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Global Markets Research

Research Alert

MAS unexpectedly stood pat on monetary policy

MAS maintained the prevailing rate of appreciation of the S$NEER policy band

S$NEER band at an appropriate position; balanced outlook suggests status quo for rest of 2025

Positive for SGD; USD/SGD expected to trade towards 1.22 by end-2Q26 from 1.29 at end-3Q25

MAS maintained the prevailing rate of appreciation of the S$NEER policy band; no change to its width and the level at which it is centred

In an unexpected move, the Monetary Authority of Singapore (MAS) maintained the prevailing rate of appreciation of the S$NEER policy band and there will be no change to its width and the level at which it is centred. MAS added that having eased monetary policy twice this year, ***the S$NEER band is in an appropriate position to respond to risks to medium-term price stability, suggesting that MAS will likely maintain status quo in the October meeting, albeit with an easing bias depending on the evolution on the trade, geopolitical and financial fronts.***

More balanced outlook – economy better than expected; both upside and downside risks to inflation

In the accompanying statement, the central bank said that global and domestic economies have been more resilient than expected. Moving into 2H, growth is nonetheless expected to moderate amid a pull-back in trade-related sectors as front-loading activities continue to unwind, while the construction sector and selected segments of financial services will benefit by a pick-up in infrastructure investment and accommodative financial conditions. All in, output gap is expected to fall slightly below potential but will average around 0% for the whole of 2025. ***There was no mention of its GDP forecast, but just a recap, MAS lowered its GDP projection for 2025 to 0-2% back in April***, down from its previous estimate of 1-3% and 2024's +4.4%.

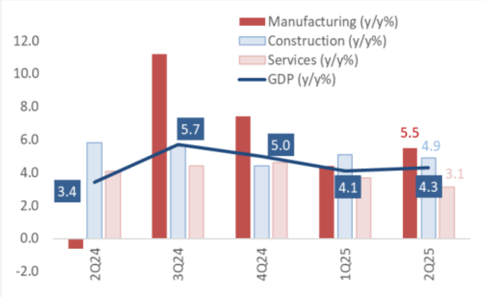
In terms of inflation, MAS anticipates underlying price pressure to remain contained in the near term despite expectations that it will edge up in the latter part of the year due to low base effect from the healthcare subsidies introduced late last year and amid tapering disinflationary impact from lower oil prices. ***For the whole of 2025, MAS maintained its inflation forecast of 0.5–1.5%***, citing contained global oil prices and falling regional PPI on the external front, and softer unit labour costs on the domestic front. MAS nonetheless warned that its inflation outlook is subject to both upside and downside risks, the former as geopolitical shocks could lift imported energy and shipping costs higher, while weaker than expected economic growth could weigh on prices.

Positive for the SGD

In our opinion, MAS gave a more balanced outlook as compared to the previous statement. With MAS adding the line that "S$NEER band is in an appropriate position to respond to risks to medium-term price stability," we thus opine that MAS will likely maintain status quo in the October meeting, albeit with an easing bias barring any shocks on the trade, geopolitical and financial fronts.

The decision today and a more balanced outlook from MAS is expected to be positive for the SGD in the continued environment of USD depreciation over the medium term, with the USD/SGD easing to a low of 1.2855 post the decision, versus this morning's open of 1.2879. In the short term, we expect a slight corrective bounce in the greenback this quarter, with ***USD/SGD expected to trade towards 1.2900 by the end of 3Q25, but ultimately, we see a move lower towards 1.2200 over the coming 12 months.***

Figure 1: Growth has been stronger than what MAS had anticipated



Source: Bloomberg

Figure 2: Inflation is currently within MAS' forecast

Source: Bloomberg

Data wise, advanced 2Q reading released recently has surprised MAS as well as consensus on the upside with a sturdy 4.3% y/y growth (1Q: +3.1% y/y), as the trade-related and manufacturing sectors continued to remain resilient amid a pause in tariff hike. Official PMI, nonetheless has rebounded to expansion territory in June after 2 consecutive months of contraction, as business confidence has stabilised suggesting still expansionary, albeit softer growth for export-oriented industries in 2H. While the pace of expansion in domestic-oriented sectors have eased, consumer spending has continued to grow for the third consecutive month, driven by motor vehicle sales, and will likely to be supported by still healthy labour market (unemployment rate: +0.1ppt to 2.1% in 2Q), still shy of its 10-year average of 2.2%.

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