

S'pore's core inflation turned negative in Feb20 for the first time since Jan10 amid the Covid-19 outbreak.

Selena Ling

Head of Research and Strategy

+65 6530 4887

LingSSSelena@ocbc.com

Highlights

February's headline CPI inflation eased from 0.8% yoy (-0.2% mom) in January to 0.3% yoy (+0.1% mom) which is also the softest reading since July 2019 (0.2% yoy). The main drags were clothing & footwear (-2.7% yoy), recreation & culture (-1.5%), healthcare (-1.5%), education (-0.5%) and housing & utilities (-0.2%). **More importantly, core inflation has collapsed from 0.3% yoy (0.0% mom) in January to -0.1% yoy (-0.1% mom) in February and marking the lowest print since January 2010.** The core CPI decline was mainly due to the services cost declining as the Covid-19 outbreak has dented demand particularly for travel and services. With the rising number of travel restrictions and city lockdowns, this deflationary pressure may sustain in the interim. In addition, the oil price slump has contributed to a smaller private transport inflation as well as the cost of electricity & gas. In general, the demand shock is reflected in the cost of retail & other goods inflation as consumer confidence has taken a big hit and Singaporeans are avoiding crowded places and practising social distancing.

We basically have seen this story before. During SARS, when consumer confidence tanked and public consumption declined, especially for travel, F&B and entertainment, these segments of the CPI basket saw deflationary pressures. This time is no different. We basically see downside risk to both headline and core CPI for the next 3-6 months as well. **A further downgrade of both official GDP growth and inflation forecasts looks imminent and will justify more policy easing.** The second fiscal stimulus package is already in the pipeline. We have priced in a plausible domestic technical recession in 2Q20 as the Covid-19 situation is rapidly evolving and global demand and USD funding conditions are deteriorating. The softening domestic labour market conditions are also likely to restrain any near-term price inflation. We expect both full-year headline and core inflation forecasts to flatline this year, with both 2Q20-3Q20 inflation readings likely to be mired in negative territory. This will open the door wider for MAS to ease monetary policy sooner rather than later. An easing to a neutral S\$NEER slope has already been priced in, and if the S\$NEER softens further between now and the April MPS, a re-centering lower is also possible. MAS will be refreshing its inflation forecasts at the upcoming April monetary policy statement. We are now looking at 2020 GDP growth to be in the -1% to 0% yoy range, and headline and core CPI to be in the -0.5% to 0.5% yoy range.

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).