

Singapore: May CPI Held Steady at 7.5% y/y, Unchanged from April

Singapore's CPI held steady at 7.5% y/y in May (Mkt: 7.8% y/y, UOB: 7.8% y/y), holding steady from April. Food prices contributed 2% points to May CPI, advancing 9% y/y, due to higher rice, dairy, vegetable, seafood and cooking oil prices. Transport prices also rose 6% y/y, due to the higher petrol pump prices as well as taxi fares and car prices. Accommodation costs continued to contribute the lion's share of inflation, adding 2.5% points to May CPI. Housing costs climbed 12.4% y/y in May, accelerating from the 11.8% y/y advance in April, on soaring electricity tariffs and rentals. On a s/adj basis, May CPI rose 0.2% m/m (UOB: 0.5% m/m), moderating from the 0.9% m/m increase in April.

Excluding accommodation costs, May CPI came in at 6.7% y/y, a slight pick-up from the 6.4% y/y in April. This suggests a high level of second round effects from rising raw materials prices. We expect inflation to peak in June, before moderating to an average of 5% y/y in 2H08 due to basis effect. Inflation remains skewed to the upside in June, with medium risk of CPI peaking near 8% y/y in that month, as housing costs, food prices and fuel prices remain high in June. There could also be some price effect from Malaysia's recent fuel price hikes, which could raise the prices of some imported goods from across the Causeway.

Our annual inflation forecast remains at 6% y/y for 2008, which adheres to the upper end of the MTI's 5-6% y/y full-year inflation forecast. We think that with export growth poised to slow in the coming quarters, the MAS would prefer to remain on hold during its Oct 08 monetary policy meeting, at least until the effects of the last two rounds of monetary tightening (in April 08 and Oct 07) work through the system.