Singapore CPI contracts again in June, outlook remains weak.

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Highlights:

No surprises here – S'pore's headline and core CPI remained negative in June despite the re-opening of the economy post-Circuit Breaker period and even as consumers cautiously emerged to dine-in at restaurants and seek retail therapy at shopping malls to alleviate their pent-up demand. Food prices surged 2.3% yoy (0.2% mom, largely attributable to meat, sugar & confectionery, and non-alcoholic beverages), whereas clothing & footwear (-3.2% yoy), transport (-3.1% yoy, mainly due to private transport costs) and recreation & culture (-2.9% yoy, mainly due to falling holiday expenses and airfares) were main drags, albeit smaller declines were seen in retail goods and electricity & gas. Notably for electricity & gas cost which fell at a slower rate, the switching of gencos under the Open Electricity Market has also slowed. The May headline and core CPI were -0.8% yoy and -0.2% yoy.

No respite yet from mild deflationary pressure for 2H20 as inflation prints are likely to remain negative till the end of the year. For the first six months of 2020, headline and core CPI declined 0.2% and 0.1% yoy, marking an extraordinary start to 2020 that was marred by the Covid-19 pandemic that sent the global and domestic economies into a sharp recession. Looking ahead, 2020 is likely to remain mired in mild deflationary pressures due to the long tail nature of the global Covid-19 pandemic and the subdued demand story. Externally, energy prices are likely to remain contained, while the softening domestic labour market is likely to weigh on private consumption. Food prices are probably the only anomaly, but as the global supply chain disruptions abate, the pricing pressure may be less acute going forward. That said, the enhanced social distancing and hygiene measures could levy a higher cost on firms even though this is not limited to the food industry per se. Given the amount of slack in the Spore economy, firms are also likely to remain cautious about their ability to pass on higher costs to end-consumers.

Both headline and core CPI are tipped to register a 0.4% yoy contraction for the full year. However, this picture is likely to reverse into 2021 as the recovery trajectory, however, as 2020 is already setting a very low base which is unlikely to extend further, barring a further deterioration in the Covid-19 situation which prompts another round of widespread national lockdowns. That said, it will likely be an uptick rather than an upsurge in inflation in 2021, which we estimate at 1.0% to 1.5% yoy, as there is still a significant amount of uncertainty attached to the shape of the Covid-19 recovery trajectory. As such, there is no significant risk associated with the MAS monetary policy stance being kept unchanged at its current zero appreciation stance at this juncture. Accordingly, short-term domestic interest rates like the 3-month SIBOR and SOR are also likely to stay subdued in the near-term.

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