

Singapore Watch

Dec core inflation surprisingly strong; Apr MAS meeting “live”

Dec core inflation topped expectations at 3.3%

Core inflation surprisingly edged up by 10bbp to 3.3% yoy in Dec, above ours (2.9%), Consensus (3%) and MAS’s expectations from one month ago (upper end of 2.5-3%). Headline inflation was up by 20bp to 3.7%. Sequentially, core inflation jumped by 0.65% mom, above that of Dec-22 (0.56%). Components that saw notable increases include travel-related components (4-6%), admin-related prices (overall bus & train fares up by 2% and point-to-point transport up by 3.7% after taxi fares were raised from mid-Dec), as well as discretionary spending components such as food servicing services and household durables. These more than offset declines in raw food (-0.4%) and communication (-0.2%).

Official outlook hints at higher core inflation trajectory...

MAS now likely sees core inflation in 2024 higher within their 2.5-3.5% forecast range. Back in Oct ’23, it probably saw core inflation at 2.8%, based on our inference from the published chart in the semiannual Macroeconomic Review. In the latest Outlook, MAS expects core inflation to “resume a gradual moderating trend over the rest of the year”, a subtle change from last month, when it anticipated a “broad” moderating trend.

...and balance of risks more tilted to the upside

As before, MAS described upside risks before downside. MAS added an additional source of upside risk from shipping costs. At the same time, MAS dialed down the language with respect to any slowdown in the global economy – describing the possibility as “an unexpected weakening” vs. “sharper-than-projected downturn” previously. This also hints to possibly more balanced outlook on the global economy than before, which may be reflected in the upcoming Jan MPS.

Official headline forecast inflation to be lowered?

The Outlook mentioned that the forecast range for headline inflation will be updated on 29th Jan MPS, following the decline in COE prices. This is not a surprise to us. We have raised this possibility since Nov (see our [Oct CPI](#)), and have explained that this is almost driven by supply-side policy measures and thus will have limited bearing on monetary policy.

MAS to sound hawkish in Jan; Apr meeting likely “live”

Risk of to our core inflation forecast of 2.9% for 2024 are to the upside, given the higher starting point after today’s CPI report. The report also reaffirms our view that policy tone will likely sound hawkish in Jan ([Singapore Watch: MAS Preview: Guarding against inflation risks](#)). We don’t expect MAS to change policy settings in Jan and for the rest of the year as yet. However, given MAS’s pre-emptive stance and with effects of past policy tightening fading, the Apr meeting could well be “live”, with risk of a 50bp slope steepening even higher than we thought before. MAS will likely be waiting for Feb core inflation print, whereby (a) (any) second round effects from higher admin prices and GST hike will likely be clearer, and (b) moving holiday effects due to the Lunar New Year are less distortive (vs. Jan print).

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Glossary:

COE: Certificate of Entitlement

MAS: Monetary Authority of Singapore

MPS: Monetary Policy Statement

GST: Goods & Services Tax

yoy: year-on-year

mom: month-on-month

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