

Singapore: Administrative boost to inflation

There is nothing much that monetary policy can do about supply-side inflation shocks. We believe that the Monetary Authority of Singapore will see through the rising inflation trend and maintain a neutral policy stance throughout this year



Source: Shutterstock

0.7%

February CPI inflation

Year-on-year

Higher than expected

Upward inflation trend kicks in

February CPI inflation surprised on the upside. The headline inflation rate came in at 0.7% year-on-year with the core rate at 0.2% in the last month, both a tick higher than the consensus estimates and up sharply from 0.2% and -0.2%, respectively, in January. These are the highest inflation

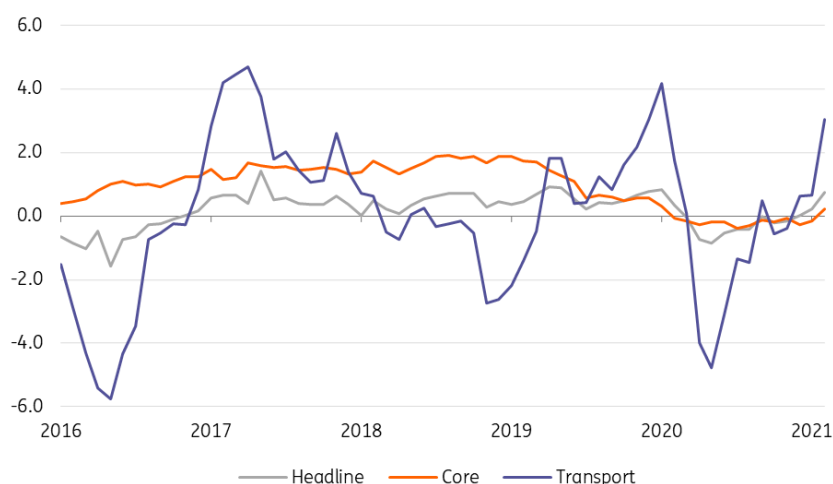
readings in more than a year.

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As expected, it was mostly about the 21% hike in the petrol duty announced in the FY2021 Budget and implemented instantly. Obviously, the impact of this was felt in the transport component of inflation, which at 3.1% YoY was the highest in a year and up sharply from 0.7% in January. The transport inflation swings are typical disturbances in an otherwise orderly relationship between headline and core inflation. This is because the core measure strips out the private road transport subcomponent of the transport component from the headline measure.

Among other components, food and education ticked up, while clothing, housing and healthcare remained in negative territory.

CPI Inflation (% YoY)



Source: CEIC, ING Bank

Where from here? - Up further

The impact of the petrol duty hike should fade over the coming months as the government aims to offset it against the road tax rebates for one year. Even so, base effects will continue to pressure inflation higher in the months ahead. We now see the headline inflation rate rising above 1% in March and staying there through the rest of the year. The core inflation rate should follow behind.

No prizes for guessing that the current official inflation view for this year – headline between -0.5% and +0.5% and core between 0% to 1% – is in for an upward revision. We anticipate a full one percentage point upward push to headline inflation and a half percentage point hike in the core inflation forecasts. The revised forecast will likely be unveiled in early April.

What this means for policy?

We believe the Monetary Authority of Singapore (MAS) will see through the technicals of the base effects behind the rising inflation and continue to focus on supporting growth as the latter could come under pressure from different waves and variants of Covid-19 that have been raging globally.

Like most other Asian central banks, MAS is dealing with an implied monetary tightening brought on by higher US Treasury yields driving up domestic bond yields. And the strong US dollar is exerting weakening pressure on the Singapore dollar. Despite this, the S\$-NEER has been steady near the mid-point of the MAS's policy band, which suggests that markets aren't pricing in any change to the policy just yet. We expect a neutral policy with a target of zero S\$-NEER appreciation to remain in force throughout this year. The next half-yearly MAS policy statement is scheduled for April.

That said, we are looking at our end-2021 USD/SGD forecast of 1.30 for a possible upward revision in view of the recent selloff.