

## Singapore

### Energy shock revisited: Will MAS stay patient?

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- *Energy shocks matter for Singapore inflation. Imported energy costs transmit through both direct fuel prices and broader supply chain channels.*
- *Persistent oil prices could lift Singapore's inflation trajectory modestly. A move in average crude oil prices from around US\$63/bbl to US\$92/bbl could raise 2026 headline inflation from roughly 1.3% to about 1.8% YoY.*
- *MAS is likely to monitor developments rather than react immediately but sustained imported inflation pressures could increase the probability of a tighter policy stance, including a potential steepening of the S\$NEER policy slope.*

#### Energy prices and Singapore's inflation dynamics

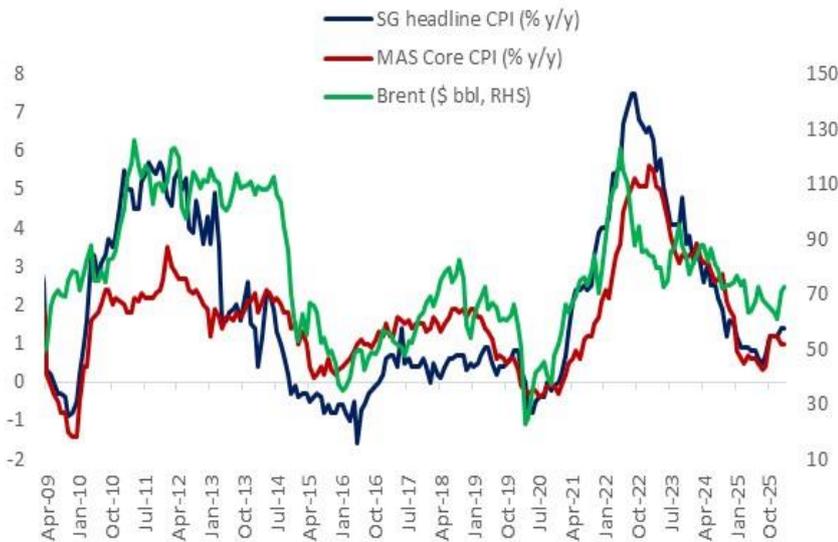
Energy prices historically have meaningful implications for Singapore's inflation outlook, both directly through fuel and utilities costs and indirectly via transportation, logistics and broader supply chains. Given Singapore's high energy import dependence, global energy price movements can feed into domestic inflation dynamics more quickly than in economies with larger domestic production bases. In our earlier report, **FX Focus: Oil shock and AXJ FX: Framing the impact of escalation**, published on (6 Mar), we highlighted that a sustained rise in oil prices can have broader macro and FX implication for Asia, including Singapore. This note extends that discussion further.

A MAS special feature published in the October 2022 *Macroeconomic Review*<sup>1</sup> examined how global commodity shocks affect Singapore inflation. The study highlighted that increases in global energy and agricultural prices accounted for a significant share of the rise in inflation. In June 2022, energy shocks alone contributed to 2.6ppts to MAS core CPI while agricultural shocks added another 0.6ppt. Together these external shocks accounted for 3.2ppts or over two-thirds of the 4.4% YoY core inflation at that time. Importantly, the analysis showed that a significant share of the indirect price effects from an energy shock in Singapore is transmitted through foreign and mixed channels, reflecting Singapore's position within global supply chains. This

<sup>1</sup> Monetary Authority of Singapore (MAS) (2022): "Effects of higher global input costs on prices in Singapore", *Macroeconomic Review*  
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underscores how imported cost pressures can propagate through Singapore’s economy beyond the direct fuel component.

### Brent vs Singapore inflation



Source: Bloomberg, OCBC Group Research

### Past MAS policy episodes and commodity price cycles

Past policy episodes illustrate how large swings in global energy prices can influence Singapore’s inflation outlook and, by extension, monetary policy settings. In January 2015, following a sharp collapse in global oil prices, with Brent falling by roughly 60% in 2H14, MAS made an off-cycle adjustment to reduce the slope of the S\$NEER policy band, effectively easing policy as the inflation outlook eased.

Conversely, during the post-pandemic inflation surge in 2021–2022, MAS tightened policy on 5 occasions between October 2021 and October 2022 as inflation pressures intensified amid higher commodity prices, supply chain disruptions and strong domestic demand.

Looking further back, MAS also tightened policy between 2010 and early 2011 as inflation accelerated alongside strong economic growth and rising global commodity prices, including oil which briefly exceeded USD120/bbl in 2011. While commodity prices were not the sole driver, the episode highlighted how imported cost pressures can reinforce domestic inflation dynamics in a small open economy.

## Historical overview of MAS policy action since 2010

Dates	Policy Action			Economic Considerations (Respective MAS policy statements)
	Slope	Band	Midpoint	
14 Apr 10	↑	-	↑	Economy has rebounded from the downturn and is expected to continue on its firm recovery path given the more favourable global economic outlook. At the same time, inflationary pressures are likely to pick up, driven by rising global commodity prices as well as some domestic cost factors.
14 Oct 10	↑	widen	-	Increase policy slope slightly while seeking to cap CPI inflation at 2-3% in 2011 from 2.5-3.0% in 2010, and ensure medium-term price stability. Band widened in view of volatility across international financial markets. With the economy already operating at close to full employment, labour cost pressures have picked up and will persist into 2011. Externally, food commodity prices have risen, in part due to the recent supply disruptions. More of these costs could potentially be passed on to consumers in a strengthened domestic economy. Even as base effects dissipate, the build-up in sequential price increases will cause the headline CPI inflation rate to rise to around 4% by the end of 2010 and stay high in the first half of 2011 before moderating.
14 Apr 11	-	-	↑	MAS will therefore re-centre the exchange rate policy band upwards to below the prevailing level of the S\$NEER. This adjustment takes into account the tighter policy stance adopted in April and October last year, which will continue to have a restraining effect on the economy and prices. CPI inflation is expected to come in at the upper half of the 3-4% forecast range while MAS Core Inflation will be 2-3%.
14 Oct 11	↓	-	-	Ongoing slowdown in domestic economic activity will reduce tightness in the labour market and alleviate price pressures. Inflationary pressures emanating from abroad should also subside. As a result, core inflation should gradually ease. Forecast to be around 1.5-2% in 2012 (vs. 2.1% in 2011). Given the expected moderation in core inflation, the slope of the policy band will be reduced, with no change to the width of the band and the level at which it is centred.
13 Apr 12	↑	narrow	-	Economic activity turning out somewhat stronger than anticipated in Q1 2012 and resource markets tightening further, core inflationary pressures have persisted. Looking ahead, external inflationary pressures are likely to be sustained, largely due to higher oil prices. Domestically, the labour market remains tight. The pass-through of costs to consumers is therefore likely to continue, though at a reduced pace. CPI-All Items inflation and MAS Core Inflation have come in stronger than expected since October 2011 and will remain elevated over the next few months, before easing over the remaining course of this year. MAS is revising the forecast for MAS Core Inflation from 1.5-2% to 2.5-3% for 2012.
28 Jan 15*	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in lower at 0.5-1.5% and -0.5-0.5% respectively due to lower oil prices and moderate economic growth environment.
14 Oct 15	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 0.5-1.5% and -0.5-0.5% respectively due to benign core inflation outlook and weak global demand. External sources of inflation are likely to stay generally benign, given ample supply buffers in the major commodity markets and weak global demand conditions. Oil prices are projected to remain low and increase only slightly in 2016.
14 Apr 16	Reduce to zero	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 0.5-1.5% and -1.0-0% respectively due to benign core outlook and less favourable external environment. Core inflation likely to fall below 2% on average over the medium term.
13 Apr 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0-1% respectively due to improving labour market and projection of higher imported inflation.
12 Oct 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1.5-2% and 0.5% respectively due to imported inflation from higher O&G. Wage growth expectations.
14 Oct 19	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0.5% respectively due to low projected core inflation. Oil prices slumped and NODX contracted.
30 Mar 20	Reduce to zero	-	↓	MAS lowered the forecast range for both Core Inflation and CPI-All Items inflation to -1-0% due to external and domestic pressures.
14 Oct 21	↑	-	-	MAS Core Inflation expected to rise to 1-2% for 2022. External and domestic cost pressures are accumulating, reflecting both normalising demand as well as tight supply conditions.
25 Jan 22*	↑	-	-	MAS revised its Core Inflation forecast upwards to 2-3% due to higher inflation outlook. Inflation outlook shifted higher due to confluence of recovering global demand and persistent supply-side frictions. There remain upside risks to inflation arising from the impact of pandemic-related and geopolitical shocks on global supply chains.
14 Apr 22	↑	-	↑	MAS revised its Core Inflation forecast higher at 2.5-3.5% for due to global inflationary pressures and tight domestic labour market.
14 Jul 22*	-	-	↑	MAS revised its Core Inflation forecast higher to 3-4% due to elevated inflationary pressures. Overall inflationary pressures will remain elevated in the months ahead. Although global supply chain frictions are easing, external inflationary impulses have become more broad-based, reflecting underlying constraints in global commodity and labour markets.
14 Oct 22	-	-	↑	MAS Core Inflation should come in at 3.5-4.5% on average, and CPI-All Items inflation at 5.5-6.5%. MAS has assessed that, on balance, a further tightening of monetary policy is needed to help ensure that price pressures are dampened over the next few quarters.
24 Jan 25	↓	-	-	MAS Core Inflation and CPI-All Items inflation is forecast to average 1.0-2.0% and 1.5-2.5% respectively due to core inflation moderating more quickly than expected.
14 Apr 25	↓	-	-	MAS Core Inflation is now forecast to average 0.5-1.5% in 2025, CPI-All Items inflation in 2025 is similarly expected to average 0.5-1.5% due to weakening external outlook.

↓ denotes reduction in slope/re-centering of midpoint downwards

↑ denotes increase in slope/re-centering of midpoint upwards

Blue shaded rows represent easing while red shaded represent tightening move

\* denotes offcycle moves

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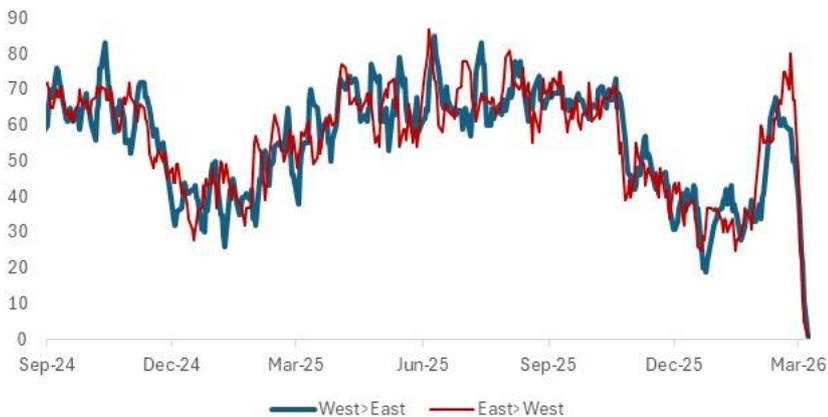
## Elevated oil prices amid escalation in geopolitical tensions

Against this backdrop, the recent surge in oil prices amid escalating geopolitical tensions involving Iran has reintroduced the risk of renewed imported inflation pressures for Singapore. Oil prices have been highly reactive to geopolitical headlines. Brent briefly came close to US\$120/bbl on 9 March, before retracing following comments from US President Donald Trump and some signs that supply disruptions may not be immediate (situation remains fluid at point of writing). Even so, prices remain well above pre-conflict levels around the US\$70/bbl range, suggesting that a geopolitical risk premium remains embedded in energy markets.

The trajectory of oil prices from here will depend largely on how the conflict evolves. Key variables include whether shipping through the Strait of Hormuz remains uninterrupted, the possibility of coordinated releases from strategic petroleum reserves, and whether OPEC+ raises production to offset potential supply disruptions. These factors will determine whether the current oil spike proves temporary or evolves into a more persistent energy shock.

## Oil tanker traffic collapsed in the Strait of Hormuz

Hormuz Strait crude oil tankers crossing - 7d rolling

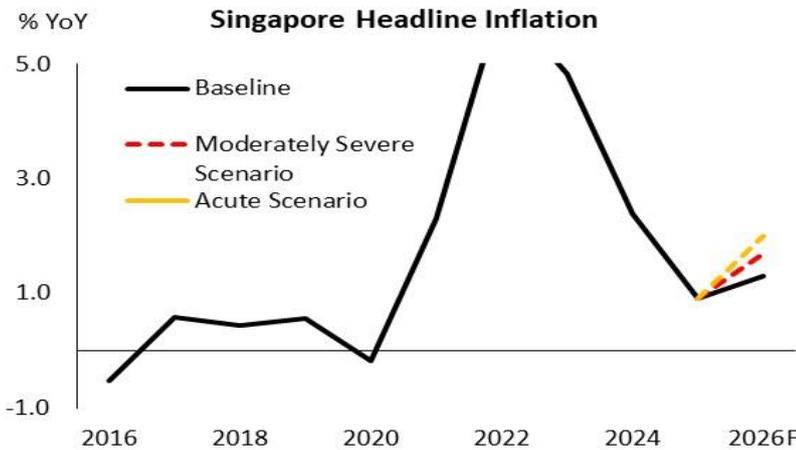


Source: Bloomberg, OCBC Group Research

## Policy implications: Monitoring imported inflation risks

Should oil prices remain elevated through mid-year, the impact on Singapore's inflation trajectory may become more visible. We estimate that if average crude oil prices rise from our baseline US\$63/bbl to around US\$92/bbl, Singapore's 2026 headline inflation could increase from around 1.3% YoY to roughly 1.8% YoY. While this would still fall within MAS' official forecast range of 1–2% YoY for both headline and core inflation, the persistence of such pressures — particularly if they extend into 2027 — could influence policy deliberations.

## Headline CPI projections under different scenarios

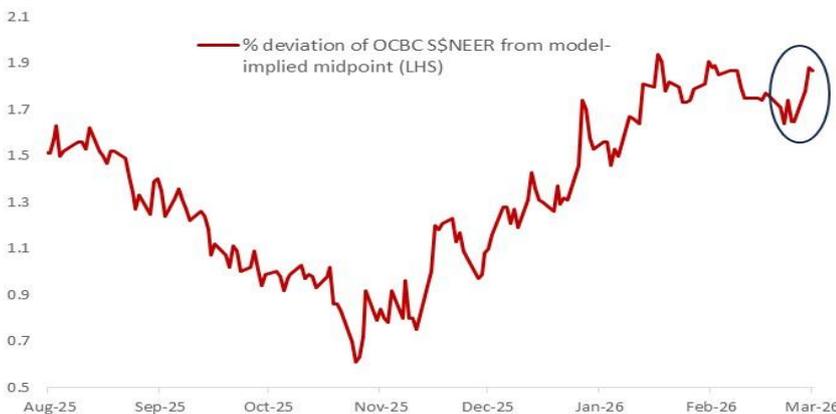


Note: Estimates based on three scenarios (baseline, moderately severe, acute)  
 Source: Singstat, CEIC, OCBC Group Research estimates

At this stage, we opined MAS is unlikely to react prematurely. Policymakers will likely monitor developments closely to assess whether the energy shock proves temporary or persistent. While the April Monetary Policy Statement remains a live meeting, MAS may prefer to observe how geopolitical and energy market dynamics evolve over the coming weeks before deciding on any policy adjustments.

Market pricing has also begun to reflect tentative expectations of a tighter policy stance. Our S\$NEER model shows the deviation of the from its model-implied mid-point widening to about 1.85% currently, from around 1.65% last week. While still within the policy band, the shift may serve as a proxy for growing market expectations that the MAS could turn less patient should imported inflation pressures persist.

## Slight widening in deviation from implied mid



Source: Bloomberg, OCBC Group Research estimates



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