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S'pore's core inflation fell for the second month by 0.2% yoy in March.

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Highlights

S'pore's core inflation fell for the second month by 0.2% yoy in March, amid a steeper decline in services costs, and compared to -0.3% yoy in February**.** Given the social distancing and other containment measures put in place to combat the Covid-19 outbreak, unsurprisingly, we saw lower food inflation, cheaper point-to-point transport services (as more people work from home), telecommunication services, even healthcare (-1.8% yoy, probably as non-critical healthcare expenses have been deferred) and holiday expenses (recreation and culture fell 1.8% yoy). In addition, slower take-up rates for the Open Electricity Market also saw a smaller decline in electricity & gas prices.

On the flipside, accommodation inflation, particularly housing rentals, accelerated to 0.5% in March, up from 0.4% yoy in February**.** One likely contributing factor could have been the implementation of the Movement Control Order (MCO) in Malaysia that led to Malaysian workers here scrambling for temporary accommodation in Singapore with the Singapore government providing $50 a day per worker for the initial two-week lockdown in Malaysia. Since the MCO has been extended twice till 28 April, there is also the possibility that there could be a third extension to cater for Ramadan pending the Malaysia PM announcement due later today. Hence, the housing rental inflation segment may sustain into April at least.

Headline CPI also flat-lined to 0% yoy (-0.3% mom) in March, down from +0.3% yoy in February, attributable to cheaper services and private transport costs (-0.3% yoy). The latter was attributed to falling petrol prices, parking fees and a smaller increase in car prices. Notably with the recent crude oil price rout given the global supply glut and storage capacity shortfall, there could be downside risk for energy-related components in the CPI basket. The key exception could be imported food prices which may face upward pressure due to global supply chain disruptions due to the Covid-19 pandemic and the various containment measures.

Deflationary pressures may continue to exert in the months ahead with the one-month circuit breaker that has been extended from 4 May to 1 June. With an imminent global recession on the cards, external inflation sources will likely remain benign amid soft global demand conditions in the quarters ahead. With the sharp slump in global travel and tourism activities, outbound travel-related spending should remain depressed in the near-term. The extension of the one-month circuit-breaker from 4 May to 1 June, coupled with the tightening of essential services and the proportion of commuting workforce from 20% to 15%, is also likely to dampen business confidence, weigh on hiring intentions and further curb consumer appetite for discretionary spending. The cooling of the domestic economic activities for April to May and the emergence of slack capacity, whether in manufacturing, services and construction, would necessarily imply that domestic cost pressures continue to head soft in the coming months. Even when the circuit breaker is lifted, the easing of social distancing and containment measures are likely to be staggered amid warranted caution of any re-emergence of infections. Hence, both headline and core inflation are likely to print in the negative territory for coming months and average a deeper -0.4% and -0.6% yoy respectively after factoring in the recent crude oil price plunge and the extended circuit breaker. They also dovetail with the official headline and core CPI forecasts of -1% to 0% for 2020.

Implication for monetary policy is muted: with the S$NEER hovering around its parity band, there is also no urgency or pressure for further monetary policy easing at this juncture as the October policy review is still far off and the Covid-19 situation is still very fluid. As articulated previously, fiscal policy will do the heavy lifting whilst monetary policy may focus more on managing liquidity conditions and smoothening out currency volatility ahead. The 3-month SIBOR has eased to 0.94% while the 3-month SOR is at 0.85%, largely tracking the 3-month LIBOR lower to 1.04% as global USD funding conditions improved with the Fed's extension of more USD swap lines for central banks and also more flushed onshore liquidity conditions with MAS's move to lend SGD at 0.1% interest rate pa to eligible financial institutions to on-lend to SMEs at more affordable rates as well.

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