

Surprise dip in Malaysia's inflation in October

We reiterate our forecast that Malaysia's Central Bank will move to tighten in early 2018



Source: shutterstock

3.7% Malaysia CPI inflation
October

Malaysia's consumer price surprised on the downside in October with 3.7% year-over-year rise. This was far below the consensus forecast of 4.1% inflation and down from 4.3% in September. Data puts inflation back in Bank Negara Malaysia's (BNM) 3-4% forecast range for 2017. The food and the transport CPI components, with a combined 45% weight in the CPI index, have been the main inflation drivers this year. These same factors were responsible for lower inflation in October. However, at 4.0% year-to-date inflation has almost doubled from a year ago

and this supports our forecast of BNM moving to tightening early next year.

4.3% MYR appreciation against the USD
Since September

We think the accelerated appreciation of the Malaysian ringgit (MYR) since September may have a role in pushing inflation lower in the last month. The MYR has been the best performing Asian currency since September with a 4.3% appreciation against the US dollar. While we expect strong domestic demand, the supply shocks to food prices from floods in some part of Malaysia, and the passthrough of rising global oil price to domestic fuel prices will likely keep inflation biased upward, the appreciating MYR could be a potential dampener by keeping imported inflation in check. With a massive MYR undervaluation left after the 2014 commodity price crash still to be recovered, the MYR appreciation trend is likely to continue.