Singapore

25 January 2021

S'pore headline CPI to see mild reflation in 2021

Selena Ling
Head of Research and Strategy
+65 6530 4887
LingSSSelena@ocbc.com

Highlights:

S'pore's headline CPI was flat on-year in December 2020, but rose 0.4% MoM nsa, in line with our expectations. This brought the full year inflection print to -0.2% YoY, which is the first disinflationary reading since 2016, and a sharp contrast to the +0.6% YoY seen in 2019.

Core inflation still declined by 0.3% YoY in December, dragged down by a bigger decline in services costs and lower food inflation, even though it also rose by a muted 0.1% MoM nsa. This decrease was sharper than the -0.1% YoY reading in November. This meant that core inflation also fell by 0.2% YoY for the whole of last year, compared to +1.0% YoY in 2019, and registering the first full-year drop since 2002.

Notably, the segments contributing to modest pricing pressure in December, albeit still at relatively subdued rates, were food (+1.6% YoY), communication (+0.7% YoY), transport (+0.6% YoY, particularly private transport costs, especially car prices), and household durables & services (+0.5% YoY) in December.

For 2021, mild reflationary prints, partly due to the low base in 2020 during the COVID-induced Circuit Breaker period and domestic recessionary conditions, is unlikely to pressure MAS to be in any rush to recalibrate monetary policy from the current zero appreciation slope for the S$NEER. MAS is likely to err on the side of caution, like most other central banks, in view of the economic uncertainties regarding resurgent COVID waves prompting additional lockdowns globally, at least until growth recovery prospects are more stable.

Our 2021 headline and core CPI forecast are for 0.7% and 0.5% YoY respectively. The first positive YoY headline CPI print will likely emerge as early as January 2021 and could come in at +0.1% YoY. The uptick in crude oil prices, with Brent tipped at $60 per barrel by end-2021, is likely supportive of the mild reflation story as the year progresses. Moreover, many of the government subsidies introduced during the 2020 pandemic will likely fade with time, as the 2021 budget is unlikely to see a repeat of many of the emergency measures that emerged last year. Hence there is modest upside risk to headline CPI as compared to the official forecast of -0.5% to 0.5% in our view.

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

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

Co.Reg.no.:193200032W