

Tuesday, October 02, 2018**MAS MPS Preview – Stand pat?**

- In April 2018, we had essentially characterized the slope steepening of the SGD NEER as a neutral tightening of exchange rate policy with little imputed urgency. As we approach the October MAS MPS (Monetary Policy Statement), the question then is whether the authorities will follow suit with another move to steepen the slope further. At this juncture, the announcement date has not been revealed as yet but we expect it to be in the latter half of next week.
- Since the April MPS, indicators of economic activity for Singapore in aggregate we feel have progressed largely as expected, if not marginally better than expected. On the price front, inflation numbers (headline and core) in the intervening period have largely printed as expected with little in the way of alarming upside surprises. These developments in itself would suggest that macroeconomic indicators have continued to stabilize in the last half a year and would therefore pave the way for a further normalization of the policy gradient next week.
- However, given the forward looking nature of monetary policy considerations, any decision to tighten policy further at this juncture becomes less unequivocal.
- Firstly, the global economy is currently in the throes of a growth deceleration (including in China, no less) with an eventual bottoming not in sight at this juncture. As such, any undue demand-driven price pressures are not expected to figure prominently as yet. To this end, global trade tensions have certainly heightened over the summer and into the fall, with investor uncertainty surrounding global growth prospects growing more pervasive as a result.
- Secondly, prospects of imported inflation in Singapore remain muted and domestic sources of inflation may be bolstered somewhat by administrative measures. Although inflation prints are forecasted to firm slightly for the forecast horizon (till the next MPS in April 2019), our current projections call for an eventual tapering off in headline figures in the subsequent quarters. In terms of labor market pressures, wage growth and unit labor cost growth we think are in little danger of a secular acceleration.
- As an aside, the eventual terminal gradient of the SGD NEER is expected to be less than the historical 2% pa in view of potential GDP and medium term structural inflation considerations. In terms of

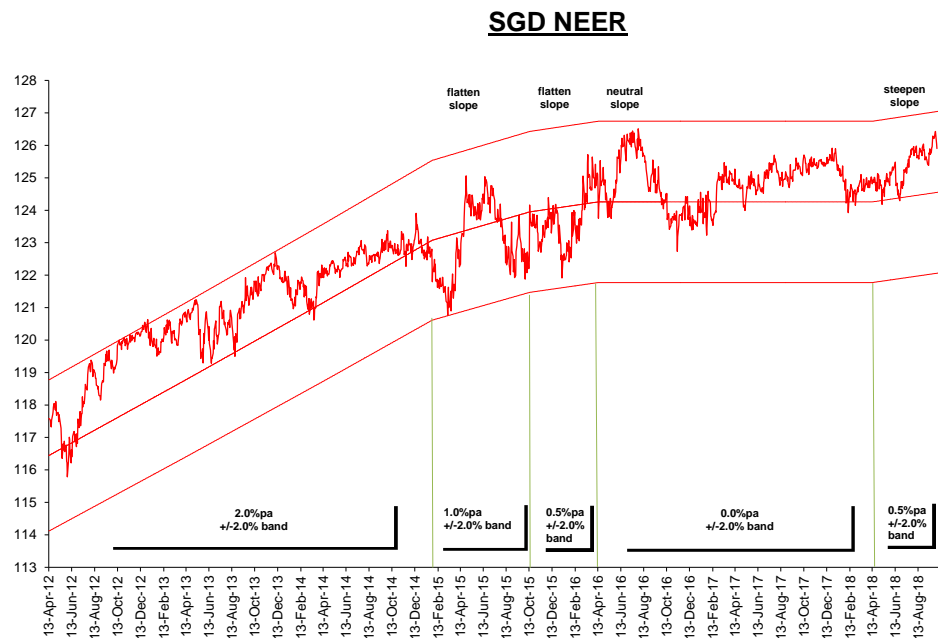
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perceived policy normalization therefore, we think the MAS has less policy slack to take up than would be commonly perceived.

- Herein lies the policy conundrum. Macroeconomic arguments (and uncertainties) would imply a wait-and-see stance till the April 2019 MPS before effecting another slope steepening. **This is our base case scenario going into next week's policy announcement and we think the odds of this eventuality marginally outweighs the alternative scenario of a further slope steepening.**
- However, given the (still) long interval between policy statements and if the MAS deems the costs of a Type II policy miscalculation (of remaining static in October) as significant, the recent stabilization of macroeconomic variables may well afford them the latitude for another slope steepening next week. In this scenario, we would still expect another 'non-hawkish' steepening.



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