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Singapore: Monetary policy unchanged, first y/y growth after 3 quarters of decline

- MAS kept its current policy stance of a zero percent appreciation of the S\$NEER policy path, with no change to the width of the band and the level at which it is centred, in line with market expectations.
- We are maintaining our forecast for MAS to normalize policy by engineering some SGD strengthening during next year's monetary policy meeting in Apr.
- We think the SGD NEER will continue to trade just below the upper limit of the policy band, in the coming quarters, with market expectations for a tightening stance in Apr.
- Singapore's 3Q GDP data which showed a continued expansion, growing by nearly 15% q/q saar, and +0.8% y/y. MTI has revised upwards the official growth forecast to between -2.5% and -2%, from the previous -6% to -4%.
- We are maintaining our full year forecast for the economy to contract 3.3%, although there could be an upside bias. We are still projecting a growth of 4.5% in 2010.

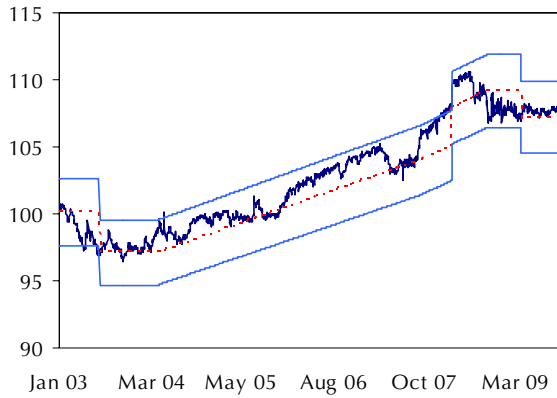
MAS kept its current policy stance of a zero percent appreciation of the S\$NEER policy path, with no change to the width of the band and the level at which it is centred. This was in line with market expectations, as the outlook for the Singapore economy still remain uncertain, and inflationary pressures are not likely to pose a threat. We are maintaining our forecast for MAS to normalize policy by engineering some SGD strengthening during next year's monetary policy meeting in Apr. By then, the economy should have started to recover more decisively, and inflation next year would be trending higher as a result of higher commodity prices. MAS expects CPI Inflation rate to be around 0% this year, and 1-2% next year, however, we believe inflation could come in slightly higher than MAS' forecast, which would provide the trigger for a tighter monetary policy. Moreover, other countries in Asia are expected to move to normalize monetary policy 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.

SGD NEER to still remain in upper half of band

This morning, the SGD NEER was 1.2% higher above the midpoint prior to the announcement, but later dropped to about 1% above the midpoint, after the announcement. We suspect the earlier run-up could have been driven by some in the market who sold USD/SGD in the off-chance that MAS could move to tighten policy, especially after the Reserve Bank of Australia surprised the markets by hiking rates last week. The SGD NEER subsequently dropped after MAS maintained the policy stance. With the improving domestic economic backdrop, global risk appetite coming back and the USD on a weakening path, the SGD NEER has trended in the upper half of the policy band and broken through the 1.40 level. We think the SGD NEER will continue to trade just below the upper limit of the policy band, in the coming quarters, with market expectations for a tightening stance in Apr. Consequently, USD/SGD will also dip lower, to around 1.39-1.40 at the end of the year, and weaken further after Apr's policy meeting to 1.38.

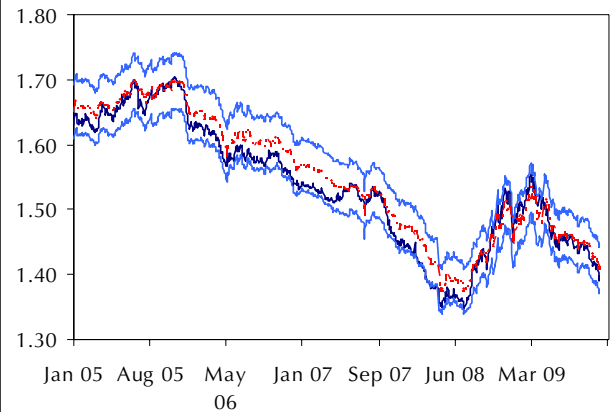
Also released today was Singapore's 3Q GDP data which showed a continued expansion, growing by 14.9% q/q saar, and +0.8% y/y, compared to 22% q/q saar and -3.2% y/y in 2Q, largely in line with market estimates. The y/y growth comes after 3 straight quarters of declines, and was boosted by pharmaceutical production, as well as improvement in the electronics sector. This led manufacturing growth to soar 34.9% q/q saar and 8.3% y/y, compared to a revised 1.1% contraction in 2Q, and vastly different from the 24.2% decline in 1Q. However, as the electronics cluster has not seen a full-fledged recovery, and manufacturing has largely depended on the volatile pharmaceutical output which is not really aligned with economic cycles, the manufacturing sector could see some downward pressure in the 4Q. The services sector grew more than we had expected, keeping up its expansion pace, at 9.5% q/q saar, and -2.4% y/y, compared to 8.3% q/q saar, and -4.8% y/y in 2Q, on the back of financial services, and trade-related and tourism growth. Following this trend, we expect to see services head to growth in the 4Q, on base effect, as well as the improvements in financial services and tourism.

SGD NEER to trend at upper limit of policy band



Source: UOB Estimation of SGD NEER

USD/SGD to weaken



Source: UOB Estimation of SGD NEER

MTI has revised upwards the official growth forecast to between -2.5% and -2%, from the previous -6% to -4%. Even at its most optimistic forecast of -2%, the MTI is still expecting a slight q/q saar contraction of around 1% in 4Q. MAS remained cautious in its outlook, stating, "the economy is not expected to sustain the strong pace of expansion seen in Q2-Q3 2009. While prospects for the external economies have improved, final demand in Singapore's key export markets, including for IT products, has yet to recover decisively." It added, "significant challenges remain in the transition to private sector-driven growth as governments prepare to exit from their expansionary policies." Our forecast is also projecting a decline in the 4Q, as some uncertainties still remain. The swings in pharmaceutical production would be something to watch out for, and the latest Sep PMI also show that even though manufacturing is still growing, the pace has slowed. Some economic indicators in the US, such as the labour market and consumer spending, still remain weak. This will continue to add pressure to Singapore's exports. We are maintaining our full year forecast for the economy to contract 3.3%, although there could be an upside bias. We are still projecting a growth of 4.5% in 2010.

Singapore Advance 3Q09 GDP Estimates (y/y % change)

	3Q08	4Q08	2008	1Q09	2Q09	3Q09 (p)
Total GDP	0.0	(4.2)	1.1	(9.5)	(3.2)	0.8
Manufacturing	(11.0)	(10.7)	(4.1)	(24.2)	(1.1)	8.3
Construction	26.0	18.5	20.3	24.4	18.6	12.4
Services Producing Industries	5.5	(1.3)	4.7	(5.1)	(4.8)	(2.4)

Source: MTI

Announced MAS Monetary Policy Statements/Actions Since 2003

Date	Scheduled Meeting ?	Decision		Width	Factors / Outlook Affecting Decision					
		Bias	Pivot Point		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-related 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 in 2008	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 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
12 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

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