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MACRO MORNING BRIEFING

August 1, 2024

Singapore Macro Update & MAS Outlook

The Singapore economy continues to grow at a modest but steady pace. Singapore's Q2 GDP grew at a better-than-expected rate of 2.9% y/y. Its Q1 GDP was revised higher from 2.7% to 3.0% y/y, which is just shy of the five-year average of 3.2% from 2015 to 2019, excluding the COVID-distorted period since 2020. On a quarterly basis, Singapore's GDP grew at 0.4% q/q after increasing by 0.3% q/q in Q1 2024. The breakdown shows a rebound in both the manufacturing and construction sectors at 0.6% q/q, 0.5% y/y and 2.4% q/q, 4.3% y/y, respectively.

The services industry, which accounts for more than 70% of GDP, eased to flat on the quarter or 3.3% y/y from 2.2% q/q and 4.3% y/y in Q1, respectively. It was dragged down by the -0.5% contraction in the accommodations and administrative sectors. The latter is likely distorted by the outsize strength in Q1 of various hospitality events (2.3% q/q). Information & communication, finance and professional services posted the strongest growth at 5.6% y/y vs. 5.7% y/y in Q1 2024.

Business sentiment, as measured by PMI indices, remains firm, supported by the strength of the electronics sector. While we subscribe to the steady growth trend in Singapore, recent data suggests that the growth recovery is not yet on stable footing. For example, June industrial production and exports both plunged more than expected at -3.9% y/y, and -8.7% y/y, respectively.

Inflation continues to moderate, with the latest June headline and core CPI reaching new year-to-date lows of 2.4% and 2.9% y/y, respectively. This was primarily driven by the easing of the food services component at 3.76% y/y and a decline in transportation costs. Private transport inflation, which accounts for 12% of the CPI by weight, posted a -0.7% y/y decline from 4.98% y/y at the end of December 2023.

Exhibit #1: Singapore GDP and Business Sentiment

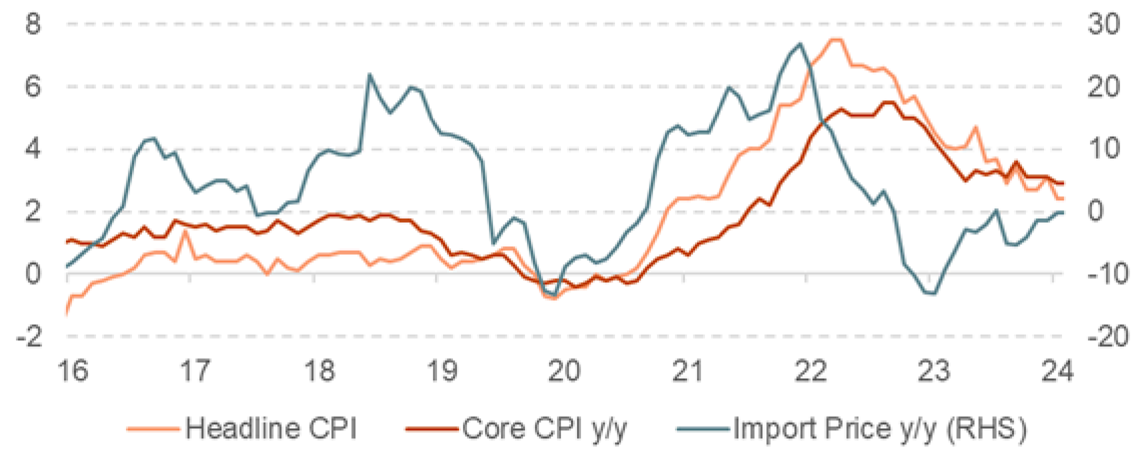
Source: BNY, Bloomberg L.P.

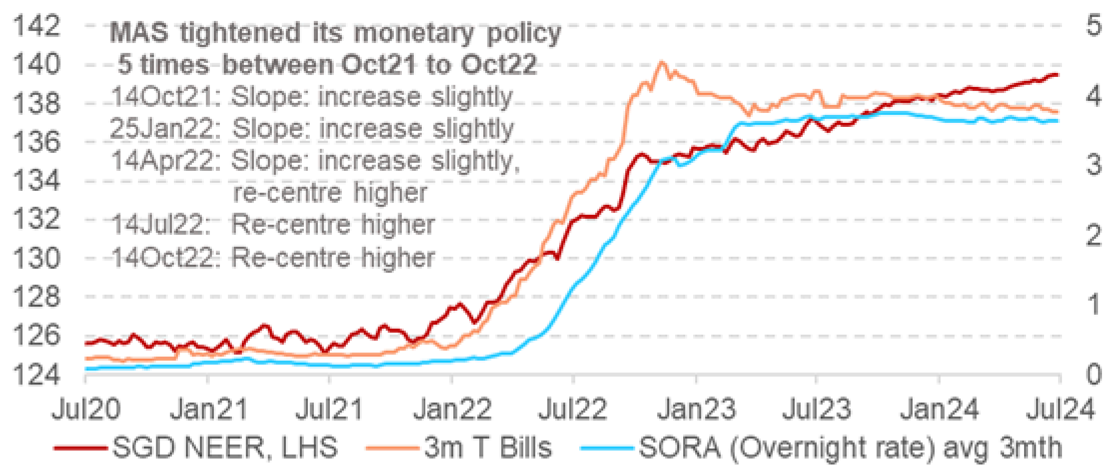
What is the outlook for Monetary Authority of Singapore (MAS) policy? MAS maintained its policy stance at its quarterly policy meeting in July. It kept the prevailing rate of appreciation (or the slope) of the Singapore dollar's nominal effective exchange rate (SGD NEER) policy band. MAS also retained the two other parameters, namely the width and the level at which the policy band is centered, which was last re-centered in April 2022.

The most important changes at the latest policy meeting were a reduction in the projection of headline inflation for 2024 from 2.5%-3.5% y/y to 2.0%-3.0% and a specific reference of “around 2%” in 2025, and upward revision of the Singapore GDP growth forecast from 1.0-3.0% (2% mid) to 2.0-3.0% (2.5% mid) for 2024.

While MAS had conservatively maintained its forward-looking statement, saying, “against this backdrop, current monetary policy settings remain appropriate,” it is definitely one step closer to easing. In our view, the most likely easing measure will be an unwinding of the adjustment in slope. Note that during the tightening period from October 2021 to October 2022, MAS increased the slope an unprecedented three times. Meanwhile, we will be monitoring the front-end of the SGD curve closely for any hint of an easing stance.

Exhibit #2: MAS Monetary Policy Decisions and Inflation Evolution





Source: BNY, Bloomberg L.P.

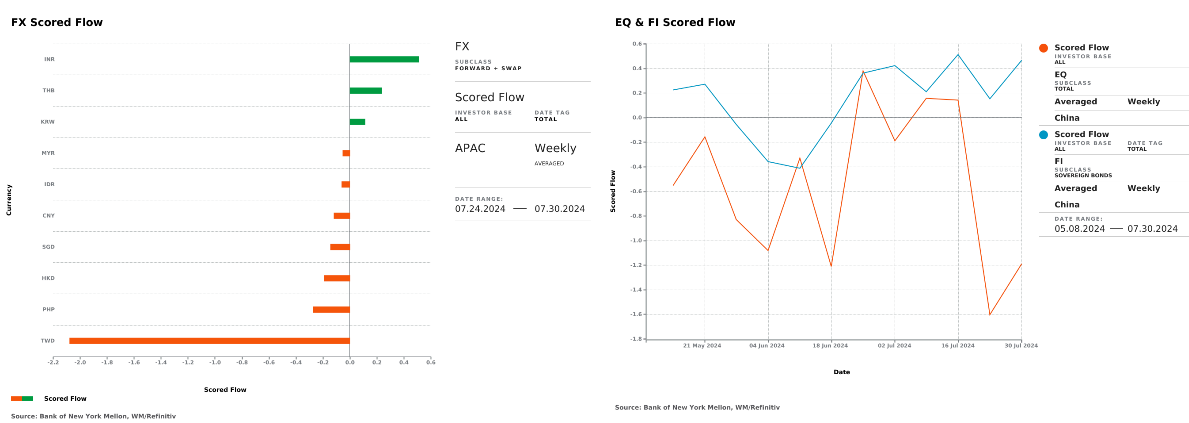
Over the past week, APAC currency flows were biased to outflows on the back of tech-related volatility as well as unsettling fragile sentiment in China. INR, KRW and THB were the only three currencies that posted inflows against outflows, compared with net outflows among the rest, especially in TWD. TWD posted weekly average scored flows of -2.08, the second most outflows within the iFlow Universe after the Hungarian forint, and the largest weekly outflows since June 2021.

Elsewhere, demand for KRW continued into 15 straight weeks and the currency moved further into overheld territory, with scored holdings of +0.23, having remained underheld since September 2022.

The Chinese yuan posted the second week in a row of outflows. Heavy outflow pressure in Chinese equities (weekly average scored flows: -1.19) were countered by demand, at a slower pace, for Chinese sovereign bonds (weekly average scored flows: +0.46). Demand for Korean, Indonesian, and Malaysian equities remains strong and there are tentative signs of a turnaround in sentiment in Thailand and Taiwan, with moderate inflows last week after more than a month of persistent outflows.

For fixed income, the overall bias was toward mild outflows, with the exception of ongoing index inclusion-related passive demand for Indian sovereign bonds.

Exhibit #3: iFlow Showed Outsize TWD Outflows, Allocation Shift in Chinese Assets



Source: BNY, Bloomberg L.P.

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Please direct questions or comments to: iFlow@BNY.com

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