

S'pore's headline and core inflation prints remain muted at 0.4% yoy and 0.6% yoy respectively in October

Selena Ling

Head of Research and Strategy

+65 6530 4887

LingSSSelena@ocbc.com

Highlights

Headline CPI eased from 0.5% yoy (-0.4% mom nsa) in September to a three-month low of 0.4% yoy (0% mom nsa) in October, aided by the steeper decline in the cost of electricity and gas prices (-12.5% yoy) amid lower electricity tariffs and with the Open Electricity Market effects. Also contributing to the muted inflation reading was lower services prices (-1.2%) as holiday expenses, education services, medical and dental fees rose at a slower pace. Accommodation costs also fell 0.4% yoy as housing rentals registered more gradual declines, while retail goods prices declined 0.8% again amid cheaper clothing & footwear (-1.8% yoy), household durables and alcoholic drinks. However, private road transport inflation doubled from 0.5% to 1.0%, attributable to a larger hike in car prices which outweighed a sharper decline in petrol prices.

Core CPI also moderated from 0.7% yoy to 0.6% yoy (0% mom nsa) in October, the lowest since March 2016. In particular, food inflation also edged up to 1.7% on the back of higher prices for both non-cooked food (namely fish & seafood, fruits, vegetables) and prepared meals (including catered food, fast food, restaurant and hawker food). Education and healthcare costs also rose by 1.8% (led by tuition & other fees) and 1.2% (due to medical & dental treatments).

MAS and MTI both continue to expect external inflation to remain benign ahead amid weak demand conditions and generally well-supplied food and oil commodity markets. However, they did note that crude oil prices could be volatile in the near-term to reflect geopolitical risks. Domestic inflation should, however, reflect softening labour market conditions and a lower wage growth trajectory. Non-labour costs such as retail rents should also stay subdued, hence any cost pass-through to end-consumers would likely be constrained by the subdued macro-economic environment.

Our headline and core inflation rates remain at 0.6% and 1.1% yoy for 2019 before edging higher to just above the 1% handle for 2020. This is consistent with MAS-MTI's headline inflation forecast of around 0.5% yoy for 2019 before rising to 0.5-1.5% in 2020 as the negative contribution of imputed rentals to headline inflation dissipates. Headline inflation came in at just 0.5% yoy for January-October 2019, suggesting that the around 0.5% yoy forecast for this year is imminently likely. In addition, MAS-MTI tip core inflation to be at the lower end of the 1-2% forecast range in 2019 and average 0.5-1.5% next year. While core inflation printed at 1.1% yoy for the first ten months of this year, nevertheless, it is likely to remain sufficiently

subdued in the remaining two months of 2019 in order to bring the full year to the low-end of the 1-2% official forecast range. At this juncture, the domestic inflation picture remains dovish while the growth outlook still remains somewhat tepid in the near-term, which will likely keep MAS in stasis for now.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com
Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com
Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com
Terence Wu
FX Strategist
TerenceWu@ocbc.com
Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com
Carie Li
Hong Kong & Macau
carierli@ocbcwh.com
Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com
Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com
Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com
Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

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 Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).