

Singapore Chartbook

No technical recession but support is still warranted

Economics/Growth/Monetary/Fiscal/Singapore

Irvin Seah

Senior Economist

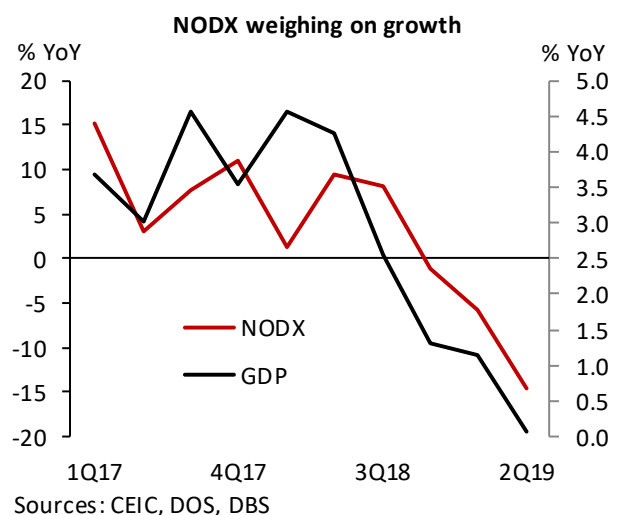
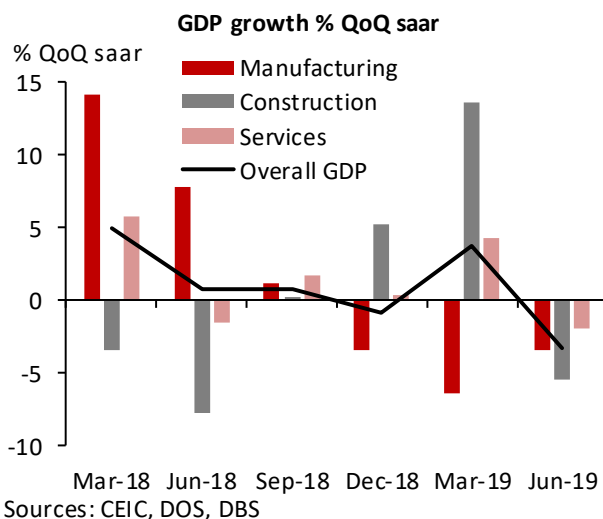


Please direct distribution queries to

Violet Lee +65 68785281 violetteeyh@db.com

Charts of the month

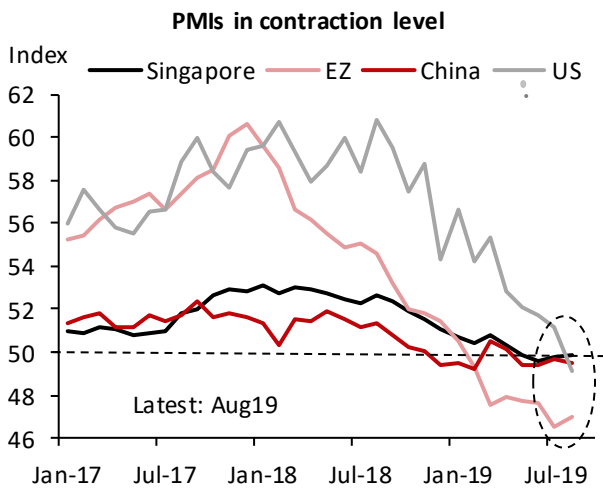
- We continue to expect the Singapore economy to avert a technical recession in 3Q19.
- The economy will likely register a benign expansion of 0.4% YoY (2.1% QoQ saar) amid a mild improvement in the manufacturing sector.
- The global slowdown continues weigh on the domestic sector, with significant implications on the labour market.
- Our full year GDP growth forecast remains at 0.7%, and inflation is expected to stay muted at 0.5%.
- A robust fiscal budget is expected early next year to render support for the economy while the MAS will most likely ease the monetary policy stance moderately next month



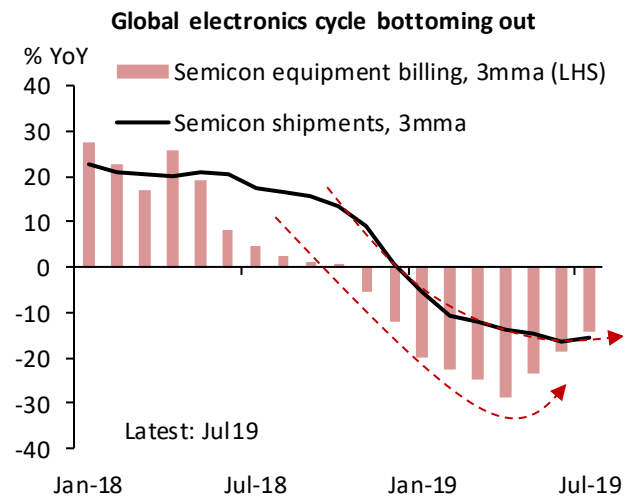
External indicators

PMIs for key markets and Singapore are all falling amid slowing global demand and trade war. However, there are some signs of stabilisation in the PMIs for Singapore and China.

The declines in billings of semiconductor equipment and global shipments of semiconductors are easing, suggesting that the global electronics cycle could be bottoming out.



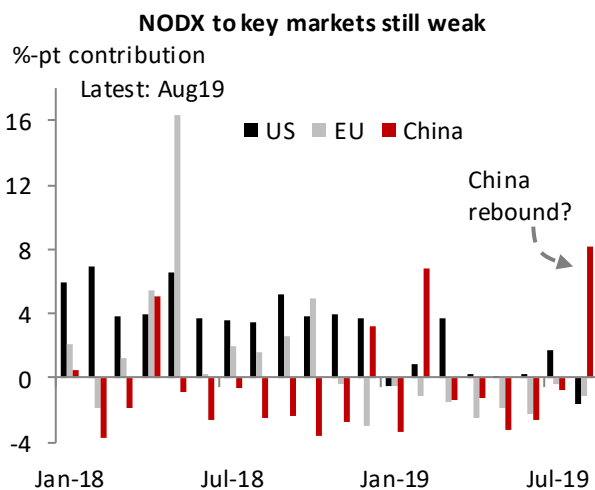
Sources: Bloomberg, DBS



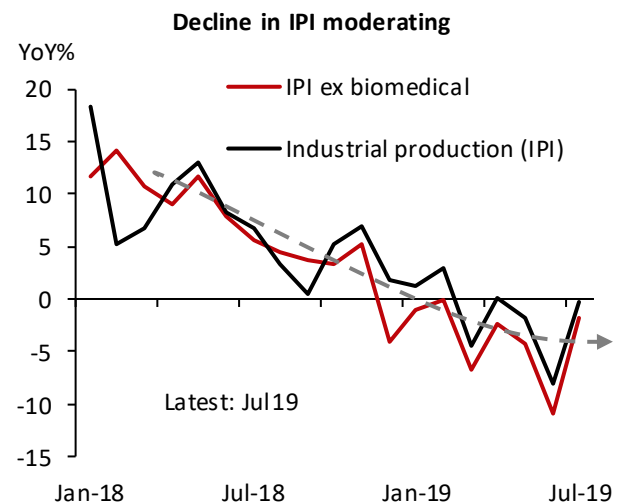
Sources: CEIC, DBS

Non-oil domestic exports to China has spiked up but it remains to be seen how sustainable that will be against the backdrop of the ongoing trade disputes between the US and China

Industrial production growth remains in negative, but the pace of decline has eased. Most recent Jul19 industrial output growth registered -0.4% YoY, from -8.1% previously.



Sources: CEIC, DOS, DBS

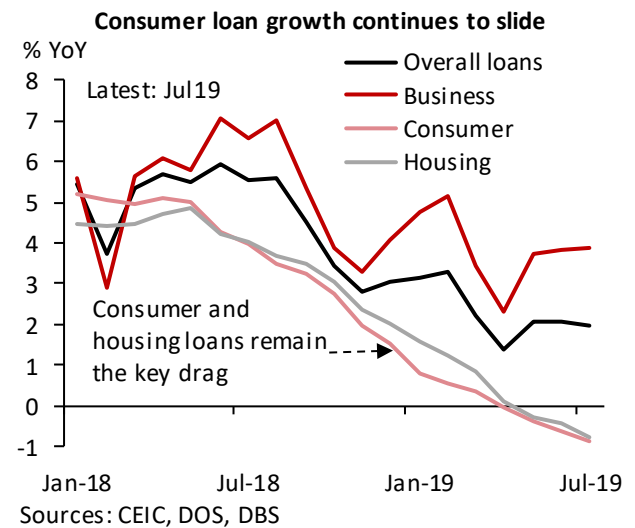
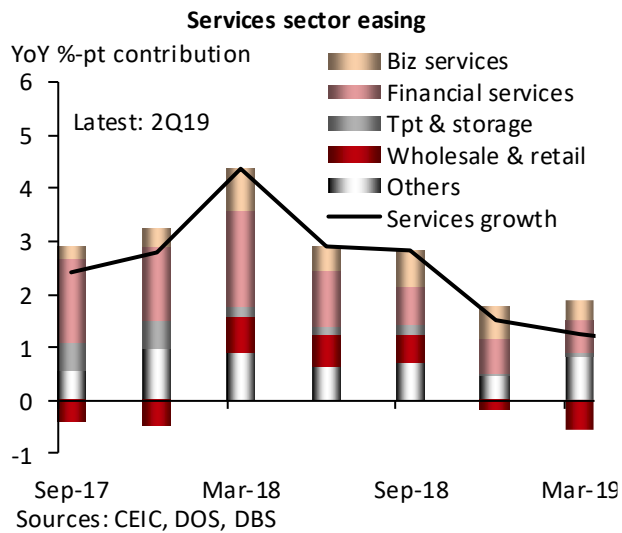


Sources: CEIC, DOS, DBS

Domestic indicators

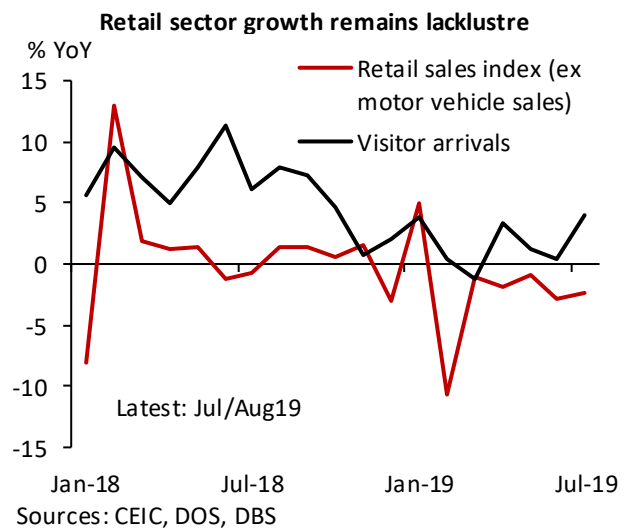
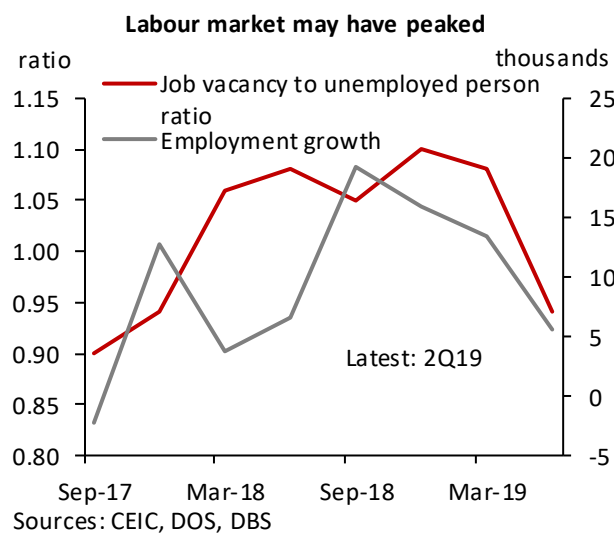
The slowdown in external demand has spilled over to the services sector. Overall services growth continues to moderate, led by the contraction in wholesale and retail trade services

Overall loan growth is still slipping, driven mainly by decline in consumer and housing loans, largely due to weak consumer sentiments and a sluggish property market.



Labour market has weakened. Job vacancy to unemployed person ratio has dipped below one where employment growth eased to a three-year low.

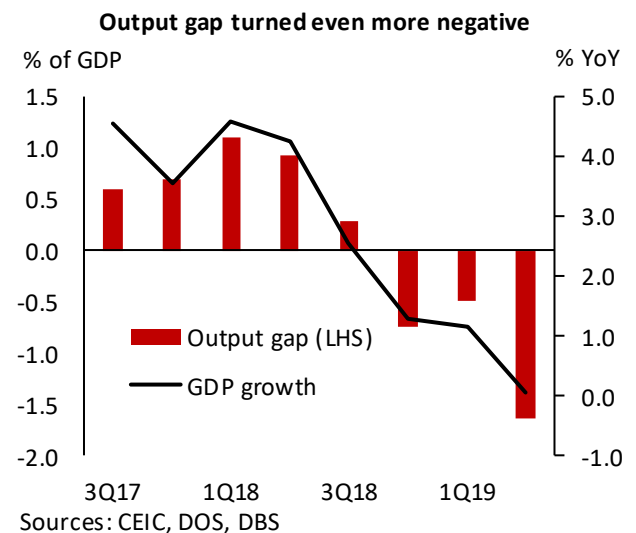
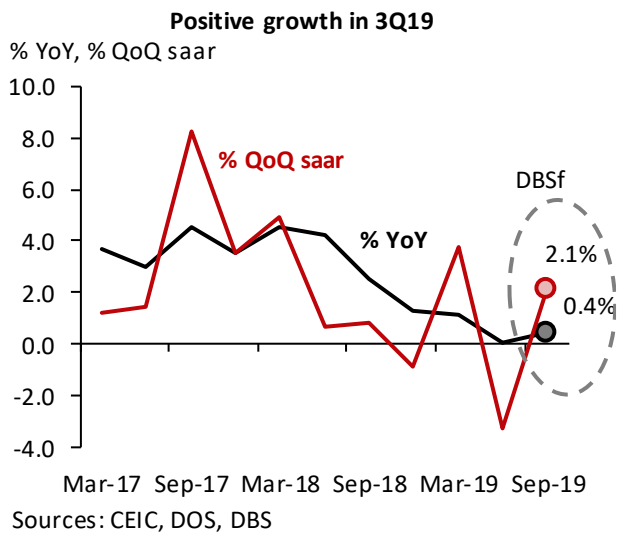
A soft labour market has translated into weak growth in the retail sector. Though visitor arrivals have picked up, it remains lower compared to the average level in 2018.



Growth and inflation

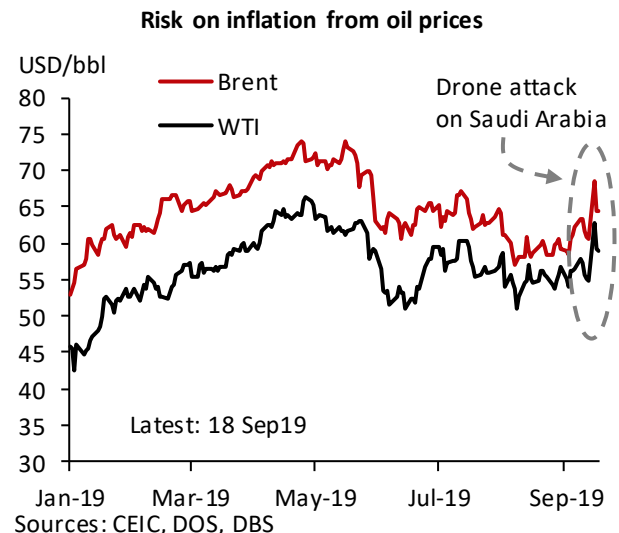
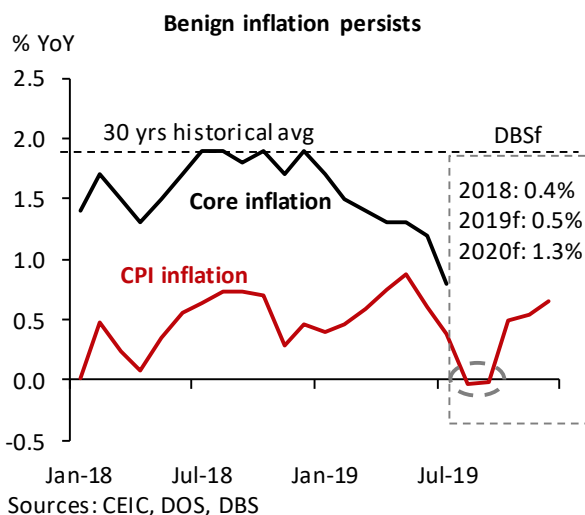
The economy is expected to avert a technical recession amid marginal improvement in the manufacturing sector. Growth is expected to register 2.1% QoQ saar (0.4% YoY) in 3Q19, and 0.7% for the full year.

Yet, output gap has turned even more negative in 2Q19. This explains why inflation has persistently surprised on the downside thus far. Overall inflation for the year is projected to average 0.5%, before rising to 1.1% in 2020.



Inflation continues to slip in recent months on the back of lower electricity tariffs. However, the headline number is likely to bottom before rising steadily in the coming months.

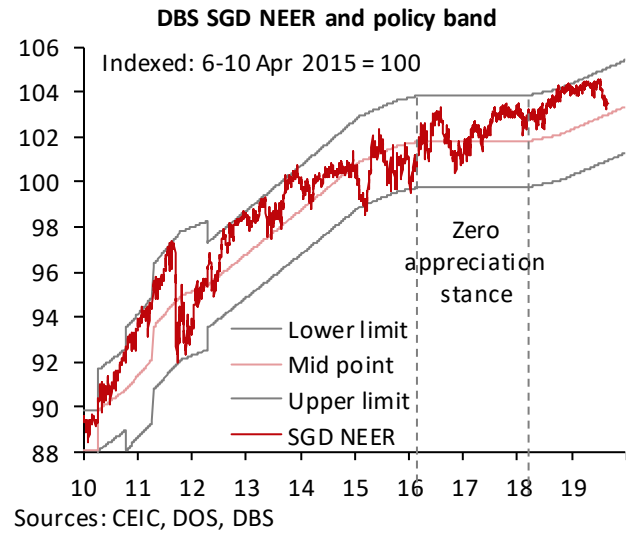
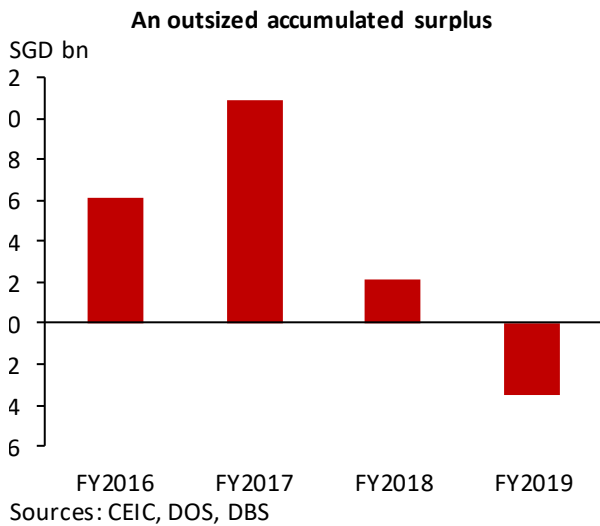
Beside the fading based effect, spikes in oil prices could be one of the key drivers of inflation going forward. A 10% rise in oil prices will lift CPI inflation by about 0.3ppt.



Fiscal, monetary, FX and rates

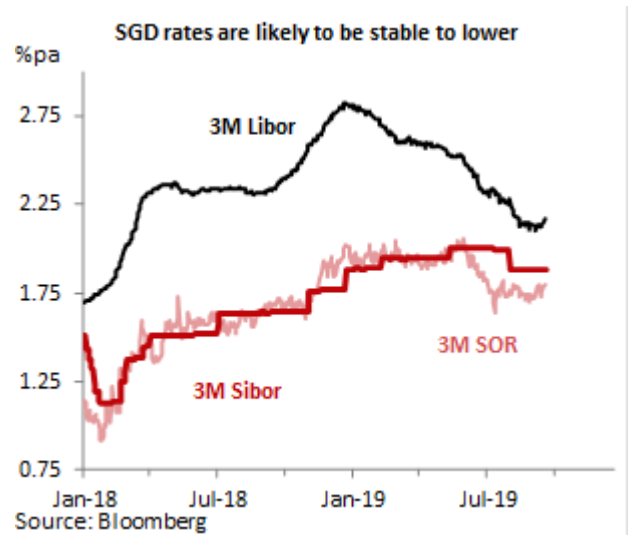
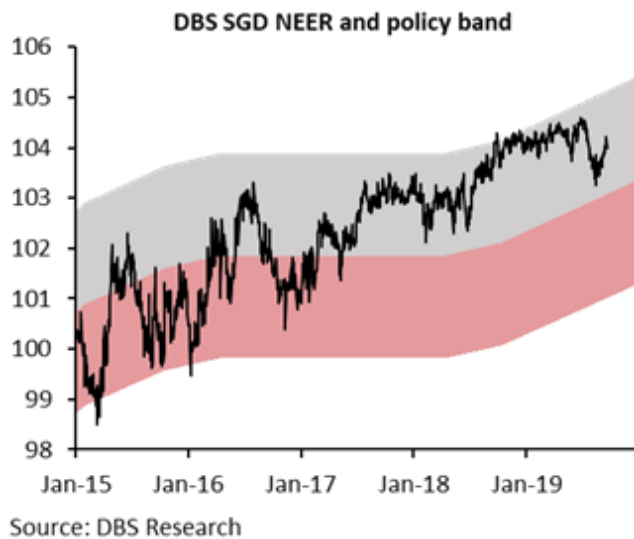
An outsized accumulated surplus of about SGD 15.6bn implies ample room for aggressive fiscal support for the economy. We expect a highly expansionary fiscal policy early next year.

The SGD NEER is approaching the mid-point of the policy band, which make for an easing in monetary policy stance. We expect the MAS to lower the slope of the band in October.



We expect the MAS to, at its policy review in mid-October, slightly decrease the annual appreciation pace of the SGD NEER policy band to 0.5% from 1% presently.

The passthrough from Fed cuts to SGD rates has been muted amid persistent USD strength and tight SGD liquidity. ST SGD rates are still somewhat elevated.



Forecasts on major indicators

	GDP				CPI inflation			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Annual change (% YoY)	3.9	3.2	0.7	1.8	0.6	0.4	0.5	1.1

Exchange rate and interest rates forecasts									
		1Q19	2Q19	3Q19f	4Q19f	1Q20f	2Q20f	3Q20f	4Q20f
USD/SGD	eop	1.36	1.35	1.40	1.42	1.41	1.41	1.40	1.40
3m SIBOR	(%, eop)	1.94	2.00	1.60	1.60	1.60	1.60	1.60	1.60
Government bond yields	3Y (% eop)	1.92	1.66	1.70	1.70	1.65	1.60	1.60	1.65
	10Y (% eop)	2.07	2.00	1.70	1.70	1.70	1.80	1.90	2.00
	10Y-3Y (bps)	15	34	0	0	5	20	30	35

Group Research

Economics & Macro Strategy

Taimur Baig, Ph.D.

Chief Economist - G3 & Asia

+65 6878-9548 taimurbaig@db.com

Chang Wei Liang

Strategist

+65 6878-2072 weiliangchang@db.com

Ma Tieying, CFA

Economist - Japan, South Korea, & Taiwan

+65 6878-2408 matieying@db.com

Nathan Chow

Strategist - China & Hong Kong

+852 3668-5693 nathanchow@db.com

Radhika Rao

Economist – Eurozone, India, & Thailand

+65 6878-5282 radhikarao@db.com

Masyita Crystallin, Ph.D.

Economist – Indonesia & Philippines

+62 21-2988-4003 masyita@db.com

Irvin Seah

Economist - Singapore, Malaysia, & Vietnam

+65 6878-6727 irvinseah@db.com

Joanne Goh

Regional equity strategist

+65 6878-5233 joannegohsc@db.com

Samuel Tse

Economist - China & Hong Kong

+852 3668-5694 samueltse@db.com

Eugene Leow

Rates Strategist - G3 & Asia

+65 6878-2842 eugeneleow@db.com

Duncan Tan

FX and Rates Strategist - Asean

+65 6878-2140 duncantan@db.com

Chris Leung

Economist - China & Hong Kong

+852 3668-5694 chrisleung@db.com

Philip Wee

FX Strategist - G3 & Asia

+65 6878-4033 philipwee@db.com

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

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