

## Inflation reaches multi-decade high

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Inflation surged to 6.6% in annual terms in January 2008 - the highest rate since March 1982. This was much higher than market expectations of 5.6%. The spike was due largely to the jump in housing CPI of 11%. This in turn was due to a revision to the annual assessed value of public housing, which was last reviewed in 2004. Utilities' costs also accelerated. In addition, festive purchases in the run-up to Chinese New Year kept food prices elevated.

Inflation has gained momentum, with consumer prices rising by an average annual rate of 3.9% from July 2007 to January 2008, in contrast to 0.6% for the corresponding months of the previous period. The impact of the GST hike from 5% to 7% from July 2007 will still be evident in inflation numbers in coming months, along with the housing impact and high energy costs. As a result, we are likely to see inflation remain at an above-average level until key one-off factors wear off starting in the second half of the year. In addition, commodity prices (both energy and food costs) are likely to ease in response to a slowdown in global growth. World GDP growth is forecast to soften to 3½% this year after expanding by around 4¾% in 2007. ANZ has lowered its real GDP growth forecast for Singapore to 4% in 2008 – below its 15-year average of 6.6%. Annual inflation for Singapore is expected to average 5% in 2008. It is forecast to recede to 2.6% in 2009, but is expected to remain above its 15-year average of 1.2%.

The persistence of low domestic interest rates in Singapore in the face of accelerating inflation has surprised some observers, but it is important to remember that the exchange rate is the key tool for monetary policy settings. Upside risks to inflation have kept the Singapore dollar on a stronger appreciation track against the US dollar since late last year. In its October 2007 statement, the Monetary Authority of Singapore continued with its policy of a gradual appreciation of the S\$ NEER policy band but the slope of the band was increased slightly, effectively allowing for a stronger appreciation of the Singapore dollar.

We do not expect the MAS to react strongly to the most recent inflation data. Price stability is the key objective, but maintaining export competitiveness is also an important consideration. Given the current climate of a slowdown in global growth and the threat of US recession, and the expectation of an easing in inflation in H2 2008, the MAS is likely to hold off from adopting a more aggressive exchange rate policy and maintain its stance adopted in October. Our forecast is for the USD/SGD exchange rate to reach 1.38 by end-2008, representing a 4¼% appreciation since end-2007.

## Singapore: macroeconomic and currency forecasts

	2006	2007	2008f	2009f
Real GDP growth (% ch)	7.9	7.7	4.0	5.0
Inflation (% , yr avg)	1.0	2.1	5.0	2.6
Fiscal Balance* (% GDP)	0.0	2.7	-0.3	0.1
Current account (% GDP)	21.8	24.3	22	24
International reserves (US\$ bn)	136.2	162	178	205
Currency Forecasts (end-period)	Jun 08	Sep 08	Dec 08	Mar 09
USD/SGD <sup>+</sup>	1.40	1.39	1.38	1.388
AUD/SGD	1.32	1.28	1.24	1.21
JPY100/SGD	1.30	1.31	1.33	1.32
EUR/SGD	2.10	2.03	1.96	1.91
SGD/CNY	4.82	4.79	4.85	4.89

\*: Fiscal year beginning April

Source: Economics@ANZ

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