

Malaysia

Inflation Resumes Climb In May

- ◆ **Malaysia's headline inflation rate climbed further to 1.8% YoY in May (matching Bloomberg consensus but slightly below our estimate of 1.9%), as transportation costs rose sharply.**
- ◆ **Core prices increased at the same pace of 1.5% YoY in May compared to the previous month, signalling subdued demand.**
- ◆ **We expect headline inflation to moderate to 1.9% for 2018, from +3.7% last year, on lower transport costs after the Government fixed fuel prices at current rates.**

Headline inflation rate remained subdued in May, albeit climbing further to 1.8% YoY, from +1.4% in April. This was mainly due to a sharp rise in transportation costs during the month, while food & beverage (F&B) inflation eased for the second successive month, slipping to the lowest since Jan 2013.

As it stands, the cost of transportation accelerated to 3.8% YoY in May, having earlier rebounded to 0.4% in April. This came as average RON95 fuel prices were 5.8% higher compared to a year ago vs unchanged YoY in April. At the same time, prices of housing & utilities and education inched higher during the month.

On the other hand, F&B prices eased to 2.2% YoY, its lowest in since Jan 2013, from +2.6% in the previous month and 2.8% in March, driven by broad-based slower inflation of major food products. Prices of furnishing & household equipment, recreation & culture, restaurants & hotels, alcoholic beverages & tobacco and health also trended lower.

As a result, core inflation remained at 1.5% YoY in May, the same pace as the month before and +1.7% in March, signalling subdued demand.

We expect headline inflation forecasts to moderate to 1.9% for 2018, (2017: +3.7%) on lower transport costs after the Government fixed fuel prices at current rates (RON95: MYR2.20 per litre; Diesel Euro 2M: MYR2.18 per litre). RON97 prices will be subjected to a free float.

Prices of goods are also likely to remain subdued following the zero-rating of the goods and services tax (GST) from 1 Jun 2018, but this should reverse with the reintroduction of the sales and services tax (SST) of 5-10% depending on industries by Sep 2018. That said, consumers would still enjoy a 3-month tax holiday this year that would likely dampen inflation in 2018.

Despite lower expected headline inflation, we believe another round of rate hike is still in the cards this year (+25bps to 3.5%), in line with the US Federal Reserve raising its policy rate at a quicker pace than previously expected.

It would also be a good move to fend off a potentially weaker MYR following rising fiscal concerns. However, there is a risk that the tightening may be put on hold/delayed should the country's economic growth slow more than expected this year.

Malaysia's inflation indicators

% YoY	2015	2016	2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018
Headline inflation	2.1	2.1	3.7	2.7	1.4	1.3	1.4	1.8
Core Inflation	3.1	2.5	2.1	2.2	1.8	1.7	1.5	1.5
F&B	3.6	3.8	4.0	3.8	3.0	2.8	2.6	2.2
Housing & utilities	2.4	2.4	2.2	2.2	2.0	2.0	2.0	2.1
Transport	-4.5	-4.6	13.2	5.7	-0.3	-1.5	0.4	3.8
Communication	2.0	-1.5	-0.4	-0.6	-0.5	-0.7	-0.7	-0.9
Recreation & culture	1.7	2.5	1.9	0.5	0.4	0.5	0.6	0.5

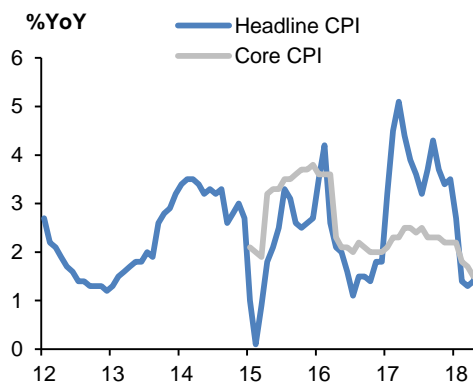
Source: DOSM, RHB

Economist

Vincent Loo Yeong Hong
+603 9280 2172
vincent.loo@rhbgroup.com

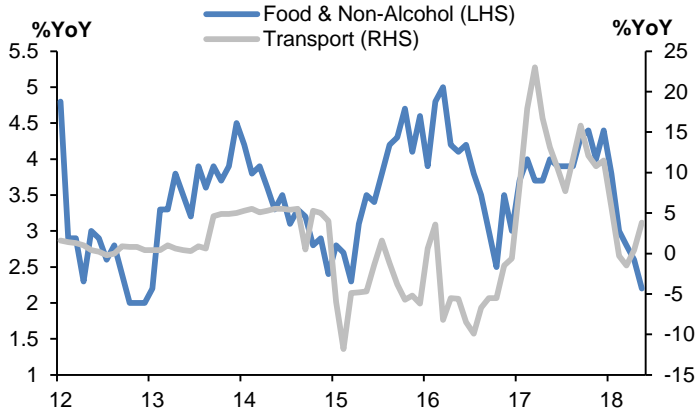


Headline inflation climbed further but core inflation was sustained



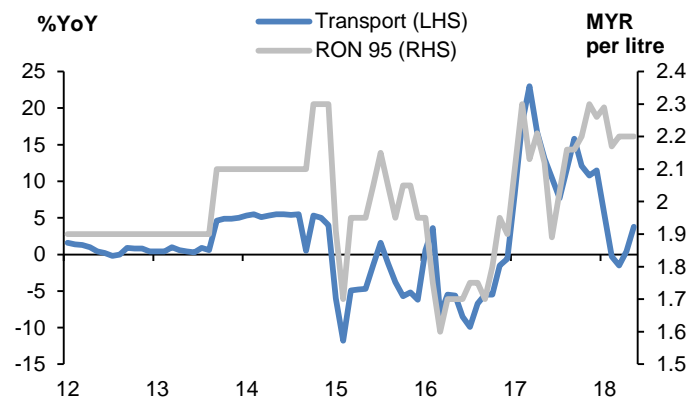
Source: Department of Statistics Malaysia (DOSM), RHB

Figure 1: Mixed results for both prices of F&B and transportation



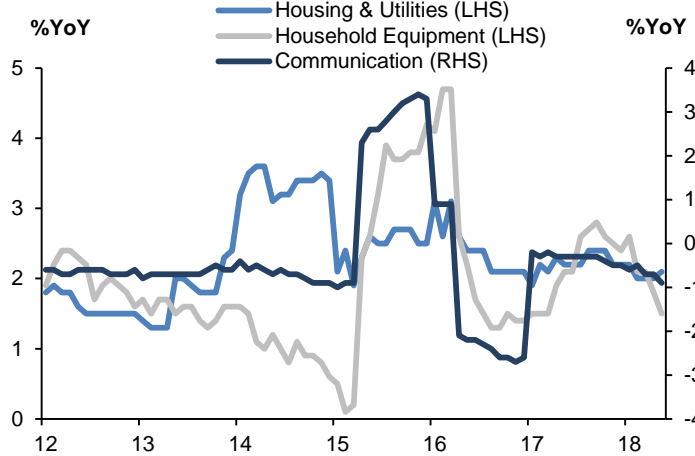
Source: DOSM, RHB

Figure 2: Transport prices were higher than a year ago but expected to remain stable going forward



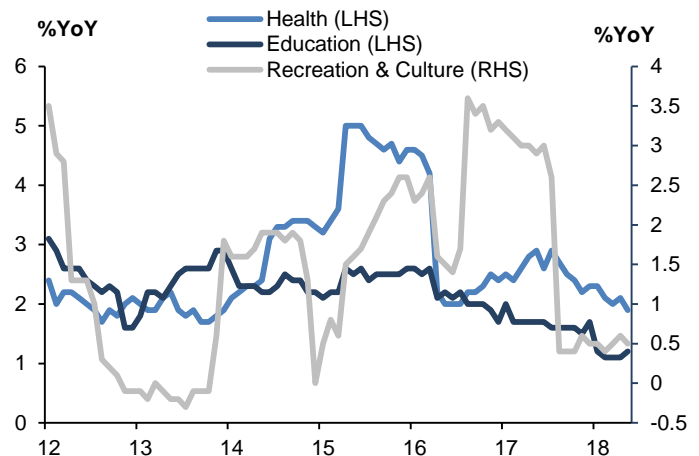
Source: DOSM, RHB

Figure 3: Prices of housing & utilities inched up while household equipment cost eased



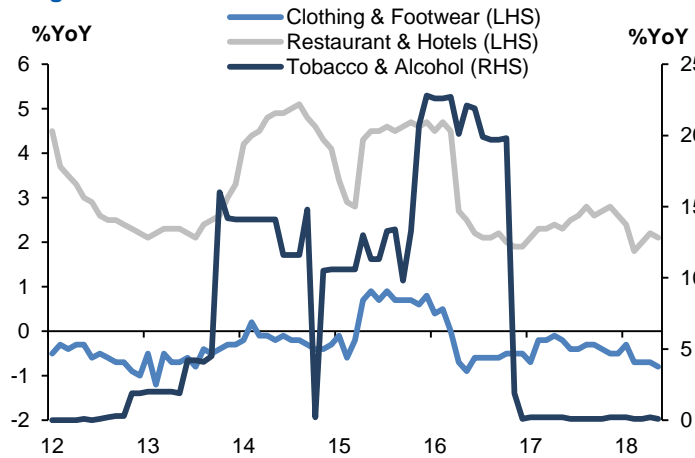
Source: DOSM, RHB

Figure 4: Cost of education inched up, partly offset by slowing rise in cost of health and recreation & culture



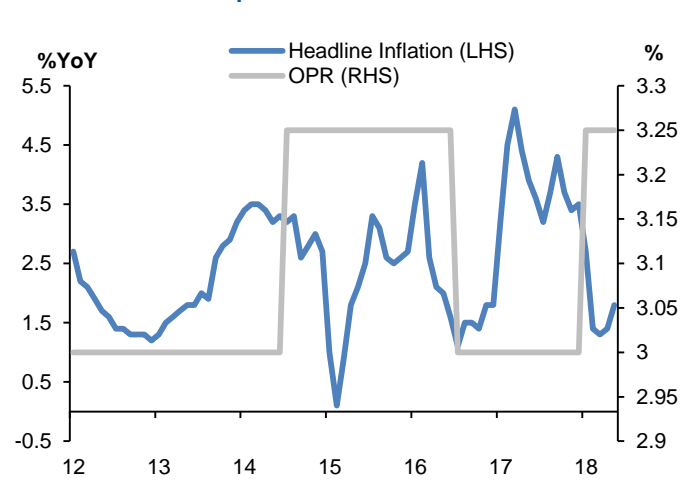
Source: DOSM, RHB

Figure 5: Prices at restaurants & hotels and tobacco & alcohol eased, while clothing & footwear fell by a wider margin



Source: DOSM, RHB

Figure 6: OPR hike still expected in 2H18 amid rising US interest rate hike expectations



Source: DOSM, RHB

Figure 7: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	5.0	5.1	5.3	5.5	3.5	3.8	3.5	3.5	4.75	4.25	5.00	5.00	13540	13588	14400	14500
Malaysia	4.2	5.9	5.2	5.0	2.1	3.7	1.9	2.5	3.00	3.00	3.50	3.75	4.49	4.06	3.98	4.00
Philippines	6.8	6.7	6.5	6.6	1.8	3.2	4.0	3.5	3.00	3.00	3.50	3.50	49.62	49.83	49.79	50.00
Singapore	2.4	3.6	3.0	2.8	-0.5	0.6	1.6	1.6	-	-	-	-	1.45	1.34	1.33	1.34
Thailand	3.2	3.9	4.2	3.7	0.2	0.7	1.2	1.4	1.50	1.50	1.50	1.50	35.85	32.57	32.20	32.50
Vietnam*	6.2	6.8	6.3	6.2	2.7	3.5	3.4	3.6	6.50	6.00	6.00	6.00	22770	22709	22700	22700
China**	6.7	6.9	6.6	6.4	2.0	1.6	2.5	2.6	4.35	4.35	4.35	4.35	6.95	6.51	6.45	6.50

*prime rate; **1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	-3.9	16.2	10.0	11.0	-4.9	15.6	11.0	12.0	5.0	5.1	5.3	5.6	5.6	5.5	5.4	5.3
Malaysia	1.1	18.9	6.5	4.7	1.9	19.9	6.2	5.1	3.8	5.2	4.5	3.8	3.5	3.4	3.3	3.2
Philippines	-2.4	9.5	8.0	9.0	18.3	10.2	9.0	10.0	6.4	6.2	3.6	6.2	5.5	5.7	5.6	5.5
Singapore	-4.4	8.5	6.7	5.2	-4.2	10.6	10.9	6.5	3.7	10.1	7.6	5.0	2.2	2.1	2.0	2.0
Thailand	0.5	9.9	7.0	5.4	-3.9	14.7	8.6	6.1	1.6	1.6	2.9	2.0	0.9	1.0	0.9	0.9
Vietnam	9.2	21.4	9.5	9.1	5.6	21.4	8.7	8.2	6.9	10.0	8.1	7.8	3.3	3.5	3.6	3.1
China	1.8	6.8	5.2	5.0	3.8	7.3	5.6	5.5	6.1	6.5	5.5	5.2	4.1	4.1	4.1	4.2

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018	2019F	2016	2017E	2018F	2019F
Indonesia	-2.5	-2.5	-2.7	-2.5	-1.8	-1.7	-1.9	-2.0	116	130	137	142	320	353	380	400
Malaysia	-3.1	-3.0	-2.8	-2.7	2.4	3.0	2.7	2.9	95	102	114	112	201	213	222	231
Philippines	-2.4	-2.2	-2.8	-2.8	-0.4	-0.8	-1.0	-0.7	81	82	83	83	75	73	71	70
Singapore	1.3	0.5	0.8	0.2	19.0	18.8	17.8	16.7	247	280	265	312	-	-	-	-
Thailand	-2.6	-1.8	-2.9	-3.0	11.4	10.8	7.7	6.9	172	203	208	227	152	155	159	164
Vietnam	-5.0	-5.3	-5.2	-4.8	2.7	1.9	2.1	2.2	43	40	45	49	76	79	83	84
China	-3.5	-3.6	-3.3	-2.6	1.8	1.3	1.1	1.3	3010	3140	3000	3000	1400	1450	1400	1380

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	9.6	8.3	9.9	11.0	7.8	10.0	12.8	12.0	92.7	91.9	94.3	93.5	10.0	11.0	12.4	12.4
Malaysia	1.5	5.7	4.6	5.0	5.3	4.1	5.2	5.5	89.8	90.5	90.9	92.2	3.0	4.7	5.0	5.2
Philippines	14.3	11.9	11.8	12.0	16.1	18.1	18.0	18.5	70.7	74.1	74.1	78.7	12.8	11.9	10.0	11.0
Singapore	2.7	3.2	5.4	5.0	0.5	8.0	5.8	5.2	107.9	104.5	104.9	105.0	8.1	4.1	4.5	4.2
Thailand	3.8	4.1	5.3	5.0	3.6	4.1	5.1	4.8	93.3	93.1	92.9	93.0	4.2	5.2	5.3	5.0
Vietnam	15.0	10.0	11.2	10.8	18.0	15.0	13.5	12.9	79.6	81.0	83.0	83.5	16.0	17.0	18.0	17.2
China	11.0	10.7	9.6	8.5	13.5	12.1	10.5	9.5	70.8	71.7	72.2	73.0	11.3	8.2	8.0	7.5

Note: As at 30 May 2018

Note 2: *M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: **Starting 3 Jun 2016, the Philippines' policy rate was changed to purely Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

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Kuala Lumpur	Hong Kong	Singapore
<p>RHB Research Institute Sdn Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216</p>	<p>RHB Securities Hong Kong Ltd. 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p>RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Bangkok
<p>PT RHB Sekuritas Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777</p>	<p>RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p>RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799</p>