Macro + FX Strategy

Singapore: MAS Tightening Cycle Is Over, Status Quo For Oct

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- MAS Apr 2023 MPS – The Monetary Authority of Singapore (MAS), in its scheduled monetary policy statement (MPS) release on Fri (14 Apr), announced it was maintaining the prevailing rate of appreciation of the S$NEER policy band, with no change to the width of the policy band and the level at which the policy mid-point is centred. This is the first time MAS has kept policy unchanged after five preceding rounds of policy tightening since Oct 2021.

- MAS Inflation & Growth Assessment – The MAS provided a downbeat assessment for growth as it noted "*Singapore's GDP growth is projected to moderate significantly this year, in line with the global goods and investment cycle downturn*." The MAS projects Singapore's GDP to ease below trend growth to 0.5%-2.5% (from 3.6% in 2022) and the output gap to turn slightly negative in 2023 with risks to global and Singapore's growth tilted to the downside. The MAS kept its inflation forecasts (that were first made in the 14 Oct 2022 MPS) unchanged in today's Apr statement. The two notable differences this time is that the MAS explicitly stated "MAS Core Inflation is projected to reach around 2.5% y-o-y by the end of 2023" and it sees both upside and downside risks to inflation.

- Singapore's preliminary 1Q23 GDP came in at just 0.1% y/y from 2.1% growth in 4Q22, the weakest since the post-pandemic recovery. On a seasonally adjusted basis, 1Q23 GDP contracted by 0.7% q/q, from +0.1% q/q in 4Q22. Growth in 1Q was dragged by the manufacturing sector while services and construction activity supported GDP. Trade-related sectors were negatively impacted during 1Q. The weaker 1Q growth outcome affirms our cautious growth outlook for Singapore this year. We still expect full year GDP growth at 0.7% in 2023 (versus the official growth forecast range of 0.5-2.5%). We think there is a substantial risk that Singapore may enter into a technical recession in 1H 2023.

- MAS Outlook – Tightening Cycle Is Over, Status Quo For Oct: Overall, the MAS took the prudent approach and kept policy unchanged in Apr. We now expect the current tightening cycle to have ended and the MAS to maintain this pause in the next Oct meeting. If there is another off-cycle announcement before Oct, we think it will likely be due to a sudden worsening in external conditions leading to a sharp downgrade in growth outlook, so the MAS will likely shift to a more accommodative policy rather than further tightening in its next move, but that is not our base case to expect an off-cycle policy announcement for now.

- FX Strategy – End of MAS Tightening Cycle Means SGD Outperformance May Gradually Fade: We note that the S$NEER has rallied strongly in this tightening cycle, from about 126.6 in Oct 2021 to about 136.0 in early Apr. The strong outperformance of the SGD has seen it appreciate against almost all of its trading peers (except CHF) since Oct 2021, with gains ranging from 1.7% (vs USD) to as much as 15.4% (vs JPY). Now that we expect the MAS tightening cycle has effectively ended after today's decision, the current pace of S$NEER appreciation will likely abate.

MAS Pauses in Apr After Five Preceding Rounds Of Tightening

The Monetary Authority of Singapore (MAS) which has its monetary policy based on its exchange rate, in its scheduled monetary policy statement (MPS) release on Fri (14 Apr) announced it was maintaining the prevailing rate of appreciation of the S$NEER policy band, with no change to the width of the policy band and the level at which the policy mid-point is centred. This is the first time MAS has kept policy unchanged after five preceding rounds of policy tightening since Oct 2021.

Summary Table For MAS Meeting Decisions (Since 2019)

Source: MAS MPS Statements, UOB Global Economics & Markets Research Estimates

Date	Slope (%)	Width of Trading Band	Slope Decision	Policy Mid-Point Decision	Width Decision
12-Apr-19	1.0%	+/- 2.0%	No Change	No Change	No Change
14-Oct-19	0.5%	+/- 2.0%	Reduce Slightly	No Change	No Change
30-Mar-20	0.0%	+/- 2.0%	Flatten To Zero	Recentre Lower at Prevailing S$NEER	No Change
14-Oct-20	0.0%	+/- 2.0%	No Change	No Change	No Change
14-Apr-21	0.0%	+/- 2.0%	No Change	No Change	No Change
14-Oct-21	0.5%	+/- 2.0%	Steepen Slightly	No Change	No Change
25-Jan-22 (off-cycle)	1.0%	+/- 2.0%	Steepen Slightly	No Change	No Change
14-Apr-22	1.5%	+/- 2.0%	Steepen Slightly	Recentre Higher at Prevailing S$NEER	No Change
14-Jul-22 (off-cycle)	1.5%	+/- 2.0%	No Change	Recentre Higher at Prevailing S$NEER	No Change
14-Oct-22	1.5%	+/- 2.0%	No Change	Recentre Higher at Prevailing S$NEER	No Change
14-Apr-23	1.5%	+/- 2.0%	No Change	No Change	No Change

The monetary policy decision was considered a close call as markets' expectations were overall bias towards tightening, and so the "pause" decision still came as a surprise and our UOB S$NEER model saw an immediate relief of appreciation pressure of the index, from +1.0% above the estimated policy mid-point prior to the announcement, it was down noticeably to just about +0.76% above mid-point, after the announcement.

MAS Was Very Downbeat On Growth Outlook in Apr Statement…

In the accompanying monetary policy statement, the MAS provided a downbeat assessment for growth while seeing both upside and downside risks to inflation.

The MAS noted "*Singapore's GDP growth is projected to moderate significantly this year, in line with the global goods and investment cycle downturn.*"

And while it was heartened by global economic activity being "*somewhat more resilient than expected in Q1 2023*", it warned that the "*global electronics* *industry…is in a sharp downturn*" and that the "*drag on global investment and manufacturing from tighter financial conditions will intensify in the quarters ahead*" while the "*boost to demand in most of the regional economies from their reopening last year will also fade over 2023*" and lower spillover benefits from China's rebound which the MAS sees as "*largely be consumption-driven and oriented towards domestic services.*" It also projected "*growth in Singapore's major trading partners will be slower in 2023*" below the pace recorded in 2021 and 2022.

Overall, it was a **very dim assessment for Singapore's growth prospects in 2023 by the MAS** with further decline in trade-related cluster, subdued activity in modern services while higher inflation and interest rates will restrain spending and moderate the expansion of Singapore's domestic oriented sectors. The MAS projects Singapore's GDP to ease below trend growth to 0.5%-2.5% (from 3.6% in 2022) and the output gap to turn slightly negative in 2023. **Risks to global and Singapore's growth are tilted to the downside in MAS' view** noting that the "*impact of tighter monetary policy in the advanced economies could be amplified by fragilities in the financial system, further restraining credit growth and dampening confidence.*"

… But Less So For Inflation Outlook With Light Seen At End Of Tunnel

As for the inflation outlook, while the MAS maintained its view that "*MAS Core Inflation will stay elevated in the next few months, as accumulated business costs continue to feed through to consumer prices*", the central bank also expected core inflation "*to* ***slow more discernibly in the second half of this year.***"

Notably, **the MAS kept its inflation forecasts (that were first made in the 14 Oct 2022 monetary policy statement) unchanged in today's Apr statement**. The MAS expects that in 2023 as a whole, after taking into account all factors including the GST increase, core inflation will be at 3.5-4.5% on average over the year, and CPI-All Items inflation at 5.5-6.5%. Even after excluding the one-off effects of the GST increase early next year, core inflation would be at 2.5-3.5% and headline inflation at 4.5-5.5%. That said, there are two important differences this time.

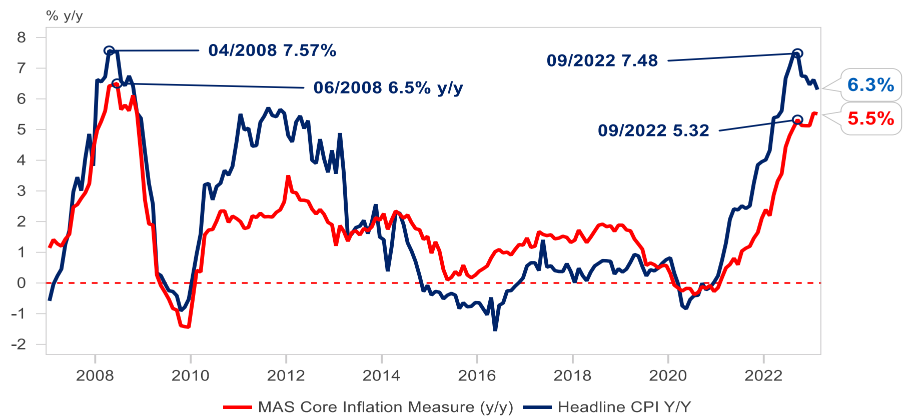
First, the MAS now expects explicitly that "MAS Core Inflation is projected to reach around 2.5% y-o-y by the end of 2023." Previously, no point estimate was given. And it noted that core inflation would be even lower, and closer to the historical average if the GST increase is excluded.

Second, **the MAS now sees both upside and downside risks to inflation,** (versus just upside risks previously). It cited "fresh shocks to global commodity prices" as the upside inflation risk, while the downside risk could be from "*a sharper-than-expected downturn in the advanced economies could induce a general easing of inflationary pressures.*"

Our Inflation Outlook – We too are keeping our 2023 forecasts unchanged, for headline inflation to average 5.0% and core inflation to average 4.0% in 2023. Excluding the 2023 GST impact, we expect headline inflation to average 4.0% and core inflation to average 3.0% in 2023, both still above the "standard" 2% objective.

Headline & Core CPI Inflation Converged Further In Feb, With Core At 14-Year High

Source: Macrobond, UOB Global Economics & Markets Research



Growth Came In At A Weak 0.1% y/y For 1Q 2023; We See Risk Of A Technical Recession In 1H 2023, Our 0.7% Growth Outlook For 2023 At The Weaker End Of Official Range Remains Unchanged

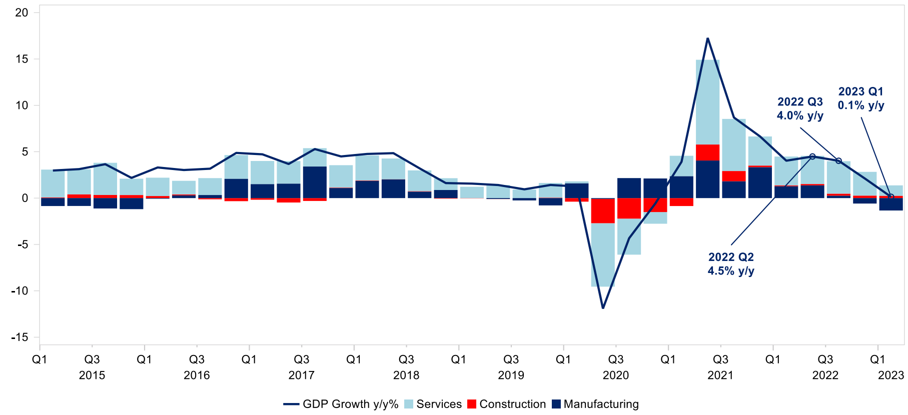
In a separate news release by the Ministry of Trade and Industry, Singapore's preliminary 1Q23 GDP growth came in at just 0.1% y/y from 2.1% growth in 4Q22, the weakest since the post-pandemic recovery. It was well missing Bloomberg poll of 0.6% y/y but much better than our forecast for a 0.6% y/y contraction. On a seasonally adjusted basis, 1Q23 GDP contracted by 0.7% q/q, from a growth of 0.1% q/q in 4Q22.

Growth in the first three months were dragged by the manufacturing sector which contracted by -4.1% q/q, -6.0% y/y in 1Q (from +1.0% q/q, -2.6% y/y in 4Q) while services sector anchored the first quarter with a 0.3% q/q, 1.8% y/y gain (compared to -0.2% q/q, 4.0% y/y in 4Q22). Construction sector also added to growth with a 1.8% q/q, 8.5% y/y expansion in 1Q (from 1.4% q/q, 10.0% in 4Q22), with both private and public sector construction adding to output during the first three months of 2023, but the value-added of the sector remained 21.3% below its pre-pandemic (i.e., 1Q 2019) level.

Of note within services is that 1) wholesale & retail trade and transportation & storage sectors contracted by -1.0% q/q, -1.1% y/y in 1Q compared to -1.6% q/q, 2.4% y/y in 4Q22. While the retail trade and transportation & storage sectors expanded in 1Q, the MTI revealed that the wholesale trade sector contracted in tandem with a decline in Singapore's merchandise exports. 2) Even though the information & communications, finance & insurance and professional services sectors grew by 1.9% y/y in 1Q (from the 2.5% in 4Q), all sectors within the group expanded during the quarter except for the finance & insurance sector, which may have been affected by the slowing external environment, in our view.

1Q 2023 GDP Growth At Just 0.1% y/y, The Weakest Since The Post-Pandemic Recovery

Source: Macrobond, UOB Global Economics & Markets Research



Our GDP Growth Outlook – The weaker 1Q growth outcome continues to affirm our cautious growth outlook for Singapore this year. We still expect full year GDP growth at 0.7% in 2023, which is near the lower end of the official growth forecast range of 0.5-2.5%. We think there is a substantial risk that Singapore may enter into a technical recession in 1H 2023 (defined as two consecutive quarters of q/q contractions) and we also see a risk that revisions to 1Q GDP could subsequently show Singapore economy actually contracted on a y/y basis in first quarter. The MTI did not give an update for the official growth forecast and will update it in the 1Q 2023 Economic Survey of Singapore sometime in May 2023.

The 2023 outlook is largely premised on broad moderation in external economies this year and that the US and European economies will likely enter a recession amidst aggressive monetary policy tightening stances among these advanced economies. The negative global banking developments add further uncertainty and downside risk to the external outlook. This will directly impact the manufacturing and external-oriented services sectors (such as wholesale trade, transport and finance & insurance). It is also evident that the worsening electronics downcycle, and increasingly weaker demand from more major export destinations, are weighing negatively on trade outlook and manufacturing demand.

We still expect manufacturing sector to contract by 5.4% in 2023. Cracks in the export outlook also became more pronounced with consecutive, deeper y/y contractions since Aug 2022. We are likely to see a few more months of y/y declines in NODX before improving in the 2H. We expect full year NODX to contract by r5.5% in 2023. In comparison, services could fare better in 2023 as upside factors could come from the continued recovery in leisure and business air travel and inbound tourism, which will benefit in-person services sectors. China's reopening is likely to be positive for these sectors although the effect is not immediately felt in 1Q. We expect retail sales growth at 5.0% for 2023 (from 10.5% in 2022) with upside potential mainly due to China.

Our MAS Outlook – Tightening Cycle Is Over, Status Quo For Oct 2023

While inflation concerns remained in the latest MPS, it was also evident that the growth outlook has been substantially downgraded, enough to call for a pause to the tightening cycle in Apr. That said, it is also too soon to expect monetary policy to reverse part of its restrictive stance given the stickiness of core inflation and wage pressures due to a still tight labour market and the subsequent pass through to domestic inflation as reflected by the uptrend in services inflation.

Overall, the central bank took the prudent approach and kept policy unchanged in Apr. We now expect the current tightening cycle to have ended and the MAS to maintain this pause in the next Oct meeting, with no change to the appreciation slope of the S$NEER policy band (which we estimate at +1.5%), no change to the width of the policy band and the level at which the policy mid-point is centred.

Admittedly, there is a long pause between now and the Oct MPS. If there is another off-cycle announcement during this period, we think it will likely be due to a sudden worsening in external conditions leading to a sharp downgrade in growth outlook. Under those circumstances, any off-cycle measures will likely mean loosening/easing of monetary policy measures. That is not our base case for now.

Please click on the links to access:

i. The MAS Monetary Policy Statement – Apr 2023 released on 14 Apr 2023
ii. Singapore's Advance estimate for 1Q 2023 GDP report released by MTI on 14 Apr 2023

FX Strategy: End of MAS Tightening Cycle Means SGD Outperformance May Gradually Fade

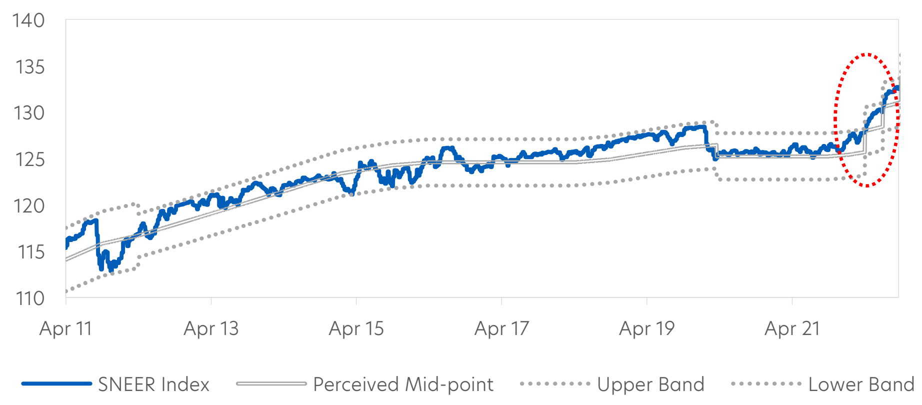
USD/SGD spiked to a high of 1.3276 immediately after the policy decision from about 1.3220 preceding as markets reversed earlier bets for further MAS tightening. In the near term, as markets price in that the aggressive MAS tightening cycle since Oct 2021 has probably ended, we expect USD/SGD to normalize higher especially when the Fed is still expected to hike 25 bps in May FOMC, bolstering the USD. The 1.32 level is poised to be a strong support level in the interim and we maintain our call for USD/SGD to trade at 1.34 by end-2Q23.

Further out, the CNY will likely remain the wildcard for the SGD. Signs of a sustained recovery in the Chinese economy and CNY starting 3Q23 will help underpin a SGD recovery against the USD. We reiterate the view that USD/SGD may weaken anew, to 1.32 in 3Q23, 1.30 in 4Q23 and 1.28 in 1Q24.

Lastly, we note that the S$NEER has rallied strongly in this tightening cycle, from about 126.6 at Oct 2021 to about 136.0 in early Apr. The strong outperformance of the SGD has seen it appreciate against almost all of its trading peers (except CHF) since Oct 2021, with gains ranging from 1.7% (vs USD) to as much 15.4% (vs JPY). Now that we expect the MAS tightening cycle has effectively ended after today's decision, the current pace of S$NEER appreciation will likely abate. Against our ASEAN peers, we have factored into SGD/MYR, SGD/IDR and SGD/THB to consolidate within recent trading ranges for the coming quarters after rising in the past one-and-half year.

Since 2021, the S$NEER Has Rallied Strongly In This Tightening Cycle

Source: Bloomberg, UOB Global Economics & Markets Research



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