25 March 2024

Global Economics & Market Strategy

Singapore: Accelerating Inflation Momentum in 1H24

- **We keep Singapore's full-year headline at 3.5% and upgrade core inflation to 3.5% (from 2.8%).**
- **Inflation risk and a resilient economic backdrop will likely persuade Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024.**
- **Headline CPI accelerated to 3.4% YoY from an over two-year low of 2.9% in the previous month. Core CPI has escalated to 3.6% YoY, disappointing our forecast of 3.0% YoY.**

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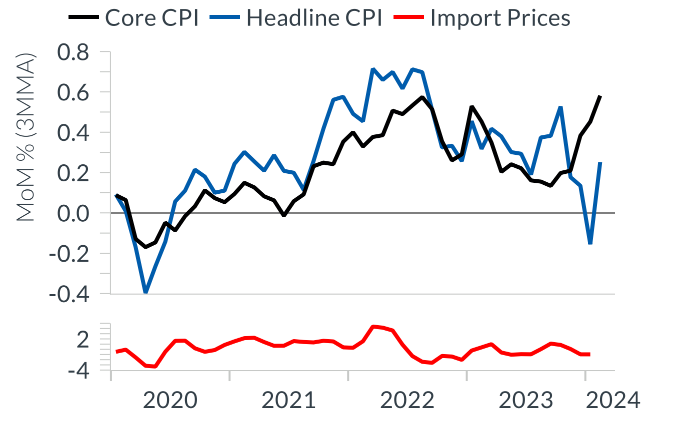
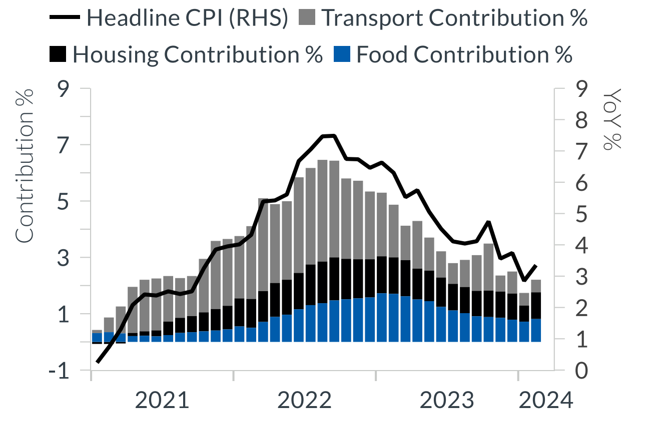
Figure 1: Core CPI is showing an uptick momentum as inflation pressures heat up…



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: while prices for housing and food are rising



Source: Macrobond, RHB Economics & Market Strategy

Inflationary pressures may stay hot in 1H24

We keep Singapore's full-year headline at 3.5% and upgrade core inflation to 3.5% (from 2.8%). Amidst ongoing global uncertainties, persistent inflationary pressures are expected to continue in 1H24. The catalysts for our outlook are underpinned by domestic factors, including a tight labour market leading to higher wages and demand-driven price effects, as well as a 1.0% GST rate hike and utility charges, which could keep household expenses elevated. Besides, escalating commodity prices, particularly energy and food prices due to El Nino conditions and geopolitical tensions, remain significant concerns. We expect core inflation to average 3.4% in 1Q24 and potentially accelerate to 3.5% in 2Q24, given the uptick in import prices. As cited in our thematic report on global inflation, our propriety indicators indicate that global inflation signals are flashing red. Given Singapore's reliance on imports, the country is vulnerable to imported inflation pressures. Therefore, domestic inflation will be influenced by both external and internal factors, suggesting that sticky inflation will persist into 2Q24.

Inflation risks, however, remain elevated on the back of food, oil, and metal prices. Our proprietary indicators for food inflation continue to suggest higher prices, at least in the next six months. We are already observing higher food prices in the US and ASEAN economies. Staples such as rice and palm oil are seeing an acceleration in price momentum, with higher prices a real possibility on the back of the ongoing El Nino weather conditions. Separately, the OPEC+ led crude oil export ban is likely to be extended into 2Q24, which in turn will likely lift Brent crude to a range of US$85 – 90 per barrel in the same period. Lastly, we are seeing a strong uptick in base metal prices, a phenomenon likely explained by (1) the ongoing recovery of China and its manufacturing sector and (2) the uptick in global economic performance on the back of trade. Importantly, we do not see any quick reprieve to the current inflation momentum, whereby prices will likely continue to stay elevated into 2Q24.

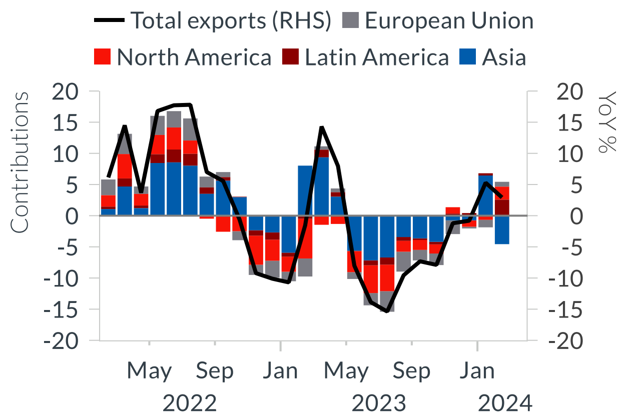
Our view that Singapore's inflation momentum should accelerate has materialised well, as cited in our previous inflation report. We maintain the view that Singapore's imported inflation will likely pick up in 2Q24 on the back of our aforementioned discussion for higher commodity prices in the months ahead. We remain in disagreement with official rhetoric for "core inflation to resume a gradual moderating trend over the rest of the year", especially with the current uptick in food, oil and base metal prices at the time of writing. Nonetheless, policymakers cited that (1) private transport inflation will tune lower, (2) accommodation inflation is expected to ease, and (3) increases in unit labour costs have slowed in tandem with the cooling labour market.

Inflation risk and a resilient economic backdrop will likely persuade the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024. We estimate the S$NEER to be at +1.5% appreciation gradient, with +/-2.0% band. We believe the current policy parameters are deemed appropriate for cushioning imported inflation and ensuring price stability over the medium term. According to our S$NEER model, the S$NEER has rallied to 1.6% above the mid-point. This indicates limited imported inflation due to a stronger SGD and room (towards the 2.0% handle) for the S$NEER to appreciate further to maintain price stability. On the global scale, we view the current US Fed Funds Rate (FFR) to see a peak of 5.25 – 5.50%, notwithstanding the likelihood for policymakers to reduce its FFR level by 50bps (two times cut) by 2H24. Considering these factors, there is no immediate need for the MAS to tighten or loosen policy at the upcoming Monetary Policy meeting. However, the potential for higher inflationary pressures in 2024 could lead to a tightening bias in 2H24.

There is a broad-based increase in all the prices of various sectors. The evidence shows that global food and energy prices will see further upside bias in the quarters ahead, thus suggesting that Jan's slowdown in Singapore's import price momentum is perhaps temporal. We adopt a relatively sanguine outlook on global economic growth in 2024, suggesting that demand-pull inflation will intensify in the coming quarters, especially on the back of the continued China's recovery pattern observed since 4Q23. We see clear signs of supply congestion in the global food backdrop.

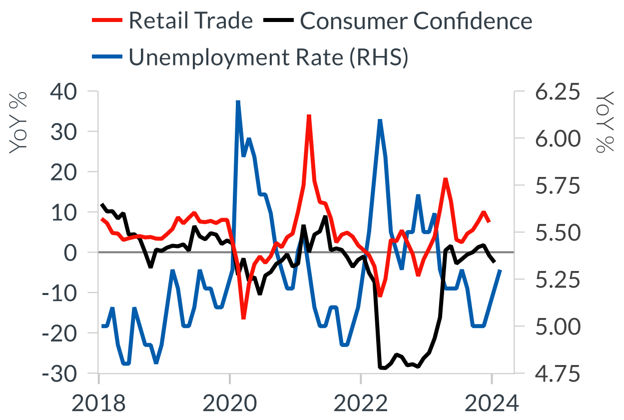
Headline CPI accelerated to 3.4% YoY from an over two-year low of 2.9% in the previous month. Core CPI has escalated to 3.6% YoY. The headline and core prints are against our forecasts at 2.9% YoY and 3.2% YoY, respectively, and against Bloomberg's consensus of 3.2% YoY and 3.4% YoY, respectively. The rise in CPI is mainly due to a faster rise in housing and food prices. Inflation accelerated for housing (3.9% vs 2.4% in January), recreation & culture (5.5% vs 4.4%), education (3.4% vs 3.2%) and food inflation rose to a three-month high of 3.8% from 3.3% in January. Meanwhile, inflation is steady for transport at 2.3% and healthcare at 4.6%. On a sequential basis, the headline CPI has increased 1.0% in Feb 2024, rebounding from a 0.7% fall in the prior month.

Figure 3: China's economy showing an improvement since 4Q23…



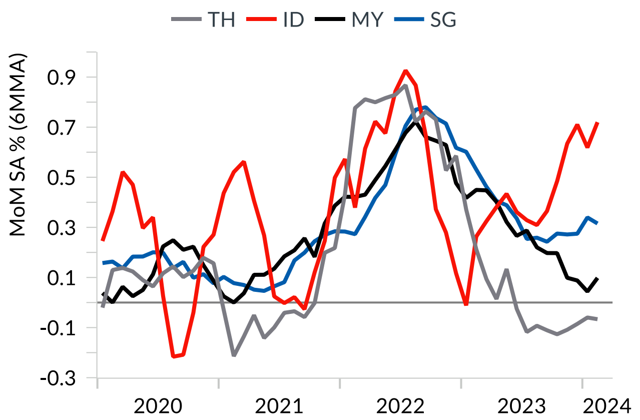
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: …as seen from exports and retail trade growth



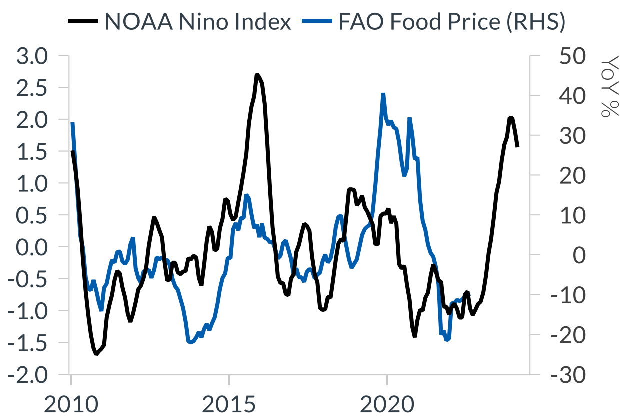
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Food prices across ASEAN (ex-Malaysia) are on rising momentum…



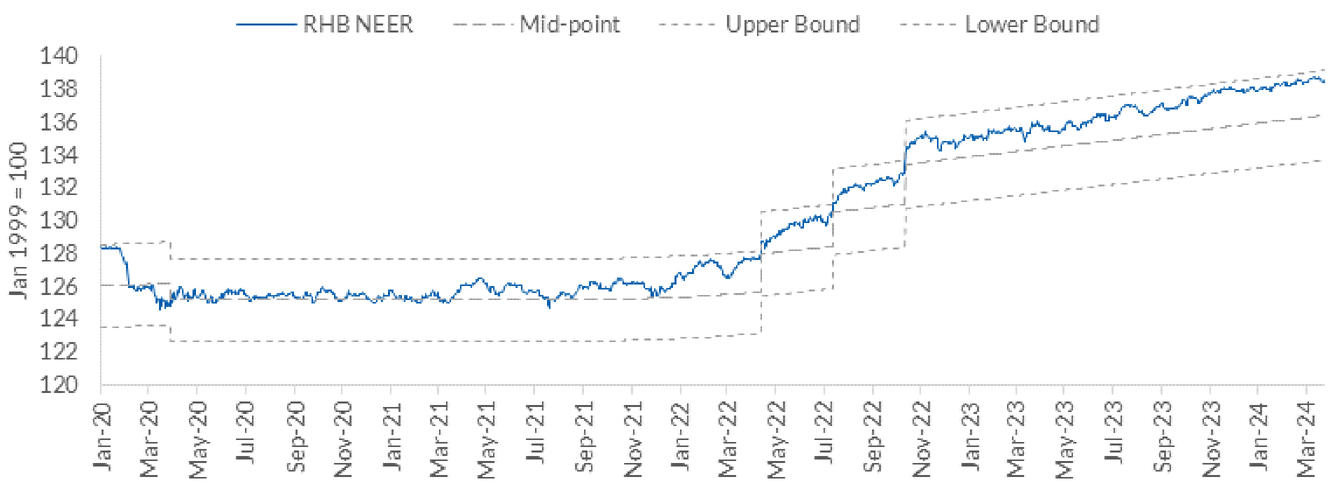
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: … and faces upside risks on the back of El Nino conditions



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: S$NEER is currently at 1.6% above mid-point, policy is appropriate to ensure medium-term price stability



Source: RHB Economics & Market Strategy

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