# KERATAN AKHBAR

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**Headline CPI likely to remain moderate in 1H**

ECONOMY

# Headline CPI likely to remain moderate in 1H

## Analysts forecast inflation at 2.8% for this year

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**PETALING JAYA:** While the country's headline inflation is expected to continue cooling in the coming months, there are still uncertainties that could reverse the trend.

According to analysts, Malaysia's inflation risk remains biased to the upside due to geopolitical tensions, such as Russia's withdrawal from the Black Sea grain deal, as well as changing weather conditions that could affect global food and commodity prices.

CGS-CIMB Research pointed out that the recent dismantling of the Black Sea grain corridor, whereby the agreement to allow the export of food and fertiliser from both Ukraine and Russia to the global market has not been renewed, posed an upside risk.

"This may have an adverse effect on food inflation, leading to higher price volatility. Thus far, the spike in global commodity prices is still well below the recent historical peak in 2022, although this warrants close monitoring," the brokerage wrote in its report yesterday.

Similarly, Kenanga Research said despite the continuous fall in global food prices, the upcoming period of extreme weather (El Nino), along with Russia's withdrawal from the Black Sea grain deal and India's rice export ban were expected to have a negative impact on food security in Asia.

"As a result, food prices in Malaysia may rise in the fourth quarter of 2023 and the first half of 2024 (1H24)," it said.

Despite the upside risk, both CGS-CIMB Research and Kenanga Research expected the headline consumer price index (CPI), which is a gauge of inflation, to remain moderate in 1H23.

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>
> CGS-CIMB Research

CGS-CIMB Research maintained its 2023 inflation forecast at 2.8%, while Kenanga Research kept its estimate at 2.9%.

"We expect milder inflation on an annual basis in 2H23 owing to the high base effect as well as continuity of government subsidies for energy and food items.

"The government has decided to continue subsidising chicken and eggs in 2H23. Electricity tariffs for domestic users were also extended in 2H23, easing the risk of domestic-driven inflation," CGS-CIMB Research explained.

Data from the Statistics Department showed that the CPI had decelerated to 2.4% y-o-y last month from 2.8% y-o-y in May and 3.3% y-o-y in April.

The sustained decline in price pressure was mainly attributable to a moderation in food prices and restaurant and hotel costs.

All in, the headline CPI increased 3.3% y-o-y for 1H23.

Meanwhile, Maybank Investment Bank (MaybankIB) Research said the fluidity of the government's policy on price subsidies and controls could pose an upside risk to inflation.

"The government has started to implement targeted subsidies, beginning with electricity at the start of this year.

"Next is the implementation of targeted fuel subsidy, potentially next year, that will also end the 'benefits' to the high-income households," the brokerage said in its report.

Despite the upside risk, Maybank IB Research maintained its monthly inflation forecast at sub-3% for 2H23, resulting in a full-year inflation of 3% for 2023.

Expecting headline inflation to remain manageable through 2023, TA Research said July inflation would likely remain at the same level of June.

"This projection is primarily based on our anticipation of continued reduction in transportation costs, which can be attributed to a substantial decline in the average pump price to RM2.52 per litre, reflecting a 15.5% y-o-y decrease in July 2023 (June 2023: down 15.6%)," it explained.

"Additionally, we expect other related segments to normalise, further contributing to the sustainability of the inflation rate," it added.

Hong Leong Investment Bank (HLIB) Research said headline was expected to moderate further in the coming months due to base effect and slower global growth.

"Headline inflation has continued on its moderating trend.

"The sharper slowdown in core inflation also suggests a cooling in domestic demand," it said.

All the five brokerages polled by *StarBiz* were in a consensus that Bank Negara would maintain the overnight policy rate at 3% through 2023 given the mild inflationary outlook.