

# Country Analyst

UOB Economic-Treasury Research  
Company Reg No. 193500026Z

Jimmy Koh [Jimmy.KohCT@uobgroup.com](mailto:Jimmy.KohCT@uobgroup.com)  
Ho Woei Chen [Ho.WoeiChen@uobgroup.com](mailto:Ho.WoeiChen@uobgroup.com)



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## Singapore: MAS Re-centres Policy Band, Government Lowers 2009 Growth Forecast Sharply

- In its latest policy statement, the MAS re-centres the exchange rate policy band to the prevailing level of the S\$NEER, while keeping the zero percent appreciation path. The S\$NEER has largely fluctuated in the lower half of the policy band since the last policy review in October 2008. The width of the band will remain unchanged.
- The move was in line with market's expectation and effectively a one-off easing as it provides more room for the S\$NEER to move lower from here. Nonetheless, as this is a one-off re-centring of the policy band, the MAS does not expect any undue weakening of the SGD.
- Immediately following the announcement, S\$NEER rebounded around 0.8% to -0.2% from the mid-point in our S\$NEER model from -1.0% just prior to the announcement. This was probably due to the large position adjustments as market pared long USD/SGD positions. As such, we could see the S\$NEER stabilising at around -0.5% from the mid-point in the near-term. At the current currency levels, the 1% downside from the mid-point on our model corresponds to USD/SGD at 1.5130.
- The MAS has again highlighted the significant growth risks this year. The prospects of a deflation this year definitely provided room for the monetary easing today although this would only be a secondary consideration.
- The MTI reported a worse-than-expected 1Q09 GDP growth of -11.5%/y/y (UOB: -8.2%/y/y; Mkt:-8.6%) in its advance estimates this morning. Growth momentum weakened further from 4Q08 with the s/adj q/q annualized growth down 19.7%, sharper than the 16.4% contraction in 4Q08. This was the fourth straight q/q contraction.
- The MTI has cut its full-year growth forecast further to between -9% and -6.0% from previous -5.0% to -2.0%. NODX forecast was also lowered to a contraction of -13% this year from earlier -10%. Given the 1Q09 numbers, full-year growth looks to be tracking a -7.5% contraction rather than -4% which we penned down earlier.

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### **More Downside to Growth...**

The MAS has again highlighted the significant growth risks this year. Despite some tentative signs of bottoming-out in the global economy, a recovery in Singapore is far from a done deal especially given that the stress in the labour market will continue to drag on sentiment and private demand. The uncertainties support the case of looser monetary policy. In comparison, other Asian central banks have already cut their policy rates aggressively earlier this year.

*'Looking ahead, some moderation in the rate of decline in economic activity around the world is expected following the steep fall since the end of last year. A number of leading indicators have recently picked up slightly, and consumption spending has held up somewhat better than expected, particularly in the US. While this is encouraging, considerable downside risks to growth remain. Job losses have been significant, and segments of the broader credit market continue to be impaired. Against this backdrop and in view of the sharp fall in domestic economic output over the past two quarters, Singapore's GDP growth forecast for 2009 has been lowered to between -9% and -6%.'*

### **Moving Into Deflation...**

The prospects of a deflation this year definitely provided room for the monetary easing today although this would only be a secondary consideration. The MAS maintained its full-year CPI forecast at between -1% to 0%.

*'CPI inflation will continue to fall in the coming months, reflecting a combination of lower commodity prices and increased slack in the domestic economy. Domestic cost pressures are moderating, as evidenced by the fall in rentals and more subdued wage increases. With the high base in 2008, headline inflation would temporarily turn negative in certain months this year.'*

### **Advance 1Q GDP: Growth Significantly Weaker, Recession Drags on**

The MTI reported a worse-than-expected 1Q09 GDP growth of -11.5%/y/y (UOB: -8.2%/y/y; Mkt:-8.6%) in its advance estimates this morning. Growth momentum weakened further from 4Q08 with the s/adj q/q annualized growth down 19.7%, sharper than the 16.4% contraction in 4Q08. This was the fourth straight q/q contraction.

The weaker than expected 1Q GDP can be attributed to larger-than-expected contraction in both the manufacturing and services sector whereas the construction sector growth of 25.6%/y/y was a tad higher than our forecast. The continuation of the positive growth momentum in the construction sector was due to the ongoing works in the integrated resorts and the government's fiscal measures.

The growth contraction in the manufacturing sector widened to -29.0%/y/y in 1Q09 from -10.7% in 4Q08. With industrial production contracting 26.2%/y/y in Jan-Feb, the advance estimate suggests that the IP could plunge by more than 30%/y/y in March. This was despite data in other Asian countries indicating an easing in the pace of decline in their exports in March. The services sector also underperformed our expectation with a contraction of -5.9%/y/y compared with -1.3% fall in the preceding quarter. The wholesale and retail trade and transport segments were particularly hard-hit by the collapse in world trade. Other segments such as hospitality and financial services also saw growth contraction in 1Q09.

The MTI has cut its full-year growth forecast further to between -9% and -6.0% from previous -5.0% to -2.0%. NODX forecast was also lowered to a contraction of -13% this year from earlier -10%. Given the 1Q09 numbers, full-year growth looks to be tracking a -7.5% contraction rather than -4% which we pen down earlier.

Singapore Advance 1Q09 GDP Estimates (y/y % change)						
	1Q08	2Q08	3Q08	4Q08	2008	1Q09 (p)
Real GDP	6.7	2.5	0.0	-4.2	1.1	-11.5
Goods-producing Industries						
Manufacturing	12.6	-5.6	-11.0	-10.7	-4.1	-29.0
Construction	13.1	23.7	26.0	18.5	20.3	25.6
Services-producing Industries	7.5	7.5	5.5	-1.3	4.7	-5.9
Source: MTI						

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# Announced MAS Monetary Policy Statements/Actions Since 2001

Date	Scheduled Meeting?	Decision			Factors / Outlook Affecting Decision							Labour Mkt
		Bias	Pivot Point	Width	External Econ	Global Electronics	Domestic Econ	Imported Inflation	Domestic Inflation			
12 Jul 01	yes	neutral stance, 0% app	current level	narrowed	deteriorated sharply	more protracted downturn	technical recession	benign	benign	muted	easing	
2 Jan 02	yes	neutral stance, 0% app	current level		downside risks, recovery modest	prolonged adjustment phase	uncertain	falling	falling, govt cost-cutting measures			
11 Jul 02	yes	neutral stance, 0% app	at Jan 02 level		continued recovery but modest	tumaround, modest growth	continued recovery over H2 strength	low, excess capacity	subdued	subdued	slack	
2 Jan 03	yes	neutral stance, 0% app	at Jan 02 level		deteriorated, Iraq	to strengthen	sluggish, H2 recovery	benign	muted	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	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	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	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	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	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	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	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	subdued	record job gains, some wage pressures	
10 Apr 07	yes	modest & gradual app	from Jul 03 level		holding up but US-realised risks emerging	easing in 1H, recovering by 2H	slower growth but outlook still positive	Benign	higher by 0.5% point on GST	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	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	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	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	full-year deflation expected	job losses	