

## Singapore inflation throws tightening into doubt

We forecast a modest and gradual appreciation for the Singapore dollar nominal effective exchange rate (SGD NEER) at the Monetary Authority of Singapore's (MAS') April meeting, but as time goes on, the data support this call less and less



### Inflation fails to move higher

We had been looking for a modest increase in Singapore's December inflation figures, though one that would still leave inflation below 1.0%YoY. In the event, the much more gloomy consensus figure of 0.5%YoY was closer to the mark, though even this proved to be too optimistic, as headline inflation fell to 0.4%YoY. If this has been a downspike in an otherwise upbeat trend, we would be less concerned. In contrast, this latest data reinforce what has been a very persistent weak inflation backdrop, and one which comes against only modest growth in the domestic economy.

Within the data, there are few elements that jump out as aberrations that may revert to a stronger path in the near future. Though the drop in clothing and communications equipment may be a sign of strong discounting during the holiday period and could revert to higher levels in 1Q18.

0.4%YoY

December 2017 Headline CPI  
inflation

Down from 0.6% in November

Worse than expected

## Can MAS tighten if inflation remains soggy and domestic economy soft?

Why this leaves us feeling awkward is that by now, we had hoped that the conditions for a modest and gradual appreciation of the SGD NEER would be apparent. They are not. Though we can't quite bring ourselves to jettison what looks to us to be a very marginal call for some tighter policy at the April MAS meeting.

Core inflation also remains weak at 1.3%YoY, though it is within the MAS' 1-2% forecast range, so as long as it stays there, one could argue that the forecast is still on track. And the MAS also did not expect a notable pick up in the domestic economy either, so that arguably is also still on track, though hardly compelling for our forecast of policy.

In the end, the only remaining justification for our forecast of a change in the MAS stance is for them to close the normalization gap currently being opened by the Fed's cautious hikes, and perhaps as a hedge against a reversal in the fortunes of the USD. Because whilst the USD remains weak, there are few reasons for any Asian central banks to undermine their domestic economy's and tighten monetary policy.

1.3%YoY

December 2017 MAS core  
inflation measure

Down from 1.5% in November

Worse than expected

### Author

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.