

Singapore: MAS surprises with further tightening as inflation continues to head higher

The MAS did not waste time tightening further to fight off surging inflation



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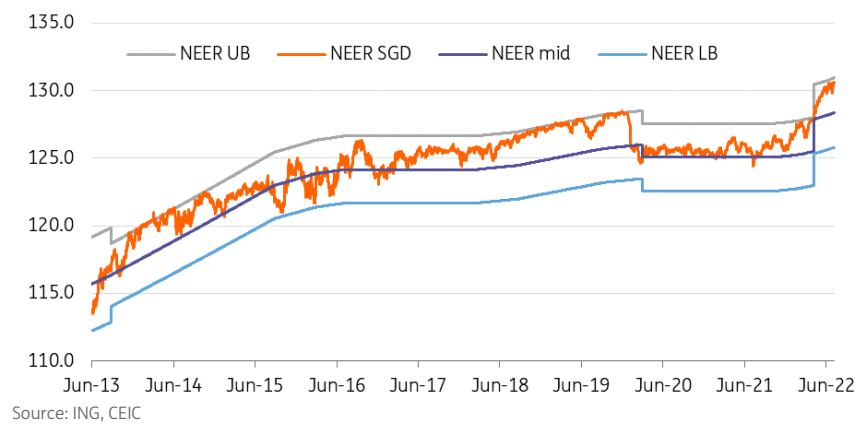
MAS moves ahead of schedule

The Monetary Authority of Singapore (MAS) surprised markets today by tightening policy ahead of the scheduled October meeting in a bid to quell stubbornly high inflation. The [MAS re-centred the policy band to “prevailing levels”](#) to allow more appreciation for the currency but refrained from adjusting the slope and width of the band.

Despite several tightening measures rolled out in the past few months, inflation has continued to surge with both core and headline inflation moving past multi-year highs. Core inflation, the preferred price gauge of the MAS, touched 3.6% in May, the fastest pace seen since 2008, and is expected to head higher. The MAS adjusted forecasts for both headline and core inflation for the year, predicting core inflation to settle between 3-4% this year, up from their previous forecast of 2.5-3.5%.

The surprise MAS decision overshadowed the 2Q GDP report today which showed growth missing estimates to settle at only 4.8%YoY.

SGD pulled higher to combat inflation



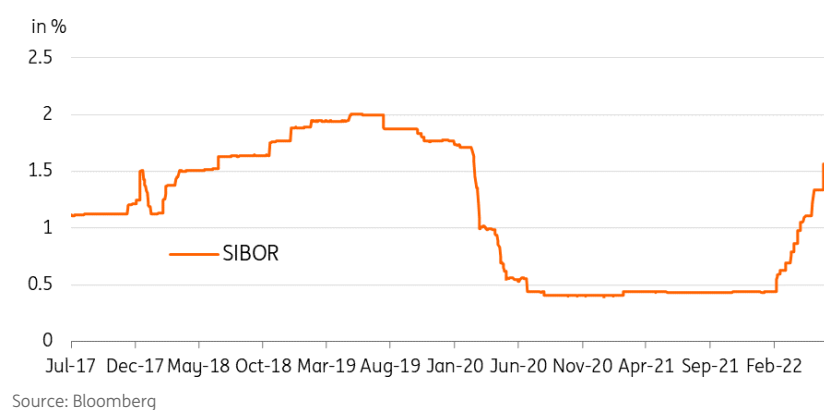
Inflation to stay hot suggesting the MAS could tighten further in October

Despite the flurry of tightening by the MAS, inflation has continued to heat up. We were not all that surprised to see another off-cycle tightening by the MAS as short-end rates have clearly signalled an intention to keep the currency on the stronger side. But we had expected the adjustment to happen after an inflation data release.

Surging price pressures are driven by a mix of supply side and demand side factors, pointing to inflation heating up further in the near term. With forecasts pointing to even higher inflation prints down the road, we consider it likely that we will see further action by the MAS at the October meeting.

The SGD will be supported by today's policy tightening, but with overall sentiment remaining pressured, immediate benefits may be hard to spot.

Short term rates show MAS' intent (3m SIBOR)



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