

October inflation jumped more than expected. More sticker shocks coming?

Selena Ling

Head of Research and Strategy

+65 6530 4887

LingSSSelena@ocbc.com

Highlights:

Headline CPI surged more than expected by 3.2% yoy (0.4% mom nsa) in October, more than the 2.7-2.8% forecast expected by the market and ourselves. This marked the biggest increase since March 2013 and was attributed to stronger private transport (14.3% yoy which is the highest since June 2021), accommodation (with rising rentals), services and food prices in addition to a smaller decline in retail and other goods. This near-perfect inflation storm was credited to both stronger demand conditions in line with the recovery story as well as supply side bottlenecks and mismatches in both the commodity (including electricity and gas) and goods market.

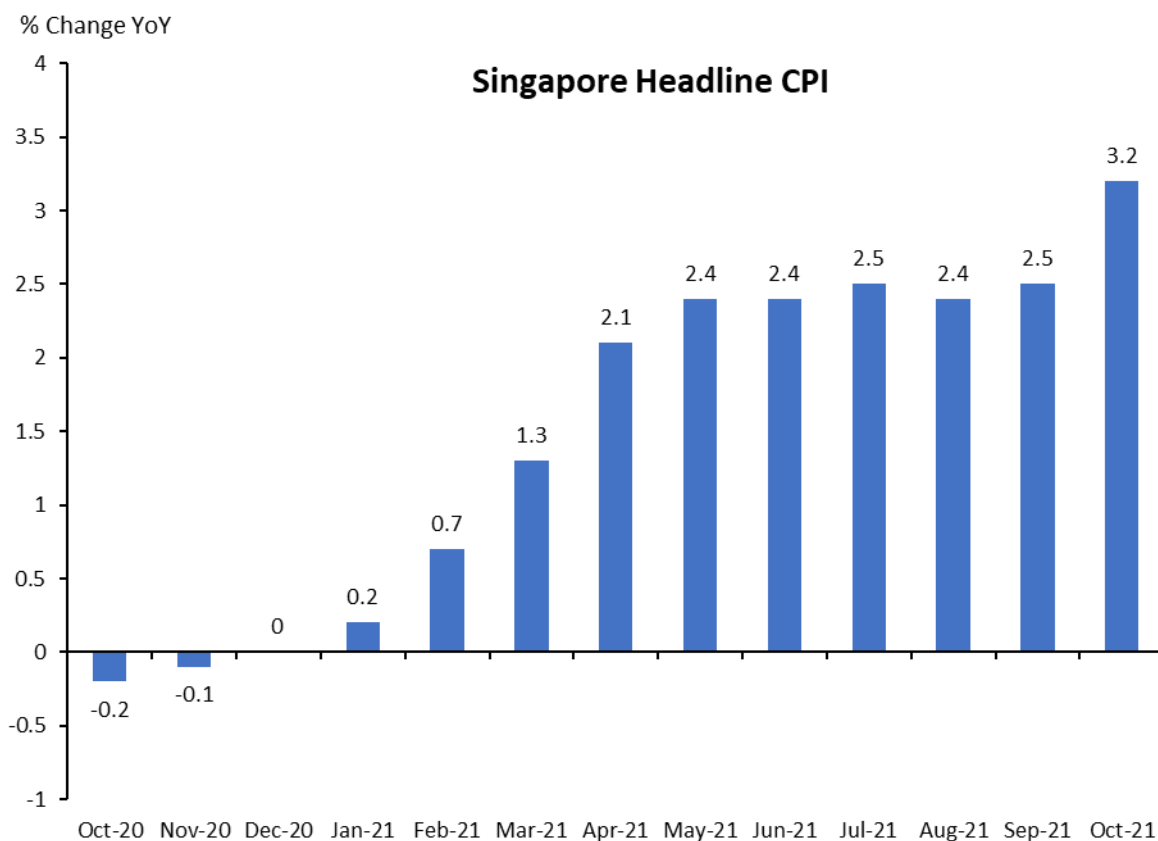
The only silver lining was that the pickup in core inflation was more muted at 1.5% yoy, albeit still the highest since March 2019. Nevertheless, the official rhetoric has shifted to indicating that inflation is likely to persist for some time, and in particular referencing the steady pace of wage increase amid a tightening domestic labour market and the greater pass-through of higher and cumulative business costs to end-consumers as demand improves further. Still, there was no change in the existing MAS forecasts for core CPI to pick up from 0-1% this year to 1-2% yoy in 2022, with headline CPI also to accelerate from 0-1% to 1.5-2.5% yoy accordingly. With the year-to-date headline and core CPI running at 2.0% and 0.7% yoy respectively, it is realistic to expect that the full-year 2021 forecasts would average 2.0% and 0.8% yoy too. Our forecast is for 2022 headline CPI to hold around 2% yoy, but core CPI will likely double to 1.6% due to a powerful combination of rising imported costs, higher manpower costs and fee adjustments in domestic services including education and healthcare amongst others.

On hindsight, MAS' decision to pre-emptively tighten monetary policy settings by steepening the S\$NEER slope from 0% to 1% appreciation per annum appears prescient. With the upside surprise in the October CPI print, a legitimate concern is whether there is a need to frontload the policy tightening, especially since the policy review frequency is twice annually. Even globally, there has been intense market speculation that major central banks like the FOMC may need to step up the pace of recalibration to combat inflationary pressure. While there is a need to be watchful about the inflation overshoot and the potential entrenching of inflationary expectations, there is no need to jump the gun and worry about an inter-meeting MAS move at this juncture as the core CPI print is still within the 1-2% range tipped for 2022. That said, it is likely that the April 2022 monetary policy review is likely to warrant another tightening again.

Singapore

23 November 2021

The key to watch may be the wage inflation which may prove more protracted if worker demands for pay adjustments grow louder amid a broadening of price pressures, and especially if the international borders do not re-open in a prompt fashion.



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**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Herbert Wong***Hong Kong & Macau*herberhtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung*Rates Strategist*FrancesCheung@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate.

This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W