Singapore Outlook

OCBC Bank

A careful monitoring on inflation pressures is warranted

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Highlights:

- **Even as Singapore's growth surged to its highest since 4Q13 at 5.2% y/y in its latest print this morning, inflation pressures seemed to remain relatively benign.** Headline CPI growth remained flat at 0.4% y/y for the third month, in line with our (and the market's) expectations. Elsewhere, core inflation (which excludes private road transport and accommodation) continued to stay manageable at a mere 1.5% in October.

- **Across the sectors, we saw higher Food (+1.5% y/y) and Private Road Transport (+2.2% y/y) inflation, while lower Housing & Utilities prices continued to drag overall inflation.** Specifically, higher prices of non-cooked food items as well as an uptick in prices at hawkers and restaurants buoyed food prices, while higher car prices amid stronger COE premiums and petrol prices underpinned higher road transport prices.

- **Elsewhere, the cost of accommodation fell sharply by 4.2% y/y in October (vs Sept's -3.9%)** given the larger amount of Service & Conservancy Charges (S&CC) rebates disbursed in October this year versus 2016. Elsewhere, cost of electricity and gas decelerated to 6.6% in October (lower than Sept's 7.6%) as electricity tariffs fell given lower oil prices in the preceding months.

- **As stated in our Singapore's GDP outlook this morning, a careful monitoring of the inflation backdrop is warranted,** given potentially stronger imported inflation especially from higher oil and food commodity prices into 2018. Notwithstanding the relatively tighter labour market to-date, wage pressures would likely stay low given the gradual absorption of previously accumulated slack, while other non-labour costs such as commercial and retail rentals remained subdued.

- **In a nutshell, we leave our Singapore's inflation outlook unchanged at 0.6% in 2017,** versus MAS' outlook at "around 0.5%" for the year. The inflation outlook into 2018 continues to appear benign despite potentially higher food and oil prices, as a relatively higher base into next year may be felt from the costlier private road transport prices this year (in part due to expiry of the one-year road tax rebate and higher parking fees back in August and December 2016, respectively). Moreover, higher water prices as of 1st July 2017 would only pressure utility prices higher into 1H18 before the base effect dissipates into 2H18. Barring a higher-than-expected surge in oil prices into 2018 (OCBC WTI and Brent outlook at $65/bbl), we see headline inflation to eventually cross the 1.0% y/y mark in the later part of 2018, thus bringing full-year 2018 headline CPI print at 0.8% (core: 1.5%) then. The window for any MAS monetary policy

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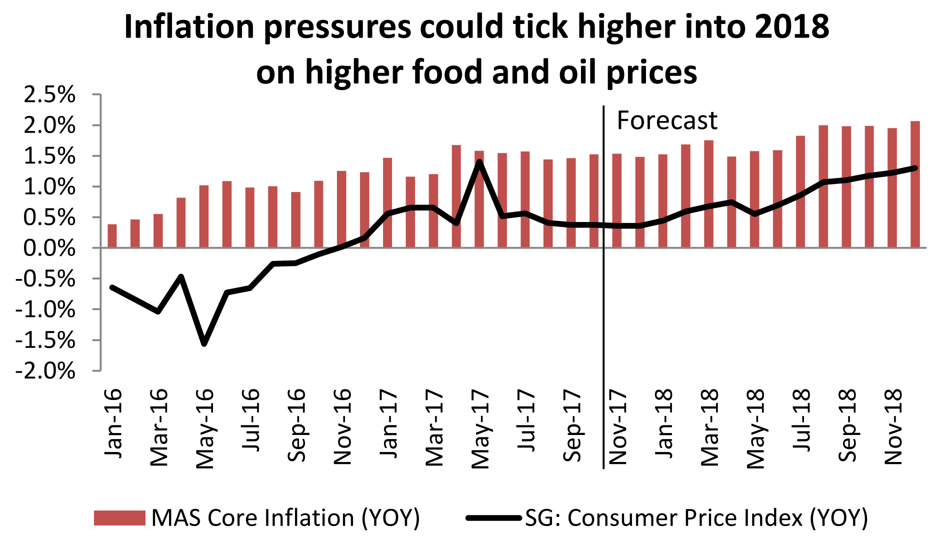
adjustment remains open in April and October 2018, depending on how the economic and price stability picture evolves into 2018, especially with the G7 central banks increasingly jumping on the policy normalization bandwagon.



Source: Bloomberg, OCBC Bank