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October 2009 Monetary Policy Preview
MAS Likely to Tighten Policy Only in Apr 2010

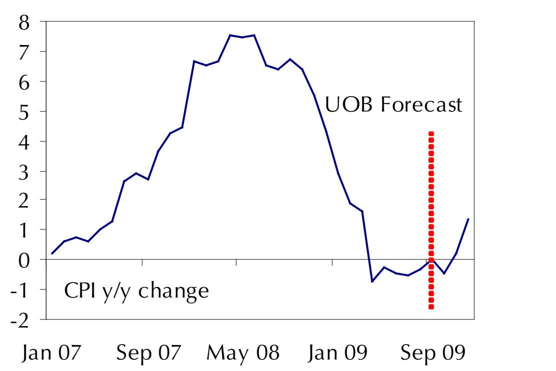
- In light of the still weak environment, the MAS looks likely to maintain the current level of the SGD NEER, after easing monetary policy twice since Oct 2008.
- Inflation is also likely to fall within the MAS' projection of between -0.5% and +0.5% for 2009.
- For now, we think the current MAS exchange rate policy is appropriate.
- We are not expecting a further spike in the SGD in the months ahead. Some choppiness and volatility is expected in the Asian currencies, pertaining to concerns about the global economic recovery and some risk pullback, which will dampen SGD's rise.

A faster pick-up in inflation, and a domestic economy well-past the worst of its downturn, are some of the factors that might prompt MAS to tighten monetary policy this Oct. We are however, of the view that MAS is likely to maintain the current exchange rate policy. Even though Singapore's economy is undoubtedly improving, from the drastic 9.5% y/y contraction in the 1Q to a much more moderate -3.5% in the 2Q, the economy is still on a fragile footing. And even as we are expecting a better GDP figure of -0.2% y/y for the 3Q, our full year forecast of -3.3% for 2009 still ranks as the steepest decline since Singapore's independence. Therefore in light of the still weak environment, the MAS looks likely to maintain the current level of the SGD NEER, after easing monetary policy twice since Oct 2008.

Inflation, Though Picking up Speed, is Expected to Remain Within Projected Range

Inflation is also likely to fall within the MAS' projection of between -0.5% and +0.5% for 2009. The CPI, which had gone into mild contraction in Apr this year, is picking up faster than expected. Month-on-month growth is projected for the rest of the year, now that economic recovery is in the works. On a yearly basis, we could even see the contraction in prices ceasing, and steadily rising from Nov onwards. We are keeping our CPI forecast for the full year at 0.4%. Should the economy continue growing apace, and inflation begin to pick up speed, next year's monetary policy meeting in Apr might be the start of MAS' move to normalize policy by tightening. This is in line with what other countries in Asia are expected to do next year. We are already projecting Indonesia, Philippines and South Korea to begin tightening monetary policy in the 2Q of 2010, detailed in our report: Monetary Policy Trajectory in Asia. For now, we think the current MAS exchange rate policy is appropriate.

Mild Contraction in Prices Easing Faster than Expected



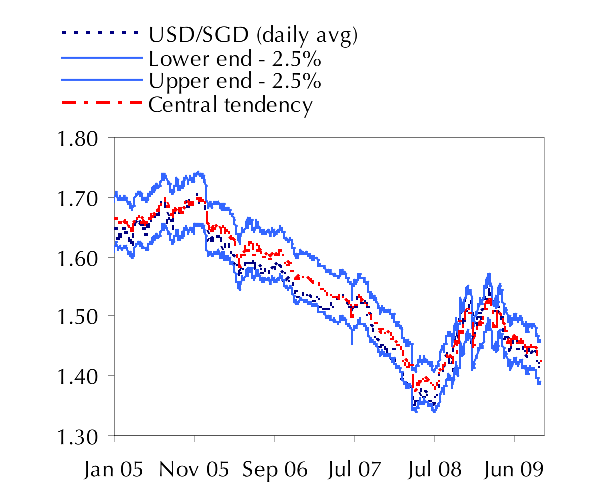
Source: CEIC, UOB Forecast

USD/SGD Not Likely to Depreciate Substantially for the Rest of Year and 1Q10

The SGD has appreciated against the USD quite substantially in recent weeks. It was only during the month of September that the SGD managed to break out of its range bound trading of 1.44-1.46 into the 1.41 territory, gaining 1.7% since the start of the month. Previously staying around 0.5% above the mid-point range, the SGD NEER climbed to the stronger end of the policy band at 0.7% to 0.8% above the midpoint in recent weeks. USD weakness against the major currencies, and gains in the commodity currencies- a barometer of risk, are some of the factors contributing to the SGD's recent strength. However, we are not expecting a further spike in the SGD in the months ahead. Some choppiness and volatility is expected in the Asian currencies, pertaining to concerns about the global economic recovery and some risk pullback. This will dampen SGD's rise, even though the economy is slated to perform better next year. We expect the USD/SGD to remain at the 1.41 level in 4Q09, and 1Q10 should also see SGD hovering at around the same level, due to uncertainty still surrounding the breadth of the recovery. However, a risk factor to our forecast is the excessive weakening of the USD, which could see the SGD appreciate further.

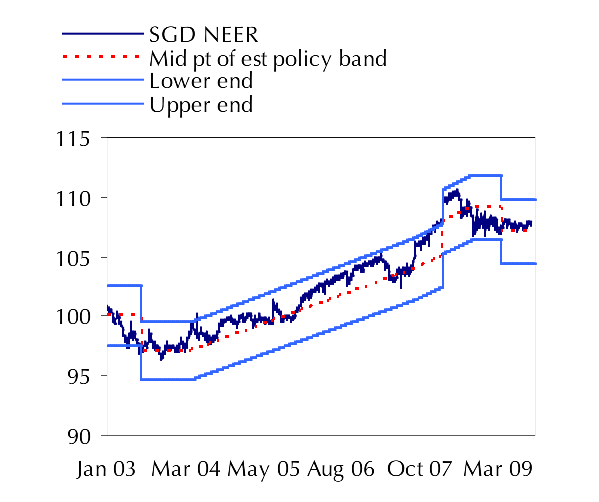
Also, another factor dictating SGD movement is the RMB. Given that the SGD is a proxy trade for the RMB, and the RMB is forecasted to hold steady for the rest of the year, SGD should not see much further appreciation. Since June last year, the USD/RMB has held steady, largely confined within a narrow range of 6.82-6.83 in recent months, despite broad USD weakness. The stability of the RMB is due to factors such as a possible revaluation losses on China's forex reserves (of which about 60-70% are in USD assets) if RMB strengthens substantially. RMB's steadiness is also essential in China's ongoing efforts to promote the use of RMB to settle import/export transactions, as well as to cushion the impact on exports which have declined about 20% so far in 2009. We are forecasting the USD/RMB to remain stable at least till the end of 2010 (end 2009: 6.82; end 2010: 6.77; +3% to end 2011: 6.58).

SGD NEER Strengthening



Source: UOB Estimation of SGD NEER

SGD NEER at the Upper End of Policy Band



Source: UOB Estimation of SGD NEER

3M SGD SIBOR to Remain Stable and Trend Upwards in the 2H 2010

The 3M SGD SIBOR appears likely to be maintained at around 0.7%, in tandem with the Fed funds rate, which is at 0-0.25%. SIBOR has been kept steady at this level since late Jan this year, slightly after the Fed pushed the target rate down to 0-0.25% in Dec last year. With SIBOR following closely the Fed funds rate, and liquidity flowing into Singapore on account of its safe-haven status in the region, the interbank rate is not expected to rise significantly until 3Q10, where we are expecting the Fed to start hiking rates. The SIBOR will likely follow suit then, rising to around 0.75%-0.85% in the 3Q10.

Announced MAS Monetary Policy Statements/Actions Since 2003

Date	Scheduled Meeting ?	Decision			Factors / Outlook Affecting Decision					
		Bias	Pivot Point	Width	External Econ	Global Electronics	Domestic Econ	Imported Inflation	Domestic Inflation	Labour Mkt
2 Jan 03	yes	neutral stance, 0% app	at Jan 02 level		deteriorated, Iraq	to strengthen	sluggish, H2 recovery	benign	muted	slack
10 Jul 03	yes	neutral stance, 0% app	at Jul 03 level		signs of pickup, but downside risks	tentative improvement	modest H2 recovery	muted	muted	significant slack
10 Oct 03	yes	neutral stance, 0% app	at Jul 03 level		clearer signs of upturn	continued improvement	outlook improved, modest recovery	benign	subdued into next year	slack
12 Apr 04	yes	modest & gradual app	from Jul 03 level		synchronised upturn,	pickup in global IT demand,	outlook improved, likely to exceed official forecast	risk of rising inflation pressure	subdued, but could intensify	strengthen (output gap turn positive by yr-end)
11 Oct 04	yes	modest & gradual app	from Jul 03 level		greater uncertainty	greater uncertainty	growth momentum easing	risk of rising inflation pressure	subdued, but could intensify	continued improvement
12 Apr 05	yes	modest & gradual app	from Jul 03 level		growing at healthy pace	modest recovery in H2	slowing to potential growth rate	risk of rising inflation pressure	subdued, but could intensify	continued improvement
11 Oct 05	yes	modest & gradual app	from Jul 03 level		growing at steady pace	modest expansion	potential growth in 2005 & 2006	risk of rising inflation pressure	subdued, but expected to pick up in 2006	continued improvement
11 Apr 06	yes	modest & gradual app	from Jul 03 level		holding up, downside risk in 2H	steady pace of expansion	positive outlook	risk of second round inflationary pressure	some upward pressure but well-contained	remains strong
10 Oct 06	yes	modest & gradual app	from Jul 03 level		healthy 1H, moderation in 2H	peaked, 2H demand moderation	strong 1H, moderation in 2H	benign	subdued	record job gains, some wage pressures
10 Apr 07	yes	modest & gradual app	from Jul 03 level		holding up but US-realted risks emerging	easing in 1H, recovering by 2H	slower growth but outlook still positive	benign	higher by 0.5% point on GST	tight market, wage pressures in some sectors
10 Oct 07	yes	modest & gradual app, slightly steeper slope of S$NEER policy band	from Jul 03 level		downside risk has increased with fallout in US subprime housing	remained weak	strong 2007	upside risk	higher. GST rate hiked by 2ppt in July, higher asset prices	tight market, wage pressures in some sectors
10 Apr 08	yes	modest & gradual app	recentre at current level		downside risk	remained weak	stronger-than-expected 1Q08, moderation ahead	upside risk	remains high	tight market but wage growth easing
10 Oct 08	yes	neutral stance 0% app	from Apr 08 level		deteriorated sharply	expected to weaken	technical recession in 3Q08, growth to to remain below potential over the next few quarters	oil prices ease	peaked but remains high	expected to ease
14 Apr 09	yes	neutral stance 0% app	recentre at current level		sustained weakness	could weaken further	growth downgraded sharply	muted	full-year deflation expected	job losses
Oct 09	yes	neutral stance 0% app	from Apr 09 level		signs of recovery, but downside risks remain	continued improvement	out of technical recession, outlook improved, growth in 2010	upside risk	eased, but picking up	jobs remained fairly resilient