

MAS Preview

Looking for Another Slight Slope Increase

- *The upcoming MAS Monetary Policy Statement (MPS) will be closely watched after MAS tightened policy very slightly in July. Our base case is for MAS to increase the rate of appreciation of the S\$NEER policy band again, by a magnitude similar to the July adjustment, while leaving the width and centre of the policy band unchanged.*
- *In our view, the latest inflation dynamics warrant another calibrated move rather than a more aggressive tightening. Imported cost pressures remain elevated and inflation has broadened somewhat, but domestic labour-cost pressures appear more contained. Under our base case, S\$NEER is expected to stay in the upper half of the policy band, while the immediate USDSGD reaction may be relatively modest. A larger slope adjustment or a combination of slope steepening and upward re-centering would represent a more hawkish surprise and should elicit a stronger SGD reaction.*

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Recap of July policy decision

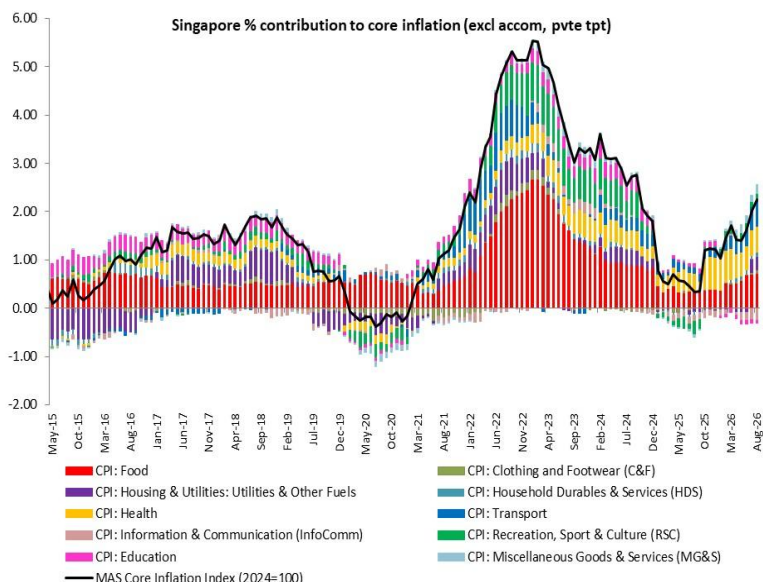
At the July MPS, MAS increased the rate of appreciation of the S\$NEER policy band very slightly, with the adjustment smaller than that undertaken in April. There was no change to the width or centre of the band.

MAS noted then that external price pressures were expected to persist and “pass through more broadly to domestic consumer prices”, while core inflation was projected to step up from July and remain elevated.

Inflation has moved higher since July

MAS Core Inflation rose to 2.2% y/y in August, from 2.0% in July and 1.6% in June. On a sequential basis, core prices increased 0.3% m/m in August. CPI-All Items inflation also edged higher to 2.3% y/y from 2.2%. More importantly, the latest pickup in core inflation was not confined to electricity and energy-related components. Services, retail & other goods and food inflation all rose in August.

Core inflation picked up



Source: CEIC, OCBC Group Research

Services inflation increased to 2.0% y/y from 1.7%, while retail & other goods inflation picked up to 1.8% from 1.4%. Food inflation edged higher to 2.3% from 2.2%. The increase in services was partly driven by faster increases in airfares and point-to-point transport prices, while clothing & footwear and personal care products contributed to the rise in retail & other goods inflation.

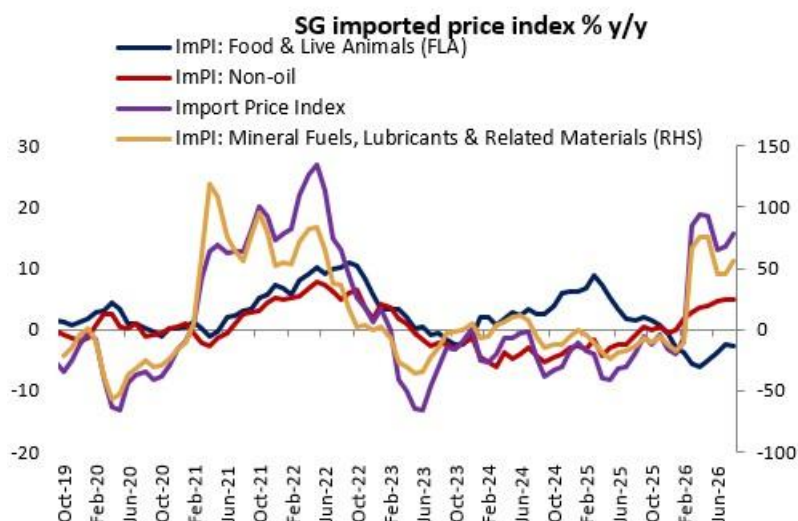
The pickup in services deserves a closer watch as they account for close to half of the MAS core basket. But we would not over-read the Aug increase, given that part of the move reflected higher airfares and point-to-point transport costs. Domestic cost pressures still look more contained than imported pressures.

MAS and MTI expect services unit labour cost growth to moderate, helped by productivity gains and slower nominal wage growth. Labour conditions have also softened at the margin, although the labour market remains relatively tight, with slower resident employment growth, higher retrenchments and somewhat softer wage intentions.

Imported cost pressures have yet to fully fade

Imported inflation pressures also remain relevant. Singapore's Import Price Index rose 15.6% y/y in Aug, after rising 13.5% in July, while the index increased another 1.6% m/m. The sharp headline increase partly reflects energy, but the broader point remains that upstream price pressures have yet to fully feed through to consumer prices.

Imported cost pressures remain elevated

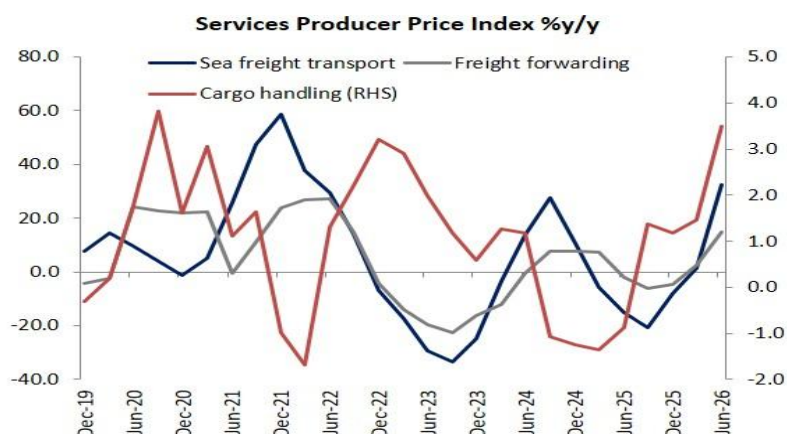


Source: CEIC, OCBC Group Research

For Singapore, imported cost pass-through remains an important inflation channel. MAS had already flagged in July that higher fuel and electronic input costs would lift prices of upstream and intermediate goods, while adverse weather conditions could add to food costs. The September MAS-MTI inflation assessment subsequently reiterated that prices of a wider range of imported goods and services are expected to increase as higher input costs work through global supply chains.

Upstream services costs have also risen. Sea freight and freight forwarding prices were up 32.6% and 14.9% y/y respectively in 2Q, largely reflecting higher fuel and operating costs. While these are not measures of consumer inflation, they point to continued cost pressure along the transport and logistics chain.

PPI have also risen

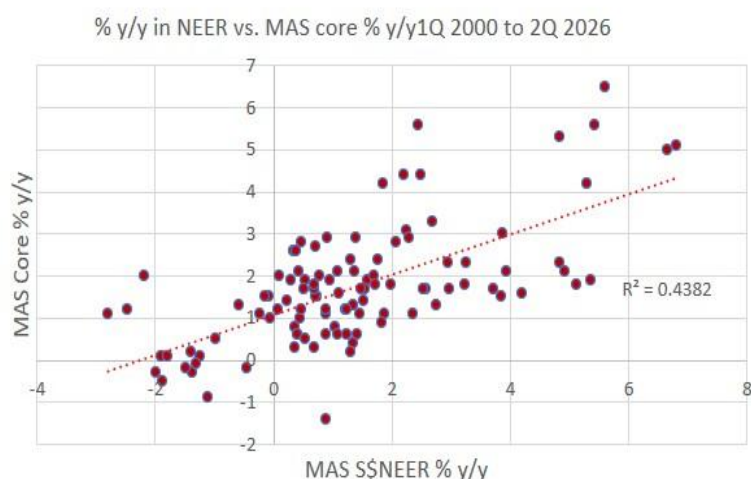


Source: CEIC, OCBC Group Research

MAS and MTI maintained their 1.5–2.5% forecasts for both core and headline inflation in 2026, but expect core inflation to remain elevated into 2027 before moderating more discernibly from around mid-year. They also assessed that “the risks to the inflation outlook remain tilted to the upside”, citing the possibility of renewed energy-supply disruptions, adverse weather and stronger demand spillovers. Our house view for core CPI forecasts are 1.9% and 2.1%, respectively for 2026 and 2027.

Taken together, the inflation backdrop looks somewhat different from July. The question then was whether higher upstream costs would translate into broader consumer inflation. The recent data provide some evidence that the pass-through is underway, although the extent remains relatively contained.

Higher core CPI tended to coincide with S\$NEER appreciation



Source: Bloomberg, OCBC Group Research

Historically, periods of higher core inflation have generally been accompanied by a firmer S\$NEER appreciation path, consistent with MAS leaning against inflation. With core inflation still rising and risks tilted to the upside, the relationship supports the case for another modest slope increase.

MAS Policy Options

On MAS policy, there are various options that MAS can go about setting its monetary policy at this meeting and that includes: (1) adjusting the policy band higher to allow for an immediate strengthening of the SGD on a trade-weighted basis; (2) adjusting the policy slope higher to increase the pace at which SGD appreciates on a trade-weighted basis; (3) widening the policy band from the current estimated $\pm 2\%$ in light of volatility in the financial markets; or (4) do nothing – to keep policy stance status quo (which is currently on a mild appreciating path). In certain circumstances, MAS can also deploy a combination of options.

The upcoming Monetary Policy Statement (MPS) and 3Q Advance GDP are scheduled to be released no later than 14 Oct 2026, 8am SGT.

Our House View: Another Slight Slope Increase

We expect MAS to increase the rate of appreciation of the S\$NEER policy band very slightly at the upcoming October MPS, with the magnitude likely to be similar to the July adjustment. We expect no change to the width or centre of the policy band.

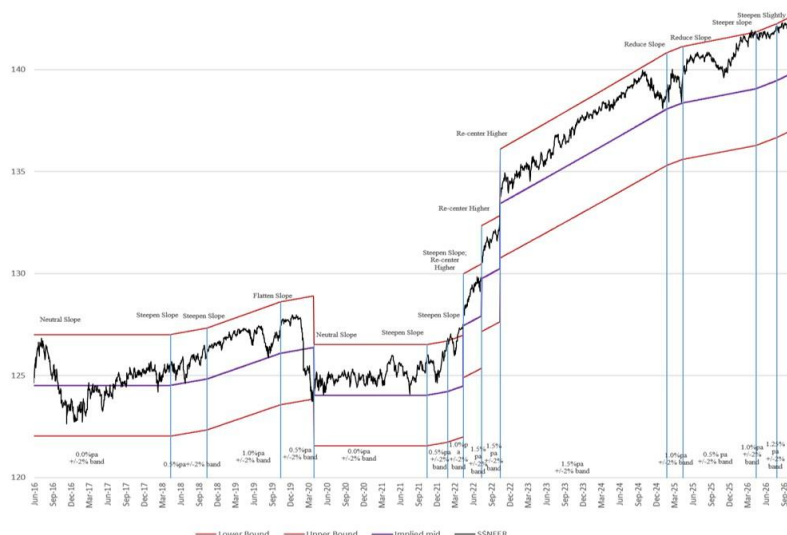
In our view, another calibrated adjustment would be consistent with the evolution of the inflation backdrop since July. Core inflation has continued to rise, while the latest increase has broadened beyond electricity to include services, food and retail & other goods. At the same time, imported cost pressures remain elevated, and MAS-MTI continue to see upside risks to the inflation outlook.

The move need not be large. Domestic cost pressures remain relatively contained, with nominal wage growth moderating and productivity growth helping to restrain unit labour costs. This argues against the need for more aggressive tightening.

Another very slight slope adjustment would instead allow MAS to continue leaning against prospective inflation pressures while retaining flexibility to respond should the inflation outlook change.

A more aggressive tightening either via a larger slope increase or a combination of slope steepening and upward re-centering would likely require clearer evidence that inflation pressures are becoming materially more persistent and broad-based. That is not our base case.

S\$NEER Model estimates point to near upper bound



Source: OCBC Group Research estimates

S\$NEER and USDSGD Implications

Under our base case of another very slight slope increase, the immediate S\$NEER and USDSGD reaction may be relatively contained. A slope adjustment changes the pace of appreciation over time rather than producing an immediate one-off shift in the policy band. S\$NEER may ease slightly from the upper bound of the policy band but still remain in the upper half of the policy band, while USDSGD could see modest downside pressure, assuming the broader USD backdrop is relatively balanced.

Past MAS tightening episodes also suggest that slope-only moves tend to produce a smaller and less consistent immediate USDSGD reaction than re-centering.

If MAS tightens more aggressively than our base case, such as through a larger slope adjustment, the SGD reaction is likely to be firmer. A combination of slope steepening and an upward re-centering would represent a more significant hawkish surprise. Re-centering would immediately shift the S\$NEER band higher and, together with a steeper appreciation path, would likely see a sharper initial decline in USDSGD.

If MAS keeps policy unchanged, the S\$NEER should retreat away from the upper bound of the band and USDSGD could see some initial upside, particularly when the market has moved towards expecting another tightening (at time of sending this report). The extent of the reaction would depend on the accompanying policy language. A hold that continues to flag upside inflation risks and

leaves the door open to future tightening would be less SGD-negative than a more benign assessment of the inflation outlook.

Some tightening expectations in the price

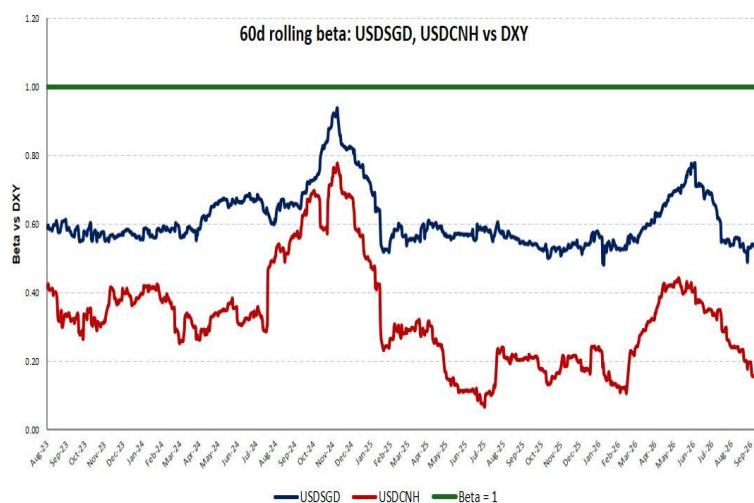


Source: OCBC Group Research estimates

Beyond the immediate policy reaction, broader USD direction remains important. Fed policy expectations, UST yields, oil prices, RMB developments and broader regional risk sentiment will continue to influence USDSGD.

In an environment where US rates and the USD remain supported, tighter MAS policy may manifest more through relative SGD resilience and a degree of insulation against USDSGD upside, rather than a large outright decline in the pair.

USDSGD remains sensitive to DXY moves



Source: Bloomberg, OCBC Group Research

We continue to watch a few key risks for SGD. First, energy prices remain important given Singapore's exposure to imported inflation; another sustained rise in oil would reinforce inflation risks but could also weigh on the growth outlook. Second, the broad USD and US rates backdrop remains a key two-way risk. A renewed repricing towards a more aggressive Fed tightening path, especially if accompanied by firmer US data, could lift UST yields and the USD and offset some of the SGD support from tighter MAS policy. Conversely, softer US data and a pullback in Fed tightening expectations would be more supportive of SGD. Third, RMB remains an important regional anchor. Continued RMB stability should help regional sentiment, while renewed RMB weakness could spill over to SGD and broader AXJ FX.

Past MAS policy decisions

Dates	Policy Action			Economic Considerations (Respective MAS policy statements)
	Slope	Band	Midpoint	
14 Apr 16	Reduce to zero	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 0.5-1.5% and -1.0-0% respectively due to benign core outlook and less favourable external environment. Core inflation likely to fall below 2% on average over the medium term.
13 Apr 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0-1% respectively due to improving labour market and projection of higher imported inflation.
12 Oct 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1.5-2% and 0.5% respectively due to imported inflation from higher O&G. Wage growth expectations.
14 Oct 19	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0.5% respectively due to low projected core inflation. Oil prices slumped and NODX contracted.
30 Mar 20	Reduce to zero	-	↓	MAS lowered the forecast range for both Core Inflation and CPI-All Items inflation to -1-0% due to external and domestic pressures.
14 Oct 21	↑	-	-	MAS Core Inflation expected to rise to 1-2% for 2022. External and domestic cost pressures are accumulating, reflecting both normalising demand as well as tight supply conditions.
25 Jan 22*	↑	-	-	MAS revised its Core Inflation forecast upwards to 2-3% due to higher inflation outlook. Inflation outlook shifted higher due to confluence of recovering global demand and persistent supply-side frictions. There remain upside risks to inflation arising from the impact of pandemic-related and geopolitical shocks on global supply chains.
14 Apr 22	↑	-	↑	MAS revised its Core Inflation forecast higher at 2.5-3.5% for due to global inflationary pressures and tight domestic labour market.
14 Jul 22*	-	-	↑	MAS revised its Core Inflation forecast higher to 3-4% due to elevated inflationary pressures. Overall inflationary pressures will remain elevated in the months ahead. Although global supply chain frictions are easing, external inflationary impulses have become more broad-based, reflecting underlying constraints in global commodity and labour markets.
14 Oct 22	-	-	↑	MAS Core Inflation should come in at 3.5-4.5% on average, and CPI-All Items inflation at 5.5-6.5%. MAS has assessed that, on balance, a further tightening of monetary policy is needed to help ensure that price pressures are dampened over the next few quarters.
24 Jan 25	↓	-	-	MAS Core Inflation and CPI-All Items inflation is forecast to average 1.0-2.0% and 1.5-2.5% respectively due to core inflation moderating more quickly than expected.
14 Apr 25	↓	-	-	MAS Core Inflation is now forecast to average 0.5-1.5% in 2025, CPI-All Items inflation in 2025 is similarly expected to average 0.5-1.5% due to weakening external outlook.
14 Apr 26	↑	-	-	Forecasts for MAS Core Inflation and CPI-All Items inflation have both been raised to 1.5-2.5%. Considerable risks around the outlook for inflation and growth. A more persistent disruption to energy supplies will exacerbate inflationary pressures worldwide, as well as deepen the drag on growth.
27 Jul 26	↑	-	-	MAS Core inflation is projected to step up from July and remain elevated but should moderate discernibly from around mid-2027. CPI/ core CPI forecasts left unchanged at 1.5-2.5% for 2026. MAS will therefore increase the rate of appreciation of the policy band very slightly. The extent of this increase is smaller than that in April.

↓ denotes reduction in slope/re-centering of midpoint downwards

↑ denotes increase in slope/re-centering of midpoint upwards

Blue shaded rows represent easing while red shaded represent tightening move

* denotes offcycle moves

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