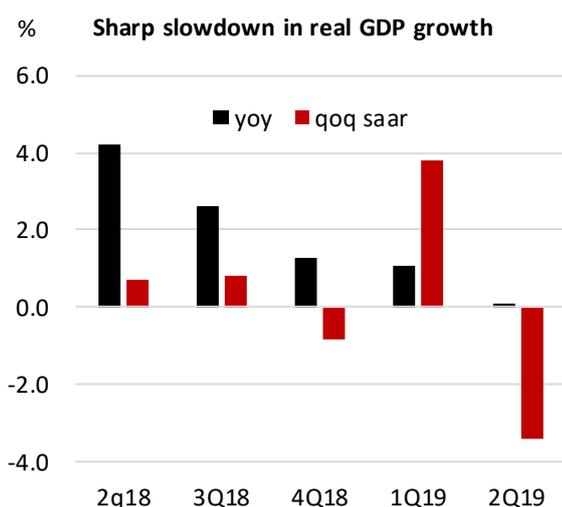


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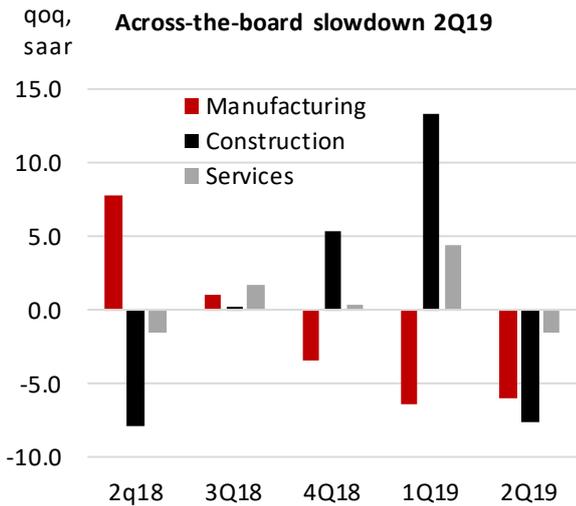
Source: Ministry of Trade and Industry, Singapore, DBS.
2Q19 data are advanced estimates

- Amid a protracted slowdown in global trade and continued uncertainty about the China-US trade friction, Singapore's economy slowed sharply in 2Q
- The slowdown was evident across all key goods and services producing sectors
- 2Q advanced estimates cast a large shadow on the 2019 outlook
- We think MAS' October policy meeting is likely to entail a modest flattening of the SGD NEER slope
- Given the ultra-dovish stance taken by G3 central banks, this likely move won't change our view of the SGD outlook against the USD
- We see the SGD trading at 1.36-1.41 in 2H19

Slowing trade, slowing growth

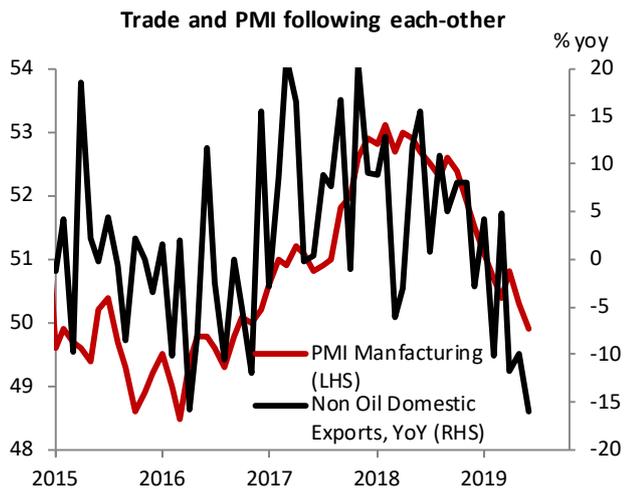
Since recovering from the global financial crisis, Singapore has had a terrific track record of economic performance, with an average annual real GDP growth of 4% (2011-18). After growing by just 0.6% in 1H19 (taking into account this morning's 2Q advanced estimates), that record is on course to be dented.

The slowdown (+0.1%yoy and -3.4%qoq, saar) surprised us, as we had expected non-trade related activities to largely hold up in 2Q. In the event, there was considerable payback from construction and services after a fairly healthy 1Q19 outturn. As a result, there was an across the board contraction of activities on a qoq, saar basis, dragging down growth considerably.



Source: Ministry of Trade and Industry, Singapore, DBS. 2Q19 data are advanced estimates

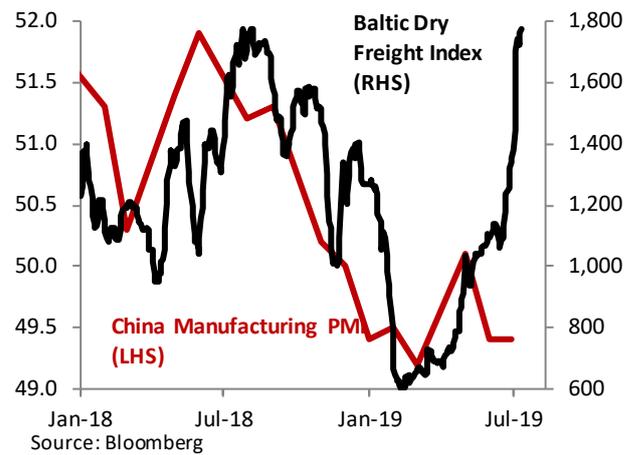
The weakness in manufacturing was not surprising; rather that forms a part of a year-long trend. Both non-oil domestic exports and manufacturing PMI readings have gotten progressively weaker since mid-2018.



Source: Bloomberg, DBS.

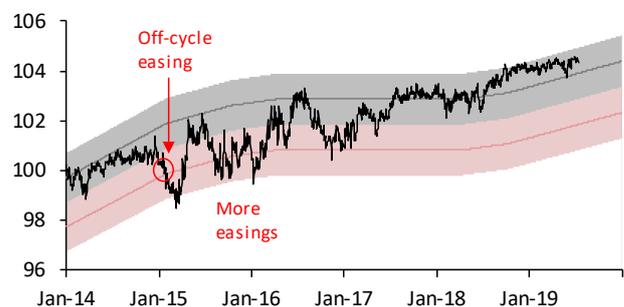
Is there a chance the advanced estimates would get revised up? There is indeed, as June may not have been as poor as April/May. Looking at Chinese PMI data and global freight rates, we see some signs of stabilisation, perhaps even a rebound in June. Policy makers may not however take that as a sure sign of a trough, as global uncertainties remain considerable.

Baltic Dry Freight Index vs China Manufacturing PMI



Against this backdrop, we think MAS' October policy meeting is likely to entail a modest flattening of the SGD NEER slope. Note that SGD NEER has tended to trade in the weaker half of policy band during past easings. Given the ultra-dovish stance taken by G3 central banks, this likely move won't change our view of the SGD outlook against the USD. As for our exchange rate forecast, we expect the SGD to trade in the 1.36-1.41 range in 2H19.

DBS SGD NEER and policy band



Source: Bloomberg, DBS

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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