

## Benign May inflation but expect sharp June rise

Wednesday, June 26, 2019

### Key Points

- **Headline inflation for May 2019 was unchanged at 0.2% yoy, exactly in line with our expectations, but below the median consensus forecast at 0.3% yoy.**
- **Core inflation meanwhile remained benign at 0.4% yoy.**
- **The moderating effects of the tax regime change will likely start wearing off in June 2019 and hence, headline inflation is likely to rise sharply above 1.0% yoy.**
- **We believe it is increasingly unlikely that the targeted fuel subsidy scheme can be rolled out by beginning July 2019.**
- **In terms of the OPR, we believe that any further cuts by Bank Negara Malaysia (BNM) would depend upon on how growth rates pan out.**

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**Headline inflation remained subdued at 0.2% yoy for the month of May 2019, which was at a similar level to April 2019 numbers.** The low level of inflation was mainly due to continued price decreases in the transport and communications categories. However, the food and non-alcoholic beverages category saw an increase of 1.2% yoy. On a month on month basis, there was an increase after two consecutive months of decreases. This could have possibly been due to the festive season. Core inflation meanwhile was at 0.4% yoy, a slight deceleration from the prior month at 0.5% yoy.

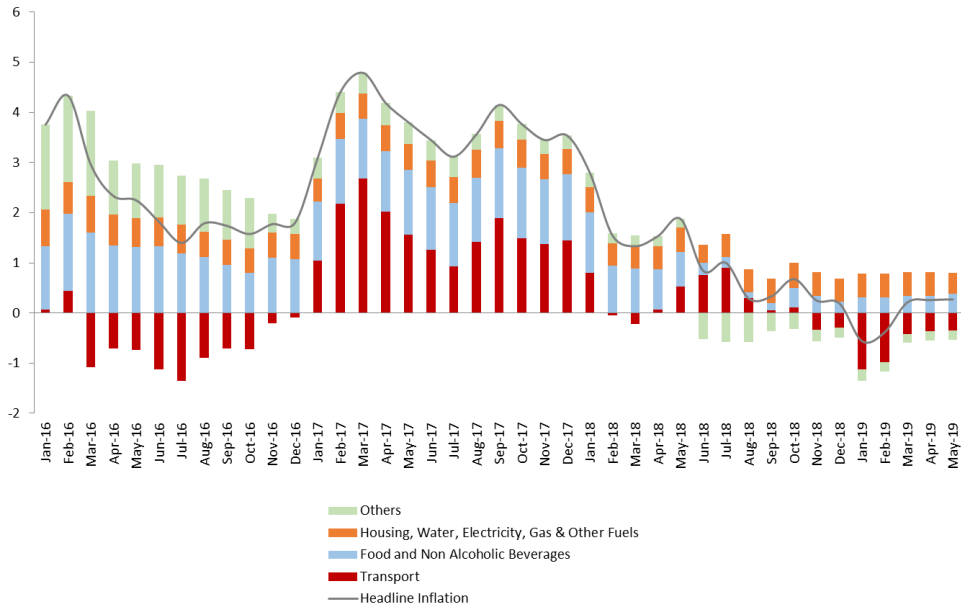
**However, the moderating effects on inflation of the government tax regime change will likely start wearing off in June 2019.** The government had adjusted GST to zero percent back in June 2018, resulting in a tax holiday period that time last year. With SST now in place, the result may likely see prices on a year on year basis increase at a higher rate compared to previous months. This factor combined with the festive season, should hence see **headline inflation rise sharply to above 1.0% for the month of June 2019.** However, the continued capping of fuel prices should have a depressing effect on inflation for June 2019.

**Meanwhile, continue to watch out for more details regarding the implementation of the targeted fuel subsidy scheme.** Previously, Prime Minister Dr Mahathir Mohamad had said that the scheme will be rolled out in July although he said no real decision had been made. However, the Domestic Trade and Consumer Affairs Minister had just about a week ago said that they would finalize the scheme in June. He was also quoted as saying that they were looking to address the question if there is still to be a “ceiling price for fuel or whether to remove it altogether”. **We think it is increasingly unlikely that the scheme would be rolled out at the beginning of July 2019.**

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**In terms of the OPR, we believe that any further cuts by Bank Negara Malaysia (BNM) would depend upon how growth rates pan out.**

**Chart 1: Contributors to Headline Inflation, % yoy**



Source: CEIC, Bloomberg and OCBC

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