

Singapore growth slumps in 2Q19

Singapore's economy virtually stopped growing in 2Q19 compared to a year earlier, which makes recent suggestions of an intra-meeting policy easing look highly probable.



A deep water port in Singapore

0.1%YoY

2Q19 GDP growth

-3.4%QoQ annualised

Worse than expected

What went wrong?

The figures say it all: 2Q19 GDP was 0.1%YoY, or -3.4%QoQ (annualised). This was worse than even our own sub-consensus forecast of 0.8%YoY and -0.2%QoQ.

So what went wrong?

Manufacturing was the main culprit. A 6%QoQ annualised decline in 2Q19 accounts for much of the damage to 2Q GDP, though services seem also to have taken some collateral damage from this, declining by 1.5%. Quarterly construction activity also shrank by 7.6%, though for both services and construction, the year-on-year figures remained positive and we can put some of their 2Q quarterly weakness down to erratic seasonals.

Outlook not great

Sometimes, when you get a big dip like this, you line up for a subsequent bounce. But this manufacturing dip has strong drivers. Singapore's highly export-driven economy leaves it very exposed to the US-China trade war and the broader slowdown in world trade. Singapore's concentration in the electronics sector during a global tech-slump and technology war also take their toll on the economy.

We don't see any prospect for a substantial improvement in these areas any time soon, though the rate of decline could now be moderating. Nevertheless, the longer the manufacturing sector remains depressed, the more likely this weakness will spill over into services and other sectors.

MAS to the rescue?

In a recent conversation, MAS (Monetary Authority of Singapore) Managing Director, Mr Ravi Menon, noted that there was possibly a case for an intra-meeting change in the MAS policy stance. This currently targets a modest and gradual appreciation in the SGD nominal effective exchange rate (SGD NEER).

We have looked back at previous examples of such policy changes, the last one being January 2015, fully three months before the scheduled April policy meeting. The point of mentioning this is that it is now barely 3 months until the MAS' October meeting. So if this, and ongoing inflation weakness are going to be countered with an off-cycle easing, then unless this happens soon, for example, this or next month, then the MAS might as well wait for October.

Today's data suggest that waiting would put the economy in greater than necessary jeopardy. An imminent move, therefore, looks probable.

What might this look like?

Given the NEER is the main policy target, this leaves a number of options available for the MAS.

1. Change the slope of the NEER from appreciation to flat (the most likely option)
2. Change the slope of the NEER to outright depreciation (a bigger move and contentious given US pre-occupations with currency manipulation which have flagged Singapore recently).
3. Change the breadth of the currency band (would allow for some near term depreciation but leave the longer-term trend intact)
4. Shift the mid-point of the band down (would achieve much the same as the previous option).
5. Or various mixtures of the non-mutually exclusive options above.

We will monitor the short term interest rates as a potential clue for upcoming policy changes, and note a small dip to just below 2.0% from the 3M SIBOR rate today.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.