

Malaysia Inflation May Quicken, Prompt Rate Increase (Update1)

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July 22 (Bloomberg) -- Malaysia's inflation probably accelerated to a 26-year high in June, intensifying expectations the central bank will this week raise interest rates for the first time since April 2006.

Consumer prices rose 6.6 percent last month from a year earlier, according to the median forecast of 19 economists surveyed by Bloomberg News. Bank Negara Malaysia may raise its overnight policy rate on July 25, according to 12 of 20 analysts. None of the 11 economists in the last survey in May had expected an increase this month.

Malaysia, which has kept its key interest rate unchanged for more than two years to boost growth, may be forced to join neighboring Thailand and Indonesia in raising borrowing costs as soaring oil and food prices fan inflation and public discontent, even as a U.S. slowdown threatens the economy's expansion.

"The inflation risk for Malaysia probably still outweighs the growth risk," said Kit Wei Zheng, an economist at Citigroup Inc. in Singapore. "If there are signs that inflation expectations are rising, and we believe they are, then they may have little choice but to act."

Inflation in the region may reach a decade-high this year, the Asian Development Bank said in April. Fishermen in Japan, labor unions in Sri Lanka, truck drivers in India and students in Indonesia have held protests against surging prices as record oil pushed up fuel costs across the region.

Public Protest

In Malaysia, as many as 15,000 people gathered in a rally led by opposition leader Anwar Ibrahim on July 6 to protest Prime Minister Abdullah Ahmad Badawi's decision last month to raise gasoline prices by 41 percent and diesel by 63 percent.

The government, seeking to reduce subsidies used to keep fuel prices low, also allowed power distributor Tenaga Nasional Bhd. to increase electricity rates this month to offset higher gas costs.

Consumer prices may climb 7 percent "or even higher" this month after a similar gain in June, Second Finance Minister Nor Mohamed Yakcop said yesterday. Inflation probably exceeded 6 percent in June, central bank Governor Zeti Akhtar Aziz said on July 9, raising the estimate from an earlier prediction of 5 percent. The inflation report is due tomorrow.

The last time inflation was above 6 percent was June 1998, when the central bank's then benchmark three-month intervention rate was 11 percent. Malaysia's overnight policy rate,

introduced in April 2004, has been kept at 3.5 percent for 17 straight meetings, and, together with Hong Kong's and Thailand's, is the second lowest in Asia according to Bloomberg data.

Inflation Expectations

Zeti said last month "anchoring expectations" was important and that interest rates may be used in the event of a "generalized price increase."

Concerns that inflation will hurt growth and erode investors' returns have added to a slump in Southeast Asia's stocks and bonds. Philippine and Indonesian bonds have lost the most this year among 10 Asian markets tracked by an HSBC Holdings Plc index. Vietnam's key stock index is the world's worst performer this year. Malaysian stocks are down 23 percent.

Thailand, the Philippines and Indonesia raised their benchmark rates in July, with Indonesia doing it for a third straight month, and India boosted borrowing costs twice in June. In Vietnam, the central bank raised its base rate to 14 percent last month, the highest in Asia.

'Behind the Curve'

Monetary policy in many East Asian economies is "behind the curve," the ADB's Office for Regional Economic Integration said today. Asian central banks need "decisive tightening of monetary policies" to fight inflation, it said.

Still, 8 of the 20 economists surveyed expect Bank Negara Malaysia to keep its key rate unchanged this month. Eleven expect the central bank to raise the rate by a quarter point to 3.75 percent, and one predicts an increase to 4 percent.

"The worsening external economic outlook and domestic political uncertainties should keep the central bank on hold this year," said Alvin Liew, an economist at Standard Chartered Plc in Singapore. Higher borrowing costs would "add frost to the snow when consumers are already feeling the impact of the recent fuel price hike and higher food costs."

The central bank is set to revise its growth forecast for this year on July 25 and has said expansion in Southeast Asia's third-largest economy will probably fall short of a March forecast of as much as 6 percent in 2008.

The following tables give economist forecasts for Malaysia's inflation and benchmark interest rate.

Malaysia Inflation Estimates

Firm	CPI YoY	3Q YoY	4Q YoY	Avg. 2008
Median	6.6%	6.7%	6.6%	5.1%
Average	6.4%	6.6%	6.5%	5.0%

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High	7.5%	7.7%	7.9%	5.7%
Low	4.5%	5.8%	5.1%	4.5%
Number of Estimates	19	9	9	11

Action Economics	6.1%	6.7%	6.7%	5.0%
Aseambankers	7.5%	--	--	5.7%
Bank Islam Malaysia	7.1%	7.2%	7.4%	5.5%
Barclays Capital	6.7%	--	--	--
Capital Economics Ltd	5.8%	--	--	--
CIMB Investment Bank	--	--	--	4.7%
Citigroup	6.9%	--	--	--
Credit Suisse	6.7%	6.6%	6.5%	5.1%
DBS Group	6.1%	5.8%	5.2%	4.5%
Forecast Singapore	6.9%	--	--	--
Fortis Bank	4.5%	--	--	--
HSBC	6.5%	7.7%	7.9%	5.5%
IDEAglobal	6.4%	--	--	--
ING Groep NV	6.7%	--	--	--
Kenanga Investment	6.6%	6.8%	6.6%	5.1%
Lehman Brothers	6.7%	--	--	--
Moody's Economy.com	5.0%	--	--	--
Standard Chartered	6.6%	5.9%	5.1%	4.5%
Thomson IFR	6.4%	7.1%	7.2%	5.3%
UOB Group	5.6%	6.0%	5.6%	4.6%

Malaysia Overnight Policy Rate Estimates

Policy Meeting	July	Aug.	Oct.	Nov.
Dates	25	25	24	24

Median	3.75%	3.75%	3.88%	3.75%
% forecasts at Median	55%	42%	0%	27%
High	4.00%	4.00%	4.25%	4.25%
Low	3.50%	3.50%	3.50%	3.50%
Number of Estimates	20	12	12	11

Action Economics	3.75%	3.75%	4.00%	4.00%
Aseambankers	3.50%	3.50%	3.50%	3.50%
Bank Islam Malaysia	3.50%	3.75%	3.75%	3.75%
Barclays Capital	3.75%	--	--	--
CIMB Investment Bank	3.50%	--	--	--
Citi	3.75%	--	--	--

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Credit Suisse	3.50%	3.75%	4.00%	4.00%
DBS Group	4.00%	4.00%	4.00%	4.00%
Forecast Singapore	3.75%	--	--	--
Fortis Bank	3.50%	3.50%	3.50%	3.50%
HSBC	3.75%	4.00%	4.00%	4.25%
IDEAglobal	3.75%	4.00%	4.00%	4.00%
ING Groep NV	3.75%	--	--	--
Kenanga Investment	3.50%	3.75%	3.75%	3.75%
Lehman Brothers	3.75%	--	--	--
Morgan Stanley	3.75%	--	--	--
Moody's Economy.com	3.50%	--	--	--
Standard Chartered	3.50%	3.50%	3.50%	3.50%
Thomson IFR	3.75%	4.00%	4.25%	--
UOB Group	3.75%	3.75%	3.75%	3.75%

Source: Stephanie Phang



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