

Singapore

Economics Update

MAS monetary policy review

GDP forecasts

	Actual	Forecast	
		CIMB	Cons.*
Real GDP - %yoy	2.6	2.1	2.4

*Bloomberg median consensus

Advance and revised GDP growth

	Adv. 2Q18*	Rev. 2Q18**	Adv. 3Q18*
	%yoy		
1Q18	4.3	4.5	4.6
2Q18	3.8	3.9	4.1
3Q18	-	-	2.6

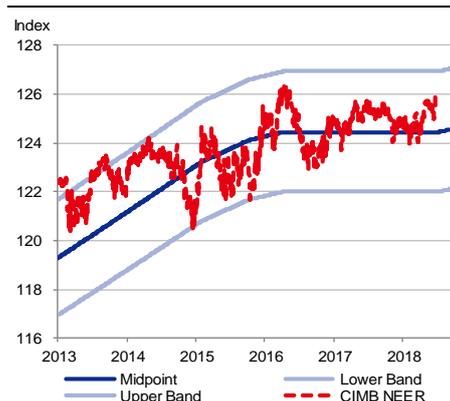
*Advance estimates

**Revised

MAS policy decision

Month	Monetary policy decision		
	Slope	Width	Midpoint
Oct-18	Increase slightly	Unchanged	Unchanged
Apr-18	Increase slightly from 0% appreciation	Unchanged	Unchanged
Oct-17	Maintain 0% appreciation	Unchanged	Unchanged
Apr-17	Maintain 0% appreciation	Unchanged	Unchanged
Oct-16	Maintain 0% appreciation	Unchanged	Unchanged
Apr-16	Decrease to 0% appreciation	Unchanged	Unchanged

S\$NEER trading bands



Economist(s)



Michelle CHIA

T (60) 3 2261 9097

E michelle.chia@cimb.com

Sofea AZAHAR

T (60) 3 2261 9096

E sofea.azahar@cimb.com

- MAS steepened the slope of the S\$NEER slightly, while maintaining the width and centre of the policy band, signaling further tightening of monetary policy.
- The policy decision was underpinned by better-than-expected GDP growth in 3Q18 (+2.6% yoy) and upward revisions in 1H18 (+4.4% yoy vs. +4.2% yoy).
- Growth projections keep core inflation on track to reach 2% in the coming months, which may validate a further strengthening of the S\$NEER.
- Hence we expect a slight bias for tighter monetary settings in Apr, predicated on the materialisation of MAS's positive outlook on growth and core inflation.

MAS steepens S\$NEER slope

The Monetary Authority of Singapore (MAS) increased the slope of the S\$ nominal effective exchange rate (NEER) slightly, while keeping the width and centre of the policy band unchanged, marking a second successive tightening of monetary policy following its Apr review.

Policymakers remain upbeat over growth and inflation prospects

Heading into today's decision, market expectations were split between maintaining the status quo and a tighter stance. We had anticipated an unchanged position given risks to the global outlook arising from the US-China trade dispute. However, MAS was upbeat that Singapore's growth trajectory would keep "output slightly above potential", putting "modest but continuing pressures" on core inflation. Policymakers expect GDP growth to moderate slightly in 2019F from this year's "upper half of the 2.5-3.5% range" estimate, while forecasting core inflation to quicken to 1.5-2.5% in 2019F from 1.5-2.0% in 2018.

Advance estimates underpin MAS's decision to tighten policy

The optimism was not unwarranted as advance GDP estimates indicated that growth slowed less than expected to 2.6% yoy in 3Q18. Sequentially, GDP growth accelerated to 4.7% qoq seasonally adjusted annual rate (SAAR) in 3Q18 (+1.2% qoq SAAR in 2Q18). Moreover, the estimate for 1H18 was also revised higher to 4.4% yoy from 4.2% yoy previously.

Resilient services sector compensates for manufacturing weakness

Sluggish external demand weighed on the manufacturing sector's growth, particularly in electronics following the peak of the tech cycle. Construction activity remained tepid, following property cooling measures announced in Jul and tapering projects in the public sector. Services sector's growth remained steady, driven by finance & insurance, business services, and wholesale & retail trade segments.

Slight bias for further policy tightening in Apr 2019F

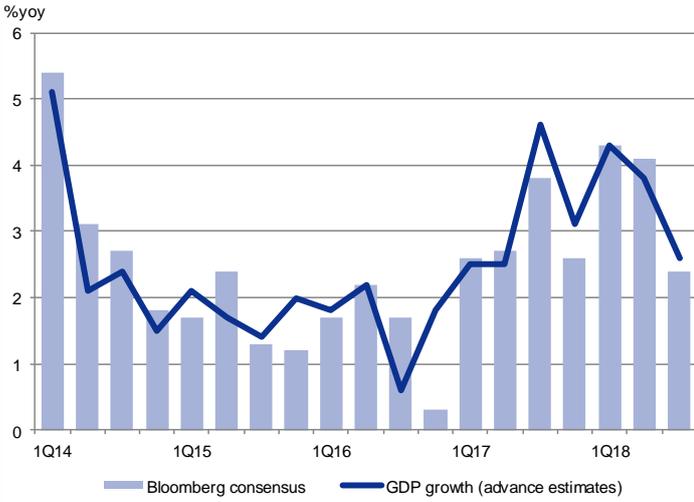
We expect MAS's next move to be data-dependent, and the positive tone struck in the policy statement on the outlook for economic growth and inflation suggests that policymakers retain an appetite for another slight increase in the S\$NEER slope at the Apr 2019 policy review. CIMB Treasury and Markets Research have maintained their mildly positive view of USD/SGD, with forecast of 1.37 by end-2018F and 1.35 by mid-2019F.

Figure 1: Gross Domestic Product (advance estimates)

	4Q17	1Q18	2Q18	3Q18	4Q17	1Q18	2Q18	3Q18
	%yoy				seasonally adjusted annualised %qoq			
Real GDP	3.6	4.6	4.1	2.6	2.1	2.3	1.2	4.7
Manufacturing	4.8	10.8	10.6	4.5	-14.8	26.4	2.9	7.6
Construction	-5.0	-5.1	-4.2	-3.1	-0.2	1.4	-14.5	1.7
Services	3.5	4.0	2.9	2.9	6.3	-1.5	0.7	6.3

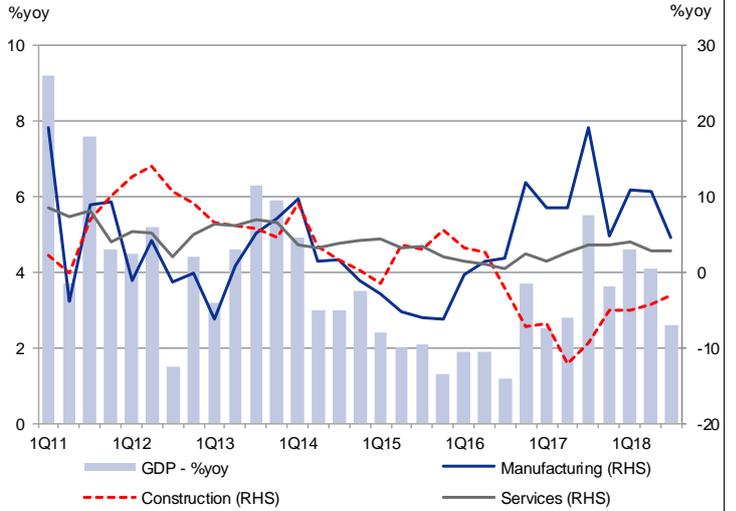
SOURCES: MINISTRY OF TRADE AND INDUSTRY SINGAPORE (MTI), CEIC, CGS-CIMB RESEARCH

Figure 2: Real GDP growth vs. Bloomberg consensus



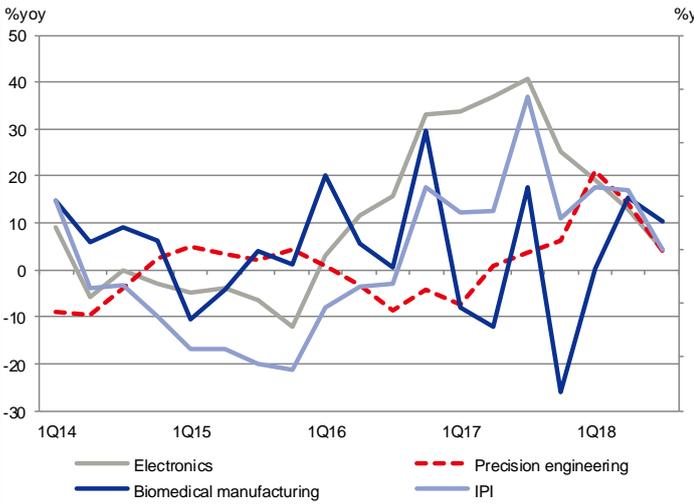
SOURCES: MTI, CEIC, CGS-CIMB RESEARCH

Figure 3: Real GDP growth by economic activity



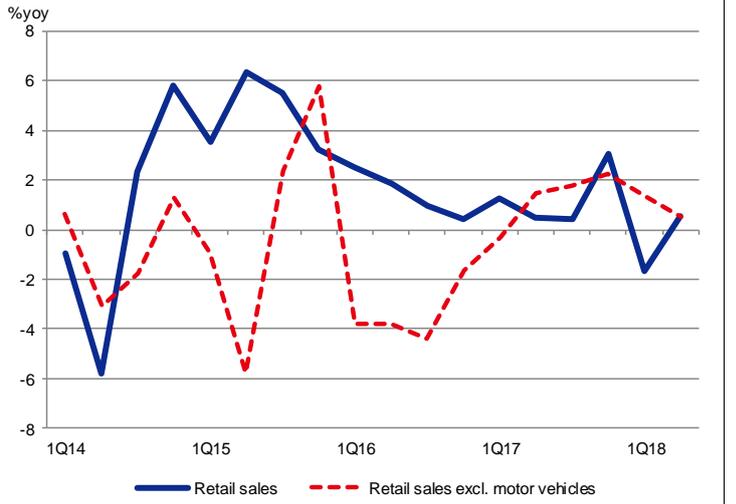
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 4: Industrial production



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 5: Retail sales



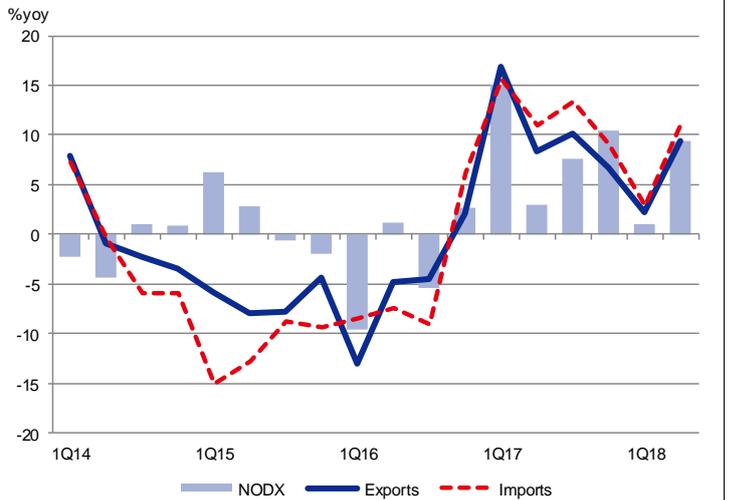
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 6: Headline and core inflation edge up



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 7: External trade



SOURCES: CEIC, CGS-CIMB RESEARCH

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