

June inflation seen at 3.5% year-on-year
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The median of analysts' forecast is 3.5 percent year-on-year vs 3.3 percent in May.

Forecast range of 13 economists was 3.1 to 4 percent.

Malaysian inflation is likely to have touched a 27-month high in June, reinforcing the view that the central bank will raise its rates in September.

Rising natural gas and food costs may have played a part in increasing the inflation rate.

Going into the second half of the year, economists expect inflation to accelerate further. The main reasons are an electricity tariff hike that took effect in June and higher food prices for the Muslim festive season for Eid al-Fitr, which begins in early August.

One economist expects year-on-year inflation to head into the 3.75-4.0 percent range. That would be above the central bank's forecast, made earlier this year, for a rate of 2.5-3.5 percent for 2011.

Market impact

The June inflation rate may affect the central bank's decision on interest rates when it next meets in September.

Surprisingly, Bank Negara held interest rates steady at 3 percent on July 7 as it braced for GDP growth to slow. But economists see a rate increase in September as strong demand and high energy prices keep inflation elevated.

Many economists forecast at least a 25 basis points (bps) rate increase by year-end. The last monetary policy meeting for the year will held in November.

A currency strategist said interest rate swaps have fully priced in a 25 basis point hike in September, with 3-month forward starting swaps at 3.5 percent.

Bond yields are also expected to rise going forward.

- Reuters