

SINGAPORE: MARCH INFLATION ALERT

Monday, April 23, 2012

Singapore's headline CPI surged from 4.6% yoy (-0.3% mom nsa) in Feb to 5.2% yoy (+0.8% mom), versus our forecast of +4.7% yoy (+0.2% mom). This is the strongest yoy pick-up since June 2011, and also the fastest mom acceleration since July 2011. The key culprits were again accommodation (+9.1% yoy), reflecting new and renewed rental leases, followed by transport (+8.6% yoy) due to rise in COE premiums in Feb. However, prices of retail items (eg. clothing & footwear) saw more modest increases, and services & food inflation were broadly stable.

MAS core inflation (which excludes accommodation and private road transport) edged down from 3.0% yoy to 2.9% in Mar, but remains elevated compared to 2.2% yoy for the whole of 2011. MAS-MTI reiterated their expectations that headline and MAS core inflation will continue around the 5% and 3% yoy for H1, before easing gradually in H2. Their full-year headline and MAS core inflation forecasts are 3.5-4.5% and 2.5-3.0% yoy respectively. Accommodation costs are expected to add more than one-third to 2012 headline inflation, while car prices and service fees will each account for one-fifth, with another quarter to come from prices of commodity-related items

The caveats are:

- (a) Car prices may increase if COE premiums rise further in response to the tight COE supply.
- (b) Wages and other costs are likely to continue to pass through to consumer prices, albeit at a more moderate pace.

This latest upside surprise on the March inflation reading clarifies MAS' move on 13 April to increase slightly the SGD NEER slope, with no change to the level at which the band is centred, and also restore a narrower policy band in order to help anchor inflation expectations, ensure medium-term price stability, and keep growth on a sustainable path.

Our view is that the recent April monetary policy tightening may do little to quell the supply tightness in COE premiums and also domestic labour market. So the underlying stickiness in domestic prices may be more persistent. Hence we raise our full-year headline CPI forecast from 3.8% yoy to 4.2% yoy, predicated on the assumption that domestic inflationary pressures will gradually ease from 5.0% in H1 to 3.7% yoy in H2.

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881

Fixed Income &
Structured Products
Tel: 6349-1810

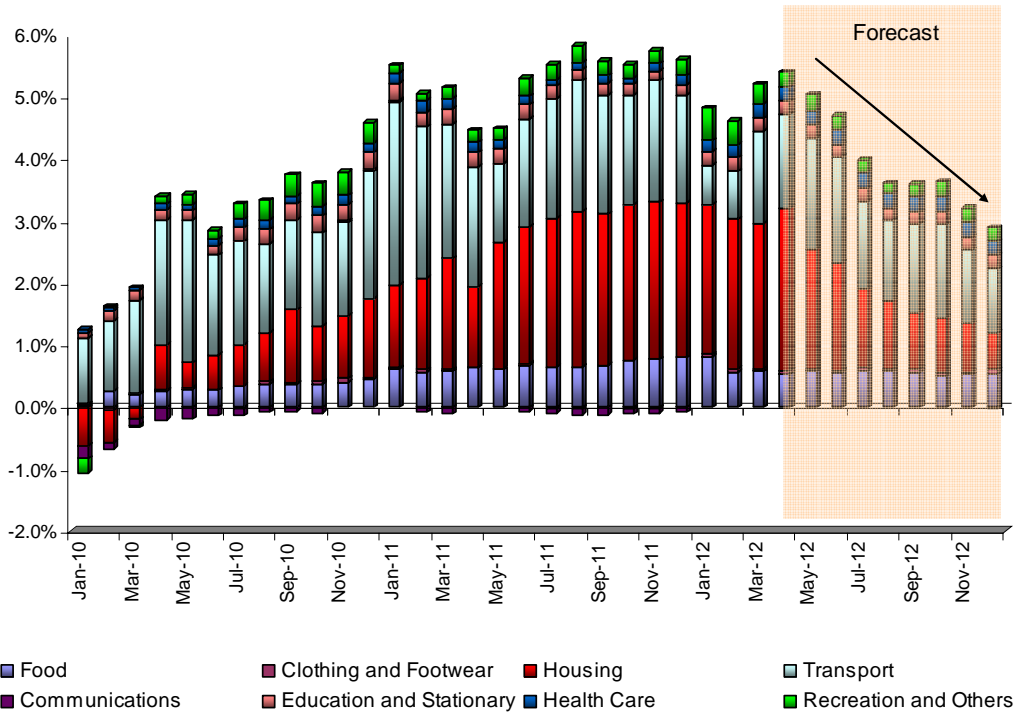
Investments &
Structured Product
Tel: 6349-1886

Interest Rate
Derivatives
Tel: 6349-1899

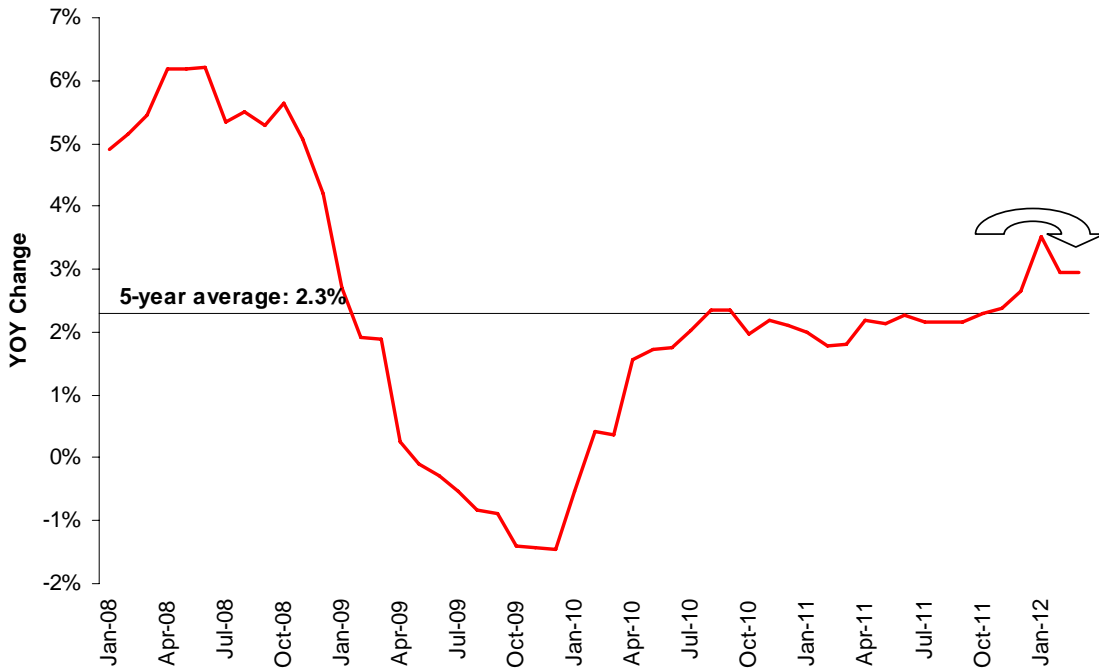
Treasury Research &
Strategy
Tel: 6530-4887

Selena Ling
+65 6530 4887
lingssselena@ocbc.com

Singapore Inflation



MAS Core Inflation



Source: MAS, OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally

Co.Reg.no.:193200032W