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MAS kept its S$NEER policy static for the 5th consecutive time, but watch the next October 2024 MPS given greater comfort with the core disinflation trajectory

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Highlights:

- **MAS maintained its monetary policy stance for the fifth time i.e. no change to the appreciation rate, width of the band of the level at which it was centred, in line with keeping a slightly restrictive policy posture.** MAS also kept its 2024 core inflation forecast at 2.5-3.5% with the usual caveat about two-sided inflation risks – these being that stronger-than-expected aggregate demand could reaccelerate domestic labour cost pressures while an intensification of geopolitical tensions could also exacerbate imported inflation, whereas a high-for-longer interest rate environment or weaker external demand could induce a faster pace of easing in cost and price pressures. MAS reiterated expectations for a more discernible step-down in core inflation in 4Q24 and pinpointed that the 2025 core inflation outlook is benign at around 2% (without indicating the 2025 headline inflation forecast). MAS noted that core inflation had eased from 3.3% YoY in 1Q24 to 3.0% YoY in 2Q24, with lower goods and services inflation which more than offset higher water prices, while food and services inflation also eased amid declines in imported food costs and moderating unit labour cost growth. Headline CPI had slowed faster from 3.0% YoY in 1Q24 to 2.8% YoY in 2Q24, amid the moderation in private transport costs due to lower COE prices compared to a year ago.

- **The disinflation outlook appears to be on track.** MAS flagged that global crude oil prices have eased from their recent April peaks while most food commodities and intermediate and final goods prices have been stable, even though some shipping rates have increased recently. More importantly, MAS expects that domestic unit labour costs will expand at a significantly slower rate this year compared to the past two years as labour market tightness dissipates and productivity is expected to pick up. MAS reiterated that core CPI will step down more discernibly from 4Q24 and into 2025. Interestingly, MAS also flagged that "amid moderate imported inflation and easing domestic cost pressures, the seasonally adjusted q-o-q rate of core inflation has declined to an annualised rate of 2.1% in Q2. The sequential pace of price change, which better captures the most recent inflation in the economy, is expected to be lower in the second half of 2024 compared to H1." What this reference suggests is that besides looking at the absolute core CPI which has eased to 3.0% in 2Q24, the sequential pace has already pulled back to an annualised pace of 2.1% QoQ sa in 2Q24 and is expected to be lower in 2H24 compared to 1H24, which could possibly give a slight hint as to future policy intentions. **As such, the**

October 2024 and January 2025 MPS would be interesting to watch given the potential opening for a policy easing move if a pre-emptive approach is adopted with greater comfort over core inflation momentum normalizing in 2025.

- **MAS' growth assessment for the Singapore economy remains fairly sanguine, noting that the slightly negative output gap should close by end-2024.** MAS noted that global final demand should benefit from the anticipated monetary policy easing cycle and continuing IT investments, albeit subject to uncertainties over the pace and timing of the rate cuts as well as the impact of geopolitical and trade conflicts. The Singapore economy is likely to expand closer to its potential 2-3% growth rate this year, with growth momentum tipped to improve in 2H24, aided by the broadening tech upturn benefiting the manufacturing and financial sectors whilst the domestic-oriented sectors should also normalise to pre-Covid rates. It is likely a matter of time before the official 2024 GDP growth forecast is narrowed from 1-3% to 2-3%, which could happen sometime from 3Q24.

- **Our 2024 GDP growth forecast currently stands at 2.6% YoY** amid the recent green shoots in the global tech industry and relatively resilient growth in the construction and services sectors, albeit the QoQ growth in the services sector had slowed in 2Q24. 2025 GDP growth is likely to be stable around 2.7%. To recap, **our 2024 headline and core CPI forecasts stand at 2.6% YoY and 2.9% YoY respectively, before both stepping down to around 2.0% in 2025**. This is assuming there are no fresh shocks on the global commodity complex (with Brent tipped to average USD80/bbl in 2025 versus USD85/bbl this year), supply chains, geopolitical tensions and trade conflicts (which was also mentioned in the MAS statement on upside inflation risks). The upcoming US presidential elections in November 2024 is a key risk event, given that Trump has advocated 60% tariffs on China and 10% for the rest of the world. His other campaign promises could prove inflationary in nature which could in turn derail the US Federal Reserve's plans to cut interest rates ahead.

- **Financial market reactions were mild** post-MAS policy announcement this morning: The S$NEER continues to trade close to the 1.9% above parity currently while USDSGD is hovering around the 1.3430 region this morning. SGD rates may not react much either to today's MAS policy decision. Looking ahead, one of the key indicators to watch apart from core inflation would be the wage dynamics in the domestic labour market given the ongoing pass-through into business costs and subsequently to end-consumers.

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