

Inflation jumps to 27-month high
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Malaysia's consumer price index touched a 27-month high, with annual inflation rising to 3.5 percent in June.

This reinforces expectations of a rate hike in the next monetary policy meeting in September.

Malaysian price pressures have picked up gradually since mid-2010, due to higher energy prices and stronger domestic demand.

Most economists expect the central bank to raise key interest rates by at least 25 basis points in its next policy meeting on Sept 8.

At the last meeting on July 7, the authorities maintained the benchmark overnight policy rate at 3 percent.

The Malaysian ringgit traded higher at 2.9985 per dollar before the data release.

Analysts comments

Radhika Rao, economist, Forecast

Malaysia's June CPI quickened to over two-year highs. Second order effects of higher transport prices, increase in electricity charges and a firm domestic sector suggest that bias is for further upswing in inflation prints in the months ahead.

Added to the mix are the upcoming Ramadan festivities, with the BNM (Bank Negara Malaysia) likely to walk a tight rope yet again at the September meet.

We will watch with interest governor's comments in the days ahead, with July CPI out before September's policy meeting also likely to influence the policy direction.

Irvin Seah, economist, DBS Bank

The inflation figure for June will likely serve as a reminder to policymakers that the battle against inflation is not over despite rising risks to growth.

Although we believe that the longer-term cost arising from high inflation will outweigh the near term risk to growth, we do recognise that Malaysia is coming to the end of its interest rate normalisation.

And given that Bank Negara has initiated its interest rate normalisation process earlier than many central banks in the region, it probably has enough room to pause and assess the situation before it decides the next course of action.

Growth momentum should re-accelerate in the second half of the year on the back of a gradual recovery in the US and resilient economic outlook in the region. Inflation may rear its head again and a negative real policy rate is probably the last thing needed.

David Cohen, economist, Action Economics

That's not too far from my expectation of a slight acceleration. I don't think people are getting too upset. The central bank is focused on controlling inflation and probably it is not finished tightening rates.

But at the same time, it doesn't have to get too excited, specially that the commodity prices have steadied

somewhat versus a few months ago.

Nevertheless, they haven't finished with the tightening yet... (looking at) 25 basis points of rate hike.

- Reuters

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