

Singapore Watch

MAS Review: Hawkish Hold

No change; Policy tone hawkish as we had expected

MAS's policy decision (no change) and hawkish guidance were in line with [our expectations](#) (see report). MAS signaled some comfort with current policy settings if its baseline expectations for core inflation to moderate in 2025 materialize. For now, focus is squarely on inflation risks, given the improvement in growth outlook.

Key highlights from statement

We contrasted the latest statement with Oct '23:

#1: Growth outlook clearly more balanced. MAS expects economy to strengthen in 2024, with growth becoming more broad-based (vs. "improve gradually over 2024" previously). Earlier reference to uncertain global economic outlook and possibility of weaker than expected domestic recovery were omitted.

#2: Slightly negative output gap now seen narrowing in 2H24 (vs. "for 2024...remaining slightly negative" previously).

#3: Core inflation trajectory forecast for 2024 raised - even as the forecast range was maintained at 2.5-3.5% - with core inflation now expected to "remain elevated in the earlier part of the year", before stepping down by 4Q and falling further next year. MAS estimated impact of GST to be 0.6ppt of core inflation in 2023. Assuming MAS now sees core inflation closer to the mid-point of the 2.5-3.5% range (vs. 2.7-2.8% in Oct '23, based on our inference), and the same GST impact as 2023, this could imply core inflation (ex-GST) above 2.2% in 2024.

#4: Earlier reference to policy band assessed to be sufficiently tight was omitted. This suggests that effects of past policy moves have largely faded off (see also Exhibit 1, which assumes peak effect taking place 4-6 quarters after).

#5: Still very high hurdle for easing this year (which is the base case for 8 out of 15 economists surveyed by Bloomberg last week) as the sustained appreciation of the policy band "will continue" (albeit less strong vs. "necessary" previously) to dampen imported inflation and curb domestic cost pressures.

#6: MAS inserted in its concluding paragraph that it will "remain vigilant" to risks to inflation and growth (note: inflation mentioned before growth).

#7: Headline inflation forecast for 2024 was downgraded by 50bp to 2.5-3.5%, an outcome we had flagged [since Nov](#) (see report) following the plunge in COE prices. This is driven by supply-side policy measures & will have limited bearing on monetary policy.

MAS data-dependent; Apr meeting "live"

We don't expect MAS to change policy settings for the rest of the year as yet. However, given MAS's pre-emptive stance, the Apr meeting could well be "live", with a 50bp slope steepening to delivery more durable tightening possible if core inflation (by then) is seen sticky for even longer. *Continue on page 2*

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Glossary:

MAS: Monetary Authority of Singapore

MPS: Monetary Policy Statement

GST: Goods & Services

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In 2012-14, the S\$NEER slope was maintained at 2% p.a. when core inflation was seen $\geq 2\%$. Further, MAS might be mindful of any de-anchoring of consumer expectations (which remained considerably above pre-COVID levels in 4Q23; Exhibit 2). Ahead of the Apr meeting, the Feb CPI print (25th Mar) should provide a clearer picture of (any) second round effects from higher admin prices and GST hikes. We next keep an eye on 1Q final GDP (likely 15th Feb) and Budget 2024 (16th Feb) (see [Preview](#)).

Exhibit 1: Timing of peak impact from past policy tightening

Cumulative effects of past policy moves seen peaking in 2023

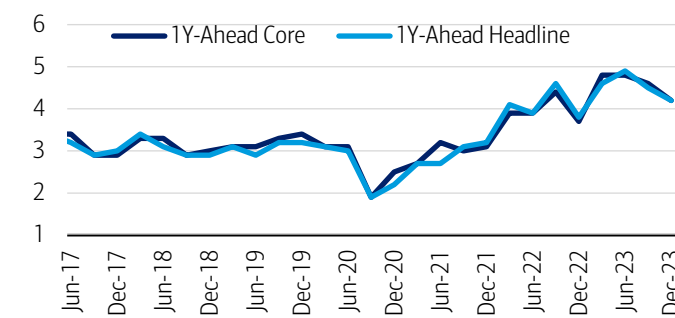
Policy dates	Slope of policy	Re-centring	4Q 22	1Q 23	2Q 23	3Q 23	4Q 23	1Q 24	2Q 24
Oct-21	Higher								
Jan-22	Higher								
Apr-22	Higher	Upwards							
Jul-22		Upwards							
Oct-22		Upwards							

Source: BofA Global Research estimates, MAS **Note:** We simplistically assume that the peak impact of a change in FX policy occurs after 4-6 quarters

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Exhibit 2: Consumer 1Y-ahead inflation expectations (%yoy)

Expectations still considerably above pre-COVID levels



Source: BofA Global Research, SMU

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