Given the difficult state of the Singapore economy, our call is for monetary easing at the Apr 2009 meeting. In Oct 2008, when the MAS undertook a neutral policy stance, consensus was that the economy could post growth of 3% this year. Since then, the official forecast has been revised to -2% to -5%, and top leaders have indicated risk of as severe as 8% contraction.

The only question mark is that SGD NEER has continued to hover around the mid-point, making the traditional one-off mid-point re-centering technically a little difficult to implement. However, some changes to the band should still be expected. An outright intervention to push SGD weaker – a la Swiss National Bank action -- should not be ruled out.

As such, we expect a weaker SGD towards 1.57 at end 2Q09, even amid a slightly wobbly USD. We expect the currency pair to move towards $1.55 by end-3Q09, before paring back its losses in the 4Q, when the economy starts its slow recovery.

The fall in SGD 3M SIBOR is in tandem with the Fed funds rate, which has been slashed to 0-0.25%. However, we do not see SIBOR falling to the same level as the fed funds rate given the economic and financial risks. We therefore expect 3M SIBOR to remain at around 0.7% at the end of 2Q09 and 3Q09, before edging lower to 0.6% by year-end

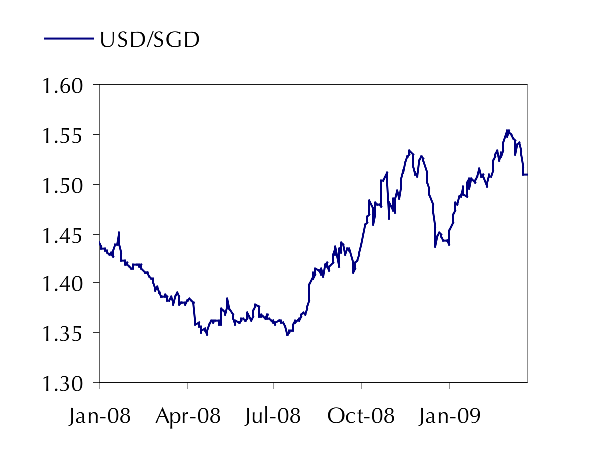
We are still maintaining our call for the economy to contract -4% in 2009, and will revise our forecasts for the full year, after more clarity on the 1Q09 figures released in April. We are expecting the Singapore economy to sustain q/q contractions for at least five consecutive quarters (from 2Q08). According to our forecasts, 1Q09 GDP may shrink 8.2% y/y, with 2Q continuing to contract to around 7.9% y/y. 3Q might see an ease up in the declines, with -4.1% y/y, and then 4Q could register a growth of 4.2% y/y.

SGD NEER Weakening Still on the Cards

Despite the difficult state of the economy, the SGD Nominal Effective Exchange Rate (NEER) has not depreciated as much as it should. Possible reasons include Singapore as a safe haven destination amid the global financial crisis, and a extremely volatile broad USD environment. For example, after sinking 6% (against the USD) to 1.54 since Jan 2009, the local currency has recovered to 1.5040 of late on increasing concerns over the greenback's reserve currency status. The lack of bias on SGD NEER means that the traditional one off re-centering of the mid-point may be difficult to implement. Still, we think some sort of FX adjustment is likely, with the MAS possibly engineering a band adjustment or even outright USD/SGD to guide SGD weaker – a la the action of Swiss National Bank. If the SGD NEER starts to weaken over the next two few weeks, a traditional one-off re-center will make MAS' effort to loosen policy easier.

As such, we are looking at the SGD depreciating in the coming months, on anticipation of more bad news on the economic data front, before stabilizing in the second half of the year. We project a softening of the SGD against the USD in the 2Q09, at $1.57, and this decline extending to the 3Q, to $1.55, before paring back its losses in the 4Q, when the economy starts its slow recovery.

More Scope for SGD to Weaken Further



Source: CEIC

Implications on Monetary Policy

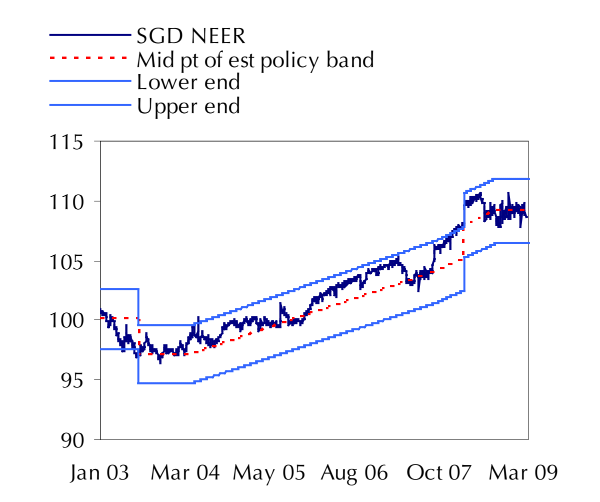
Following the Fed's quantitative easing program and the resulting weakness in the USD, engineering a looser monetary policy just became harder for the MAS. Our in-house SGD nominal effective exchange rate (NEER) model shows that the SGD NEER is now firmly at the midpoint of the policy band. For the MAS to ease monetary policy by recentring the band, the SGD has to be trending in the lower half of the policy band. A one-off

▪ Singapore

SGD NEER recentring at that current level was implemented in April last year when the SGD was hovering at the stronger end of the policy band. As such, it will now be difficult to implement a one-off SGD NEER weakness, unless MAS seek to push the SGD down before the monetary policy meeting. However, the underlying economic weakness and poor outlook for Singapore does call out for a monetary policy weakening, and we won't be surprised if the central bank executes a SGD NEER weakness- beyond the traditional process of shifting the midpoint. In comparison, other central banks in Asia have already undertaken significant monetary easing, largely through interest rate cuts.

Last week, the Indonesian central bank cut its benchmark overnight rate by 50bps to 7.75%, bringing the cumulative rate cuts to 175bps since December. Bank of Thailand last month cut its benchmark one-day bond repurchase rate to 1.5%, the lowest in 4 years following the 100bps decrease in Dec, and 75 bps in Jan. In Malaysia, the benchmark OPR was cut by 50bps to 2.0%, for the third consecutive meeting. Since November last year, the BNM has cut its OPR by a cumulative 150bps. Taiwan's central bank CBC also cut its key interest rate for the second time so far this year, but by a smaller magnitude of 25bps to 1.25%.

SGD NEER Still Hovering Within Midpoint

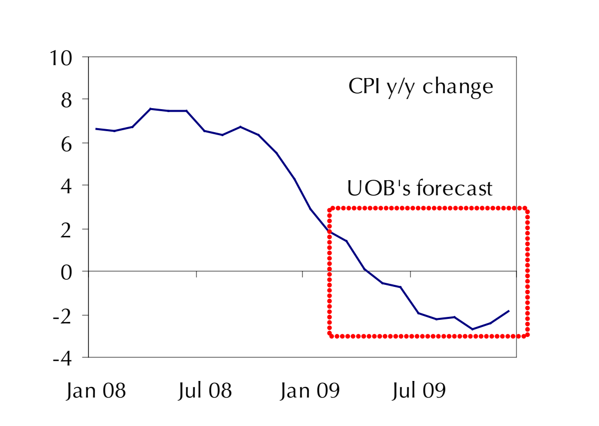


Source: CEIC, UOB

Deflation For 2009

We are set to see a period of mild deflation this year with MTI forecasting inflation at -1 to 0%, from a previous estimate of +1 to +2%, on a correction of commodity prices and the deceleration of economic activity. The latest reading of the Consumer Price Index showed it eased in Feb on lower costs of food, housing, and recreation. On a yearly basis, CPI rose 1.9% as housing, food, health care and recreation were still higher compared to a year ago. We expect CPI to continue moderating this year, largely due to basis effect and falling oil price. Cheaper petrol and lowered prices of cars will bring down transport costs and electricity tariffs, while decreased property prices will also put pressure on accommodation costs- the 2 main components of the CPI. Overall, we expect inflation to come in at around -0.7%, in line with MTI's -1 to 0% forecast, based on a continued weakening of commodity prices and global demand. With inflation coming off, this will give the MAS more room in easing monetary policy.

Mild Deflation for 2009

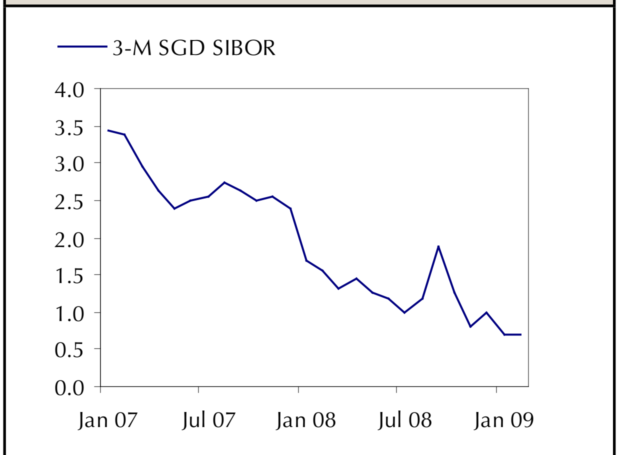


Source: CEIC, UOB's Forecast

Sibor Outlook

The SGD 3M SIBOR has dropped sharply from 2.225% in Sep last year after the collapse of Lehman Brothers, to as low as 0.65%. The fall in SIBOR is in tandem with

SIBOR to Trend Lower



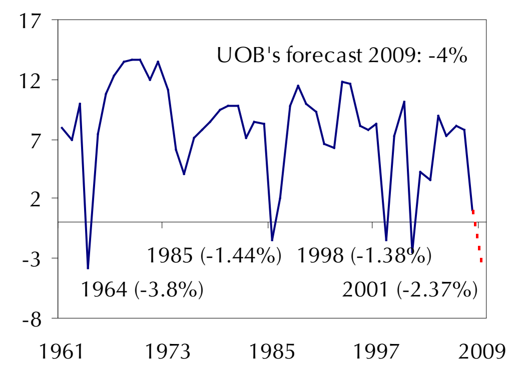
Source: CEIC

the Fed funds rate, which has been slashed to 0-0.25%. However, we do not see SIBOR falling to the same level as the fed funds rate given the economic and financial risks. There are fears of further deterioration in the real economy and risky assets remain on the books of many companies. As a result, banks would still be cautious in lending, potentially keeping SIBOR rates supported. We therefore expect 3M SIBOR to remain at around 0.7% at the end of 2Q09 and 3Q09, before edging lower to 0.6% by year-end.

Singapore's Economic Growth Hampered by Collapse in World Trade

The year got off to a bad start for Singapore, when 4Q08 GDP plummeted to -4.2%, bringing full year 2008 growth to 1.1%. Both manufacturing and services sectors had been adversely impacted, with Singapore's export-oriented economy suffering from the waning external demand. Most forecasts for Singapore's GDP now are not even in the range of the official estimates of -5% to -2%, but have sank to -7% to -8%. Despite this, we are still maintaining our call for the economy to contract -4% in 2009, and will revise our forecasts after more clarity on the 1Q09 figures released in April. But already, -4% would have surpassed the crisis years of 1998 (-1.4%) and 2001 (-2.4%). (see table). We are expecting the Singapore economy to sustain q/q contractions for at least five consecutive quarters (from 2Q08). According to our forecasts, 1Q09 GDP may shrink 8.2% y/y, with 2Q continuing to contract to around 7.9% y/y. 3Q might see an ease up in the declines, with -4.1% y/y, and then 4Q could register a growth of 4.2% y/y.

Real GDP in Crisis Years (y/y % change)



Source: CEIC, UOB's Forecast

Manufacturing Sector Continue to Deteriorate

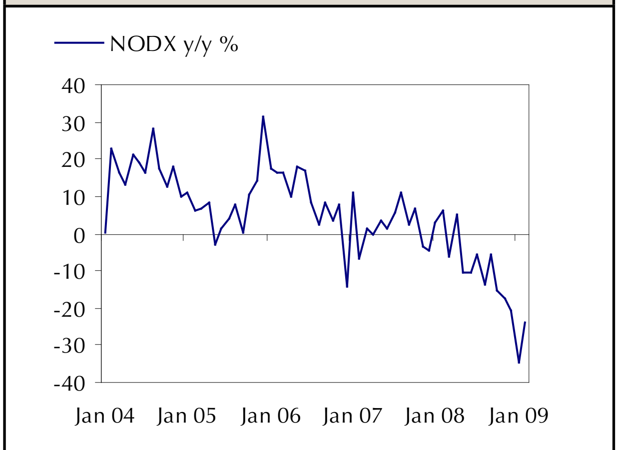
The manufacturing sector extended its declines, contributing to the slump in 4Q08, with weakness coming from electronic and non-electronic manufacturing. 4Q08 showed a contraction of 10.7% y/y in manufacturing, from -11% in 3Q08, led by a fall in electronics, precision engineering and chemicals production, as external demand dropped off. For the year ahead, we expect to see continued declines in both electronic and non-electronic manufacturing as the pace in exports and trade has braked sharply. The manufacturing sector might turn in a 19.5% contraction in the 1Q, and 2Q continuing the decline at -10% before experiencing a slow uptick in the later part of the year. February's manufacturing output continued to slide, but at a slower pace from Jan, at -22.4% y/y compared to -29.8% a month ago - which was the worst on record. Although IP's decline has eased, similar to what we saw in Feb's NODX data (which fell 23.7% y/y compared to 34.9% in Jan), we do not think this marks a bottoming of the manufacturing sector. Feb's data was somewhat skewed by the CNY holidays, and we are projecting continued steep drops in production. If IP in March continues at this pace, 1Q09 could see a 27.5% contraction in manufacturing. If this comes true, then our GDP forecast of -4% for 2009, could potentially slump to -4.6%.

No Abatement in NODX Declines

Because of its high dependence on exports, Singapore's economy will also suffer a disproportionate hit from the fallout in the global financial crisis. Of the nine Asian economies that we cover, Singapore has one of the highest export (NODX) to GDP ratio of 70.6%. In terms of the export numbers, Singapore was the worst-performing among the Asian economies as NODX was already contracting in 2Q08, due to the change in product mix in the pharmaceutical manufacturing as well as some restructuring in the electronics industry which saw some mobile phone companies shifting out of the country. We expect monthly NODX to contract through nearly the whole of 2009, capping a consecutive 19 months of y/y decline. This will be more severe than the 13 straight months of contraction in 2001-2002 and 6 straight months of negative growth following the Asian Financial Crisis, between 1998-1999. NODX level has fallen back to early-2004 levels and we are expecting it to contract 22% to 2003 level this year following the 7.9% fall in 2008. Export figures have become abysmal, and are likely to register consecutive contractions for practically the whole year, although it should pick up in the last quarter of 2009. We are expecting a decline of 24% y/y for NODX for the whole year.

The sharp contractions in Singapore's non-oil domestic exports seem to have eased somewhat in Feb at first look. Feb's NODX, fell 23.7% y/y (in line with median market estimates of -23.6%), better than the 34.9% contraction in Jan-which was the biggest drop ever on record. Seasonally adjusted, Feb NODX even increased marginally by 1.8% from the previous month, mainly due to the low base in Jan as a result of the Chinese New Year holiday. Even though the slump in Feb has been less dramatic than in Jan, we think this is too soon to suggest a pick-up in exports. Feb's NODX showed the decline moderated from Jan, possibly due to the low base effect of the CNY holiday occurring in Feb last year. Moreover, demand from key markets like the US and EU (which in total account for a quarter of NODX) still remain weak, with contractions of 36.7% and 44.4%, respectively in Jan.

NODX Set to Fall Further



Source: CEIC, UOB's Forecast

Services Sector Also Suffers Fallout

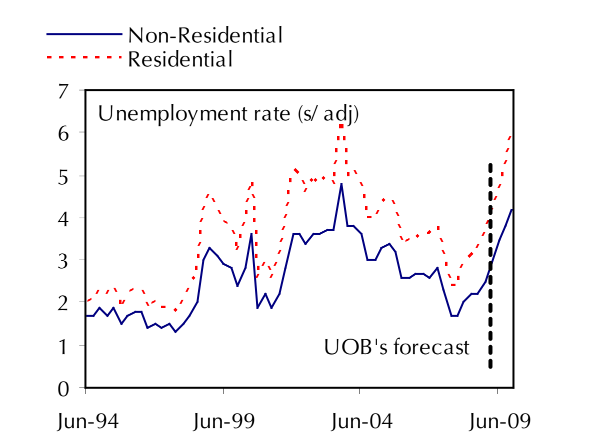
Services, which accounts for 65% of GDP is slowing markedly. Growth in the services industries have declined rapidly in the 4Q08, as sectors such as financial services, wholesale & retail trade, transport & storage, feel the knock on effects of the downturn in the manufacturing sector and receding visitor arrivals . Last year and even the first half of this year saw pretty strong expansion in services in the range of 7.5- 8%, but this quickly plunged to -1.3% in 4Q, dragged down by and financial services sectors. Financial services fell by 8.1% instead of the earlier -1.8% in the 4Q08, due to the fall-off in trading activities in foreign exchange and stock brokerage, fund management and Asian Currency Units.

The only bright spot seems to come from construction which is continuing to expand at a double-digit although, moderating pace. Growth in 4Q08 came in at 14.1% y/y, compared to 20.3% in the prior quarter, bringing about a full year improvement to 17.9% in 2008. This compares with 20.3% in 2007. The healthy level of construction output in 2008 was sustained by robust activity in the residential, industrial and civil engineering building segments. Construction demand was also supported by an upswing in the number of public housing and infrastructural projects committed. We see construction continuing its growth pace, albeit at a slower rate of around 12%, buoyed by government spending on infrastructure works.

Jobs Market Outlook Should Weaken Further as Downturn Steepens

Conservatively, we are expecting net job losses of 50,000-100,000 this year compared with around 200,000 jobs created in the first three quarters of 2008. This is still significantly larger than the average 23,000 jobs lost during the downturn in 1998 and 2001 respectively, and could be partly due to the hefty 795,800 employment creation since year 2004. Job losses will be tempered by openings in the private sector, as well as government agencies and the two integrated resorts. The government has already announced plans to recruit more than 12,000 additional manpower for the Home Affairs, Education, Health and Defence ministries this year which will help to replace some job losses and absorb the 30,000 new job entrants every year.

Unemployment to Climb



Source: CEIC, UOB's Forecast

▪ Singapore

Assuming that half of the potential 100,000 job losses are from the residents, the seasonally-adjusted **resident** unemployment rate in Singapore could rise to 6% this year (from our estimate of 3.6% end-2008) compared with 4.8% in 2002 and 5.2% in 2003. The manufacturing jobs remain more vulnerable than service sector jobs in the current downturn. Since 2005, the total number of retrenchments in the manufacturing sector has consistently outpaced that in the services sector. This was led by ongoing restructuring in the manufacturing sector as investments were targeted at less labour-intensive segments such as the pharmaceuticals and lower value-added production was shifting to low-cost centres overseas. Overall, we estimate that close to 70% of the retrenchments will come from the manufacturing sector this year, compared with 68.6% in 2007.

With jobs preservation the centerpiece of the government budget, we feel that the onslaught of retrenchments will be tempered by the measures introduced by the government. Jobs Credit involves employers getting 12% cash on the first $2500 of each month's wages for every employee, and we believe that should the unemployment situation start to get out of hand, the government may well step in with more fiscal measures to stem soaring unemployment rates.

UOB Economics Projections	2007	2008	2009F	2010F
GDP	7.8	1.1	-4.0	4.0
CPI (average, y/y)	2.1	6.5	-0.7	2.0
Unemployment Rate (End-4Q)	2.1	2.2	4.2	3.8
Current Acct (% of GDP, SGD)	23.5	14.8	10.3	13.9
Fiscal Balance (% of GDP)	2.5	-0.8	-3.5	-1.2

Real GDP by Sector (y/y % change)

	2008	2009F	4Q08	1Q09F	2Q09F	3Q09F	4Q09F
Total GDP	1.1	-4.0	-4.2	-8.2	-7.9	-4.1	4.2
Goods-Producing Industries	-1.0	-5.7	-6.5	-13.9	-6.2	-4.2	2.3
Manufacturing	-4.1	-9.3	-10.7	-19.5	-10.0	-6.5	0.1
Construction	20.3	13.5	18.5	22.0	18.0	6.0	10.0
Services-Producing Industries	4.7	-3.4	-1.3	-4.9	-8.8	-4.6	5.1
Wholesale/Retail Trade	2.6	-6.2	-5.3	-7.0	-11.0	-10.0	4.0
Transport & Communications	3.1	-3.2	-2.4	-5.4	-9.0	-4.0	6.0
Hotels/Restaurants	1.2	2.2	-0.1	-2.5	-1.0	2.0	10.0
Information & Communications	7.2	-2.0	5.4	-3.0	-10.0	-1.0	6.0
Financial Services	5.5	-8.0	-8.1	-13.0	-15.0	-6.5	4.0
Business Services	7.4	0.7	5.2	0.8	-3.0	-1.0	6.0

Source: MTI