

Malaysia: Inflation back in positive territory

The persistence of low inflation has brought central bank (BNM) monetary easing back on the table for the next policy meeting on 7 May when we expect a 25 basis point cut in the overnight policy rate to 3.00%



0.2%

March CPI inflation

Year-on-year

Lower than expected

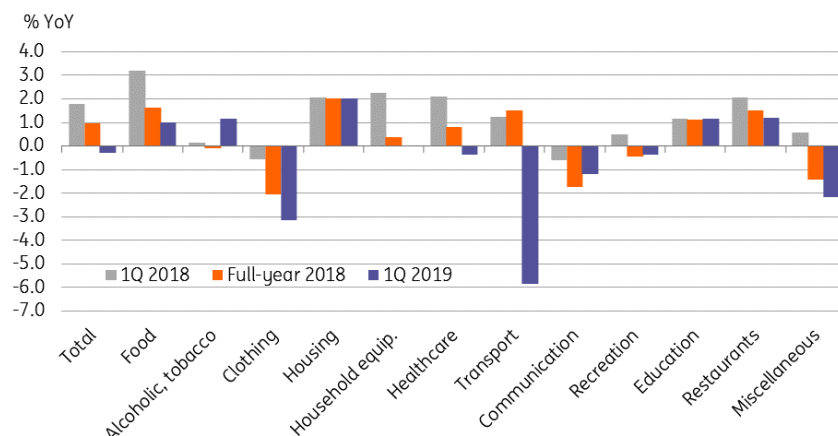
Yet another downside inflation miss though

As widely expected, Malaysia's consumer price index (CPI) inflation was back in positive territory in March, though it was yet another downside miss. The 0.2% year-on-year rise was smaller than the consensus median of 0.3%. This followed two months of negative inflation; -0.7% YoY in January and -0.4% in February.

The seasonal post-Lunar New Year retracement of the food component, which fell 0.5% month-on-month, was a source of downside inflation surprise this time. But, barring this seasonal dip, the low base effect has started to benefit the food component in its return as the key inflation driver in the months ahead. Indeed, the 1.1% YoY rise in food was the steepest in four months.

And a further boost to headline inflation came from the higher transport component, which has recovered more than half of the 5.5% MoM fall in the aftermath of administrative fuel price cuts in January.

Where is low inflation coming from?



Source: Bloomberg, CEIC, ING

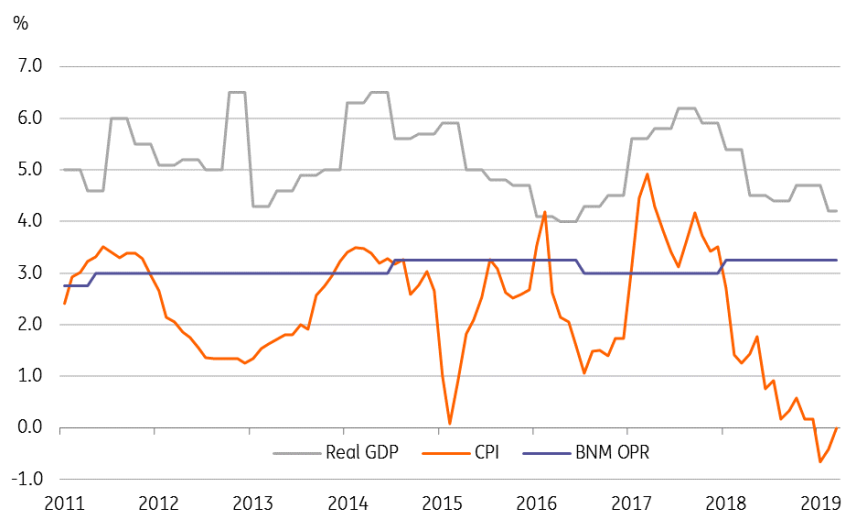
What it means for policy and markets

Still, we don't see inflation becoming a threat anytime soon, at least not until the removal of the Goods and Services Tax in June 2018 moves out of the base of comparison. And even as food inflation continues on a rising trend over the rest of the year, this will likely be offset by weakness in other CPI components such as clothing, healthcare, communication, and miscellaneous goods – all implying well-anchored inflation expectations.

Average CPI in the first three months of the year is still down 0.3% from a year ago. We maintain our 1% annual inflation forecast for 2019, which is at the low end of the central bank's (BNM) 0.7-1.7% forecast range for this year. Persistently low inflation has brought central bank (BNM) monetary easing back on the table for the next policy meeting on 7 May, when we expect a 25 basis point cut in the overnight policy rate to 3.00%.

We still believe the recent sell-off in Malaysian government bonds and the currency (MYR) sparked by news that FTSE Russell will likely dump Malaysian government bonds from their global index, is overdone. Both bonds and MYR have started to recover. A policy rate cut will further support bonds, while firmer oil prices together with existing undervaluation should prevent further downside in the currency.

It's time for a BNM monetary policy easing



Source: Bloomberg, CEIC, ING

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