Singapore update

The Monetary Authority of Singapore (MAS) updated its macroeconomic review today - here are some personal reflections on the economic briefing.

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October MAS Macroeconomic Review - some personal takeaways

Alongside the twice-yearly publication of their Macroeconomic review, the Monetary Authority of Singapore (MAS) provides a briefing to economists (as well as journalists).

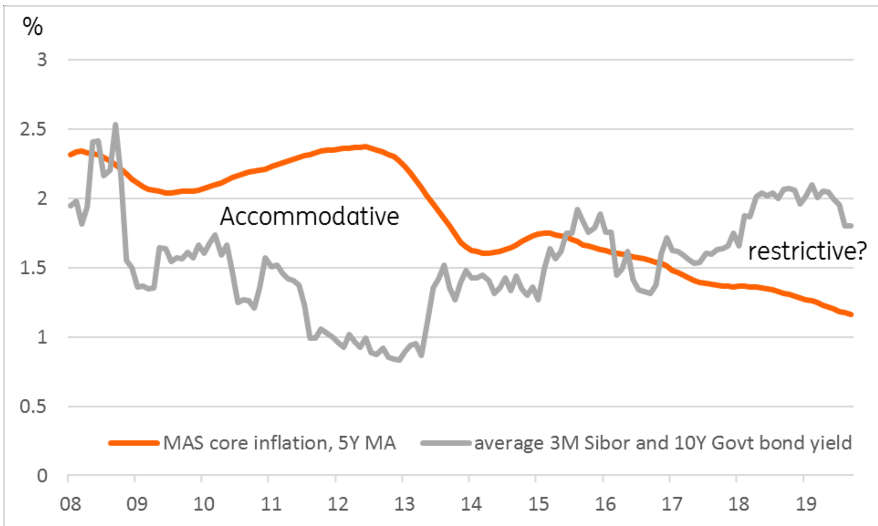
The briefing is non-attributable, so the following represents my personal reflections and conclusions from the session, and should not be viewed as a paraphrased version of the briefing itself. In particular, given that it reflects my own thoughts of the session, it may differ substantially from the views of others also present. I have also only focused on areas I thought were particularly interesting. But for what its worth, here goes:

1. We were wrong to anticipate a greater response from the MAS in October than the slight reduction in the NEER path that actually took place (see also the October statement). We, along with quite a few of the consensus, thought the MAS would go straight to flat;
2. Absent a marked deterioration in macroeconomic conditions, we would be wrong to

anticipate a more aggressive action in the future too. To be fair, at this MAS meeting, we already felt that the macroeconomic deterioration was not only sufficiently severe but that it had been in place for so long without any remedial action, that it merited a bigger policy change. Lesson learned.

3. It would take something well out of the ordinary (in either direction from the MAS baseline) to consider an inter-meeting move. Some market pundits have seized on recent text changes in the latest statement as a hint in this direction. This seems very unlikely;
4. There is the possibility for a further easing of the policy stance at the April 2020 meeting. But the most likely assumption now would be that the stance remains unchanged, given that the economy may not be worsening particularly. That said, the economy will probably fail to deliver a notable upturn also.
5. As important as the rate of core inflation (bearing in mind there is no explicit target) will be its momentum. This is currently negative. If this persists, then the MAS may see this as a necessary, though not necessarily sufficient, condition to ease policy further.
6. The latest change in the MAS stance is intended to deliver a mildly accommodative outcome. We might define this as moving towards a negative real interest rate (nominal rates minus inflation expectations). But if we define nominal interest rates as the average of short (3M SIBOR) and long term (10Y Government bond yields), and inflation expectations as a 5Y lagged average of the MAS core rate (debatable but reasonable if expectations are a backward-looking function of actual inflation, which they usually are), then the current policy stance may in our view still deliver a slightly contractionary stance. If our assumptions are right, then the skew to policy risks at this stage is most likely towards a further easing in April - even if the base case is for no change.
7. So the MAS cannot be accused of being ahead of the curve, or even on the curve, but might actually be a little behind it. This may not be accidental. The MAS likes to characterize itself as acting in a measured fashion, and it does anticipate the macroeconomy to stabilize somewhat. It also may believe that monetary policy is not particularly effective in the current global environment, and that fiscal policy may have a broader role to play. If so, its current stance could be considered consistent with what the MAS expects to be a slightly improved macroeconomic situation next April.

Where is Singapore monetary policy now?



Source: Bloomberg, ING

So where next?

It is probably fair to say that this closes the door to anything imminent from the MAS in terms of additional policy moves. Our house forecast does envisage some improvement from this year's full-year GDP growth total. We currently think this will come in at only 0.3% in 2019, but rise to 1.6% in 2020.

We see inflation remaining soft in 2020, but nonetheless picking up to 1.0%. The current headline rate is 0.5%.

With these house forecasts, there is still a chance that policy is eased further, resulting in a flat nominal effective exchange rate path. But along with our interpretation of what is always a somewhat esoteric presentation by the MAS, the more likely outcome is that the current stance is maintained at next April's meeting, and consequently, short term interest rates are also likely to remain similar to current levels.

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