

Friday, April 05, 2019

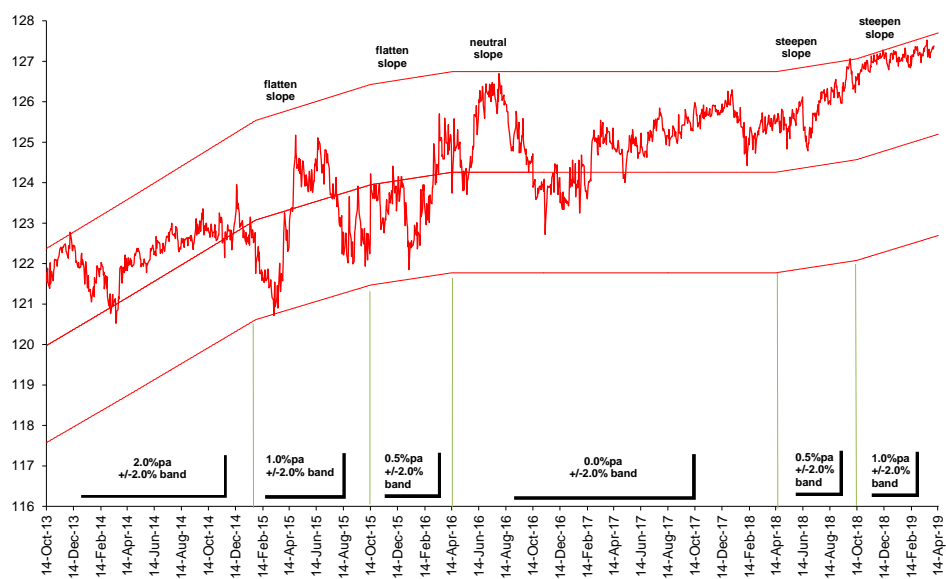
**MAS MPS Preview – Unchanged**

- Since the October 2018 Monetary Policy Statement (MPS), the global growth/inflation narrative has continued to soften, perhaps on a steeper path than previously expected (as the US economy synced lower with the rest of the global economy into 4Q 18) and necessitating an about face by pretty much the entire central bank collective (and fueling a global bond rally).
- At this juncture, on a global scale, there is scant compelling evidence of a clear landing in sight (running through the gamut of coincident and leading economic activity indicators), although EM space seems to be holding up slightly better.
- On inflation front, global price pressures also turned south abruptly into the ending months of 2018 on the back of the plunge in crude. However a salient point to note is that while global headline inflation readings have slumped, core inflation readings have (understandably) held up relatively better in aggregate. This has played out across most of Asia (including in Singapore). The looming caveat is that crude prices bottomed in late December 2018 and have recouped more than 50% of the abrupt slump between October-December 2018.
- In Singapore's context, the evolution (**moderation, not dislocation**) of growth /inflation indicators since the last MPS we think would invariably crimp the previous official growth/output gap and inflation (including core) projections.
- However, monetary conditions (interbank rates and NEER progression) have tightened instead. On the SGD NEER, instead of any macro outperformance, note also that its resilience in the intervening months has been partially afforded by the firmer renminbi complex (CFETS RMB Index), providing a shield against a firming DXY.
- **Thus, our base case is for the MAS (next Friday, 12 April 2019) to maintain the slope of the NEER (currently estimated at 1.00% p.a.) with no change to the width (estimated at +/- 2.00%) of the band nor the level at which it is centered.**
- Beyond the April MPS, if the global macro backdrop displays a degree of stabilization, we'd expect the MAS to explore the prospect of a further steepening (policy normalization) of the NEER's slope at the October MPS.

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**SGD NEER**

Source: OCBC Bank

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