Inflation Picked Up Slightly
Mirroring developments on the external front, Singapore’s CPI All-Items inflation turned positive in November 2016, after registering 24 months of negative readings, reflecting the pickup in global commodity markets and the diminishing impact of budgetary and other one-off measures. For the year as a whole, CPI-All Items inflation was −0.5%, unchanged from 2015, while MAS Core Inflation, which excludes the cost of accommodation and private road transport, rose gradually over the course of 2016, to come in at an average of 0.9%, compared to 0.5% in 2015. These inflation outcomes were in line with projections made at the time of the April 2016 Monetary Policy Statement.

CPI All-Items inflation rose further to 0.6% in Q1 2017, compared to 0.0% in the previous quarter, while MAS Core Inflation edged up to 1.3% from 1.2%. The pickup in inflation largely reflected the higher prices of oil-related items, as global oil prices rose from their 2016 trough, while domestic sources of inflation remained fairly muted. Overall, the inflationary environment will continue to be relatively steady with MAS Core Inflation projected at 1–2% and CPI-All Items inflation at 0.5–1.5% for the whole of 2017. The projected pickup in inflation from last year will largely reflect the contribution of energy-related components and the impact of administrative price increases, rather than generalised demand-induced price pressures.

Global Policy Uncertainty Presents Financial Risks
Global financial markets were resilient in the face of economic and financial uncertainties in China and unexpected political events in the US and Europe in 2016. While a number of Asian currencies came under pressure amid uncertainty over Asia’s trade and growth prospects and expectations of faster-than-expected US interest rate hikes, capital outflow from Asia and corresponding pressure on Asian currencies has since eased.

Looking ahead, anti-globalisation sentiment could heighten global political risk. Furthermore, potential shifts towards more protectionist policies, and diverging monetary policies among the advanced economies, could portend weaker global growth and greater market volatility. These, coupled with the US rate normalisation, could exert pressure on debt servicing capacities of some corporates and households in Asia, including Singapore.

MONETARY POLICY
The formulation of monetary policy was guided by MAS’ analysis of the medium-term optimal path for the exchange rate. There were two key considerations. First, the assessment of wage-inflation dynamics and the projected output gap for the economy suggested that the generally low and stable inflation environment could persist. Second, MAS’ model simulations showed that the cumulative effects of the measured easing moves since January 2015 would continue to provide some support to GDP growth.