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

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