MNI MAS Preview – April 2021

Meeting Date: April 14 – 0100BST/0800HKT

Contents:

MNI MAS Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg
CPI y/y	% y/y	0.7	-0.1	↑	-0.4	↑
Core CPI y/y	% y/y	0.2	-0.1	↑	-0.3	↑
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**
Singapore PMI Index	Index	50.8	50.5	↑	50.3	↑
Electronics Sector Index	Index	50.6	51.2	↓	50.9	↓
Markit PMI	Index	53.5	50.5	↑	45.1	↑
GDP	% y/y	-2.40	-5.80	↑	-13.30	↑
Local Economy		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**
Retail Sales y/y	% y/y	5.15	-1.41	↑	-5.66	↑
Industrial Production	Index	16.4	19.5	↓	16.4	→
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**
Equity Market	Index	3177	2844	↑	2467	↑
Singapore 10-Year Yield	%	0.00	0.00	→	0.00	→
Singapore Yield Curve (2s-10:	bps	-11828.2	-5481.3	↓	-6612.5	↓
USD/SGD mid-rate	Index	1.3415	1.3221	↑	1.3654	↓

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MNI POV: If it ‘aint broke

The Monetary Authority of Singapore (MAS) is expected to leave its FX policy band settings, its main policy tool, unchanged at its April meeting. The MAS are therefore expected to keep its bias for zero appreciation in the SGD against a central basket of trading and investment partners, while the midpoint and width of the FX band are also expected to remain unchanged. While no moves are expected now, the policy meeting in October is expected to see a return to a gradual appreciation bias.

The MAS has already done the heavy lifting on the fiscal side, adding around SGD 100bn of stimulus since the start of the pandemic to ensure sufficient liquidity in the financial system and shore up consumer borrowers. Robust fiscal support and large semiconductor and pharmaceutical sectors has helped to support Singapore’s economic position during the pandemic.

The global outlook has improved dramatically on the relatively smooth rollout of the COVID-19 vaccination programme globally. Uncertainty still remains, however, and this is likely to lead the MAS to keep policy unchanged, while the SGDNEER has been trading near the center of the band since the zero slope was adopted in 1Q 2020, another reason to maintain current policy.

Policy makers remain focused on a successful vaccination programme that lags behind some advanced economies. Still, domestic COVID-19 cases are unlikely to be a concern with a very small number of local virus cases are reported daily and the majority of restrictions lifted, while negotiations are ongoing to open up travel bubbles with several countries.

Inflation

The MAS will also upgrade its inflation outlook, In the latest projections on March 23 the MAS saw core inflation, its preferred measure, printing between 0% and 1% this year. The MAS also noted that its estimate of all-items consumer price inflation was under review given “recent sharper-than-expected” cost increases for non-core items in acknowledgement of increased commodity prices and the large US stimulus packages that are expected to stoke inflation globally. Should inflation guidance be revised upwards this would likely be seen a clue for tighter conditions in October.

The announcement will be scrutinised for any chance in forward guidance, and any clues as to policy direction at the next meeting in October where the MAS are expected to return to gradual appreciation bias. There is a growing calling for the MAS to remove or reduce its dovish bias. HSBC is among those who expect this: “We believe the MAS will strike a more optimistic tone in its April policy statement, and either reduce the dovish tone in its forward guidance, or remove it entirely. The key question is when the tightening cycle will likely begin – which will depend foremost on core inflation.”

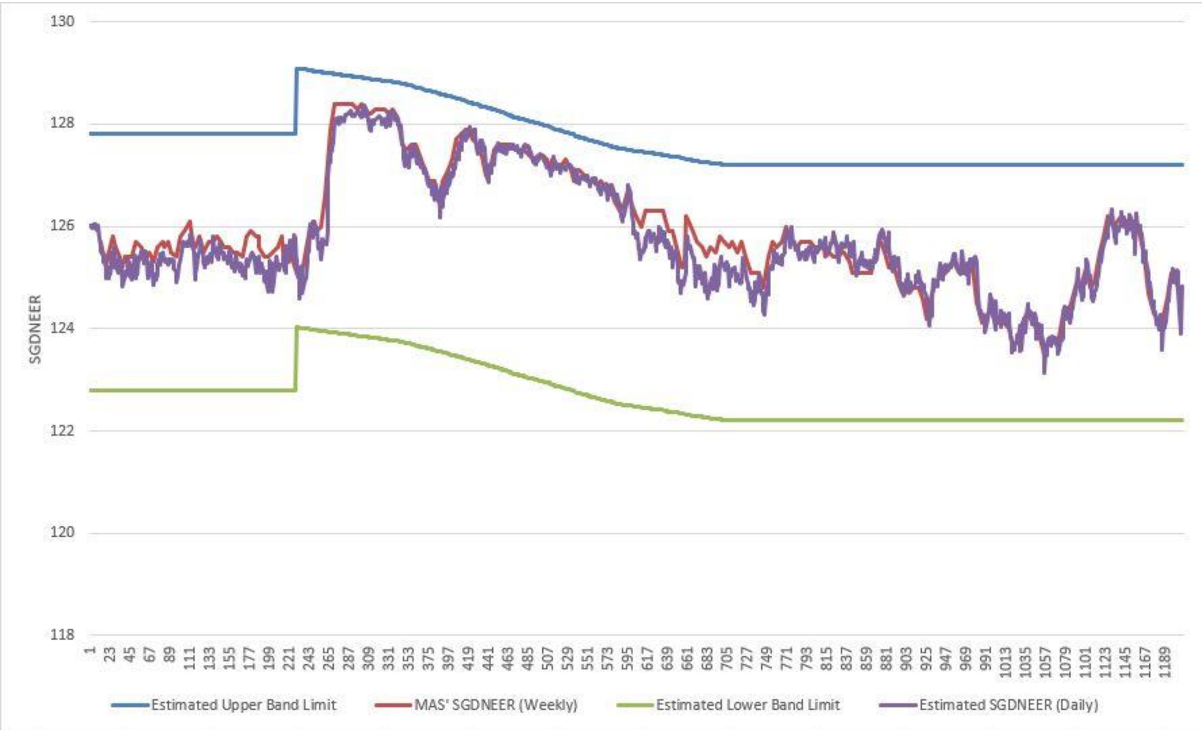
GDP

The MAS decision will be released alongside advance Q1 GDP data, which will no doubt factor into the MAS's decision and lend more clarity as to whether Singapore's rebound is on track.

The consensus is for Singapore's economy to have contracted by 0.5% Y/Y in 1Q, following a 2.4% drop in 4Q 2020.

Forward looking indicators are broadly positive and suggest the economy stayed on its recovery trajectory in the period, net exports rose 48.7% Y/Y in the first two months of the quarter compared with a gain of 37.3% in the same period of 4Q, while a decline in consumer credit and business lending have both slowed pace. Unemployment is a negative spot and continues to weigh on domestic demand; unemployment sits at 3.3% in 4Q compared with 2.3% in 4Qr 2019.

Fig.1: MAS Estimated Policy Band and SGDNEER (Goldman Sachs estimates of upper and lower band, Bloomberg estimate of SGDNEER)



Sell Side Previews

Morgan Stanley

We expect MAS to maintain status quo at the upcoming semi-annual monetary policy review in April, keeping the current zero appreciation S$NEER slope unchanged. Recall MAS has three policy parameters – i.e., mid-point, slope and band width. As per our estimates, the S$NEER is currently tracking marginally above the mid-point and there is no market pressure on the integrity of the policy band. In particular, we note MAS highlighted in its previous October policy statement that with inflation expected to stay low, "an accommodative policy stance will remain appropriate for some time". To that point, we expect headline CPI to rise cyclically this year, but stay benign at +1.0% YoY (vs -0.2% YoY in 2020). In our view, the combination of benign domestic inflation in Singapore and the Fed’s dovish average inflation targeting (AIT) framework means MAS is unlikely to normalize policy quickly. In our base case, we expect MAS to remain on an extended hold through this year, leaving the current policy settings unchanged.

ANZ

The global and domestic economic outlook have improved significantly since the October 2020 Monetary Policy Statement. The International Monetary Fund this week revised its global growth forecasts for 2021 to 6.0%. Based on the country’s vaccination progress, Singapore is on track to achieve herd immunity by Q4 if all goes well. This will allow for a return to near pre-pandemic norms, though international travel is still some way off from being back to normal. This means tourism-related sectors will still be operating below pre-pandemic levels. But the construction sector should make close to a full recovery by the end of the year, and the manufacturing sector will remain well supported by strong external demand. We expect the MAS to upgrade their 2021 GDP growth forecast to between 5% and 7%, from 4-6% previously.

Despite the improved global and domestic growth backdrop, we do not expect the MAS to change their accommodative policy stance this year. They will likely keep the slope of the policy band at zero for the rest of 2021, even as inflation starts to rise. At this stage, we do not anticipate the MAS Core inflation to surpass its long-term average. But the odds of a policy tightening sometime in 2022 have risen. We expect the MAS to revise their CPI-All Items inflation forecast to between 1% and 2% for 2021, but maintain their core inflation forecast at 0%-1%.Even in the absence of any monetary policy move, there is still scope for the Singdollar to appreciate. Since the last easing in April 2020, the S$NEER has been trading within a narrow range and hovering just above the midpoint of the policy band. This is largely due to heavy FX intervention undertaken by the MAS. But as downside growth risks dissipate and inflation risks start to point to the upside, we see the MAS allowing the S$NEER to move higher towards the upper part of the policy band. Indeed, this has started to occur. A stronger currency can help to reduce some of the imported inflation stemming from higher commodity prices.

Goldman Sachs

We expect MAS to raise its forecast band for headline CPI inflation at the upcoming meeting to 0.5%-1.5% (from -0.5% to 0.5% previously). However, underlying core inflationary pressures will likely be kept in check until later this year by still large output gaps and labor market slack. With core inflation likely to be within MAS's comfort zones, we do not expect MAS to make any changes to the SGD NEER policy band parameters (the slope, mid-point or width) this year. However, normalizing activity in consumer facing sectors, strong external demand, and a closing of the output gap could prompt higher core inflation pressures next year, creating enough momentum for some policy tightening in April 2022. For an update on our key macro and market views in Singapore see our recent MAS preview note.

Barclays

We expect the Monetary Authority of Singapore (MAS) to leave its FX policy settings unchanged at its next review on 14 April. The Q1 GDP advance estimate will likely show the economy contracted at a more moderate pace of 1.1% y/y compared with 2.4% in Q4 20. With the worst of the COVID-19 pandemic seemingly past and light increasingly visible at the end of the tunnel as the more of population is vaccinated, we think the MAS is unlikely to ease its FX policy settings.

The MAS is also unlikely to take the lead in tightening its policy settings at its next review. Official projections in the budget appear to show the FY2021 output gap narrowing from FY2020 but remaining negative. The resumption of international travel – which will likely be key to closing Singapore's negative output gap, mending the labor market and creating demand-pull inflation pressures – is likely also a crucial condition for the tightening of policy. Our base case is that FX policy tightening is more likely to begin in April 2022. While we note the risk of an earlier move in October 2021, its probability seems low. Not only do we believe this would require a much earlier resumption of travel than we expect, we doubt the MAS will lead the region in normalizing policy. The width of the SGD NEER policy band – which we estimate to be +/-2% – already provides some flexibility for the exchange rate to adjust quickly to changing economic conditions without the need for a revision of the band's parameters, reducing the need for FX policy to be especially pre-emptive.

J.P. Morgan

We pencil in the first MAS move in the 1H22, looking for solid lift in late 2021 as the economy opens up; employment to grow more firmly in late 2021. Our Singapore forecast pencils a gradual recovery over 2021, with a step-up late in the year, reflecting the opening up of travel as global vaccination increases herd immunity (Figure 1). The variegated recovery is evident in the labor market, where non-manufacturing employment has taken the brunt of the losses, juxtaposing with the 2009 recession, when losses in manufacturing employment drove the bulk of the overall decline in employment (Figure 2).

S$NEER to trade slightly stronger inside the band. Since mid-2020, we have had a view that the S$NEER should trade between mid-point toward +100bp above the mid-point of the policy band (see link), and this forecast has panned out so far. Going forward (next 6 months), we see good reasons for the S$NEER trading range to go slightly higher, i.e. +25bp to +150bp above the mid-point the policy band. This view reflects our following considerations:

HSBC

There is a strong case for the Monetary Authority of Singapore (MAS) to keep its monetary settings firmly on hold on 14 April. After all, Singapore's growth outlook is extremely robust by both regional and global standards. Over the last year, the outperformance has been driven by Singapore's advantageous mix of export industries – above all large semiconductor and pharmaceutical sectors – coupled with one of the most assertive fiscal policy supports in the world. More recently, however, the recovery prospects have broadened out. The vaccine program is on track to allow the country to reach herd immunity in 2H20, which should allow Singapore to open its borders earlier than other economies, providing incipient support for the large tourism and aviation sector. The labour market has continued to recover, and core inflation – the most important input for MAS – has rebounded into positive territory.

We believe the MAS will strike a more optimistic tone in its April policy statement, and either reduce the dovish tone in its forward guidance, or remove it entirely. The key question is when the tightening cycle will likely begin – which will depend foremost on core inflation. We expect core inflation to only reach the long-run average in late-2022, which should allow for MAS to start gradually tightening policy in October 2022. That said, there is also a risk that the MAS will move earlier in April 2022, if labour market conditions overshoot our expectations.

ING

The shift a year ago to a neutral monetary policy targeting zero S$-NEER appreciation has served well for the export-driven recovery. We don't think the MAS is in a rush to alter this policy stance just yet, given that the sustained Covid-19 spread globally has been threatening export recovery ahead. Moreover, with the S$-NEER remaining near the mid-point of the estimated policy band, the market hasn't priced in any policy move either. This is why we expect the MAS to stay the current course and leave the slope, the width and the level of the S$-NEER policy band intact next week