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Singapore inflation surprises lower, but upside risks keep MAS on tightening watch

Singapore inflation picked up in July but remained below expectations. With further utility tariff increases ahead, elevated oil prices, and potential weather-related effects on food prices, upside inflation risks remain intact, keeping the October Monetary Authority of Singapore meeting live for another modest policy tightening

We believe risks to the inflation outlook in Singapore remain skewed to the upside

Inflation picks up, but remains driven by energy-related costs

Singapore's CPI inflation edged up to 2.2% YoY in July from 1.9% in June but came in below market expectations of 2.4%. Core inflation accelerated more sharply, rising to 2.0% YoY from 1.6%, though it also undershot the consensus forecast of 2.2%. Despite the firmer year-on-year readings, underlying price momentum softened, with headline CPI declining 0.2% MoM.

The increase in headline inflation was driven largely by housing and utilities, where inflation accelerated to 1.3% YoY from 0.3% previously. Within this category, electricity prices rose 9% YoY while gas prices increased 6% YoY, reflecting the pass-through of higher energy costs. The pickup in core inflation also suggests that elevated oil prices continue to feed through to a broader range of items, particularly food and airfares. Meanwhile, accommodation inflation rose to 0.8% YoY from 0.6%, reflecting higher rents and maintenance fees.

Upside inflation risks keep October MAS meeting live

Looking ahead, we believe risks to the inflation outlook remain skewed to the upside and expect core inflation to accelerate further in the coming months. First, ongoing uncertainty surrounding the US-Iran conflict is likely to keep global energy prices elevated, raising the risk of further pass-through into domestic goods and services prices. In addition, households in Singapore are facing a 17% increase in electricity tariffs between July and September, while town gas tariffs have risen by 7.1%. While part of this adjustment has already been reflected in July's data, the remaining pass-through is likely to support inflation over the next few months.

Second, the growing risk of El Niño could push up imported food costs, adding to inflationary pressures given Singapore's heavy reliance on food imports. Third, Singapore continues to benefit from robust AI-related investment and data centre activity, which could sustain domestic demand and contribute to upward pressure on services inflation.

In July, the MAS surprised markets by increasing the slope of the SGD NEER policy band "very slightly", signalling greater concern about inflation risks than investors had anticipated. While July's inflation data undershot consensus expectations, the continued acceleration in both headline and core inflation, coupled with persistent upside risks from energy, food and domestic demand, suggests the MAS may not be done tightening. As such, we believe the October policy meeting remains live and cannot rule out further modest policy tightening.

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