Singapore Outlook

Key takeaways from MAS annual report

Thursday, June 27, 2019

Highlights:

- **Since the narrowing of the original 1.5-3.5% official growth forecast to the lower half of the range at 1.5-2.5% was quite recent, the stated intention to review the forecast again clearly reflects how the external macro-environment has deteriorated since May** with the breakdown of US-China trade negotiations and the rising downside growth risks. If the official forecast revision comes to pass, it is can be anyone's guess of 0.5-1.5% or 1-2% yoy.

- **In particular, the suggestion that 2Q19 GDP growth could be lower than in 1Q19 opens up a potential can of worms** and potentially jeopardises the baseline scenario that 2H19 will see some stabilization in growth from a tepid 1H19, which was in turn predicated on a modest pickup in the manufacturing, especially electronics cycle by 4Q19.

- **The US-China trade war remains first and foremost the key risk for the global and Singapore economy.** Now that the tariff escalation have dragged out to nearly a year and US president Trump is still threating his "Plan B" for China, there is a real risk of deeper and more widespread disruptions to global/regional supply chains, handicapping firms from their capex and hiring plans, and worsening business and consumer confidence.

- **If slower quarter-on-quarter 2Q19 growth materialises, then the risk of a potential technical recession in 3Q19 is clearly heightened**. Our 2Q19 GDP growth forecast is currently 1.3% yoy, but remains vulnerable to the June manufacturing performance given that there is a high base in June 2018 too. If June manufacturing output contracts more than 4.6% yoy, then all bet may be off and there would be downside risk to our full-year 1.8% yoy GDP growth forecast.

- **Globally, major central banks like the FOMC and ECB have pivoted to a more dovish stance, whilst other central banks in Asia like RBI, BSP amongst others have begun easing monetary policy.** Given the decelerating global growth and trade momentum, the dilemma for central banks that had normalised monetary policy in 2018 is when to start to unwind some of the earlier tightening. This will also be a challenge for the upcoming October MPS. Should incoming economic data continue to deteriorate, the probability of taking back some of the earlier 2018 monetary policy tightening is not insignificant.

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- **MAS also noted it has been in active dialogue with the US Treasury** regarding the role of FX intervention operations within Singapore's monetary policy framework, but opined that Singapore's inclusion in the US Treasury Report has no direct consequences for the economy or the conduct of MAS' monetary policy.

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