# Macro Note

## Singapore: Inflationary risks amidst growth uncertainty support an incremental approach to monetary policy tightening

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- Since our previous update on 6 Mar, the US/Israel-Iran conflict has intensified, with several key energy installations in the Middle East struck by drones and missiles, resulting in a spike in crude oil and natural gas benchmarks, alongside reported supply disruptions in other petrochemical feedstocks/by-products. In particular, we highlight helium gas (used as a cooling agent in semiconductor manufacturing), urea (nitrogen fertilizer), and naphtha (used in plastics production).

- **While Singapore's GDP growth continues to benefit from AI-related momentum in early 2026, downside risks could intensify should the US/Israel-Iran conflict persist for longer (beyond one quarter), primarily through a sharp drag on the manufacturing sector, with adverse spillovers to the wholesale trade and transportation & storage sectors.** Potential tightening of global monetary policy in response to an energy-led inflation shock could further amplify downside risks to global GDP growth, weighing on Singapore's growth via the external demand channel. For now, we are keeping Singapore's growth forecast at 3.6% for 2026, pending further developments.

- Prior to 28 Feb, our base case already assumed that MAS would tighten monetary policy in the Apr 2026 MPS via a 50bps S$NEER slope steepening to 1.0% p.a., and this episode strengthens our conviction that MAS could deliver the move to guard against looming imported inflation risks. We are now projecting another 50bps slope-steepening to 1.5% p.a. in the Oct 2026 MPS, with risks that the move may be front-loaded to Jul 2026. In our view, more aggressive tightening measures—such as an upward re-centring of the S$NEER policy band—would likely be more "reactive" than "pre-emptive" in nature and could materialize should it become clearly evident that core inflation is poised to surprise materially above MAS' baseline projections.

**Since our previous update on 6 Mar (note), the US/Israel-Iran conflict has intensified, with several key energy installations in the Middle East struck by drones and missiles, resulting in a spike in crude oil and natural gas benchmarks (Fig 1), alongside reported supply disruptions in other petrochemical feedstocks/by-products (Fig 2).** In particular, we highlight helium gas (used as a cooling agent in semiconductor manufacturing), urea (nitrogen fertilizer), and naphtha (used in plastics production).

Helium – Used as a coolant in semiconductor manufacturing. Supply shortages could disrupt global chip production and, in turn, weigh on **Singapore's manufacturing industry, given that semiconductors account for a significant 32.6% share of IP, with adverse spillovers to the wholesale trade and transportation & storage sectors**. Further downside risks could arise from a sharp correction in AI-related equity prices, which could derail firms' capex plans, compounding the drag on Singapore's chip production and related activities.

Urea - Utilized primarily as a nitrogen-based fertilizer and as an animal-feed additive. Supply shortages could hinder global crop production and weigh on crop yields, with the consequent tightening in global food supply exerting upward pressure on food inflation, **which accounts for roughly one-fifth of Singapore's overall CPI basket.**

Naphtha - Used as a key feedstock for steam crackers to produce ethylene and propylene for plastics. Supply shortages could adversely affect Singapore's petrochemical refinery activities, where the **chemical industry (including broader petroleum, specialty chemicals, and related segments) accounts for around 15% of Singapore's IP.**

**With the US/Israel-Iran war entering its fourth week with limited signs of abating, markets are increasingly pricing in the prospects of a long-drawn conflict alongside a resurgence in inflation associated with a protracted rise in energy prices and possible second-round effects, via rate hikes – especially in the case of the US Federal Reserve, ECB, and BOE (See 2Y OIS pricing, Fig 3).** Our commodity strategist has raised the Brent crude oil price forecast further (note), now projecting US$110/bbl for 2Q26, US$100/bbl for 3Q26, and US$90/bbl for both 4Q26 and 1Q27.

Fig 1: Surge in crude oil and natural gas benchmarks

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

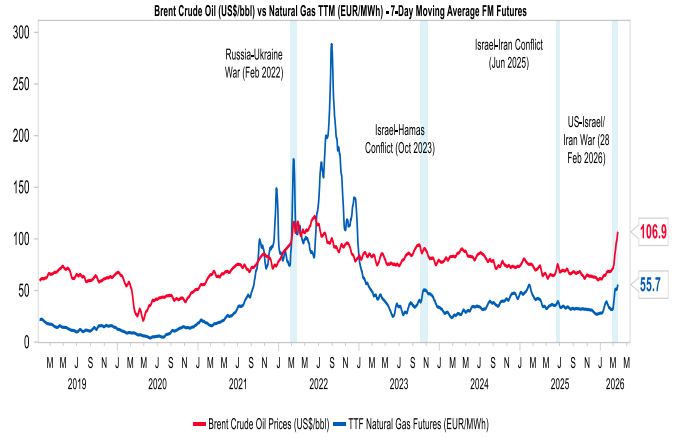



Fig 2: Reported supply shortages in other petrochemical feedstocks

Source: Various news sources, UOB Global Economics & Markets Research

| | Industrial Applications | Risks/Key Impact |
|---|---|---|
| Helium | Used as a coolant in semiconductor manufacturing and also to cool superconducting magnets in MRI scanners | Bloomberg reported that Qatar's shutdown of LNG production at Ras Laffan has taken about one-third of global helium production offline (12 Mar 2026). Supply shortages could disrupt global chip production, which would weigh heavily on Singapore's manufacturing industry given the sector's importance, with adverse spillovers to the wholesale trade and transportation & storage sectors. AI-related tailwinds that drove growth in 2025 could also turn into a headwind in the event of a sharp correction in AI-related equities, potentially derailing AI-related capex plans. |
| Urea | Utilized primarily as a nitrogen-based fertilizer, animal feed additives | The New York Times reported that India buys 40% of its urea and phosphate-based fertilizers from suppliers in the Middle East (7 Mar 2026). Supply shortages could affect global crop production (e.g., in India) and potentially dampen yields, tightening food supply and exerting upward pressure on global food inflation, where food accounts for one-fifth of Singapore's overall CPI basket. |
| Naphtha | Used as a key feedstock for steam crackers to produce olefins (ethylene, propylene) for plastics | The Edge Malaysia noted that Asia steam crackers sources more than 60% of their naphtha feedstock from the Middle East (18 Mar 2026). Supply shortages could have significant effects on downstream production, with Singapore's manufacturing industry likely to be heavily affected, given the sizable weight of chemicals in IP (latest: 15.0%), encompassing petroleum, petrochemicals, specialties, and other related segments. |

Fig 3: Markets are increasingly pricing in the prospects of rate hikes – especially in the case of the US Federal Reserve, ECB, and BOE.

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

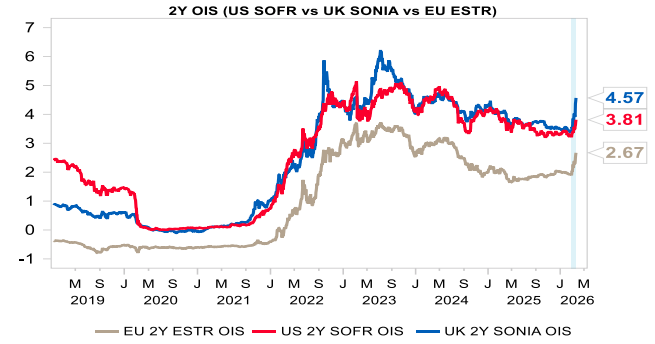



Fig 4: We estimate that about 7-8% of Singapore's overall CPI basket could be directly affected by oil and gas prices

Source: Singstat, UOB Global Economics & Markets Research

| Components of CPI basket directly impacted by oil prices | Weight in CPI basket (2024-Based) |
|---|---|
| Electricity | 1.79% |
| Gas | 0.19% |
| Petrol | 1.74% |
| Other Fuel & Lubricants for Personal Transport Equipment | 0.04% |
| Point-to-Point Transport Services | 1.08% |
| Bus & Train Fares (w significant lag) | 1.38% |
| Commuting Fares | 0.10% |
| Airfares | 1.29% |
| Transport Services of Goods | 0.08% |
| | **7.7%** |

**While Singapore's GDP growth continues to benefit from AI-related momentum in early 2026, downside risks could intensify should the US/Israel-Iran conflict persist for longer (beyond one quarter), primarily through a sharp drag on the manufacturing sector (~21% of GDP), with adverse spillovers to the wholesale trade (~13% of GDP) and transportation & storage (~6% of GDP) sectors.** Secondary effects on growth, though difficult to quantify, could also emerge via a drag on consumption and investment activity in Singapore's key trading partners. External demand may be dampened by weaker sentiment and supply-chain disruptions, which in turn would weigh on Singapore's exports. This would pose an additional drag on growth, compounded by the economy's high degree of openness, with a significant share of domestic value-added supported by foreign demand. Potential tightening of global monetary policy in response to an energy-led inflation shock could further amplify downside risks to global GDP growth. **We maintain our 2026 GDP growth forecast for Singapore at 3.6% for now (2027: 2.0%); however, we now assess that risks are likely tilted towards the downside.**

**On inflation, we raise our 2026 headline inflation and core inflation forecasts to 2.0% (prev: 1.5%, 2027F: 2.2%) and 1.9% (prev: 1.5%, 2027F: 1.9%) respectively, with risks tilted towards the upside.** We have greater confidence in the directionality of our inflation forecasts compared with growth, on the basis that energy prices are likely to remain elevated for some time. Even if the conflict were to subside in the coming weeks, damaged energy installations could take years to repair. In particular, Singapore's Minister-in-charge of Energy and Science & Technology, Tan See Leng, noted that rebuilding the Ras Laffan liquefaction facility in Qatar could take three to five years (CNA, 20 Mar 2026). **Furthermore, countries are likely to increase their stockpiles of crude oil and LNG to hedge against heightened geopolitical risks in the Middle East and elsewhere, thereby reinforcing fuel demand.**

**Notably, while the Feb inflation reading is somewhat stale in the context of recent developments in the Middle East (which started on 28 Feb), the Consumer Price Developments report released today at 1pm SGT highlighted the significant rise in global energy prices stemming from the ongoing conflict and noted that Singapore's import-cost pressures are now likely to pick up in the near term (previously: "should remain contained").** While MAS maintained its 2026 core and headline inflation forecast ranges at 1.0-2.0%, the inclusion of the line, **"MAS is assessing recent developments and will provide an update to the inflation outlook in the April Monetary Policy Statement,"** could, in our view, tacitly hint at a likely monetary policy tightening move in the upcoming Apr 2026 MPS—similar to how a comparable statement preceded the monetary policy easing move in Jan 2025 within the Dec 2024 Consumer Price Developments report.

While significant uncertainty surrounds the duration and extent of the conflict, we prefer to adopt a Bayesian-like approach to our GDP and inflation forecasting process—incorporating new information as it becomes available, which may imply more frequent projection revisions amid a highly volatile external environment. **Prior to the escalation of the latest US/Israel-Iran conflict, our base case already assumed that MAS would tighten monetary policy in the Apr 2026 MPS via a 50bps S$NEER slope steepening to 1.0% p.a., and this episode strengthens our conviction that MAS could deliver such a move to guard against looming imported inflation risks. We are now projecting another 50bps slope steepening to 1.5% p.a. in the Oct 2026 MPS, with risks that the move may be front-loaded to Jul 2026.** In our view, more aggressive tightening measures—such as an upward re-centring of the S$NEER policy band—would likely be more "reactive" than

"pre-emptive" in nature and could materialize should it become clearly evident that core inflation is poised to surprise materially above MAS' baseline projections.

Fig 5: Singapore's inflation heatmap

Source: Macrobond, UOB Global Economics & Markets Research

**Singapore CPI Components %y/y**

| | 01/02/2026 | 01/01/2026 | 01/12/2025 | 01/11/2025 | 01/10/2025 | 01/09/2025 |
|---|---|---|---|---|---|---|
| Total | 1.2 | 1.4 | 1.2 | 1.2 | 1.2 | 0.7 |
| MAS Core Inflation | 1.4 | 1.0 | 1.2 | 1.2 | 1.2 | 0.4 |
| Clothing & Footwear | -0.9 | -0.4 | -1.0 | -0.5 | 1.2 | -0.1 |
| Communication | -1.4 | -1.9 | -2.0 | -2.0 | -2.5 | -2.4 |
| Education | -0.7 | -0.6 | 1.2 | 1.1 | 1.1 | 1.0 |
| Food | 1.6 | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 |
| Health | 4.2 | 4.4 | 4.2 | 4.4 | 4.0 | 1.4 |
| Household Durables & Services | 0.3 | -0.2 | -0.3 | 0.0 | -0.4 | -0.3 |
| Housing & Utilities | 0.3 | 1.7 | 0.2 | 0.2 | 0.3 | 0.2 |
| Miscellaneous Goods & Services | 0.5 | 0.3 | 0.1 | 0.2 | 0.3 | -0.1 |
| Recreation, Sport & Culture | 1.9 | 0.6 | 0.3 | 0.5 | 1.1 | -2.2 |
| Transport | 2.7 | 2.4 | 3.6 | 3.2 | 3.4 | 3.4 |

Fig 6: Singapore's imported inflation is likely to accelerate with the recent surge in global energy prices, a pattern also observed prior to past monetary-tightening episodes (pink lines)

Source: Macrobond, UOB Global Economics & Markets Research
*The import-weighted inflation index is constructed using the CPI of Singapore's top 10 import partners.

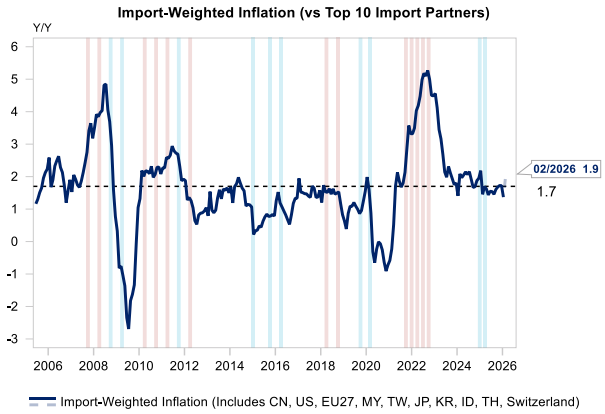



Fig 7: Food CPI 3m/3m sa trajectory – Comparing start of Russia-Ukraine (Feb 2022) vs Current (Set Mar 2026 as T=0)

Source: Macrobond, UOB Global Economics & Markets Research

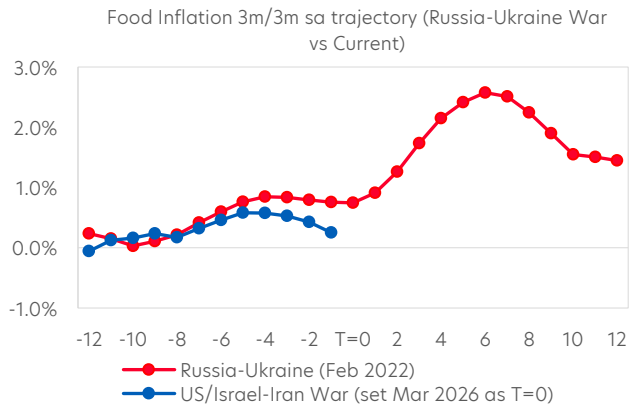



Fig 8: Core 3m/3m nsa trajectory – Comparing start of Russia-Ukraine (Feb 2022) vs Current (Set Mar 2026 as T=0)

Source: Macrobond, UOB Global Economics & Markets Research

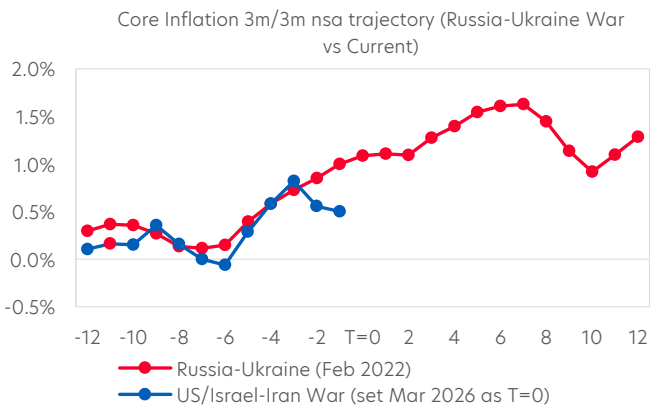



Fig 9: 6MMA y/y - Crude oil prices vs Singapore's headline/core inflation

Source: Macrobond, UOB Global Economics & Markets Research

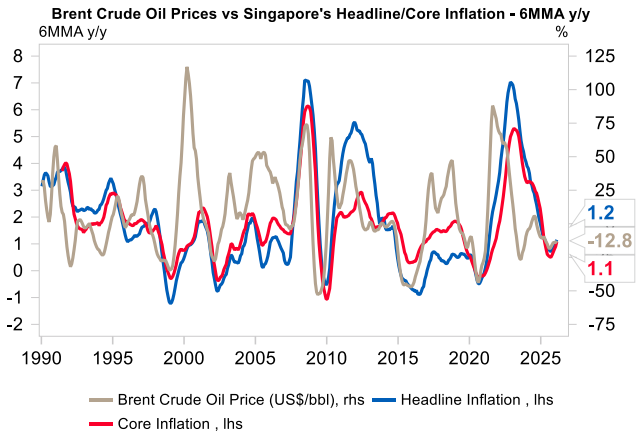
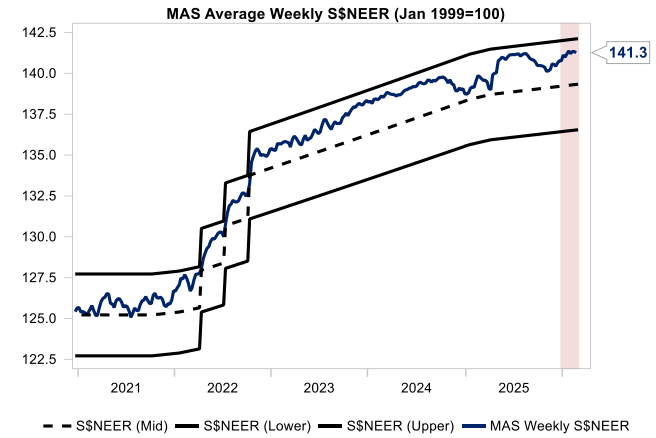



Fig 10: S$NEER drifting towards the ceiling of the policy band as markets price in prospects of MAS policy tightening even prior to 28 Feb.

Source: Macrobond, UOB Global Economics & Markets Research



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