

THE BATTLE OF THE GREEN SHOOTS VERSUS BROWN WEEDS FOR THE SINGAPORE ECONOMY

Thursday, May 21, 2009

Singapore's Q1 GDP growth estimates were revised to reflect a less severe contraction of -10.1% on-year and -14.6% on-quarter.

Singapore's Q1 GDP growth were revised from flash estimates of -11.1% yoy and -19.7% qoq saar to a less severe -10.1% yoy and -14.6% qoq saar. The revisions were mainly attributed to "reflect the impact of revisions in output of manufacturing sector and the performance of the financial sector". Manufacturing shrank 26.1% yoy, with broad-based and "continued weakness in electronics, biomedical manufacturing, precision engineering and chemicals. Services also fell 5.2% yoy (previously -5.9% yoy), dragged down by wholesale & retail trade (-15.1% yoy), transport & storage (-10.0% yoy), and financial services (-8.2% yoy).

Despite the revision, the overall growth momentum trend remains unchanged – Q1 2009's contraction of -10.1% yoy is still a sharp deterioration from the -4.2% yoy fall in Q4 2008, albeit the -14.6% qoq saar print in Q1 (vis-à-vis -16.4% in Q4 2008) suggests economic conditions may be beginning to stabilize. In particular, "except for construction and financial services, all major sectors of the economy experienced further quarter-on-quarter declines". MTI also kept the 2009 GDP growth and CPI forecast unchanged at -9% to -6%, and -1% to 0% respectively, saying that "apart from the outbreak of Influenza A(H1N1), no new major systemic risks to global economic growth have emerged", and "on balance, there are still no decisive indicators of economic recovery" globally, while in Singapore, "recent indicators have been mixed". Hence, we are inclined to retain our full-year growth forecast of -7.6% for now, keeping a close watch on the April and May economic indicators for cues on Q2 growth momentum.

Improved albeit still cautious official tone in the Q1 GDP press release

On balance, the official tone of the Q1 press release is a definite improvement from the flash estimates, and suggests some traction for the premise that Q1 may be the trough for the current downturn, and things should begin to improve in the coming quarters. Note the financial services industry provided a small boost for the services sector in Q1, (+7.7% qoq saar), as some lending activity returned, possibly due to the Risk-Sharing Initiative, and as general risk appetite and market sentiment improved. Hence, the probability of a second stimulus package for Singapore at this juncture may be limited, as policymakers likely prefer a wait-and-see stance to see if the green shoots start to blossom for the global economy as well.

On the trade front, the sharp collapse in global trade in late 2008 and early 2009 has tapered off, and while trade is still expected to be weak for the rest

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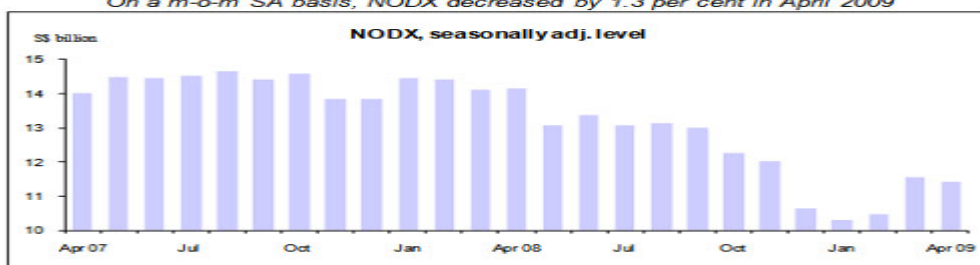
of 2009, further declines of the magnitude seen earlier this year seem unlikely. Note NODX fell 25.6% yoy in Q1 2009 and -19.2% yoy in April, and Lloyd's reported shipping lines have idled 537 fully cellular container vessels (11% of total fleet by number). This is in line with our belief that without a clear turnaround in end-markets in the G3, a full demand recovery may remain a 2010 rather than a 2009 story for now, but the pace of declines should moderate in the coming months and quarters.

On the inflation front, CPI should continue to fall in coming months. As the slowdown in CPI inflation is "within expectations", and softer commodity prices and easing domestic cost pressures should persist, there is probably no impetus for a monetary policy change in the new future. Hence MAS' view that they are comfortable with the currency level, and the recent SGD NEER moves are consistent with policy.

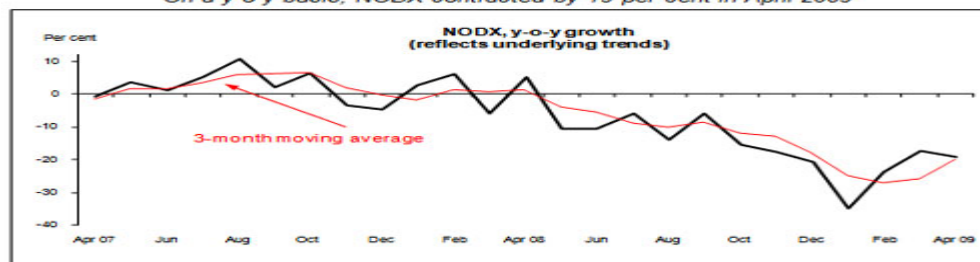
April indicators like NODX suggest Q2 GDP growth may still be on a relatively weak footing, and it is premature to assume the Singapore economy is totally out of the woods.

While we are penciling in sequential improvements in the remaining quarters of this year, and it remains our consistent view that Q1 may have been the trough of the current downturn, it may be premature to break out the champagne and celebrate. If anything, the April NODX data disappointed by falling 1.3% mom sa, and also contracting for all top 10 markets including China (see charts below). Even outside of Singapore, the outlook for key economies like the US remains mixed, with no decisive indicators of economic recovery. The April FOMC minutes unveiled that Fed governors were more pessimistic about 2009 growth (now -2.0% to -1.3% versus January forecasts of -1.3% to -0.3%) for the US economy and have tweaked lower their 2010 recovery expectations (now 2-3% versus January forecasts of 2.5-3.3%). Japan also shrank a record annualized 15.2% in Q1 2009, following a revised Q4 2008 contraction of -14.4%.

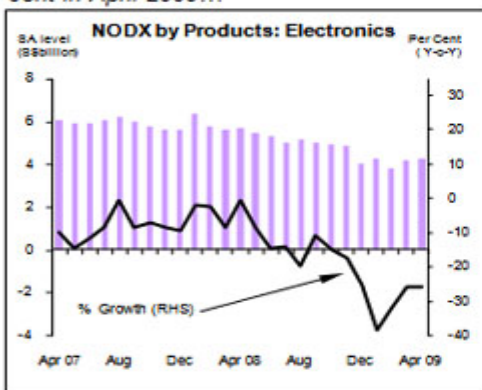
On a m-o-m SA basis, NODX decreased by 1.3 per cent in April 2009



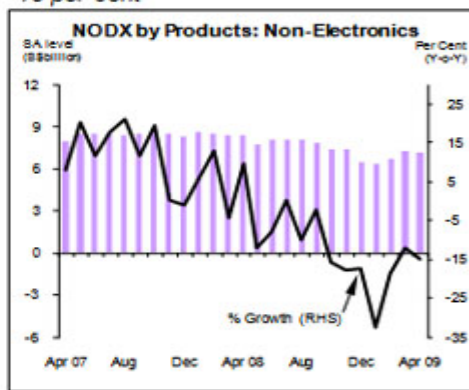
On a y-o-y basis, NODX contracted by 19 per cent in April 2009



Electronic NODX decreased by 26 per cent in April 2009...



...while non-electronic NODX declined by 15 per cent



Source: IE Singapore

Updated Fed forecasts in April FOMC minutes

Table 1. Economic projections of Federal Reserve Governors and Reserve Bank presidents, April 2009
Percent

Variable	Central tendency ¹				Range ²			
	2009	2010	2011	Longer run	2009	2010	2011	Longer run
Change in real GDP.....	-2.0 to -1.3	2.0 to 3.0	3.5 to 4.8	2.5 to 2.7	-2.5 to -0.5	1.5 to 4.0	2.3 to 5.0	2.4 to 3.0
January projection.....	-1.3 to -0.5	2.5 to 3.3	3.8 to 5.0	2.5 to 2.7	-2.5 to 0.2	1.5 to 4.5	2.3 to 5.5	2.4 to 3.0
Unemployment rate.....	9.2 to 9.6	9.0 to 9.5	7.7 to 8.5	4.8 to 5.0	9.1 to 10.0	8.0 to 9.6	6.5 to 9.0	4.5 to 5.3
January projection.....	8.5 to 8.8	8.0 to 8.3	6.7 to 7.5	4.8 to 5.0	8.0 to 9.2	7.0 to 9.2	5.5 to 8.0	4.5 to 5.5
PCE inflation.....	0.6 to 0.9	1.0 to 1.6	1.0 to 1.9	1.7 to 2.0	-0.5 to 1.2	0.7 to 2.0	0.5 to 2.5	1.5 to 2.0
January projection.....	0.3 to 1.0	1.0 to 1.5	0.9 to 1.7	1.7 to 2.0	-0.5 to 1.5	0.7 to 1.8	0.2 to 2.1	1.5 to 2.0
Core PCE inflation ³	1.0 to 1.5	0.7 to 1.3	0.8 to 1.6		0.7 to 1.6	0.5 to 2.0	0.2 to 2.5	
January projection.....	0.9 to 1.1	0.8 to 1.5	0.7 to 1.5		0.6 to 1.5	0.4 to 1.7	0.0 to 1.8	

NOTE: Projections of change in real gross domestic product (GDP) and of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The January projections were made in conjunction with the FOMC meeting on January 27-28, 2009.

1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

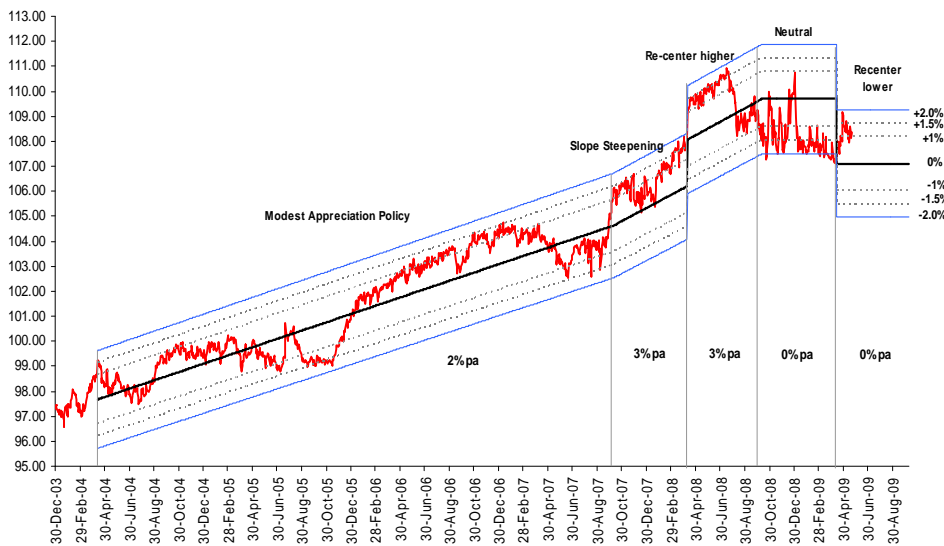
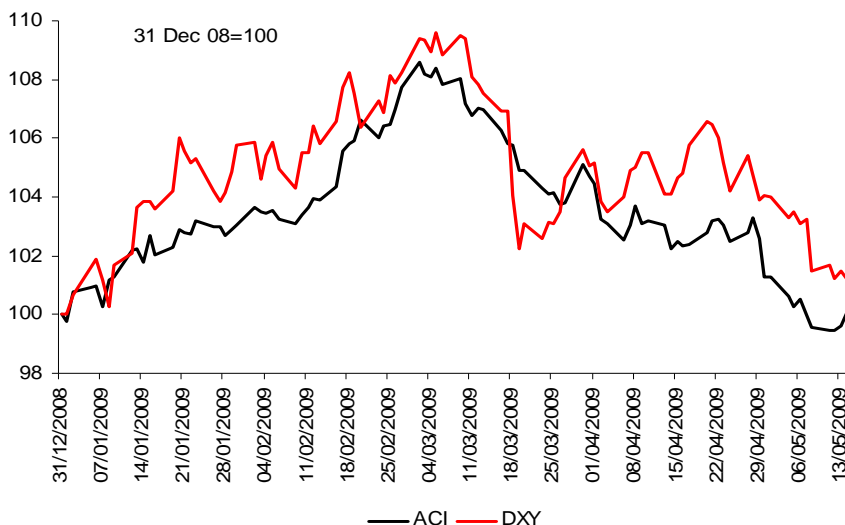
Source: FOMC

Road out of perdition

The better than expected GDP numbers this morning plays into the heavy stance for the USD-SGD, especially in view of the current risk appetite rally. Furthermore, the green shoots rhetoric from the government is also in line with the party line adopted by global monetary and finance officials and should pose no surprises. Meanwhile, the MAS stated that that the behavior of the SGD NEER is consistent with the current policy stance and SGD strength versus the dollar should be seen in context of broad dollar weakness against Asian currencies. The MAS also added that it was comfortable with the current policy stance. For those familiar with MAS-speak, the latest comments echo the usual rhetoric found in the Monetary Policy Statements when the authority was is fairly comfortable with the current position of the SGD NEER.

Elsewhere, our SGD NEER continues to sit in the strong half of its perceived fluctuation band and we think the authorities are cognizant of the fact that its current position is more a byproduct of the recent risk rally than any misplaced market interpretation of an anticipated rapid economic recovery or resurgence in inflationary pressure. On our end, we also think

that because Asian currencies (proxied by our Asian Currency Index, a counterpart of the DXY) have had a higher beta to the recent risk rally in relation to the majors, the SGD NEER has been pressured firmer as a result. However, note that the majors have been accelerating their gains on the greenback in recent sessions on dollar-specific factors, eroding the SGD NEER. Given that there currently is no perception of a grossly misaligned SGD NEER valuation, a short SGD, long reduced basket to pre-empt a SGD NEER softening may not be optimal. On the USD-SGD, we expect the pair to remain top heavy for now, especially after the recent break below the key 1.4800 area and with the riskies deflating its bias towards USD calls. We do expect some pullback in the pair (to perhaps the 1.4900 area) if the risk appetite rally capitulates. In the medium term however, we expect Asia to ride the medium term recovery story, and expect a central tendency for the USD-SGD at 1.5000, 1.4800, and 1.4400 in the next 3, 6, and 12 months respectively, with downside risks beyond the 6 months horizon.



Source: OCBC

Q1 GDP growth revisions

Sector	1Q08	2Q08	3Q08	4Q08	2008	1Q09
Year-on-Year % Change						
Total	6.7	2.5	0.0	-4.2	1.1	-10.1
Goods Producing Industries	12.0	-2.0	-6.2	-6.5	-1.0	-18.9
Manufacturing	12.6	-5.6	-11.0	-10.7	-4.1	-26.1
Construction	13.1	23.7	26.0	18.5	20.3	24.4
Services Producing Industries	7.5	7.5	5.5	-1.3	4.7	-5.2
Wholesale & Retail Trade	5.4	6.0	4.5	-5.3	2.6	-15.1
Transport & Storage	5.5	5.8	3.8	-2.4	3.1	-10.0
Hotels & Restaurants	3.1	2.0	0.0	-0.1	1.2	-4.9
Information & Communications	7.1	8.4	7.7	5.4	7.2	1.8
Financial Services	14.8	11.2	5.6	-8.1	5.5	-8.2
Business Services	8.5	7.7	8.2	5.2	7.4	4.1
Quarter-on-Quarter Annualised Growth % (SA)						
Total	12.2	-7.7	-2.1	-16.4	1.1	-14.6
Goods Producing Industries	45.6	-35.9	-0.8	-16.2	-1.0	-20.8
Manufacturing	60.2	-45.9	-5.2	-21.3	-4.1	-26.6
Construction	-9.6	59.9	23.5	10.3	20.3	9.6
Services Producing Industries	5.6	7.6	-1.7	-15.0	4.7	-10.3
Wholesale & Retail Trade	7.9	3.8	-0.8	-27.1	2.6	-30.4
Transport & Storage	4.5	4.6	-3.2	-14.2	3.1	-24.5
Hotels & Restaurants	-1.4	0.7	-0.4	0.6	1.2	-18.6
Information & Communications	5.7	11.4	5.9	-0.9	7.2	-7.7
Financial Services	8.2	7.4	-13.1	-29.2	5.5	7.7
Business Services	3.4	10.1	8.4	-0.8	7.4	-1.0

Other indicators

	1Q08	2Q08	3Q08	4Q08	2008	1Q09
Labour Productivity (y-o-y%)	-2.9	-7.1	-9.0	-11.9	-7.8	-15.4
Unemployment Rate, SA (%)	1.9	2.2	2.3	2.5	2.2	3.2
Changes in Employment ('000)	73.2	71.4	55.7	21.3	221.6	-1.0
Overall Unit Labour Cost (y-o-y%)	8.6	7.8	10.3	11.7	9.6	9.2
Unit Business Cost of Manufacturing (y-o-y%)	2.8	11.4	12.2	11.5	9.4	11.6
Consumer Price Index (y-o-y%)	6.6	7.5	6.6	5.4	6.5	2.1
Fixed Asset Investments (\$ bil)	2.5	10.5	2.9	2.2	18.0	3.2
Manufacturing	2.0	10.1	2.7	1.6	16.4	2.9
Services Clusters	0.5	0.3	0.2	0.6	1.7	0.3
Total Trade (y-o-y%)	16.1	17.1	16.4	-9.6	9.6	-27.7
Exports	11.5	13.2	11.4	-12.0	5.8	-27.8
Domestic Exports	12.7	11.2	14.5	-15.5	5.4	-31.1
Oil	52.6	53.4	77.4	-10.0	41.5	-43.1
Non-oil	0.6	-5.5	-8.6	-17.8	-7.9	-25.6
Re-exports	10.3	15.5	8.1	-8.1	6.2	-24.1
Imports	21.5	21.4	22.2	-7.1	13.9	-27.6

Source: MTI

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