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Is S'pore's disinflation pressures easing?

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Highlights:

Singapore's headline CPI fell 0.4% yoy (+0.6% mom nsa), the same as the July decline, amid a steeper drop in private transport costs (-2.3% yoy, mainly due to car prices) which offset a more modest decline in core CPI components. Meanwhile, core CPI fell a smaller 0.3% yoy (+0.1% mom) in August due to smaller declines in the cost of service (-0.5% yoy due to a smaller fall in transport services cost and a larger hike in telco services fees), retail & other goods (-1.3% yoy due to more moderate falls in clothing, footwear and recreational goods), as well as electricity & gas (-14.6% amid a smaller take-up of new subscriptions under the Open Electricity Market). With more economic activities resuming and private consumption gradually recovering, the easing in the disinflationary pressures going into the year-end should not come as a total surprise.

For the year-to-date, headline and core CPI have fallen 0.2% yoy for the first eight months of 2020, reflecting the domestic recession conditions. However, we are starting to see sequential on-month upticks in more segments of the CPI basket including clothing & footwear, private transport, telecom equipment, and tuition & other fees, even though they are still generally lower compared to a year ago under pre-Covid circumstances. Looking ahead, the external inflationary sources are likely to remain benign due to soft global demand conditions - crude oil prices are tipped to stay low for an extended period of time, while food commodity price hikes should be contained given improving supply conditions. On the domestic price front, soft economic sentiments and weak labour market conditions will likely keep discretionary spending subdued and hence keep a lid on firms ability to pass on higher costs to end-consumers. There remains spare capacity in the local and global economy. As such, while headline and core CPI are currently edging closer to the milder end of the unchanged official 2020 inflation forecasts of between -1% and 0%, nevertheless, there is still relatively low risk of inflation surprising on the upside of above the 0% yoy handle in the months ahead. This implies that the S$NEER, which has been trading slightly above 0.3% on the stronger side of its parity band recently, is still within the comfort zone of +/-0.5% around the parity band and may not warrant an immediate reconsideration of the currently zero S$NEER slope at the upcoming MPS meeting in early to mid-October.

We upgrade our 2020 full-year headline and core CPI forecasts to -0.2% and -0.1% yoy respectively, compared to -0.4% and -0.3% previously. That said, the 2021 headline and core CPI are likely to revert to positive territory from early next year (our 2021 headline and core CPI forecasts are both +1.2% yoy), so the key question remains if the policymakers are inclined to look past the absolute inflation prints then and let inflation run a little hot in the interim (aka FOMC-style) given the low base this year and until there is greater clarity that the global economy and domestic labour market are out of the Covid-19 pandemic woods.

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