24 June 2024

Global Economics & Market Strategy

Singapore: Singapore's Headline CPI to Expand at 3.8% YoY in 2H24

- **We expect Singapore's headline inflation to rise at 3.8% YoY in 2H24, thus supporting our full-year projection of 3.5% YoY in 2024.**
- **We keep our anticipation that the Monetary Authority of Singapore (MAS) will maintain its current monetary policy parameters throughout the year.**
- **Both headline and core inflation expanded by 3.1% YoY in May, aligning with our in-house view of 3.0% YoY and Bloomberg's 3.1% YoY. CPI further expanded by 0.7% MoM, compared with the prior +0.1% MoM in April.**

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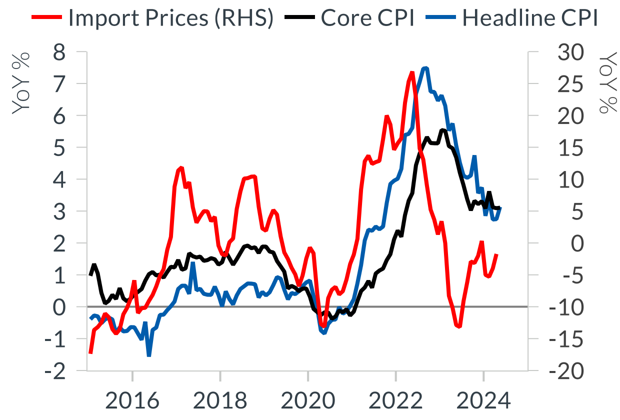
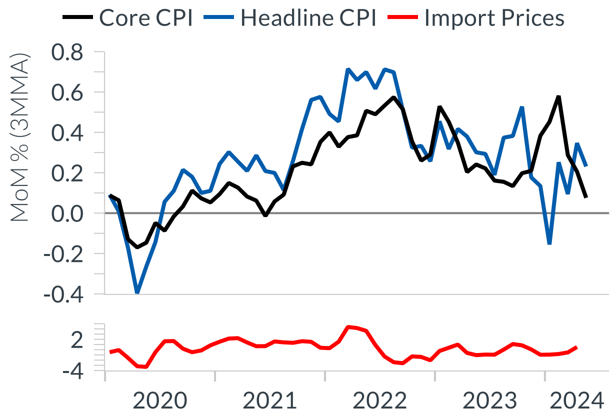
Figure 1: Headline CPI rose at 3.1% YoY in today's print, led by higher private transportation prices…



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: …and import prices showed a moderating trend



Source: Macrobond, RHB Economics & Market Strategy

Ongoing Global Tensions Could Put Upward Inflationary Pressure

We expect Singapore's headline inflation to rise at 3.8% YoY in 2H24, thus supporting our full-year projection of 3.5% YoY in 2024. We keep our outlook for core CPI to expand at 2.8% YoY in 2024. Our outlook is driven by rising commodity prices, particularly in the energy and food sectors, along with increased shipping costs due to El Niño and geopolitical tensions contributing to elevated imported inflation in from 2Q24 – 4Q24. Our thematic report on global inflation highlights that our proprietary indicators are signalling a significant rise in global inflation. As an import-dependent economy, Singapore is particularly susceptible to inflation pressures from abroad. This means that domestic inflation will be shaped by both external influences, such as global commodity prices and supply chain disruptions, and internal factors, including demand conditions. As a result, persistent inflation is likely to continue affecting Singapore.

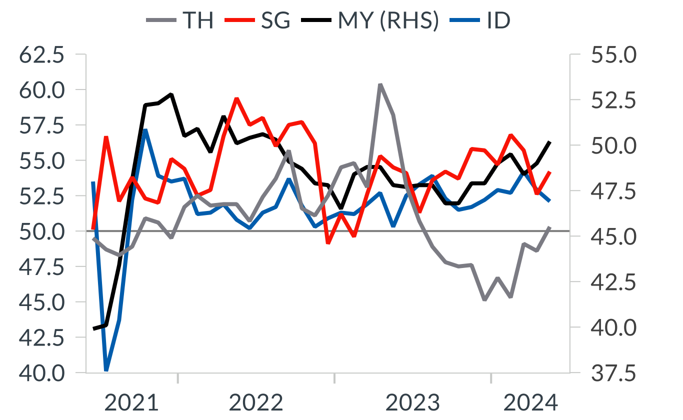
We think that global factors such as supply chain disruptions, geopolitical tensions, and adverse weather conditions could significantly drive up Singapore's import costs causing inflationary pressures. As Singapore is heavily dependent on imported energy, any rise in global energy prices would directly translate to higher domestic energy costs. This increase impacts a broad range of economic activities, from manufacturing to transportation, thereby raising overall production costs and consumer prices. Singapore, which imports over 90% of its food, would see higher import costs for essential food items. This would directly affect food inflation, making everyday food products more expensive for consumers. Higher shipping costs inflate the prices of a wide array of imported goods, from raw materials to finished products. Consequently, businesses may pass these costs onto consumers, resulting in an overall rise in the price level and a more challenging inflation environment. This "sticky" inflation will eventually reduce household purchasing power and potentially spur a wage-price spiral.

We maintain the view that Singapore's imported inflation will continuously pick up in 2H24 on the back of higher commodity prices in the months ahead. We are already witnessing higher prices for food, energy, and metals in 2Q24, which may pose upside risks to Singapore's imported inflation. Staples like rice and palm oil are experiencing accelerated price momentum, with further price increases likely due to ongoing El Niño weather conditions. Besides, higher retail prices, driven by concerts and international events attracting inbound tourists, are likely to persist in 1H24. Strong consumer spending from these events contributes to inflationary pressures, as increased aggregate demand can exceed supply. The Monetary Authority of Singapore (MAS) and Ministry of Trade and Industry (MTI) anticipated that Singapore's core CPI to follow a gradual moderating trend for the remainder of the year, with a more noticeable decrease in 4Q24. This is expected as import cost pressures continue to diminish and the tightness in the domestic labour market eases. Additionally, the authorities foresee a moderation in private transport inflation compared to last year, due to a projected increase in the Certificate of Entitlement (COE) supply in 2024. MAS and MTI have projected that both headline and core inflation to average at a range of 2.5% to 3.5% in 2024.

We keep our anticipation that the Monetary Authority of Singapore (MAS) will maintain its current monetary policy parameters throughout the year. Our S$NEER assumptions are unchanged as the S$NEER appreciation is perceived at +1.5%, with a +/-2.0% band, whereby the S$NEER is at +1.5% above the midpoint at the time of writing. The caveat to our expectations for MAS to stay its hand this year will centre on an unexpected surge in global inflation, whereby should that scenario occur, we think the balance of risk is tilted towards a policy tightening by MAS in the quarters ahead. The MAS, which has upheld its tight monetary policy settings for the past four meetings, is unlikely to alter this approach due to ongoing risks from new geopolitical shocks, adverse weather events, and potential energy and food price increases from further transportation disruptions. MAS, which uses exchange rate as its primary tool, is scheduled to next review its policy settings in July.

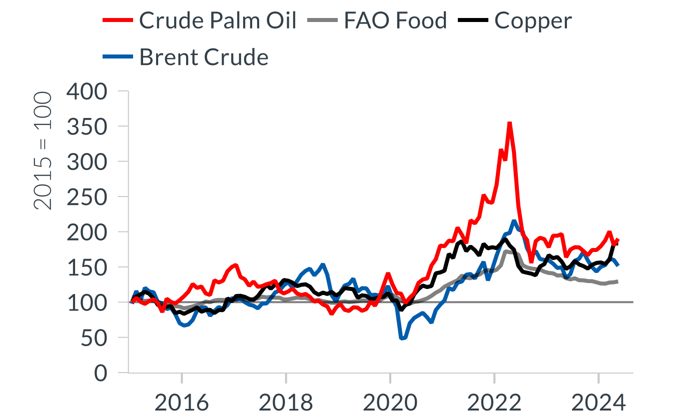
Both headline and core inflation expanded by 3.1% YoY in May, aligning with our in-house view of 3.0% YoY and Bloomberg's 3.1% YoY. CPI further expanded by +0.7% MoM, compared with the prior +0.1% MoM in April. Singapore's annual core inflation rate remained steady in May, unchanged from April. This stability was due to a rise in service prices being balanced out by a decline in inflation for electricity, gas, retail, and other goods. In May, services inflation reached 3.6%, driven by a larger increase in holiday expenses and a smaller decline in airfare prices. Electricity and gas inflation dropped from 7.6% to 6.9%, driven by a smaller rise in electricity prices. Food inflation remained steady at 2.8% although non-cooked food inflation saw a modest uptick. Accommodation inflation slightly eased from 3.5% to 3.4%, attributed to smaller increases in housing rents. Overall, headline inflation rose to 3.1% YoY in May, up from 2.7% in April and it was the highest reading since Dec 2023, primarily due to significant increases in vehicle and petrol prices. Notably, the YTD print for Singapore's headline and core CPI is at 2.96% and 3.2%, respectively.

Figure 3: ASEAN manufacturing PMIs are improving steadily, reflecting a positive growth environment



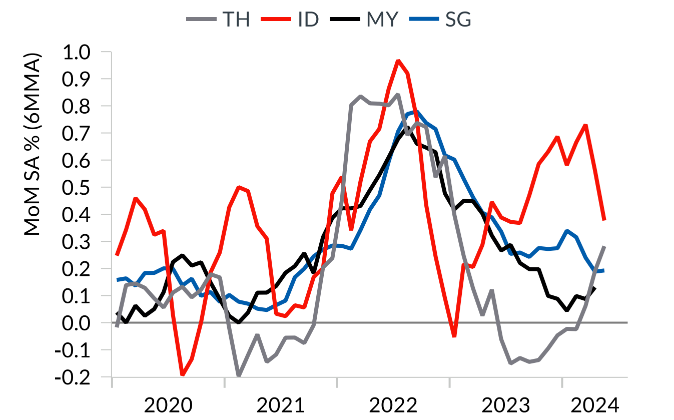
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Note higher commodity prices in energy and metals…



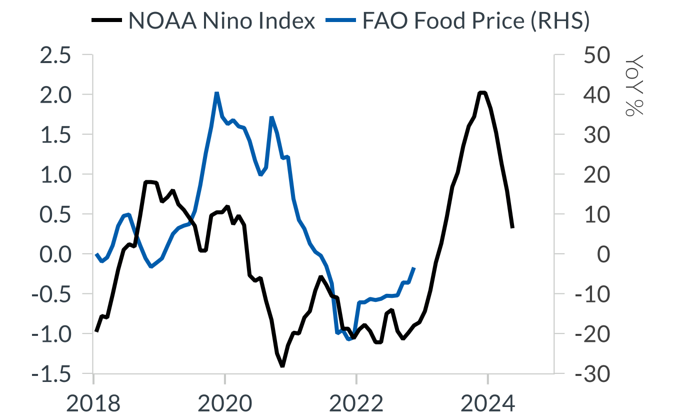
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Food prices across is accelerating and expected to hike…



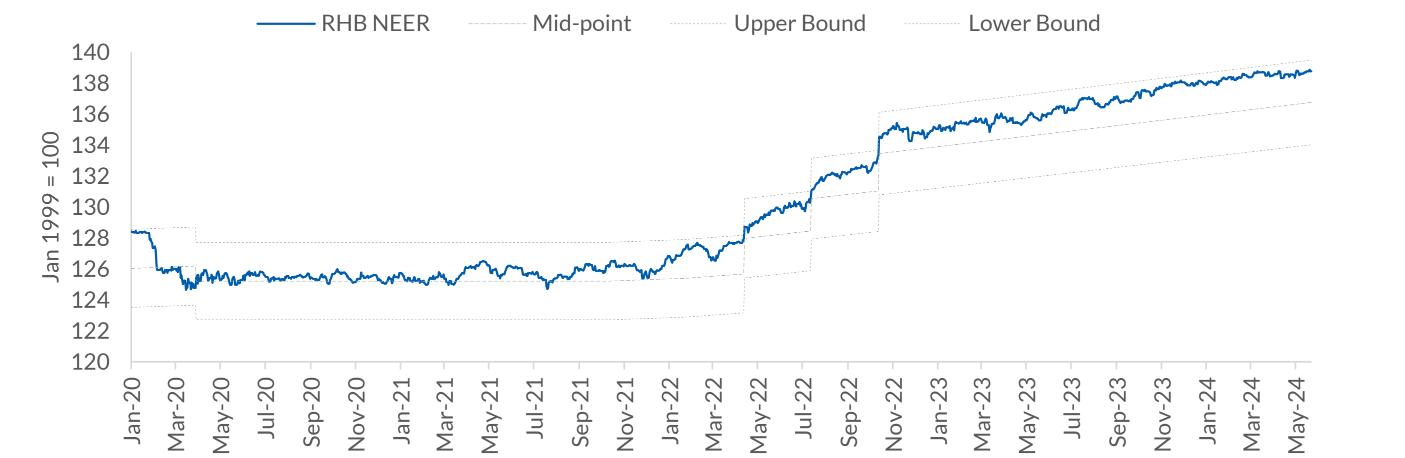
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: …due to the El Nino and adverse weather conditions



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: S$NEER is currently at 1.5% above mid-point, policy is appropriate to ensure medium-term price stability



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