

Tuesday, October 10, 2017

MAS MPS Preview – Stand pat?

- The MAS Monetary Policy Statement (MPS) is once again upon us and global economic activity is on a more sanguine footing compared to 6 months ago. To boot, note that since the summer, core G7 central banks have shed their excessively accommodative rhetoric and established themselves on a more neutral plane, although Asian central banks have remained relatively reserved in terms of their growth and inflation outlooks by comparison (with Asian curves in general lagging their G10 counterparts).
- On inflation, aggregate measures of price pressures (both global and Asian, headline and core) have troughed but remain essentially stable with little in the way of an abrupt pick up in upward momentum, especially with global crude prices still muted.
- On the domestic front, headline growth numbers are expected to remain supported into 2018 although our simulations indicate little immediate impetus for a distinct and strong positive output gap till 2H 18. On the inflation front, the authorities have noted that conditions in the labor market remain slack and that this is expected to dampen underlying wage growth as well as any pass-through effects.
- Our simulations also portend little in the way of overshooting with respect to expected trend headline and core inflation for 2018, although core numbers are expected to breach the 2.00% handle (but remain well away from the historically sensitive 3% level) in the coming months. While a case can be made for tightening the language of its forward guidance (i.e., removing the clause, “for an extended period”) to anchor inflation expectations, we believe the monetary authority would retain sufficient latitude and flexibility if it deferred this subtle change in posture till the April 2018 MPS.
- **Overall, we expect the MAS to retain its zero-percent trend for the SGD NEER this Friday at its MPS, with the width and the level at which it is centered unchanged.** Behaviorally, the SGD NEER has continued to persist (only) slightly above parity since the April MPS. This has not been on the back of outsized positive growth and inflation headlines but more a consequence of broad-based USD weakness as well as SGD outperformance against the North Asian currencies.

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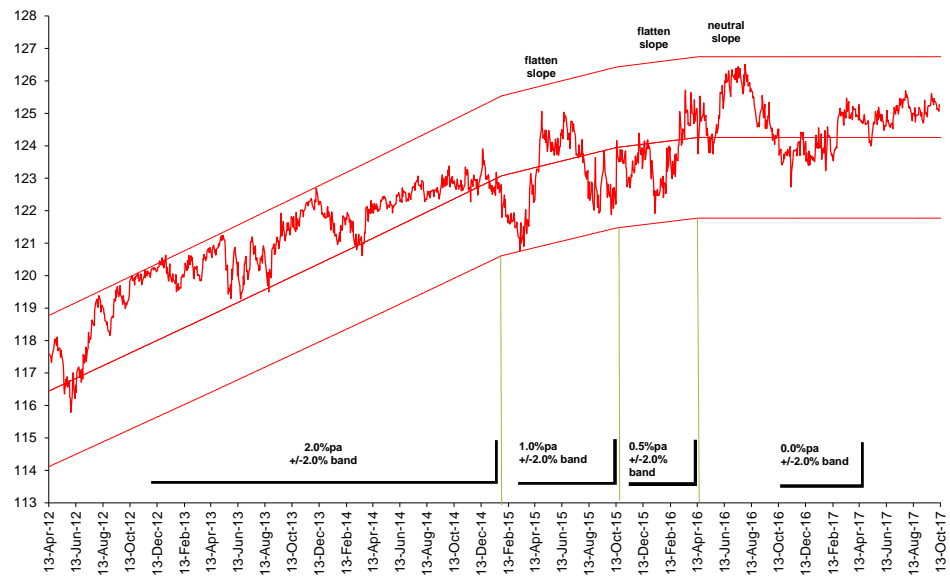
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SGD NEER



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