

23 July 2025

# Malaysia Consumer Price Index

Cooled to 1.1% in June, a 52-month low, but reacceleration ahead

- **Headline inflation eased to 1.1% YoY in June (May: 1.2%), the lowest in 52 months, and slightly below both house and market expectations of 1.2%**

- Despite a 0.2% MoM increase in food and transport (combined weight: 41.1%), headline inflation continued to slow, mainly due to base effects and lower communication costs. Monthly CPI remained muted at 0.07% (May: 0.07%).
- **Core inflation** held at 1.8% YoY (May: 1.8%) but declined 0.07% MoM (May: 0.15%), as core transport prices fell.

- **Base effects and cheaper telecom services offset modest gains in food and transport**

- **Information & Communication** (-5.4% YoY; May: -5.2%): saw deflation for a ninth straight month, falling 0.2% MoM (May: -0.1%), driven by a 2.5% (May: 0.0%) drop in mobile services prices.
- **Food & Beverages** (2.1%; unchanged from May): hit a nine-month low, but rose 0.2% MoM (May: 0.1%) due to rebounds in fresh fish (+0.5%; May: -0.7%) and green vegetables (+5.2%; May: -2.7%).
- **Transport** (0.3%; May: 0.7%): slowed to a 19-month low, but rose 0.2% MoM (May: -0.2%) as tyre and lubricant prices increased, and international airfares rebounded sharply (8.2%; May: -6.5%).

- **Synchronised inflation uptick across major economies**

- **US** (2.7%; May: 2.4%): inflation hit four-month high, exceeding expectations (2.6%), driven by higher food prices. This is an early sign of tariffs' pass-through to consumers, potentially delaying the Fed's rate-cutting cycle.
- **EU** (2.0%; May: 1.9%): edged up on firmer energy prices. Despite hitting the ECB's 2.0% target, lingering uncertainty over Trump's tariff agenda continues to cloud the outlook. A rate cut in September is still in play.
- **UK** (3.6%; May: 3.4%): jumped to its highest since January 2024, fuelled by rising petrol prices and a spike in airfares. Still, slowing growth may prompt 25 bps BoE rate cut in August.

- **2025 inflation forecast held at 2.0% for now (2024: 1.8%); no strong case yet for another BNM rate cut**

- Headline inflation averaged 1.4% in 1H25. We expect 2H25 to average around 2.6%, bringing the full year inflation to approximately 2.0%. This hinges heavily on the timing of RON95 fuel subsidy rationalisation (our model assumes implementation begins in August). Inflation is likely to climb above 1.5% in July, driven by sales and service tax (SST) expansion and TNB's tariff restructuring. From August, headline inflation could range between 2.4% and 3.0%, depending on the scale of the subsidy reform. Risks are skewed to the upside, primarily from lingering tariff and geopolitical uncertainty, though their near-term effects remain contained.
- **Policy outlook:** Some expect a further 25 bps BNM overnight policy rate (OPR) cut if growth weakens in the coming months, but we hold a more constructive view: economic growth should hold above 4.0%, while inflation is expected to anchor near 2.0%. In this setting, BNM is likely to keep the policy rate steady at 2.75%, maintaining a data-dependent stance while assessing the July 25 bps cut's impact. Domestic rate remains attractive to foreign investors, especially in bonds, where yields and credit quality stand out regionally. However, if growth drops below 3.5% in 2H25, calls for another rate cut will grow louder.

**Table 1: Global Inflation (% YoY)**

	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
US	3.0	2.8	2.4	2.3	2.4	2.7
EU	2.5	2.3	2.2	2.2	1.9	2.0
UK	3.0	2.8	2.6	3.5	3.4	3.6
Japan	4.0	3.7	3.6	3.6	3.5	3.3
Korea	2.2	2.0	2.1	2.1	1.9	2.2
Singapore	1.2	0.9	0.9	0.9	0.8	N/A
China	0.5	-0.7	-0.1	-0.1	-0.1	-0.1
Indonesia	0.8	-0.1	1.0	1.9	1.6	1.9
Thailand	1.3	1.1	0.8	-0.2	-0.6	-0.2

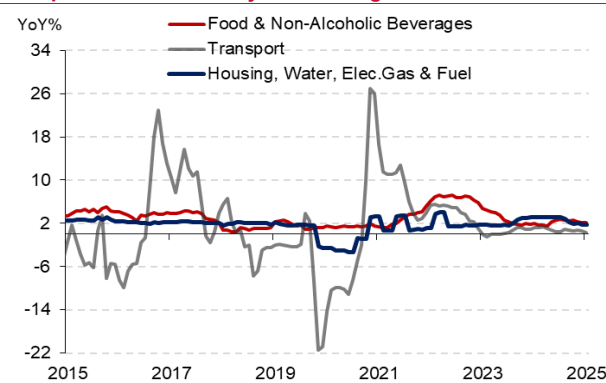
Source: Bloomberg, Kenanga Research

**Graph 1: Real Interest Rate, Inflation Rates and OPR**



Source: Macrobond, Kenanga Research

**Graph 2: CPI Growth by Main Categories**



Source: Macrobond, Kenanga Research

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**Table 2: Malaysia Consumer Price Index Growth Trend (% YoY)**

Base 2010=100	weight	2022	2023	2024	Jun -24	Jan- 25	Feb- 25	Mar- 25	Apr- 25	May -25	Jun -25
<b>CPI</b>	<b>100.0</b>	<b>3.3</b>	<b>2.5</b>	<b>1.8</b>	<b>2.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>
Core Inflation		3.0	3.0	1.8	1.9	1.8	1.9	1.9	2.0	1.8	1.8
Food & Beverages	29.8	5.8	4.8	2.0	2.0	2.5	2.5	2.5	2.3	2.1	2.1
Alcoholic Beverages & Tobacco	1.9	0.5	0.7	0.7	0.7	0.9	0.9	0.8	0.8	0.6	0.6
Clothing & Footwear	2.7	0.1	0.2	-0.3	-0.1	-0.3	-0.2	-0.2	-0.1	-0.2	-0.3
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.8	1.7	3.0	3.2	2.8	2.3	1.9	2.0	1.7	1.7
Furnishing, Household Equipment & Routine Household Maintenance	4.3	3.5	2.3	0.7	0.9	0.5	0.3	0.2	0.1	0.2	0.1
Health	2.7	0.7	2.1	1.8	1.8	1.2	1.0	1.0	0.9	1.1	1.2
Transport	11.3	4.7	1.1	0.9	1.2	0.9	0.7	0.7	0.7	0.7	0.3
Information & Communication	6.6	0.0	-2.9	-1.5	0.3	-5.3	-5.3	-5.4	-4.5	-5.2	-5.4
Recreation, Sport & Culture	3.0	2.3	1.5	1.8	1.9	1.8	1.5	1.7	1.3	0.9	0.8
Education	1.3	1.1	1.9	1.5	1.7	1.6	1.9	2.2	2.3	2.2	2.2
Restaurants & Accommodation Services	3.4	5.0	5.5	3.1	3.3	3.5	3.5	2.9	2.9	3.0	2.8
Insurance, Financial Services, Miscellaneous Goods & Services	9.8	2.0	2.5	3.0	2.8	3.3	3.7	3.6	4.1	3.7	4.2

Source: Macrobond, Kenanga Research

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