

Singapore

23 April 2024

S'pore's March headline and core inflation surprised to the downside. MAS is likely to hold the monetary policy fort for rest of 2024.

Highlights:

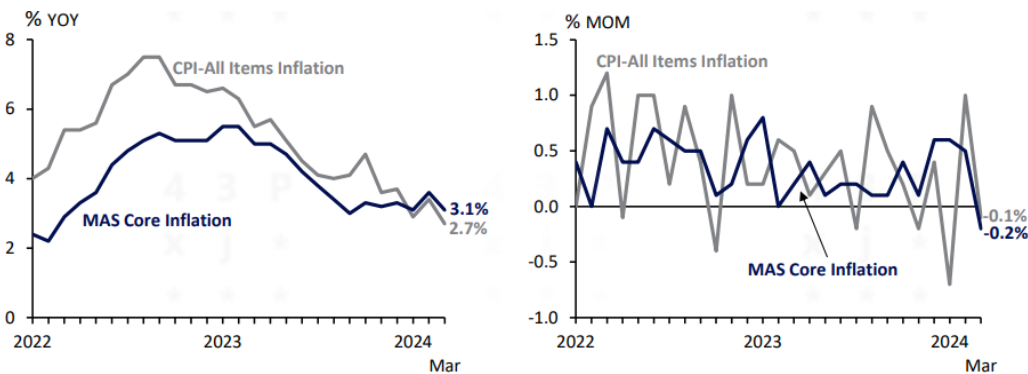
- Singapore's headline and core inflation moderated more than expected to 2.7% YoY (-0.1% MoM) and 3.1% YoY (-0.2% MoM) respectively, below our forecast of 3.3% and 3.5% and the Bloomberg consensus forecast of 3.1% and 3.5%. The March prints suggest a significant pullback i.e. the bumpy last-mile disinflation trajectory is not completely obsolete - headline CPI is the lowest since September 2021 and marked the largest percentage point decline since January 2024 when it fell below the 3.0% YoY handle as well. Meanwhile the March core CPI reading was also the lowest since January 2024.
- The key contributors to the pullback in headline CPI were the decline in private transport prices (-0.3% versus +1.4% previously due to lower COE premiums), as well as lower food prices (3.0% versus 3.8% due to a smaller increase in non-cooked food items post-CNY) and services costs (3.9% versus 4.0% attributable to lower fares and slower increase in holiday expenses). Similarly, there was also a moderation in price hikes for other price segments like electricity & gas (4.8% versus 5.2%), accommodation (3.7% versus 3.9% due to improved supply) and retail & other goods (0.7% versus 1.2% as clothing and footwear prices fell and alcoholic drinks & tobacco prices rose more modestly). The core CPI easing was largely aided by lower food and services inflation.
- Don't hold your breath that the bigger-than-expected drop in March inflation prints would usher in an imminent monetary policy easing by the MAS, whether at the July or October MPS, albeit it should help quell some nascent market speculation that the global monetary policy tilt (particularly the Fed) could be reversing to high-for-longer again rather than policy easing. Note that there is no change to official full-year 2024 headline and core CPI forecasts of 2.5-3.5% YoY. In addition, there was also no shift in official rhetoric - the cited inflation risks remain intact, namely that upside risks remain the potential fresh geopolitical shocks, adverse weather events or a tightening in domestic labour market conditions, whilst the downside risk remains an unexpected softening in the global economy and external demand which could induce a larger easing of cost and price pressures.

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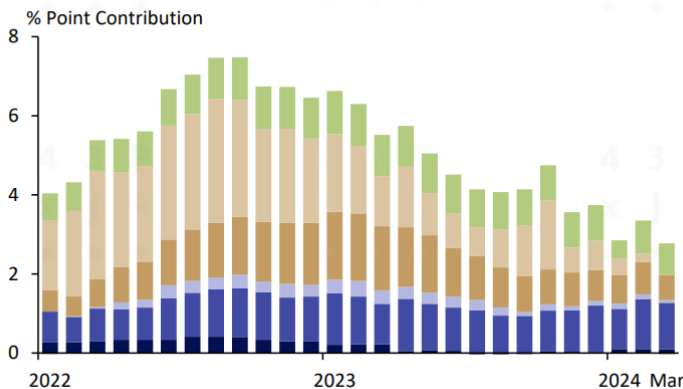
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- Importantly, the COE premiums which fell in March largely reversed in April, so we should not anticipate another big downside surprise for the April inflation prints per se. COE premiums for categories A (small cars), B (large cars) and E (open category) rose for the second consecutive time to \$94,010 (+5.6% and the highest year-to-year), \$102,001 (+0.7%) and \$103,249 (+2.2%) in the latest April round, after the Car Expo on 13-14 April. Industry players reportedly expect COE prices to remain stable in May, while awaiting the LTA announcement of the quota for May-July. In addition, domestic water prices were hiked 20 cents from 1 April, whereas the 2Q24 electricity tariffs for households will moderate by 0.3% (0.1%) per kWh to 29.79 cents per kWh compared to the previous quarter and the gas tariff (before GST) will also decline by 0.03 cent per kWh to 23.12 cents per kWh.
- In summary, headline inflation may still reaccelerate to around 3.2% YoY in 2Q24 before easing further in 2H24 to average around 3% YoY for the full-year 2024. Core CPI, which is what MAS watches closely, may subside less to around 3.1% for the full-year 2024 after clocking in at 3.3% YoY in 1Q24. Our base scenario sees MAS monetary policy settings remaining in a prolonged pause mode for the rest of this year as core inflation will only step down more significantly in 4Q24 (our 4Q24 forecast 2.8% YoY) into 2025, barring any unexpected surprises on the global economy and/or geopolitical front.



■ Electricity, LPG & Gas ■ Services ■ Retail & Other Goods
■ Food ■ Private Transport ■ Accommodation



* Private transport and accommodation are excluded from the MAS Core Inflation measure.

Source: MAS, MTI

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