SINGAPORE

Treasury Advisory
Corporate FX & Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
Investments & Structured Products
Tel: 6349-1886

GT Institutional Sales
Tel: 6349-1810

Selena Ling
+65 6530-4887
LingSSSelena@ocbc.com

OCBC Bank

SG inflation eased more than expected in June, but will reaccelerate in 2H17

Monday, 24 July 2017

- **Headline inflation moderated more than expected in June to +0.5% yoy (-0.1% mom nsa),** compared to +1.4% yoy (+0.3% mom nsa) in May. This was below market expectations and softer than our forecast of +0.8% yoy (0% mom nsa).

- **Notably, the price drags came from housing & utilities (-2.0% yoy),** communications (-0.6% yoy) and recreation & culture (-0.1% yoy). In particular, the timing effects of the disbursement of S&CC rebates led to sharply lower housing maintenance and repairs inflation. Private road transport inflation also decelerated from +6.1% yoy to +3.0% yoy as car prices fell and petrol prices saw more gradual hikes. In contrast, leading the price hikes were education (+3.2% yoy), healthcare(+2.5% yoy), clothing & footwear (+1.9% yoy), transport (+1.8% yoy) and food (+1.4% yoy).

- **Core CPI inflation also eased marginally to +1.5% yoy in June**, from +1.6% yoy in May, due to lower services and food inflation and in line with our forecast. This brought the 1H17 headline and core inflation prints to +0.7% yoy and +1.4% yoy respectively.

- **MAS and MTI's inflation language remains benign for now**. They noted that external inflation pressures have picked up amid a turnaround in global commodity markets and reiterated that global oil prices are likely to average higher in 2017. In addition, administrative price adjustments are likely to contribute to a temporary increase in inflation this year, but domestic sources of inflation remain relatively muted and the subdued economic environment will limit the magnitude of cost-push inflation to end-consumers. Their 2017 headline and core CPI forecasts remain unchanged at 0.5-1.5% and 1-2% yoy respectively.

- **Looking ahead, we tip 2H17 headline and core CPI to average 1.2% and 2% yoy, to bring the full-year prints to 1.0% and 1.6%**. Water price hikes will also kick in from July.

- **The lowest 20% income group saw a sustained fall in inflation** since 1H15 due to lower accommodation cost, but the highest 20% income group saw inflation accelerate to 1% yoy in 1H17 due to higher car prices and smaller decline in accommodation costs. This is not unexpected. **We do not expect MAS to adjust its neutral monetary policy settings at the October review.**