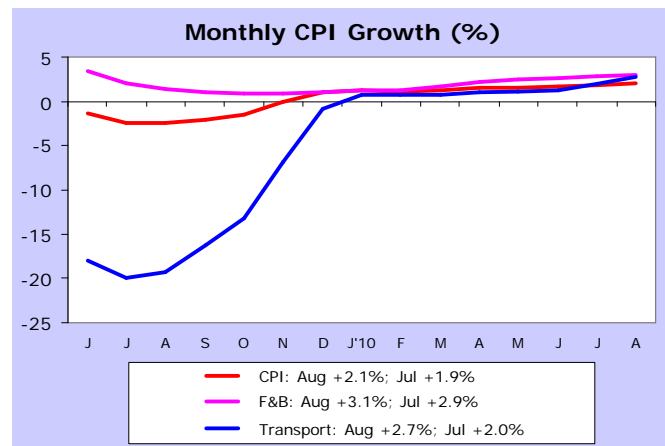


SEPTEMBER 2011

## MALAYSIA

### CONSUMER PRICE INDEX (CPI) – August 2010

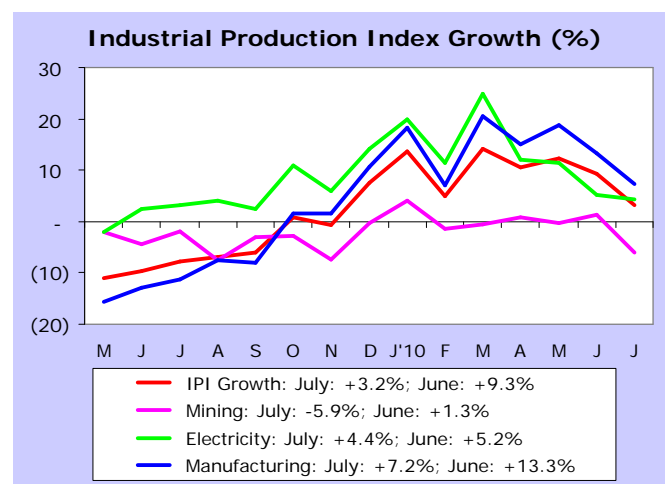
- The CPI accelerated to 2.1% in August from 1.9% in July as the fuel and sugar price hikes started to make its full-month impact. On a year to date basis, it averaged at 1.5% compared with 1.2% in the corresponding period a year ago.
- One of the main contributors to the increase in the headline inflation is food and non-alcoholic beverages on the back of the recent price hike on sugar. The growth trend for core inflation (minus food and non-alcoholic beverages) reached a 20-month high of 1.5% largely due to increase in the third largest index i.e. transport. It rose to a 21-month high of 2.7% as mid-July fuel price hike made a full month impact in August.



- Going forward:** Rising inflation will linger for some time given the combined impact of firm consumer demand, the carry-over effects of subsidies reduction as well as ebbing base effect. As such, we estimate the CPI to increase by between 2.0% and 2.4% in Sept. and 4Q10 respectively, taking the full-year growth to an estimated 2.0%. For 2011, we expect a higher CPI growth of 2.5%, reflecting largely the normalisation of base effect.
- OPR:** At this juncture, we do not view the rising inflation as a serious threat to monetary stability as a large part of the price increase was due to the administered price adjustment, which is likely to be one-off. As such, Bank Negara Malaysia will not react in a harsh manner to keep a lid on inflation as downside risks to growth outweigh inflation risk. As such, we maintain our end-2010 OPR target of 2.75% and 3.25% for 2011.

### INDUSTRIAL PRODUCTION INDEX (IPI) – July 2010

- Industrial production slowed down markedly to 3.2% in July, from +9.3% in June and +12.3% in May. This was the slowest pace of growth in eight months, suggesting that industrial activities have slowed down, on the back of a weaker growth in exports.
- The slowdown was reflected in slower increases in manufacturing production and electricity output, which slackened to 7.2% and 4.4% respectively in July, from the corresponding rates of +13.3% and +5.2% in June. These were made worse by a decline in mining output, which slipped into a contraction of 5.9% in July, from +1.3% in June.

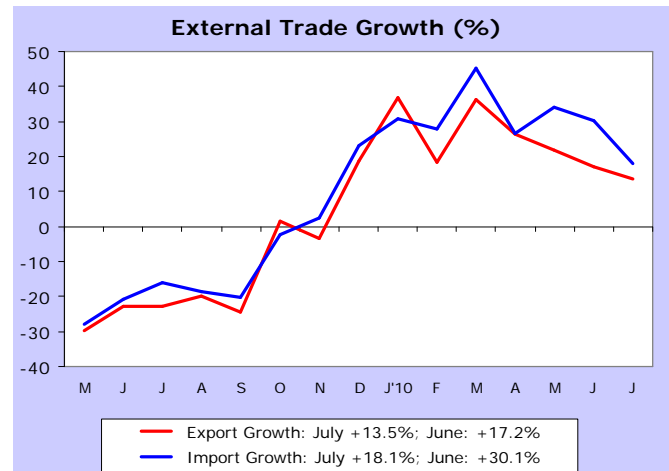


- Going forward:** Going into 2H10, we expect Malaysia's industrial output to grow at a more sustainable pace on a soft global demand as well as the diminishing restocking effect. The recent high frequency macro data signalling the recovery has peaked and global growth will continue to slow in 2H10. Most global and regional manufacturing indices as well as exports slowed in June-July amid lingering concerns over the patch recovery in the US and the European debt problems.

This report is for clients only and shall not be reproduced either in part or otherwise without the prior written consent of ASM Investment Services Bhd. While the information contained herein has been obtained from sources believed to be reliable, such sources have not been independently verified. Consequently, the company does not guarantee the accuracy of anything stated herein in any manner whatsoever, and no reliance upon such statement by anyone shall give rise to any claim whatsoever against the company, its directors, officers, employees or agents. All opinions and recommendations expressed herein reflect our judgment as at this date and are subject to change without notice.

## EXTERNAL TRADE – July 2010

- Moving in tandem with regional exports trend, Malaysia's export growth slowed further to 13.5% in July (17.2% in Jun) for the fourth consecutive month on a softer global demand as well as waning low-base effects. In Jan-Jul period, exports increased by 24.0%.
- Exports of electronics and electrical products (E&E) expanded at a slower pace of 8.7% in July (14.1% in Jun) due to lower demand for chips and office machinery products. Lead data for global semiconductor industry also point to a possible peak in demand.
- Demand for non-E&E products also soften, growing by 17.0% in July (19.4% in Jun), dragged down by lower exports of chemicals and chemical products (+13.1%) as well as machinery and appliances (+7.0%). However, crude oil and palm oil export earnings stayed firm on improved commodity prices.
- Imports pulled back sharply to 18.1% in July from 30.1% in June, a sign does not bode well for the strength of domestic demand if the weaknesses in imports persist. The slowdown in imports was evident in intermediate goods (16.5% vs. 28.6% in Jun), followed by capital goods (20.6% vs. 34.2% in Jun) and consumption goods (5.5% vs. 16.0% in Jun).
- The trade surplus widened to RM7.0bil in July, from a surplus of RM6.0bil in June. In the first half of 2010, trade surplus rose by 3.3% to RM69.4bil.



This report is for clients only and shall not be reproduced either in part or otherwise without the prior written consent of ASM Investment Services Bhd. While the information contained herein has been obtained from sources believed to be reliable, such sources have not been independently verified. Consequently, the company does not guarantee the accuracy of anything stated herein in any manner whatsoever, and no reliance upon such statement by anyone shall give rise to any claim whatsoever against the company, its directors, officers, employees or agents. All opinions and recommendations expressed herein reflect our judgment as at this date and are subject to change without notice.