



Downtrend Sustained for the Seventh Consecutive Month

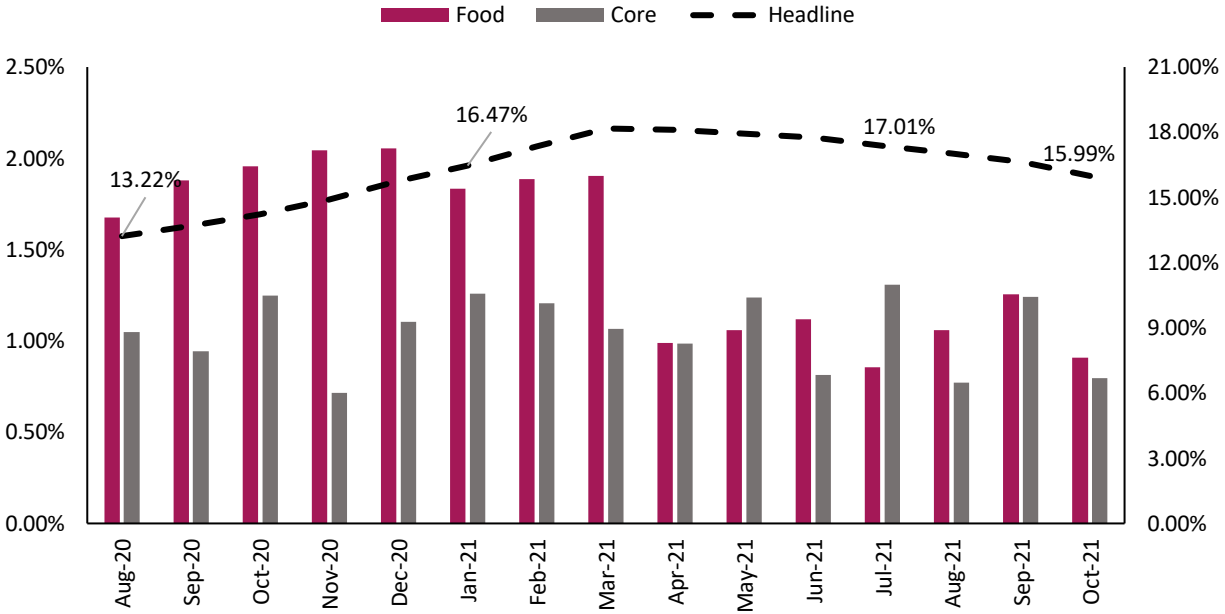
Headline inflation softened further in October to 15.99% YoY from 16.63% YoY in September, representing the seventh consecutive monthly decline since April 2021. The slower pace of growth in prices is majorly due to a softer 18.30% YoY (19.60% in September) rise in the food index as the full effect of the harvest season set in. Core inflation also grew at a slower pace at 13.24% YoY in October (13.74% in September) despite sharper price increases in 9 of 11 sub-components of the index especially in HWEGF (+0.12% YoY), Clothing and Footwear (+0.17% YoY), and Transport (+0.07% YoY) which accounts for 60.20% of the index.

A month-on-month analysis reveals a similar picture as headline inflation declined 17bps to 0.98% in October due to a 35bps decline in food inflation to 0.91% although imported food inflation remained constant at 1.36%. The core index also eased by 45bps to 0.80% in October, further supporting the downtrend in headline inflation.

The slower growth in food inflation reflects the effect of increased supply from full-blown harvest season in October on price growth and this should continue to ease pressures on the food basket in 2021. While the driving forces for the core index remain unclear, we expect the index to remain range-bound in the meantime, should the stability in the FX market be sustained. On a YoY basis, we expect the base effect from 2020 to keep headline inflation on a downtrend in 2021. However, month-on-month numbers would likely reflect festive-induced demand and travels on prices as we approach the end of the year.

On the market front, negative real yields persist as yields continue to decline faster than the pace of moderation in inflation, no thanks to elevated system liquidity. We expect that the monetary policy committee would leverage moderating inflation to maintain its current dovish stance as Q3 GDP numbers are expected to reflect sustained recovery in economic growth.

Figure 1: One-year trend in Food, Core and Headline inflation (%)



Source: NBS, ARM Research.

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