

Malaysia CPI, Dec 2015

Headline stays below 3.0% YoY

Headline inflation picked up marginally to +2.7% YoY in Dec 2015 (Nov 2015: +2.6% YoY). But core inflation picked up further to +5.3% YoY in Dec 2015 (Nov 2015: +5.1% YoY), indicating persistently strong underlying inflationary pressures. Full-year 2015 inflation came in at +2.1%, a tad lower than our earlier forecasts at +2.2%, held down by the current soft global crude oil prices. Maintain our 2016 inflation forecast at +3.0% to +3.5%.

Headline inflation kept low by low fuel prices

Inflation rate was stable as it increased marginally to +2.7% YoY in Dec 2015 (Nov 2015: +2.6% YoY; Maybank-KE: +2.7% YoY; Consensus: +2.8% YoY). On MoM basis, the CPI remains unchanged (Nov 2015: +0.6% MoM). Full year 2015 headline inflation came in at +2.1%, with +2.6% YoY recorded in the post-GST months of Apr-Dec 2015 (1Q 2015: +0.7% YoY). But underlying inflation rate remains elevated, underscoring rising cost of living. Despite the minimal increase in YoY headline inflation rate, our measure of core inflation rate (excluding 'FNAB', 'Transport' and 'HWEGOF' which consist of volatile and the remaining subsidised components of the CPI) held firm, surged higher to +5.3% YoY in Dec 2015 (Nov 2015: +5.1% YoY). Excluding the impact of recent tax-related cigarette price hike by removing 'Alcoholic Beverages & Tobacco' from our core inflation computation, the adjusted core inflation figure stays firm at +3.7% YoY in Dec 2015 (Nov 2015: +3.7% YoY).

Baseline of higher inflation in 2016

Inflation to average 3.0%-3.5% in 2016, notwithstanding the gradual tapering of GST impact. The upward inflationary pressures will be sustained by factors such as further adjustments in domestic subsidies and other controlled prices, the impact of weak MYR on imported prices and costs, as well as the 11%-15% increase in Minimum Wages effective 1 July 2016. Continue to expect OPR to remain steady at 3.25% until end-2016 despite higher inflation rate as BNM's monetary policy will be geared towards supporting growth. We forecast +4.5% real GDP growth in 2016 (2015E: +4.9%) amid moderating domestic demand, especially in consumption expenditure and private investment. However, the option to adjust OPR lower is limited by the weak bias in MYR amid the start of the US interest rate hike cycle.

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

% YoY	Aug 15	Sep15	Oct15	Nov15	Dec15	Jan-Mar 15	Apr-Dec 15	2015	2014
Total	3.1	2.6	2.5	2.6	2.7	0.7	2.6	2.1	3.1
Food and Non-Alcoholic Beverages (FNAB)	4.2	4.3	4.7	4.1	4.6	2.6	4.0	3.6	3.3
Alcoholic Beverages & Tobacco	13.4	9.8	13.3	20.7	22.8	10.6	14.5	13.5	11.6
Clothing and Footwear	0.7	0.7	0.7	0.6	0.8	(0.3)	0.8	0.5	(0.2)
Housing, Water, Electricity, Gas and Other Fuels	2.7	2.7	2.7	2.5	2.5	2.2	2.5	2.5	3.4
Furniture, Household Equipment and Routine Household Maintenance	3.7	3.7	3.8	3.8	4.2	0.3	3.5	2.7	1.0
Health	4.7	4.6	4.7	4.4	4.6	3.4	4.8	4.5	2.9
Transport	(1.2)	(3.8)	(5.7)	(5.2)	(6.2)	(7.6)	(3.5)	(4.5)	4.8
Communication	3.0	3.2	3.3	3.4	3.3	(1.0)	2.9	1.9	(0.7)
Recreation Services and Culture	2.1	2.3	2.4	2.6	2.6	0.6	2.1	1.7	1.6
Education	2.5	2.5	2.5	2.5	2.6	2.2	2.5	2.4	2.4
Restaurants & Hotels	4.5	4.6	4.7	4.6	4.7	3.1	4.6	4.1	4.6
Miscellaneous Goods & Services	4.5	5.6	5.8	5.9	5.4	1.6	5.0	4.1	0.6

Source: Dept. of Statistics

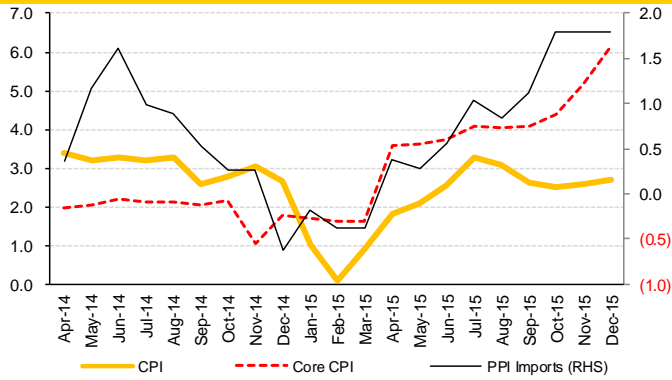
Declining 'Transport' cost helped to cap headline inflation rate (Dec 2015: -6.2% YoY; Nov 2015: -5.2% YoY). On 1 Dec 2015, the RON95 petrol price was reduced by MYR0.10/litre to MYR1.95/litre but prices for RON97, regular diesel and Euro 5 diesel remain unchanged at MYR2.45/litre, MYR1.90/litre and MYR2.00/litre respectively. As we start 2016, global crude Brent and WTI fell further to below USD30/bl and we expect to see retail fuel prices to remain low most of this year to help contain the upward inflationary pressure arising from series of upward price adjustments in goods and services. Brent price fell from USD43.48/bl on 1 Dec 2015 to close at USD36.14/bl on 1 Jan 2016 and trending lower trading at USD28.10/bl on 19 Jan 2016. Based on Bloomberg's futures contract data on 19 Jan 2016, Brent price is expected to average at USD32.3/bl in 2016 (2015: USD52.6/bl; 2014: USD96.9/bl).

Inflation however continued to see the biggest upward pressure coming from 'Food and Non-Alcoholic Beverages' (FNAB) as costs grew by +4.6% YoY in Dec 2015 (Nov 2015: +4.1% YoY). Vegetable prices remain elevated at +12.0% YoY (Nov 2015: 8.9% YoY) followed by fish & seafood which rose +5.7% YoY (Nov 2015: +6.6% YoY).

This is in addition to tax-related increase in 'Alcoholic Beverages & Tobacco' prices, which went up by +22.8% YoY in Dec 2015 (Nov 2015: +20.7% YoY). The impact of GST compounded by the hike in tobacco excise duty in Nov 2015, will continue to keep 'Alcoholic Beverages & Tobacco' inflation rate elevated throughout 2016.

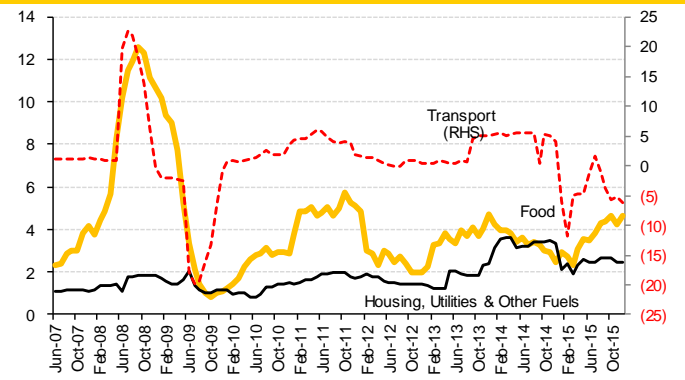
'Services' inflation rate remains elevated at +4.1% YoY in Dec 2015 (Nov 2015: +4.0% YoY) on pick up in key 'Services' components post-GST period: 'Recreation Services & Culture' (Dec 2015: +2.6% YoY; Nov 2015: +2.6% YoY), 'Restaurants & Hotels' (Dec 2015: +4.7% YoY; Nov 2015: +4.6% YoY), 'Health' (Dec 2015: +4.6% YoY; Nov 2015: +4.4% YoY) and 'Miscellaneous Goods & Services' (Dec 2015: +5.4% YoY; Nov 2015: +5.9% YoY).

Headline & Core CPI, PPI (% YoY)



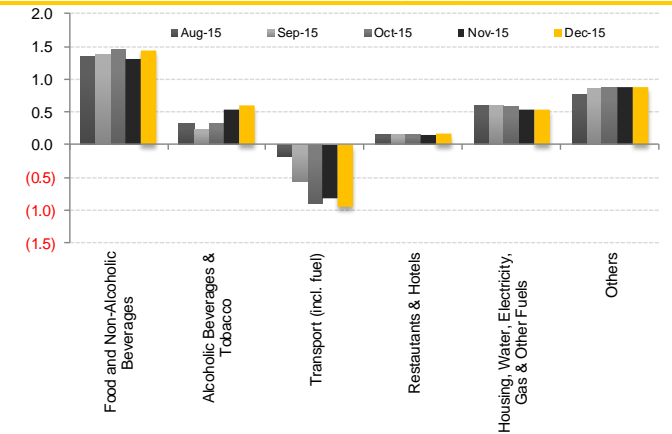
Sources: Dept of Statistics, Maybank KE

Key CPI Components (% YoY)



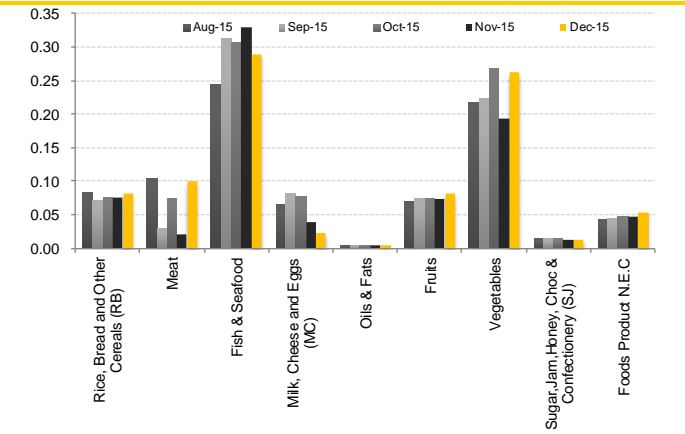
Sources: Dept of Statistics, Maybank KE

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

Inflation rate to average higher in 2016

2015 headline inflation at +2.1% missed slightly our +2.2% forecast, on persistently low global crude oil prices (official 2015E: 2.0%-2.5%; 2014: +3.1%). We had earlier expected, as in our previous note that inflation rate could possibly picked up to around +3.0% YoY in Dec 2015 on the direct and secondary impact of the recent toll rate increases for 18 highways in the Klang Valley effective 15 Oct 2015, the hikes in public transport fares (LRT, Monorail and KTM Komuter effective 2 Dec 2015) as well as higher cigarette prices following the +40% rise in tobacco excise duty in Nov 2015. Nevertheless, lower domestic fuel prices from plummeting global crude oil prices had kept headline inflation low.

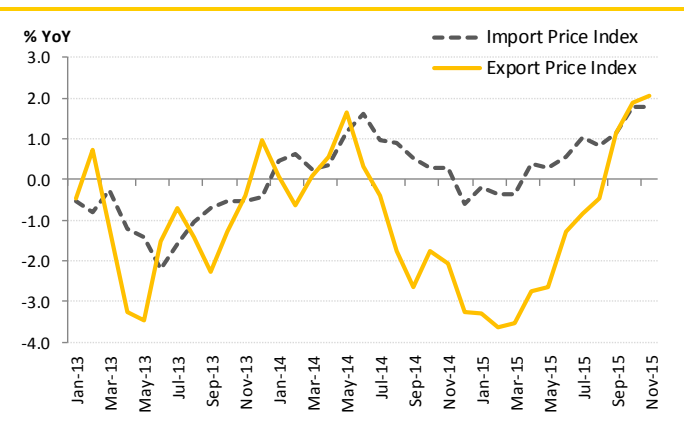
Expect inflation to average higher in 2016 at 3.0%-3.5%. The general upward inflation trend in 2015 is expected to persist in 2016, resulting in our forecast of between +3.0% to +3.5% inflation rate for 2016, notwithstanding the tapering of GST impact. This is because inflationary pressures will be sustained by other factors, including further adjustments in domestic subsidies and other controlled prices, weak MYR on imported prices and costs, and the increase in Minimum Wages effective 1 July 2016.

Further subsidy cuts under Budget 2016 i.e. there will be no more subsidies on cooking oil price and on electricity bills for usage below MYR20.00/month following the removals of MYR950m allocation for 'Cooking Oil Stabilisation Scheme' (COSS) and MYR150m allocation for 'Electricity Bill Subsidy'. This follows the end of rice price subsidies this month. The Government has earlier abolished subsidies on sugar and fuel prices.

Possibly more upward adjustment in transport costs. Taxi, express bus and rail fares were raised in 2015, leaving stage and school bus fares pending. Back in Oct 2010 during the presentation of Budget 2011, Prime Minister who is also the Finance Minister announced a five-year freeze on PLUS highway toll rate starting 2011 until 2015. This may give rise to the prospect of PLUS highway toll rate hike in 2016 as nothing was mentioned on this in Budget 2016 and in view of the above-mentioned hikes in toll rates of 18 Klang Valley highways, indicating the Government is cutting subsidies on highway tolls.

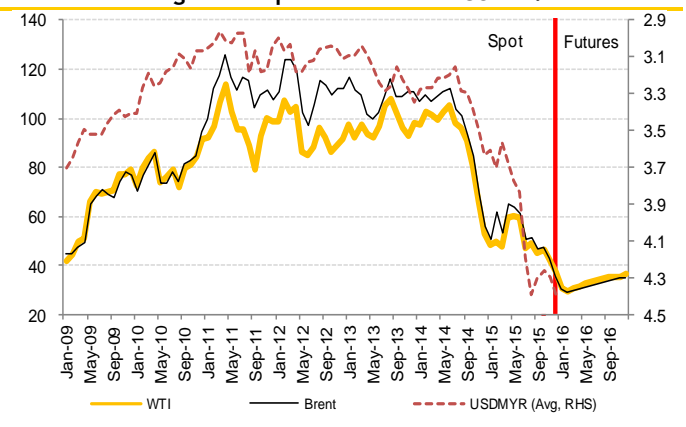
Weak MYR to induce higher imported inflation. The Import Price Index has been on an upward trend since Apr 2015 and rose further in Nov 2015 by +1.8% YoY (Oct 2015: +1.8% YoY). Higher import prices will eventually force producers to pass at least some if not all of the additional cost to consumers, hence contributing to higher inflation. As it is, the Japanese auto makers/dealers have said they will increase car prices by 3%-16% in 2016 while Proton Holdings recently indicated considering raising car prices after Chinese New Year in Feb 2016.

Malaysia: Import and Export Price Index



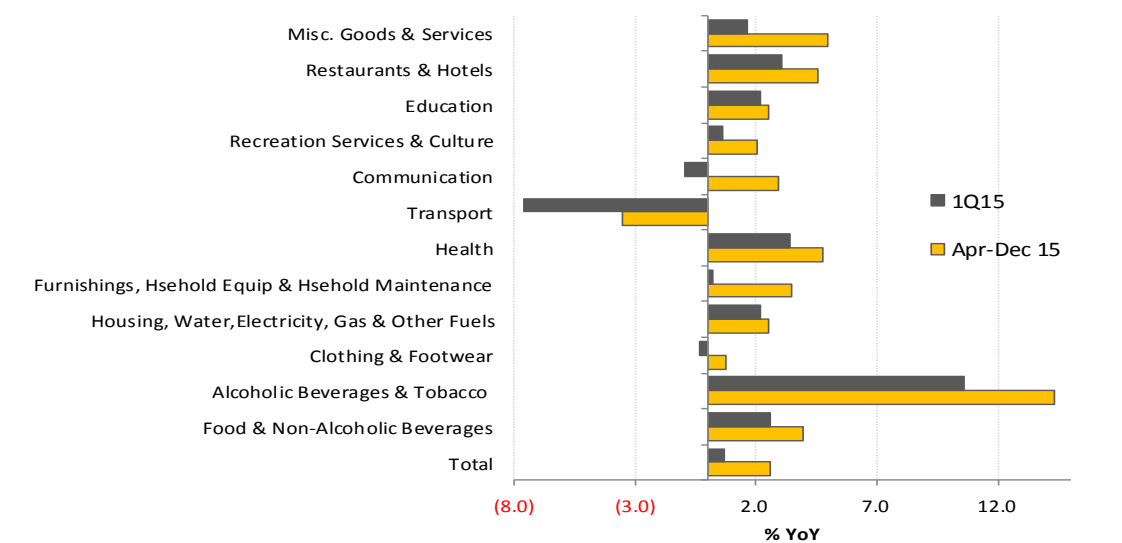
Sources: CEIC

Global Crude Oil Prices: Bloomberg Futures contracts indicate average Brent price in 2016 at USD32.3/bl



Sources: Bloomberg, Maybank KE

CPI: All 12 major CPI groups posted price increases in Apr-Dec 2015 period after the introduction of GST in April 2015



Sources: Dept of Statistics, Maybank KE

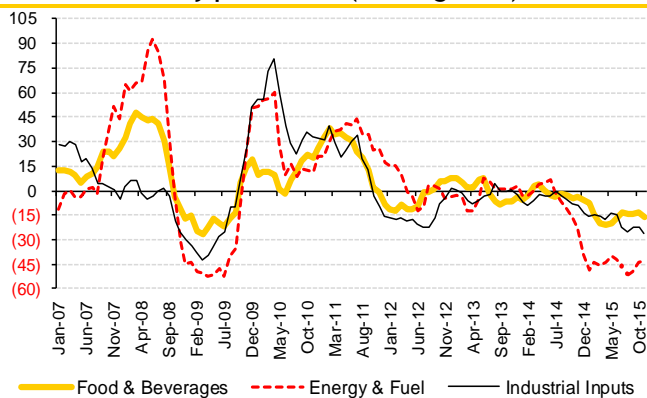
Expect steady OPR in 2016

We continue to expect OPR to remain steady at 3.25% until end-2016 despite the continued inflationary pressures as BNM focus or bias will be towards maintaining an accommodative monetary policy to support growth. We expect real GDP to expand +4.5%¹ in 2016 (2015E: +4.9%) amid moderating domestic demand, especially in consumption expenditure and private investment. We see the option to lower OPR is limited by the weak bias in MYR amid the commencement of US interest rate hike cycle in Dec 2015. Meanwhile, the IMF on 19 Jan 2016 cut global economic growth projection for 2016 to +3.4% from +3.6% projection made in Oct 2015, mainly on expected growth slowdown in large emerging markets.

Global commodity prices: double digit decline in 2015

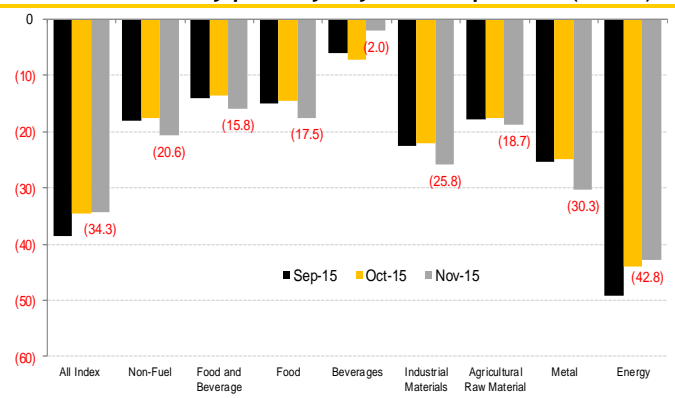
The FAO Food Price Index² declined further in Dec 2015 by -1.0% MoM (Nov 2015: +1.6% MoM revised from +2.6% MoM), as all commodities fell except sugar and oils. On annual basis, the index dropped -18.7% in 2015 (2014: -3.9%) with all commodities posting double-digit drop. The decline has been largely attributed to higher supply on the back of dwindling demand as well as appreciating USD. ‘Sugar’ prices continue to pick up for four consecutive month albeit at lower pace by +0.6% MoM in Dec 2015 (Nov 2015: +4.6% MoM) largely due to weather effects with continued excessive precipitation in Brazil causing harvesting delays and as well as excessive dryness in India, Thailand and South Africa. Meanwhile, ‘Dairy’ prices eased by -1.0% MoM (Nov 2015: +2.9% MoM) on falling prices for milk powders. ‘Vegetable Oils’ prices were up by +2.1% MoM in Dec 2015 (Nov 2015: -3.1% MoM) due to rising soybean oil on concerns regarding Brazil’s harvest while palm oil prices remained stable despite production declines in Southeast Asia amid weak global import demand.

Global: Commodity price index (% change YoY)



Source: IMF

Global: Commodity price by key sub-components (% YoY)



Source: IMF

¹ Please refer to our report “3Q 2015 Real GDP” released on 16 Nov 2015.

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

Global Commodity Prices (% YoY)

Type of Commodity	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	2015	2014
All index	(40.5)	(38.6)	(34.3)	(34.3)	(30.7)	(35.2)	(6.2)
Non-fuel index	(19.7)	(18.0)	(17.5)	(20.5)	(19.1)	(17.5)	(4.0)
Food and beverage index	(14.6)	(14.0)	(13.6)	(15.8)	(14.7)	(15.6)	(2.1)
Food index	(15.7)	(15.0)	(14.4)	(17.5)	(16.3)	(17.0)	(4.2)
Beverages index	(5.6)	(5.9)	(7.2)	(2.0)	(1.1)	(2.7)	20.9
Industrial materials index	(25.2)	(22.4)	(21.8)	(25.6)	(24.2)	(19.5)	(5.9)
Agricultural raw material Index	(18.5)	(17.7)	(17.0)	(18.0)	(16.2)	(13.5)	2.0
Metal index	(29.1)	(25.3)	(24.8)	(30.2)	(29.3)	(23.2)	(10.1)
Energy index	(51.3)	(49.2)	(43.8)	(42.8)	(39.3)	(44.7)	(7.3)

Source: IMF

Global Commodity Prices (% MoM)

Type of Commodity	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
All index	(1.6)	(6.6)	(9.2)	(0.7)	(0.0)	(5.7)	(7.1)
Non-fuel index	(1.0)	(2.0)	(3.8)	(1.8)	(0.7)	(3.7)	(0.2)
Food and beverage index	0.9	2.1	(3.5)	(4.1)	(0.3)	(2.3)	1.3
Food index	0.4	2.2	(3.7)	(4.4)	(0.5)	(2.6)	1.6
Beverages index	4.6	1.4	(2.3)	(1.3)	0.8	(0.1)	(1.0)
Industrial materials index	(3.1)	(6.7)	(4.2)	0.9	(1.1)	(5.3)	(2.1)
Agricultural raw material Index	(0.7)	(5.6)	(5.5)	0.6	0.6	(2.2)	0.1
Metal index	(4.6)	(7.5)	(3.3)	1.2	(2.2)	(7.5)	(3.7)
Energy index	(2.0)	(9.8)	(13.3)	0.2	0.5	(7.4)	(12.9)

Source: IMF

Global: Consumer Price Index (YoY, %)

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	2015	2014
Global	2.7	2.7	2.5	2.5	2.4	2.5	2.5	2.7	2.6	3.2
US	0.0	0.1	0.2	0.2	0.0	0.2	0.5	-	0.1	1.6
Eurozone	0.3	0.2	0.2	0.1	(0.1)	0.1	0.1	0.2	0.0	0.4
Japan	0.5	0.4	0.2	0.2	0.0	0.3	0.3	-	0.9	2.7
Germany	0.7	0.4	0.3	0.1	0.0	0.3	0.3	0.4	0.2	0.9
UK	0.1	0.0	0.1	0.0	(0.1)	(0.1)	0.1	0.2	0.0	1.5
OECD	0.6	0.6	0.6	0.6	0.4	0.6	0.7	-	0.6	1.7
China	1.2	1.4	1.6	2.0	1.6	1.3	1.5	1.6	1.4	2.0
India	5.0	5.4	3.7	3.7	4.4	5.0	5.4	5.6	4.9	7.2
Russia	15.8	15.3	15.6	15.8	15.7	15.6	15.0	12.9	15.6	7.8
Brazil	8.5	8.9	9.6	9.5	9.5	9.9	10.5	10.7	9.0	6.3
S. Korea	0.5	0.7	0.7	0.7	0.6	0.9	1.0	1.3	0.7	1.3
Taiwan	(0.9)	(0.8)	(0.8)	(0.9)	(0.8)	(0.4)	(0.0)	(0.0)	(0.6)	1.4
Hong Kong	3.0	3.1	2.6	2.5	2.0	2.4	2.4	-	3.1	4.4
Singapore	(0.3)	(0.2)	(0.7)	(0.7)	(0.5)	(1.0)	(0.7)	-	(0.5)	1.0
Indonesia	7.1	7.3	7.3	7.2	6.8	6.2	4.9	3.4	6.4	6.4
Thailand	(1.3)	(1.1)	(1.0)	(1.2)	(1.1)	(0.8)	(1.0)	(0.9)	(0.9)	1.9
Malaysia	2.1	2.5	3.3	3.1	2.6	2.5	2.6	2.7	2.1	3.2
Philippines	1.6	1.2	0.8	0.6	0.4	0.4	1.1	1.5	1.4	4.2
Vietnam	1.0	1.0	0.9	0.6	(0.0)	0.0	0.3	0.6	0.6	4.1

Sources: Bloomberg, CEIC, Maybank KE, IMF

Global: Core Consumer Price Index (YoY, %)

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	2015	2014
US	1.7	1.8	1.8	1.8	1.9	1.9	2.0	-	1.8	1.8
Eurozone	0.9	0.8	1.0	0.9	0.9	1.1	0.9	0.9	0.8	0.8
Japan	0.4	0.5	0.6	0.8	0.9	0.8	0.9	-	1.0	1.8
UK	0.9	0.8	1.2	1.0	1.0	1.1	1.2	1.4	1.1	1.6
OECD	1.6	1.6	1.7	1.7	1.8	1.8	1.8	-	1.7	1.8
China	1.0	1.2	1.1	1.1	1.0	0.9	1.1	1.1	1.0	1.5
S. Korea	2.1	2.0	2.0	2.1	2.1	2.3	2.4	2.4	2.2	2.0
Taiwan	0.6	0.6	0.7	0.6	0.6	0.7	0.9	0.8	0.8	1.3
Indonesia	13.4	13.1	13.5	12.3	11.3	9.8	5.6	-	11.5	13.0
Thailand	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.7	1.1	1.6
Malaysia	3.0	3.1	3.3	3.3	3.6	3.7	3.7	3.7	2.6	1.2

Sources: Bloomberg, CEIC, Maybank KE

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

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