

No surprises regarding July inflation

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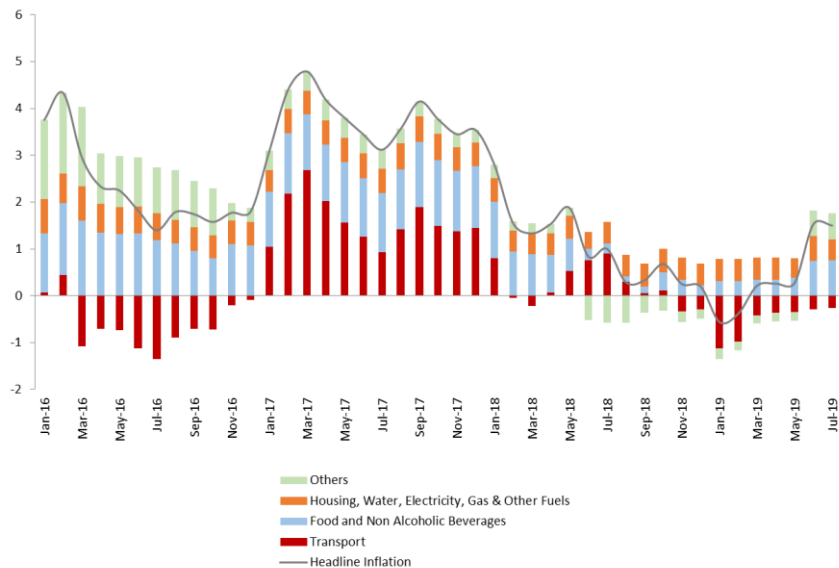
- **Headline inflation came out at 1.4% yoy for July, just slightly below our forecast of 1.5% yoy whilst core inflation was at 2.0% yoy.**
- **We expect the headline inflation level to continue to be benign for the rest of 2019 with our forecast for it to be at 0.8% yoy for the entire year.**
- **We see it likely that Bank Negara Malaysia (BNM) will keep the OPR on hold at the September 2019 policy meeting given the lack of hints of an imminent cut in their last monetary policy statement in July 2019.**

Headline inflation came out at 1.4% yoy (June 2019: 1.5% yoy), just slightly below our forecast of 1.5% yoy. Core inflation meanwhile edged up slightly to 2.0% (June 2019: 1.9% yoy). Headline inflation was again mainly driven by an increase in higher food prices at 2.4% yoy. Price increase for the housing, water, electricity, gas & other fuels category meanwhile slowed to 1.9% yoy (June 2019: 2.3% yoy). The transport category continued to weigh down on headline inflation although the price decrease slowed to 1.9% yoy (June 2019: -2.1% yoy). Most of the other categories continued to see some modest price increase given the low base during the same period last year amid a tax holiday.

For now, headline inflation may still likely be benign for the rest of 2019 and we expect it to average at 0.8% yoy for the entire 2019. The low base effect that has been impacting inflation levels should wear off by September 2019 given that the tax holiday last year ended by the 1st September 2018. It is also still not certain when the targeted fuel subsidy mechanism would be rolled out and if RON95 prices would be capped at RM2.08 for the rest of the year, although the government has mentioned that they are in the “final phase” of implementing the mechanism. If the cap continues, obviously this would weigh down on inflation. However, even if the mechanism does come in place, there is a possibility that RON95 prices may still be lower than last year if Brent prices are much lower than during the same period last year.

In terms of the OPR, current inflation levels do certainly provide some space for an easing. However, the monetary policy statement at the July 2019 policy meeting did not provide any hint of a cut coming soon. Furthermore, Bank Negara Malaysia (BNM) had also in a way already made a “pre-emptive” 25bps cut back in May 2019. **Hence, we expect BNM to stay on hold at the September 2019 policy meeting.**

Chart 1: Contributors to Headline Inflation, % yoy



Source: OCBC and Bloomberg

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