

# Singapore

## Normalisation of Economy and Monetary Policy

UOB Economics Projections	2007	2008	2009F	2010F
GDP	7.8	1.1	-2.0	4.5
CPI (average, y/y)	2.1	6.5	0.4	3.7
Unemployment (%)	2.1	2.2	3.6	3.2
Current account (% of GDP)	23.5	14.8	11.5	12.2
Fiscal balance (% of GDP)	2.5	-0.8	-3.5	-1.8

- *It is all about ‘normalization’ across the region. After the recovery in broad asset markets (both equities and properties), the Singapore economy is also doing likewise. From a trough of 9.5%y/y contraction in 1Q09, the economy turned slightly positive in 3Q09 (+0.6%y/y), and is likely to hit 4.9%y/y in the final quarter of 2009. We are keeping our GDP forecast of +4.5% for 2010.*
- *Going forward, similar to other parts of Asia, we expect MAS to normalize in its monetary stance, shifting its policy band up at its next meeting in Apr 2010. Beyond that, we need to see more concrete signs of recovery, which at this point is still quite mixed.*
- *In terms of SGD outlook, our take remains one of further appreciation, although the extent is very much dependent on the RMB direction. SGD will also continue to take direction from the movement of the RMB, which is stable. Therefore, SGD is not expected to appreciate too much. However, in the interim, the mixed outlook suggests USD/SGD will probably be more volatile and choppy.*
- *We project unemployment rate to peak this year, reaching 3.6% at the end of the year. And with the Jobs credit scheme extended till June 2010, the unemployment rate should taper off by next year, probably at 3.2%.*

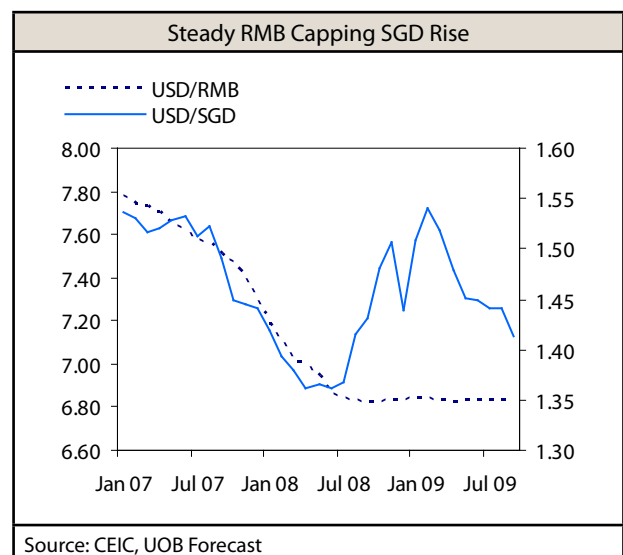
It is all about ‘normalization’ across the region. After the recovery in broad asset markets (both equities and properties), the Singapore economy is also doing likewise. From a trough of 9.5%y/y contraction in 1Q09, the economy turned slightly positive in 3Q09 (+0.6%y/y), and is likely to hit 4.9%y/y in the final quarter of 2009. SGD NEER is now about 1.7% higher as compared to the low in Jan 2009, reflecting the less dire situation. Already, SGD NEER is at the stronger half of the policy band, at 1.0-1.5% above the midpoint of the policy band. We see the SGD NEER continuing to stay at this level. Going forward, similar to other parts of Asia, we expect MAS to normalize in its monetary stance, shifting its policy band up at its next meeting in Apr 2010. Beyond that, we need to see more concrete signs of recovery, which at this point is still quite mixed. Note it is nothing but ‘normalisation’. Even as the economy records positive y/y growth, the country has effectively lost one year of potential output.

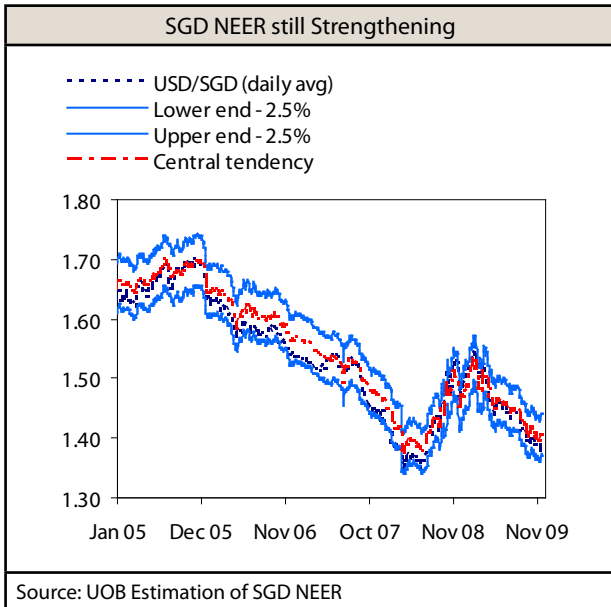
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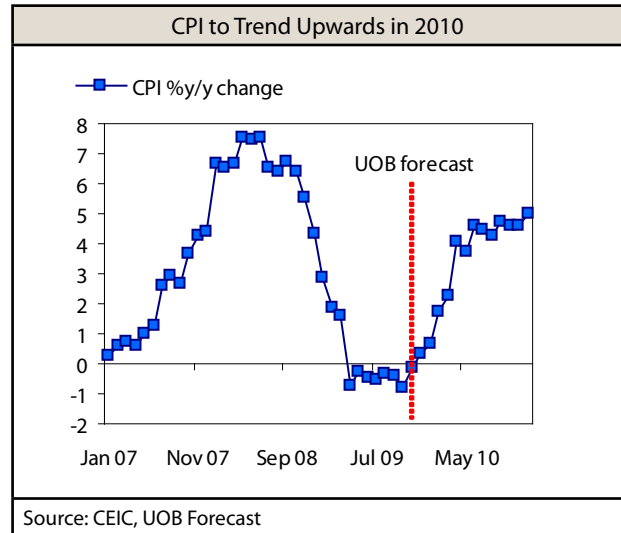
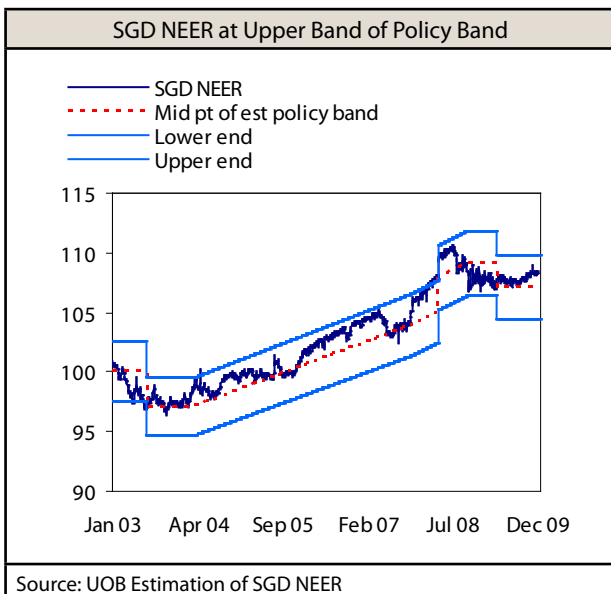
**Monetary Policy:  
One-off Move Expected in April 2010**

Over the last 18 months, the MAS eased monetary





policy twice, in response to the unprecedented crisis – undertaking a neutral 0% appreciation stance in Oct 08, and then re-centred the policy band downwards in Apr 09. With the environment stabilizing, we maintain that the MAS will normalize policy at next year's monetary policy meeting in Apr by shifting the policy band upwards. By then, the economy should have started to recover more decisively. Also, inflation is expected to pick up speed going into 2010, which might further prompt a tightening stance. MAS has revised its CPI inflation forecasts upwards to 2.5-3.5% for 2010, compared to the previous 1.0-2.0%, on the back of the recent revision in the annual values of HDB properties. MAS' underlying inflation forecast, excluding



accommodation and private road transport still remains unchanged at 1.0-2.0%.

However, we believe underlying inflation could come in higher than MAS' forecast, on account of the economic recovery and better consumer sentiment. Job losses have also been relatively tame at 3.4%, which will bolster consumer spending. Crude oil prices are expected to edge higher next year, translating to higher food, housing and transport costs. As the economy's recovery become firmer, and demand climbs, we think inflation might head towards 3.7% next year. Also, a normalization of monetary policy might probably be done in concert with other countries in Asia. We have projected Indonesia, Philippines and South Korea to begin tightening monetary policy in the 2Q of 2010.

**Economy Recovering and Picking up Momentum**

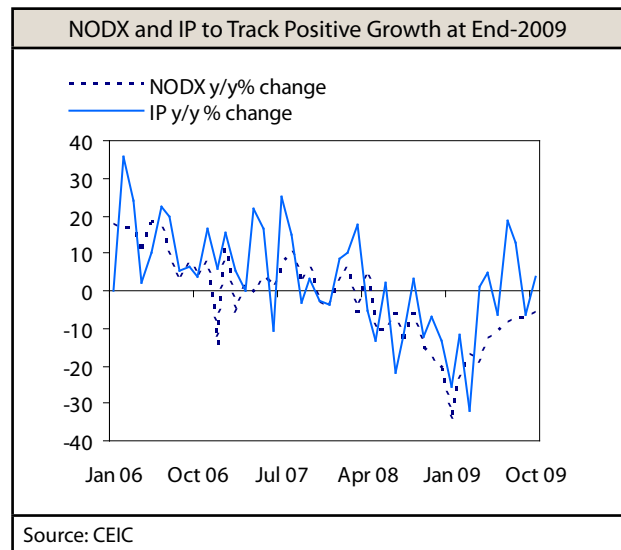
Singapore's recovery looks to be intact. All economic indicators are up, with exports and manufacturing showing improvement. But risks factors remain. The extent of the recovery, we think still remains to be seen, with external demand still wobbly. Also, the main driver of growth in manufacturing-pharmaceuticals –might be volatile and not show the same stellar rates of growth seen in 2009. We forecast GDP at -2.0% for full year 2009, on the back of the growth momentum seen in the 3Q, and carrying onto the 4Q. With the low comparison base from last year, we are expecting 4Q GDP to come in at +4.9% y/y. But the seemingly healthy numbers due out in later quarters belie the softness in exports. NODX to key markets such as the US and EU remain soft, as household demand remains tepid and unemployment high. We are keeping our GDP forecast of +4.5% for 2010.

# Singapore

Looking at the economy, 3Q GDP registered its first growth of +0.6% y/y, after 3 straight quarters of contraction. On a quarterly basis, expansion continued to be strong, at +14.2% q/q saar, following on from 2Q's +21.7% q/q saar. Pharmaceutical output started to come in slightly weaker in the 3Q, dragging manufacturing growth down to 6.6% y/y from 8.3% in the advance estimates. The services and construction sectors, however, turned in slightly better performances compared to the advance estimates. Services declined 2.2% y/y, compared to -2.4% y/y, while construction expanded 12.8% from 12.4%. MTI has projected 2010 GDP to grow between 3.0-5.0%, and maintained its 2009 growth forecast at -2.5 to -2.0% for this year.

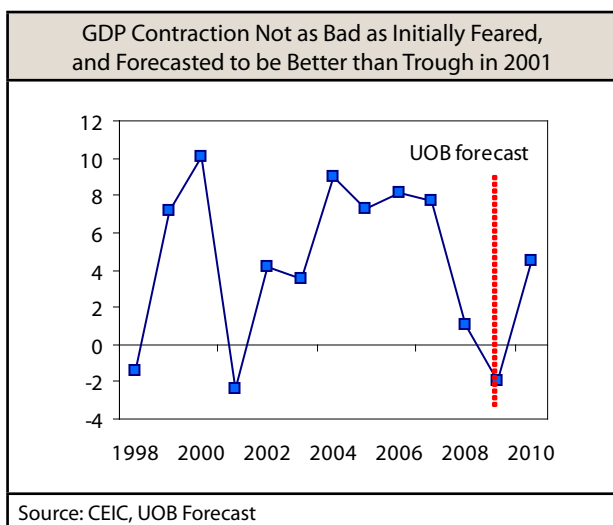
## High Frequency Economic Indicators Also Showing a Rebound...

Although much of it could be related to the low base from last year. NODX for the month of Nov grew 8.7% y/y, following 18 months of continuous contractions, and expanding a strong 19.8% m/m on a s/adj basis, after slumping 12.7% the previous month. NODX to key markets such as EU, China and Malaysia improved. The export boost was also driven by an increase in the value of pharmaceutical exports, which saw a 78% y/y bounce. Relatively strong numbers are expected for the manufacturing sector in the 4Q due to the low comparison base from last year. The latest Nov PMI figures also seem to have rebounded back from Oct's slightly downcast reading, to 52.0 from



50.2. Electronics sector also rose to 51.3 from the 49.6 level signifying contraction.

On the services side, improvement continues to be made across majority of the segments, especially as tourism-driven services such as hotels, F&B and retail sectors recover, with tourist arrivals strengthening. But financial services, which performed strongly in the 2Q at 22.5% q/q saar, showed a considerably slower growth pace of 3.9% in the 3Q probably in tandem with some pullback in the domestic stock market volume and loans growth slipping. Looking ahead however, due to the better sentiment, services should turn in a positive y/y growth in 4Q, after 4 straight prior quarters of decline.



## Unemployment

Initial dire market predictions of 50,000-100,000 job losses proved unfounded and the unemployment rate for 3Q has been relatively tame at 3.4%. Total employment from the beginning of the year till 3Q grew by 1000, a swift turnaround from a contraction of 13,900 in the first half of this year. Latest job figures show total employment even growing by 14,000 in 3Q, with the services sector rising by 12,700, from the wholesale & retail trade sector, financial services and professional services. We project the unemployment rate to peak this year, reaching 3.6% at the end of the year. And with the Jobs credit scheme extended till June 2010, the unemployment rate should taper off by next year, probably at 3.2%.