Macro Note

Singapore: Preliminary Assessment of Trump's tariffs

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- While the reciprocal tariff rate[1] applied by the US on Singapore (10%) is materially lower compared to the regional Asian economies (e.g. Vietnam: 46%, Thailand: 36%), Singapore is likely the most susceptible to a **tariff-induced external slowdown** within the ASEAN-6 economies given our significant share of domestic value-added in foreign final demand, amounting to more than 60% of nominal GDP. **In terms of direct exposure to US demand expressed as a % of nominal GDP, Singapore sits at the top of the pack amongst economies in our coverage universe, with Vietnam a close second (Fig 2).**

- In our Jan 2025 MPS Preview, we highlighted that Singapore faces a lower risk of direct US tariffs given (i) Singapore's consistent trade deficit against the US over the past 20 years, except in 2020 (Fig 3) (ii) limited/no evidence to suggest that Singapore serves as a "conduit" to redirect Chinese exports to the US in a bid to circumvent tariffs (iii) being the only economy in ASEAN with a bilateral Free Trade Agreement with the US i.e. USSFTA (iv) applying a zero-rated MFN tariff to almost all its tariff lines, **which indeed led to a "minimum" global tariff rate of 10% applied on Singapore, which is relatively lower than most other Asian economies. Regardless, Singapore's exports to the US is nonetheless subjected to a 10% tariff rate.**

- **We construct a stylized "risk metric" (0-100) to compare the spillover effects of a tariff-induced slowdown in a trading partner on Singapore's economy (Fig 4) factoring in** (i) Singapore's domestic value-added (DVA) originating from the trading partner (ii) the trading partner's DVA originating from the US (iii) the reciprocal tariff rate proposed by Trump this morning (3 Apr). **Our metric suggests that Singapore could be more vulnerable to a tariff-induced economic slowdown in China, EU, India, Japan, Thailand and Taiwan while recessionary effects in New Zealand, Australia, UK or Philippines could have limited spillovers to the Singapore economy.**

- **The S$NEER index on our model has seen a ~20bps decline following the tariff announcements, hovering within the range of 35-45bps above the midpoint of the policy band as at time of writing. MAS has released a statement today and reaffirms that the central bank** "*stands ready to curb excessive volatility in the Singapore dollar, and to ensure that Singapore's foreign exchange and money markets continue to function in an orderly* manner" and that "*MAS is closely monitoring developments and assessing the implications for the Singapore economy".*

- **Growth Outlook –** High frequency (monthly) data suggest that 1Q25 growth is likely to ease from the robust 5.0% y/y reading seen in 4Q24 (note), driven by a moderation in trade-related sectors (manufacturing, transportation & storage). We will review our full-year 2025 GDP growth forecast (current: 2.5%) during the release of the 1Q25 GDP advance estimates alongside the Apr 2025 MPS and at this juncture, we assess that the suite of announced tariff measures if sustained could drag Singapore's full-year growth closer to the lower end of MTI's official

[1] The baseline import tariffs (10%) will take effect after on 5 Apr while the individualized reciprocal higher tariffs will come into effect later on 9 Apr.

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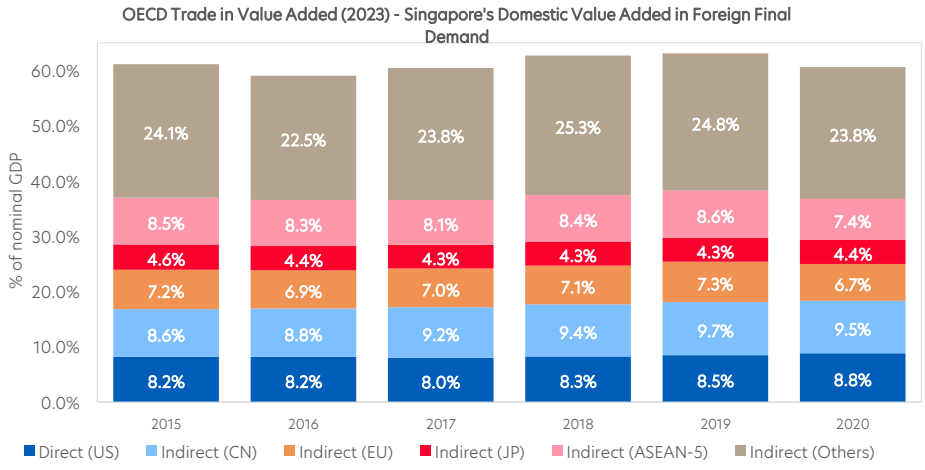
forecast range of 1.0-3.0% (i.e. close to 1.0%). **The manufacturing sector faces additional downside risks should the US eventually follow-through with more sector-specific tariffs especially on pharmaceuticals and semiconductors (Fig 6).**

- **Inflation Outlook** – Following the soft Jan-Feb core inflation readings (note), we downgraded our full-year 2025 core inflation forecast to 1.0% (from 1.3% previously) and noted that various core inflation metrics such as the momentum (3M/3M SAAR) and pervasiveness (share of items in CPI basket exceeding 2% y/y threshold) has normalized. We pay close attention to potential deflationary risks stemming from a weaker global demand and supply glut as escalating tariffs could diminish the appeal of the US as a reliable end market.

- **Monetary Policy Outlook –** We analyze the seven MAS monetary policy easing episodes since post-GFC and note that each episode is accompanied by a downshift in MAS' core inflation forecast range (see calculation methodology in Fig 9) of at least 0.25% point. Based on our core forecast, we assess that in the upcoming Apr 2025 MPS release, MAS is likely to either (i) qualify that core inflation is likely to come in at the lower half of the 1.0-2.0% range or (ii) shift the core inflation forecast downwards entirely to 0.5-1.5%, and both scenarios support the case of further monetary policy easing. **Hence, we expect MAS to reduce the slope of the S$NEER policy band "slightly" (i.e. to an estimated 0.5% p.a. from 1.0% p.a.) in the upcoming Apr 2025 MPS. Risks of a complete flattening of the S$NEER slope later this year has risen significantly.**

Fig 1 – Singapore's small and open economy is highly vulnerable to external shocks – with >60% of demand for its DVA originating abroad

Source: OECD, Macrobond, UOB Global Economics & Markets Research



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Fig 2 – Direct exposure to US demand – Singapore leads the pack within the Asian economies

Source: OECD, Macrobond, UOB Global Economics & Markets Research

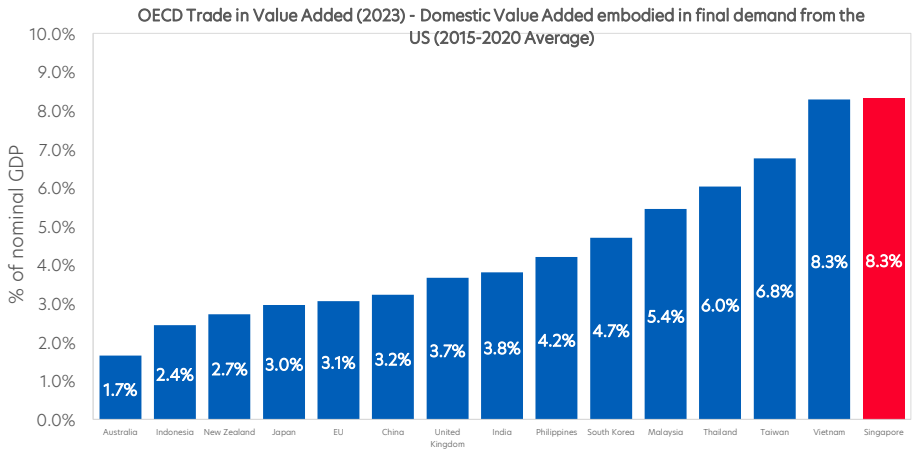


Fig 3 – Singapore ran a consistent trade deficit (inverted in chart) against the US over the past 20 years except in 2020

Source: Macrobond, UOB Global Economics & Markets Research

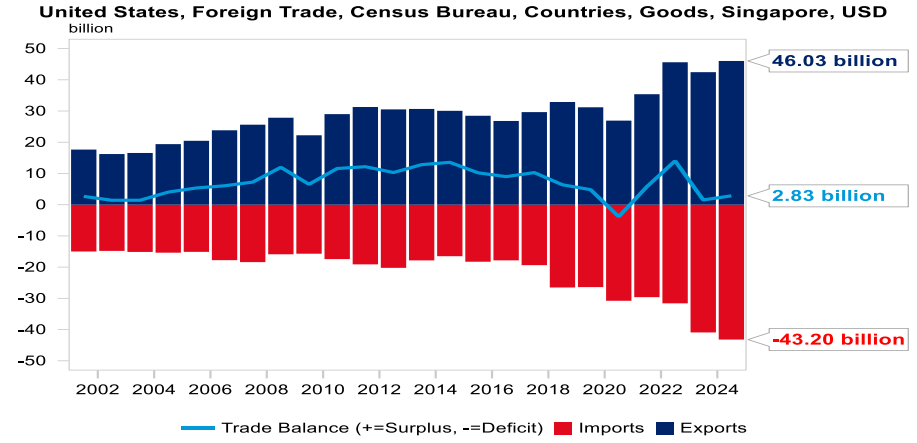


Fig 4 - Singapore could be more vulnerable to a tariff-induced economic slowdown in China, EU, India, Japan, Thailand and Taiwan while recessionary effects in New Zealand, Australia, UK or Philippines could have limited spillovers

Source: OECD, Macrobond, UOB Global Economics & Markets Research

2015-2020 Average	Singapore's DVA from Trading Partner (% nGDP)	Trading Partner's DVA originating from the US (% nGDP)	Reciprocal Tariff Rate	"Risk Metric" (0-100)	"Risk Metric" ex-China (0-100)
Australia	1.9%	1.7%	10%	2	5
Japan	4.4%	3.0%	24%	30	72
South Korea	1.8%	4.7%	25%	20	49
New Zealand	0.4%	2.7%	10%	0	0
United Kingdom	1.5%	3.7%	10%	4	10
China	9.2%	3.2%	34%	100	
India	3.5%	3.8%	26%	33	79
Indonesia	2.8%	2.4%	32%	21	49
Malaysia	1.9%	5.4%	24%	24	57
Philippines	1.4%	4.2%	17%	9	22
Taiwan	1.2%	6.8%	32%	26	61
Thailand	1.4%	6.0%	36%	30	71
Vietnam	0.7%	8.3%	46%	25	59
EU	7.0%	3.1%	20%	42	100

Fig 5 - High frequency (monthly Jan-Feb) data suggest that 1Q25 growth is likely to ease from the robust 5.0% y/y reading seen in 4Q24, driven by a moderation in trade-related sectors (manufacturing, transportation & storage).

Source: Macrobond, UOB Global Economics & Markets Research
*Only Jan 2025 data

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25e
Manufacturing									
Total	-5.4%	-8.2%	-4.9%	1.8%	-1.1%	-0.6%	11.2%	5.8%	3.1%
Electronics	-7.3%	-11.7%	-0.8%	9.0%	-3.2%	4.1%	16.0%	12.0%	5.5%
Construction									
Certified Progress Payments*	16.4%	16.9%	14.2%	14.2%	6.7%	12.7%	12.5%	8.4%	10.6%
Contracts Awarded*	2.4%	3.2%	12.0%	42.8%	-3.9%	67.2%	82.2%	-4.6%	97.0%
Trade-Related									
Real Non-oil Domestic Export	-13.6%	-6.8%	-13.3%	2.8%	0.5%	-3.5%	12.8%	6.3%	5.0%
Real Non-oil Re-exports	-8.8%	-14.6%	-7.7%	4.3%	15.0%	17.5%	12.1%	20.2%	9.3%
Retail Sales Volume									
Total*	1.2%	0.8%	1.4%	-1.5%	2.4%	-1.5%	-0.3%	-1.1%	8.3%
ex Motor Vehicles*	2.5%	1.4%	1.0%	-2.6%	1.5%	-4.0%	-3.2%	-2.9%	9.1%
Transportation & Storage									
Port Cargo	-1.4%	3.1%	1.8%	6.1%	7.7%	8.7%	3.2%	1.5%	-8.0%
Container Throughput	-0.7%	7.4%	3.7%	8.1%	10.7%	2.6%	5.1%	3.8%	2.5%
Air Cargo	-9.0%	-10.8%	-4.0%	-0.5%	14.0%	16.1%	13.5%	15.0%	-4.4%
Passenger Arrivals (Changi)	393.0%	97.9%	51.9%	31.7%	27.1%	14.2%	9.9%	10.6%	6.1%
Passenger Departures (Changi)	418.3%	99.3%	53.1%	30.7%	27.1%	12.6%	10.3%	10.6%	4.5%
Accommodation and F&B									
International Arrivals	1082.5%	168.1%	72.6%	35.2%	47.8%	14.8%	14.2%	13.7%	5.0%
Hotel Gross Lettings	99.7%	37.4%	24.3%	6.0%	23.2%	6.7%	8.2%	7.7%	0.7%
Average Hotel Occupancy Rate - Levels	78.0	79.5	86.1	76.5	81.7	78.2	87.0	79.8	83.2
F&B Catering Volume*	11.9%	3.6%	2.0%	-2.9%	0.7%	-1.6%	-1.0%	-0.1%	5.0%
Finance									
Total Residential and Non-Residential Loans	-4.5%	-5.5%	-6.1%	-3.5%	-0.9%	-0.1%	0.4%	2.8%	3.2%

Fig 6- Singapore's manufacturing sector faces additional downside risks should the US eventually follow-through with more sector-specific tariffs especially on pharmaceuticals and semiconductors.

Source: ASEANstats, Macrobond, UOB Global Economics & Markets Research

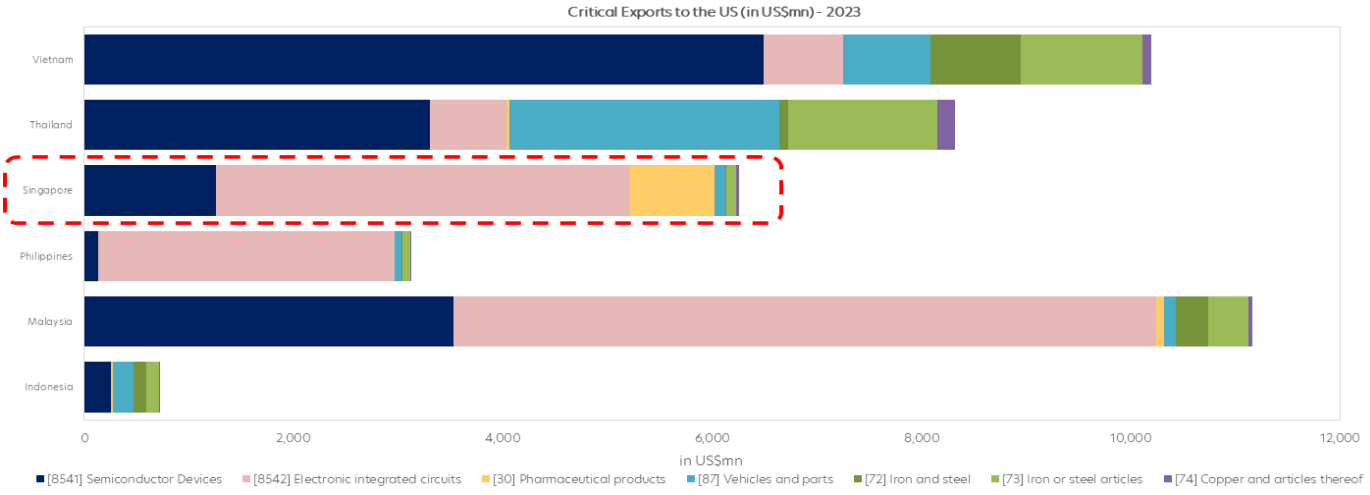


Fig 7- External inflation conditions, proxied by our import-weighted inflation index of Singapore's 10 key trading partners, has softened dramatically

Source: Macrobond, UOB Global Economics & Markets Research

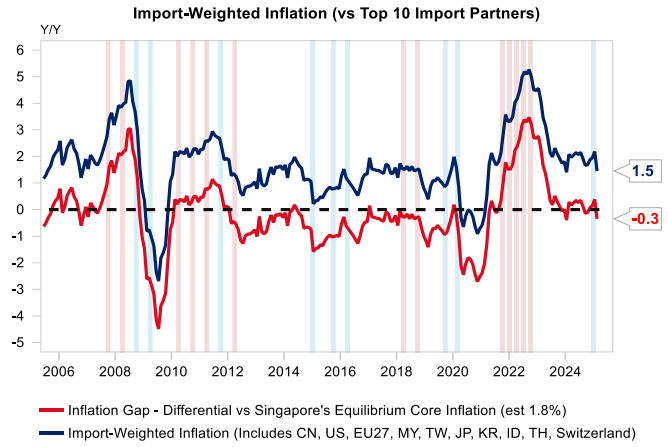


Fig 8 - Deflationary risks could stem from a buildup in excess supply as tariffs could diminish the appeal of the US as an end market while capacity utilization (e.g. in China) could only be reduced to a certain extent

Source: Macrobond, UOB Global Economics & Markets Research

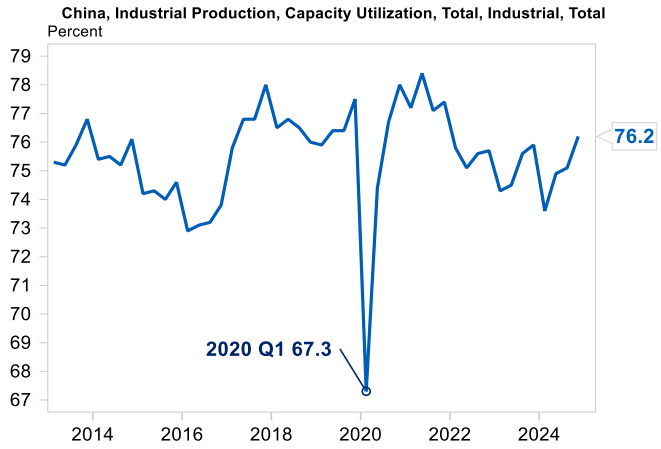


Fig 9: Past Policy Heuristics - Each MAS monetary policy easing episode is accompanied by a downshift in core inflation forecast vs the previous MPS

Source: MAS Monetary Policy Statements, UOB Global Economics & Markets Research

*We compute the changes in the core forecast vs the previous MPS by computing the difference in the midpoint of the forecast range. In the Apr 2016 case where MAS noted that the 2016 core inflation is likely to come in at the lower half of the 0.5-1.5% range, we infer the range to be 0.5-1.0%, hence implying a 0.75% midpoint. We perform a similar calculation for the Oct 2019 case.

Date	Changes to Slope	Changes to mid-point of S$NEER band	Current Year Core Forecast	Next Year Core Forecast	Change in Core Forecast vs Prev MPS
Oct 2011	Reduce		2.1%	1.5-2% (Mid: 1.75%)	Apr 2011 MPS: 2-3% (Mid: 2.5%) Diff: -0.4%
Jan 2015	Reduce		0.5-1.5% (Mid: 1.0%)		Oct 2014 MPS: 2-3% (Mid 2.5%) Diff: -1.5%
Oct 2015	Reduce slightly		0.5%	0.5-1.5% (Mid: 1.0%)	Apr 2015 MPS: 0.5-1.5% (Mid: 1.0%) Diff: -0.5%
Apr 2016	Set at 0%		lower half of 0.5-1.5% (Mid: 0.75%)		Oct 2015 MPS: 0.5-1.5% (Mid: 1.0%) Diff: -0.25%
Oct 2019	Reduce slightly		lower end of 1-2% (Mid: 1.25%)	0.5-1.5% (Mid: 1.0%)	Apr 2019 MPS: 1-2% (Mid: 1.5%) Diff: -0.25%
Mar 2020	Set at 0%	Re-centre downards at prevailing level of S$NEER	-1.0% to 0.0% (Mid: -0.5%)		Oct 2019 MPS: 0.5-1.5% (Mid: 1.0%) Diff: -1.5%
Jan 2025	Reduce slightly		1.0% to 2.0% (Mid: 1.5%)		Oct 2024 MPS: 1.5-2.5% (Mid: 2.0%) Diff: -0.5%
Apr 2025 (Projections)			lower half of 1-2% (Mid: 1.25%)		Jan 2025 MPS: 1.0-2.0% (Mid: 1.5%) Diff: -0.25%

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