 and MYR2.15/litre for RON95 while prices for diesel remained unchanged.

Analysts

Suhaimi B Ilias
(603) 2297 8682
suhaimi_iliash@maybank-ib.com

Dr Zamros Dzulkaflī
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh Lankanathan
(603) 2297 8685
ramesh@maybank-ib.com

William Poh Chee Keong
(603) 2297 8683
william.poh@maybank-ib.com

Malaysia: Consumer price index (CPI, 2010=100)

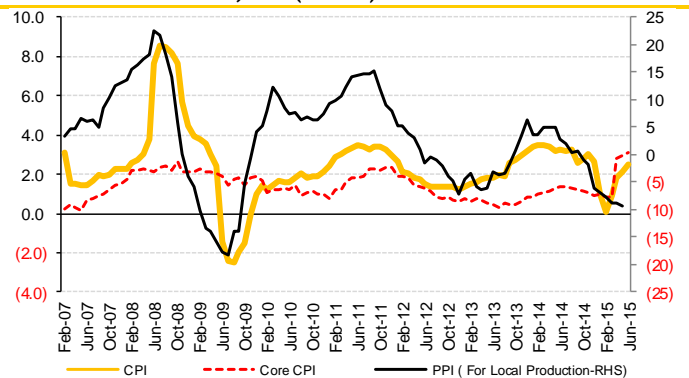
% YoY	Feb 15	Mar 15	Apr 15	May15	Jun15	1Q 2015	2Q 2015 (Post GST)	YTD 2015	2014
Total	0.1	0.9	1.8	2.1	2.5	0.7	2.2	1.4	3.2
Food and Non-Alcoholic Beverages (FNAB)	2.7	2.3	3.1	3.5	3.4	2.6	3.3	3.0	3.3
Alcoholic Beverages & Tobacco	10.6	10.6	13.0	11.3	11.3	10.6	11.9	11.3	11.6
Clothing and Footwear	(0.6)	(0.2)	0.7	0.9	0.7	(0.3)	0.8	0.2	(0.2)
Housing, Water, Electricity, Gas and Other Fuels	2.4	1.9	2.3	2.6	2.5	2.2	2.5	2.3	3.4
Furniture, Household Equipment and Routine Household Maintenance	0.1	0.2	2.3	2.6	3.2	0.3	2.7	1.5	1.0
Health	3.4	3.6	5.0	5.0	5.0	3.4	5.0	4.2	2.9
Transport	(11.8)	(4.9)	(4.8)	(4.7)	(1.4)	(7.6)	(3.6)	(5.6)	4.9
Communication	(0.9)	(0.9)	2.3	2.6	2.6	(1.0)	2.5	0.7	(0.7)
Recreation Services and Culture	0.8	0.6	1.5	1.6	1.7	0.6	1.6	1.1	1.5
Education	2.2	2.2	2.6	2.5	2.6	2.2	2.6	2.4	2.4
Restaurants & Hotels	2.9	2.8	4.3	4.5	4.5	3.1	4.4	3.8	4.7
Miscellaneous Goods & Services	1.6	1.5	4.1	4.4	4.6	1.6	4.3	2.9	0.7

Source: Dept. of Statistics

“Core” higher than headline inflation during post GST

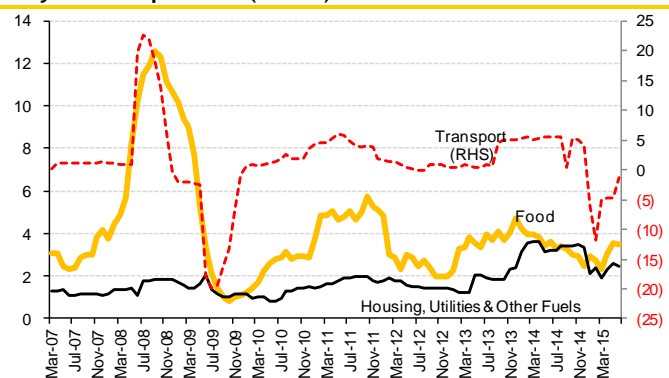
GST-induced surge in “core” CPI. Our measure of core inflation rate (excluding “FNAB”, “Transport” and “HWEGOF” to strip out the subsidised and volatile components of CPI) continued to surge on the direct impact from GST introduction as it jumped to +3.7% YoY in Jun 2015 (May 2015: +3.6% YoY) and +0.2% MoM (May 2015: +0.1% MoM). Excluding the impact of the tax-related cigarette price hike by removing “Alcoholic Beverages & Tobacco” from our core inflation computation, the adjusted core inflation figure were also higher at +3.1% YoY (May 2015: +3.0% YoY) and +0.2% MoM (May 2015: +0.2% MoM).

Headline & Core CPI, PPI (% YoY)



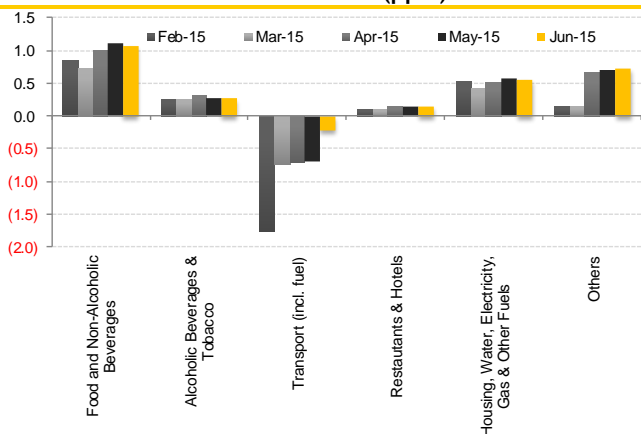
Sources: Dept of Statistics, Maybank KE

Key CPI Components (% YoY)



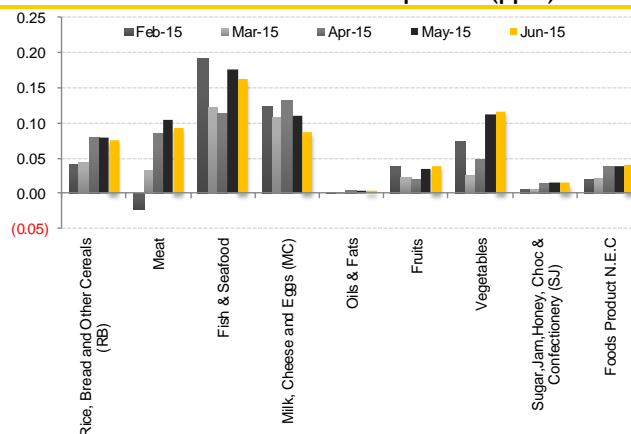
Sources: Dept of Statistics, Maybank KE

CPI: Contributions to YoY Inflation (ppts)



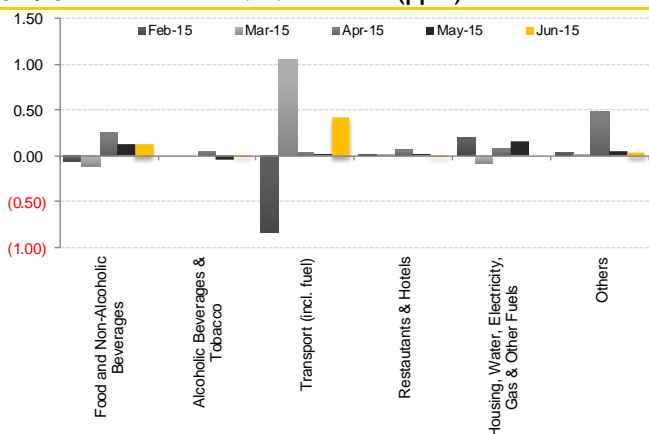
Sources: Dept of Statistics, Maybank KE

CPI: Contributions to YoY Food Component (ppts)



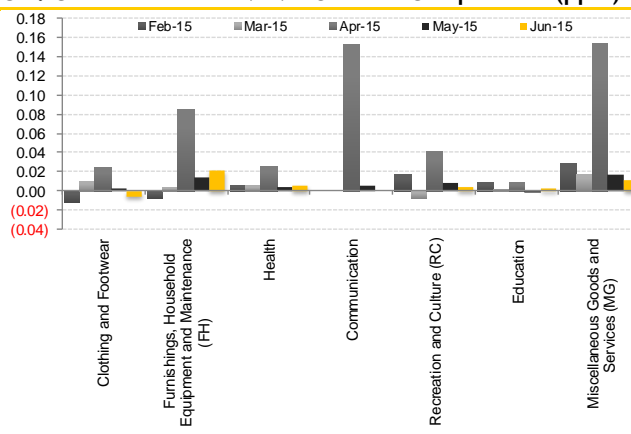
Sources: Dept of Statistics, Maybank KE

CPI: Contributions to MoM Inflation (ppts)



Sources: Dept of Statistics, Maybank KE

CPI: Contributions to MoM "Others" Components (ppts)



Sources: Dept of Statistics, Maybank KE

GST, fuel prices and public transport costs are key factors

Revised our 2015 inflation forecast to 2.0%-2.5% from 2.5%-3.5% earlier (official 2015E: 2.0%-3.0%; 2014: 3.2%) on exceptionally low inflation in 1Q 2015 at +0.7% YoY (4Q 2014: +2.8% YoY) amid series of downward adjustments to domestic fuel prices during the period and prospect of crude oil prices to remain at around current level for rest of 2015. The upsides on monthly inflation rate will be due to the follow through impact from introduction of GST, gas tariff hike by Gas Malaysia Bhd for non-power sector effective 1 Jul 2015¹ by average +10.3%, possible toll rates increase as well as pending hikes in other public transportation fares of between 20%-67% - after the taxi fare hikes in Mar 2015 - that was approved by the Land Public Transport Commission (SPAD) postponed. These are in addition to monthly adjustments in domestic fuel prices which would keep prices volatile.

Absence of electricity tariff hike in 2H 2015 helps to keep inflation low as the Government decided to retain the imbalance cost pass through (ICPT) rebate of MYR0.225 /kWh for Peninsula Malaysia and average tariff

¹ Please see our May 2015 CPI note for discussion on the impact of previous gas price hikes on consumer inflation.

reduction of MYR0.120/kWh for Sabah and Labuan during the period. This involves all categories of users except for domestic users consuming less than 300kWh per month.

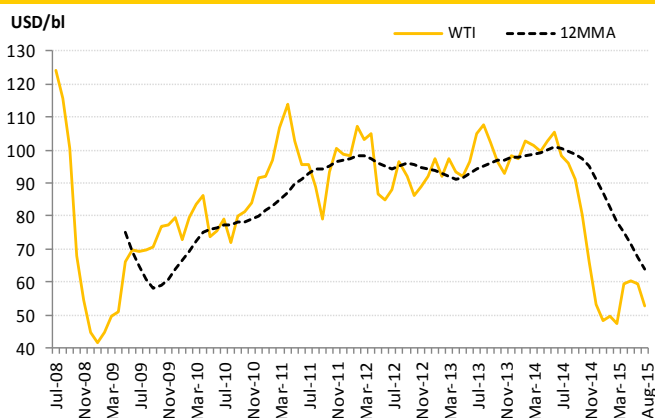
Steady OPR throughout 2015

No change in our view that OPR will stay at 3.25% throughout 2015. Our “neutral” view on BNM’s monetary policy is evident from the latest Monetary Policy Statement (MPS) which sees steady growth while inflation rate contained amid stable domestic demand conditions. The only notable change in the MPS was that there is no longer the mention on “destabilising risk of financial imbalances”.

Global commodity price trend are still mixed

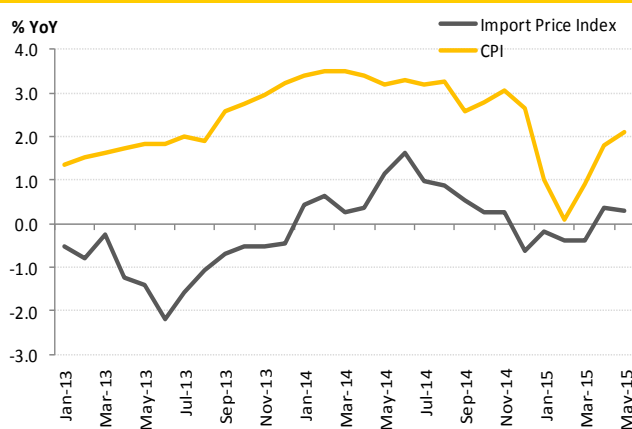
The FAO Food Price Index² continues its declining trend, fell by -0.9% MoM in Jun 2015 (May 2015: -1.4% MoM), pulled down this time by lower prices for sugar and dairy products, despite firm oils and cereal prices supported by stable meat prices. Sugar prices fell -6.6% MoM in Jun 2015 (May 2015: +2.0% MoM) on higher than expected production in India, Thailand and Brazil. Dairy products prices were down -4.1% MoM (May 2015: -2.9% MoM) reflecting large unsold stocks in New Zealand and build-up of export supplies in Europe together with the end of the EU milk quotas which was lifted on 31 Mar 2015 as well as import prohibition by Russia. Vegetable oil prices were up by +1.3% MoM (May 2015: +2.6% MoM) driven by concern of possible El Nino developments and improved palm oil import demand by China and India. Unfavourable weather in major producing countries is also affecting soy oil and rapeseed production, causing firming of prices.

Global: Crude Oil Price Recent Upward Lift Losing Momentum



Sources: Bloomberg

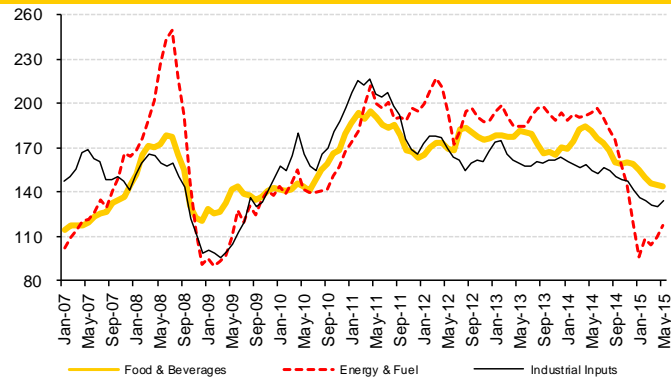
Import Price Index Growth Leaving Sub Zero Territory but Remains Subdued



Sources: Dept of Statistics, Maybank KE

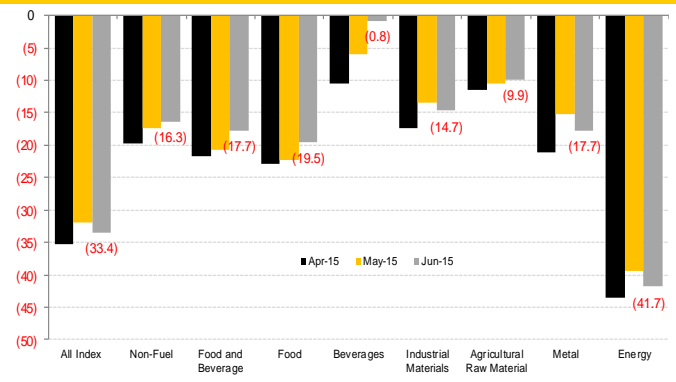
² FAO Food Price Index comprise average of five commodity food price indices; meat, dairy, cereals, oils and sugar.

Global: Commodity Price Index (% change YoY)



Source: IMF

Global: Commodity Price by Key Sub-Components (% YoY)



Source: IMF

Global Commodity Prices (% YoY)

Type of Commodity	Feb-15	Mar-15	Apr-15	May-15	Jun-15	YTD 2015	2014
All index	(34.0)	(36.1)	(35.3)	(32.0)	(33.4)	(34.5)	(6.2)
Non-fuel index	(14.6)	(18.2)	(19.7)	(17.3)	(16.3)	(16.3)	(4.0)
Food and beverage index	(14.1)	(20.2)	(21.6)	(20.6)	(17.7)	(17.1)	(2.1)
Food index	(15.8)	(21.3)	(22.8)	(22.2)	(19.5)	(18.7)	(4.2)
Beverages index	2.3	(9.7)	(10.5)	(6.0)	(0.8)	(1.8)	20.9
Industrial materials index	(15.2)	(15.8)	(17.4)	(13.4)	(14.7)	(15.3)	(5.9)
Agricultural raw material Index	(6.8)	(11.6)	(11.4)	(10.5)	(9.9)	(9.5)	2.0
Metal index	(20.2)	(18.4)	(21.1)	(15.2)	(17.7)	(18.8)	(10.1)
Energy index	(43.9)	(45.4)	(43.4)	(39.5)	(41.7)	(43.8)	(7.3)

Source: IMF

Global Commodity Prices (% MoM)

Type of Commodity	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
All index	(11.9)	(12.2)	5.3	(3.2)	2.1	4.9	(1.6)
Non-fuel index	(2.1)	(3.3)	(2.3)	(2.4)	(0.7)	1.0	(1.2)
Food and beverage index	(0.4)	(2.7)	(3.2)	(2.8)	(0.7)	(0.4)	0.4
Food index	(0.3)	(2.9)	(3.7)	(2.6)	(0.8)	(0.7)	(0.2)
Beverages index	(1.9)	(1.0)	0.4	(4.7)	0.0	2.4	4.6
Industrial materials index	(3.8)	(3.9)	(1.2)	(2.0)	(0.7)	2.6	(3.0)
Agricultural raw material Index	(2.1)	(1.2)	0.3	(2.1)	(0.8)	0.2	(0.5)
Metal index	(4.9)	(5.7)	(2.2)	(1.9)	(0.6)	4.3	(4.6)
Energy index	(18.0)	(18.9)	12.0	(3.8)	4.3	7.7	(1.9)

Source: IMF

Global: Consumer Price Index (YoY, %)

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	YTD 2015	2014
Global	2.9	2.8	2.5	2.7	2.7	2.6	2.5	-	2.6	3.2
US	1.3	0.8	(0.1)	0.0	(0.1)	(0.2)	0.0	-	(0.1)	1.6
Eurozone	0.3	(0.2)	(0.6)	(0.3)	(0.1)	0.0	0.3	0.2	(0.1)	0.4
Japan	2.4	2.4	2.4	2.2	2.3	0.6	0.5	-	1.6	2.7
Germany	0.6	0.2	(0.3)	0.1	0.3	0.4	0.7	0.5	0.3	0.9
UK	1.0	0.5	0.3	0.0	0.0	(0.1)	0.1	-	0.1	1.5
OECD	1.5	1.1	0.6	0.6	0.6	0.5	0.6	-	0.6	1.7
China	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4	1.3	2.0
India	3.3	4.3	5.2	5.4	5.3	4.9	5.0	5.4	5.2	7.2
Russia	9.1	11.4	15.0	16.7	16.9	16.4	15.8	15.3	16.0	7.8
Brazil	6.6	6.4	7.1	7.7	8.1	8.2	8.5	8.9	8.1	6.3
S. Korea	1.0	0.8	0.8	0.5	0.4	0.4	0.5	0.7	0.5	1.3
Taiwan	1.1	0.7	(0.5)	(0.6)	(0.7)	(0.9)	(0.9)	(0.8)	(0.7)	1.4
Hong Kong	5.1	4.9	4.5	4.2	4.5	2.9	3.1	-	3.8	4.4
Singapore	(0.3)	(0.1)	0.0	(0.5)	(0.2)	(1.0)	(0.3)	-	(0.4)	1.0
Indonesia	6.2	8.4	7.0	6.3	6.4	6.8	7.1	7.3	6.8	6.4
Thailand	1.3	0.6	(0.4)	(0.5)	(0.6)	(1.0)	(1.3)	(1.1)	(0.8)	1.9
Malaysia	3.0	2.7	1.0	0.1	0.9	1.8	2.1	2.5	1.4	3.2
Philippines	3.7	2.7	2.4	2.5	2.4	2.2	1.6	1.2	2.0	4.2
Vietnam	2.6	1.8	0.9	0.3	0.9	1.0	1.0	-	0.8	4.1

Sources: Bloomberg, CEIC, Maybank KE, IMF

Global: Core Consumer Price Index (YoY, %)

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	YTD 2015	2014
US	1.7	1.6	1.6	1.7	1.8	1.8	1.7	-	1.7	1.8
Eurozone	0.7	0.7	0.6	0.7	0.6	0.6	0.9	0.8	0.7	0.8
Japan	2.1	2.1	2.0	2.0	2.1	0.4	0.4	-	1.4	1.8
UK	1.2	1.3	1.4	1.2	1.0	0.8	0.9	0.8	1.0	1.6
OECD	1.7	1.7	1.8	1.8	1.7	1.6	1.7	-	1.7	1.8
China	1.0	0.8	0.6	0.9	0.9	0.9	1.0	1.2	0.9	1.5
S. Korea	1.6	1.6	2.4	2.3	2.1	2.0	2.1	2.0	2.2	2.0
Taiwan	1.4	1.4	0.6	1.8	1.0	0.7	0.6	0.6	0.9	1.3
Indonesia	11.4	17.6	12.3	10.9	11.5	13.3	13.4	13.1	12.4	13.0
Thailand	1.6	1.7	1.6	1.5	1.3	1.0	0.9	0.9	1.2	1.6
Malaysia	1.0	0.9	1.0	0.9	0.9	2.8	3.0	3.1	1.9	1.2

Sources: Bloomberg, CEIC, Maybank KE

*Malaysia's weighted core inflation rate by our estimates has been adjusted to exclude "Alcoholic Beverages & Tobacco".

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836 sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6432 1453
ongsengyeow@maybank-ke.com.sg

ECONOMICS

Suhaimi ILIAS
Chief Economist
Singapore | Malaysia
(603) 2297 8682 suhaimi_ilias@maybank-ib.com

Luz LORENZO
Philippines
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com

Tim LEELAHAPHAN
Thailand
(66) 2658 6300 ext 1420
tim.l@maybank-ke.co.th

JUNIMAN
Chief Economist, BI
Indonesia
(62) 21 29228888 ext 29682
Juniman@bankbii.com

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836 sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631 williechan@kimeng.com.hk

MALAYSIA

WONG Chew Hann, CA Head of Research
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjl@maybank-ib.com
• Oil & Gas Services - Regional

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

CHAI Li Shin, CFA
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIEW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

LEE Cheng Hooi Regional Chartist
(603) 2297 8694
chenghooi.lee@maybank-ib.com

Tee Sze Chiah Head of Retail Research
(603) 2297 6858 szechiah.t@maybank-ib.com

Cheah Chong Ling
(603) 2297 8767 chongling.c@maybank-ib.com

HONG KONG / CHINA

Howard WONG Head of Research
(852) 2268 0648
howardwong@kimeng.com.hk
• Oil & Gas - Regional

Alexander LATZER
(852) 2268 0647
alexanderlatzer@kimeng.com.hk
• Metals & Mining - Regional

Benjamin HO
(852) 2268 0632 benjaminho@kimeng.com.hk
• Consumer & Auto

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ka Leong LO, CFA
(852) 2268 0630 kll@kimeng.com.hk
• Consumer Discretionary & Auto

Mitchell KIM
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Osbert TANG, CFA
(86) 21 5096 8370
osberttang@kimeng.com.hk
• Transport & Industrials

Ricky WK NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Utilities & Renewable Energy

Steven ST CHAN
(852) 2268 0645 stevenchan@kimeng.com.hk
• Banking & Financials - Regional

Warren LAU
(852) 2268 0644
warrenlau@kimeng.com.hk
• Technology - Regional

INDIA

Jigar SHAH Head of Research
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Oil & Gas • Automobile • Cement

Anubhav GUPTA
(91) 22 6623 2605 anubhav@maybank-ke.co.in
• Metal & Mining • Capital Goods • Property

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

Abhijeet KUNDU
(91) 22 6623 2628 abhijeet@maybank-ke.co.in
• Consumer

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

SINGAPORE

Gregory YAP
(65) 6231 5848 gyap@maybank-ke.com.sg
• SMID Caps
• Technology & Manufacturing • Telcos

YEAK Chee Keong, CFA
(65) 6231 5842
yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Transport • Property • REITs (Office)

Joshua TAN
(65) 6231 5850 joshuatan@maybank-ke.com.sg
• REITs (Retail, Industrial)

WEI Bin
(65) 6231 5844 weibin@maybank-ke.com.sg
• Commodity • Logistics • S-chips

John CHEONG
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

TRUONG Thanh Hang
(65) 6231 5847 hang.truong@maybank-ke.com.sg
• Small & Mid Caps

INDONESIA

Isnapura ISKANDAR Head of Research
(62) 21 2557 1129
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 2557 1128
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 2953 0785
aurellia.setiabudi@maybank-ke.co.id
• Property

Pandu ANUGRAH
(62) 21 2557 1137
pandu.anugrah@maybank-ke.co.id
• Infra • Construction • Transport • Telcos

Janni ASMAN
(62) 21 2953 0784
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

Adhi TASMIN
(62) 21 2557 1209
adhi.tasmin@maybank-ke.co.id
• Plantations

PHILIPPINES

Luz LORENZO Head of Research
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

Lovell SARREAL
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

Ramon ADVIENTO
(63) 2 849 8845
ramon_adviento@maybank-atrke.com
• Mining

Michael BENGSON
(63) 2 849 8840
michael_bengson@maybank-atrke.com
• Conglomerates

Jaclyn JIMENEZ
(63) 2 849 8842
jaclyn_jimenez@maybank-atrke.com
• Consumer

Arabelle MAGHIRANG
(63) 2 849 8838
arabelle_maghirang@maybank-atrke.com
• Banks

THAILAND

Maria LAPIZ Head of Institutional Research
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Consumer • Materials • Ind. Estates

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector • Transport

Sukit UDOMSIRIKUL Head of Retail Research
(66) 2658 6300 ext 5090
Sukit.u@maybank-ke.co.th

Mayuree CHOWVIKARAN
(66) 2658 6300 ext 1440
mayuree.c@maybank-ke.co.th
• Strategy

Padon VANNARAT
(66) 2658 6300 ext 1450
Padon.v@maybank-ke.co.th
• Strategy

Surachai PRAMUALCHAROENKIT
(66) 2658 6300 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 6300 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 6300 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 6300 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 6300 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

VIETNAM

THAI Quang Trung, CFA, Deputy Manager,
Institutional Research
(84) 8 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

Le Nguyen Nhat Chuyen
(84) 8 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen, Head of Retail Research
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRINH Thi Ngoc Diep
(84) 4 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

PHAM Nhat Bich
(84) 8 44 555 888 x 8083
bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

NGUYEN Thi Sony Tra Mi
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

TRUONG Quang Binh
(84) 4 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil&Gas

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 **Malaysia**

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

 **Philippines**

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

 **South Asia Sales Trading**

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6336-5157
US Toll Free: 1-866-406-7447

Malaysia

Rommel Jacob
rommeljacob@maybank-ib.com
Tel: (603) 2717 5152

Indonesia

Harianto Liong
harianto.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

Andrew Dacey
adacey@maybank-keusa.com
Tel: (212) 688 2956

Vietnam

Tien Nguyen
thuytien.nguyen@maybank-kimeng.com.vn
Tel: (84) 44 555 888 x8079

 **Singapore**

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

 **Hong Kong**

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

 **Thailand**

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

 **North Asia Sales Trading**

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

India

Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

 **London**

Maybank Kim Eng Securities
(London) Ltd
5th Floor, Aldermay House
10-15 Queen Street
London EC4N 1TX, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

 **Indonesia**

PT Maybank Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

 **Vietnam**

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

 **New York**

Maybank Kim Eng Securities USA
Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

 **India**

Kim Eng Securities India Pvt Ltd
2nd Floor, The International 16,
Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

 **Saudi Arabia**

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787