SINGAPORE: 2018 OUTLOOK

SPORE: REVISED 4Q17 GDP GROWTH AND 2018 OUTLOOK

Wednesday, February 14, 2018

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

Selena Ling
+65 6530-4887
LingSSSelena@ocbc.com

Another upside surprise to 4Q17 GDP growth, thanks to services.

The Singapore economy grew by a revised 3.6% yoy (2.1% qoq saar) in 4Q17, up from initial estimates of 3.1% yoy (2.8% qoq saar). This beat market expectations for 2.9% yoy (2.0% qoq saar) and our forecast of 2.6% yoy (1.7% qoq saar). The upside surprise came from services which saw 4Q17 growth upgraded to 3.5% yoy (6.3% qoq saar), as initial estimates was only 2.5% yoy (2.5% qoq saar) amid healthier activities in finance & insurance (6.3% yoy attributable to fund management and financial intermediation and insurance), information & communications (6.0% yoy due to robust demands for IT solutions), and transportation & storage (5.3% largely driven by water and air transport segments).

Manufacturing moderation is underway; construction still lagging.

Meanwhile, manufacturing momentum slowed further to 4.8% yoy (-14.8% qoq saar), versus initial estimates of 6.2% yoy (-11.5% qoq saar). Construction remained the laggard, but saw the 4Q17 contraction also revised to a smaller -5.0% yoy (-0.2% qoq saar) versus the earlier estimate of -8.5% yoy (-3.6% qoq saar). This meant full-year 2017 GDP growth was also upgraded from 3.5% as estimated earlier to 3.6% yoy, the strongest annual pace since 2014's 3.9% yoy.

Official 2018 growth forecast static but slightly above mid-point.

Looking ahead, MTI said it expects 2018 growth to come slightly above the middle of its 1.5-3.5% forecast range, citing supportive momentum in manufacturing, especially electronics and precision engineering, as well as externally-oriented services such as finance & insurance, transportation & storage and wholesale trade, and broadening growth to domestically-oriented services like retail and food services amid improving labour market and consumer sentiment. Construction, however, is likely to remain lacklustre, and marine & offshore engineering outlook is also still challenging. The risks remain that the external demand outlook is slightly weaker versus 2017, with trade protectionism, upside inflation risks in the US, and financial market volatility potentially impacting regional economies with elevated debt levels disproportionately.

2018 NODX upgrade reinforces improved external demand outlook

Note IE Singapore also upgraded its 2018 NODX growth forecast from 0-2% to 1-3% yoy, citing favourable sector-specific export trends in machinery and chemicals clusters that should sustain into 2018 amid a slight pick-up in global growth prospects, albeit trade growth in some key trading partners like China and Japan and Eurozone could ease in 2018. 2017 NODX growth came in at 8.8% yoy, a dramatic turnaround from the 2.8% contraction seen in 2016, as both electronics and non-electronics NODX expanded 8.0% yoy (2016: -4.0% yoy) and 9.2% yoy (-2.3% yoy). Among the top 10 NODX markets, 2017 NODX growth was led by North Asia, namely South Korea (43.5% yoy), China (31.1% yoy) and Japan (17.1% yoy).

We retain our 2018 GDP growth forecast of 2-4%, but remain watchful for potential policy tightening risks.

Our house forecast remains 2-4% GDP growth and around 5% for NODX, barring domestic fiscal and monetary policy tightening, and a materialization of external trade protectionism concerns given the recent step-up in US' trade rhetoric (recall president Trump calling for a "reciprocal tax" in the name of "fair trade" on Monday). The next key event to focus on would be the 2018 Budget due to be announced on 19 February, with potential tax changes in store. Overall, a stronger domestic growth outlook, coupled with a possible GST hike, may accelerate inflationary expectations and warrant the MAS potentially tweaking its monetary policy settings from its currently neutral stance to a slightly appreciation bias at some point this year, possibly earlier rather than later as other Asian central banks like BOK and BNM have already started pre-emptive policy normalization. Both the 3-month SIBOR and SOR are currently ranging around 1.13% and 1.11%, with a narrow 2bp spread, and we expect that as global monetary conditions normalize, they should also gradually rise to around 1.55% and 1.5% respectively by end-2018. The SGD NEER is also trading just slightly north of its parity band, but may remain largely beholden to the broad USD dynamics.