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- Advance GDP estimates for 1Q22 moderated to 3.4% YoY (0.4% QoQ sa)
- MAS has tightened its exchange rate policy significantly to anchor inflation
- **Implications for our forecast** – we have maintained our growth forecast for 2022 at 3.5% but raised our inflation forecast to 4.6%
- **Implications for investors** –USD/SGD is expected to peak at 1.39 in 3Q22

Slower growth, high inflation

Advance GDP estimates for the first quarter suggest that economic growth may have moderated to 3.4% (DBSf: 3.6%), down from

GDP growth by sectors

	1Q21	2Q21	3Q21	4Q21	2021	1Q22*
% YoY						
Overall GDP	2.0	15.8	7.5	6.1	7.6	3.4
Manufacturing	11.5	18.2	7.9	15.5	13.2	6.0
Construction	-22.2	118.9	69.9	2.9	20.1	1.8
Services	0.2	11.5	6.8	4.4	5.6	3.9
% QoQ sa						
Overall GDP	3.0	-0.8	1.5	2.3	7.6	0.4
Manufacturing	7.9	0.1	0.8	6.3	13.2	-1.2
Construction	3.7	0.1	1.1	-2.1	20.1	2.8
Services	1.9	-0.2	1.3	1.4	5.6	1.4

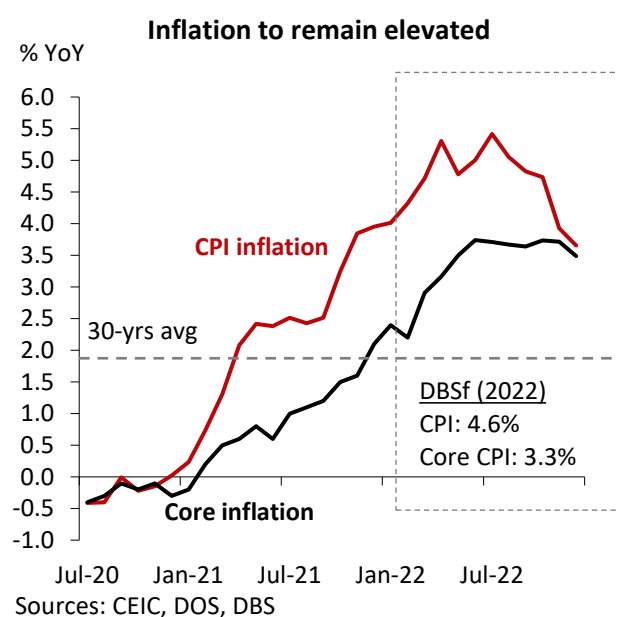
Source: MTI

6.1% in the previous quarter. On the margin, growth momentum has eased to 0.4% QoQ sa, from 2.3% previously. Notably, though there has been a broad-based slowdown in growth on a YoY basis, which is consistent with our long-held-belief, growth momentum (QoQ sa) in the key manufacturing sector has dipped into the red (-1.2%), the first decline after four consecutive quarters of expansion. Though this is likely part and parcel of the normalisation process, there are risks in the horizon worth watching.

China is also a critical factor to watch on the growth front, amid spikes in domestic infections, the resulting lockdowns in key cities amid its zero Covid policy. This will have profound implications on the prospects of Singapore's manufacturing sector, which thus far has been the main engine of the recovery. In the immediate term, risks from the Russia-Ukraine war continue to linger but the direct impact on growth in this regard remains limited. Tourism and the retail sectors will benefit from the further easing of measures and reopening of borders, but this may not be enough to pick up the slack from the manufacturing sector. Overall growth performance will still be weighed down by the weaker global economic conditions.

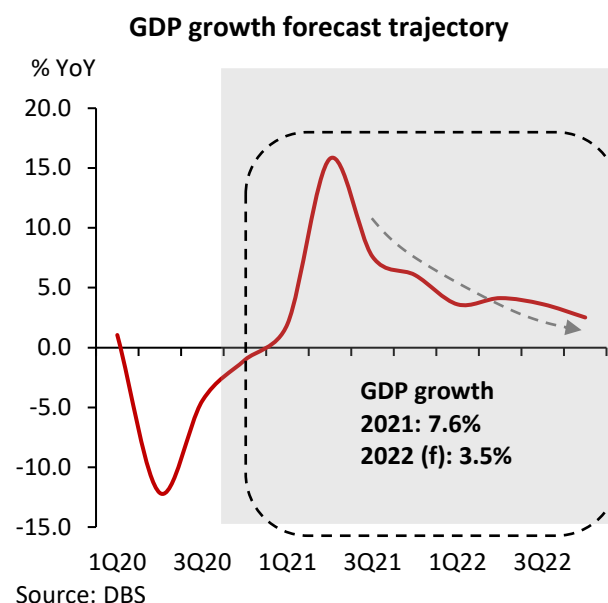
Inflation is another key risk in 2022 amid rising global price pressure. A strong global recovery, supply-side bottlenecks and more recently, the Ukraine-Russia war has driven global energy, food and commodity prices significantly higher. Such elevated imported inflation will spill over into Singapore's domestic price dynamics. Juxtaposed with an already tight labour market and an increasingly positive output gap, domestic inflationary pressure will remain high throughout 2022.

We now expect headline inflation to average 4.6% in 2022, up from our previous forecast of 3.8%. The price barometer will likely hover around the 5% level in the coming months before tapering off on a high base effect towards the end of the year. Core inflation is also projected to be higher at 3.3% amid increasingly positive output gap and tight labour market. And to add to the concern, the upcoming GST hike in Jan23 will continue to keep inflation elevated heading into 2023.



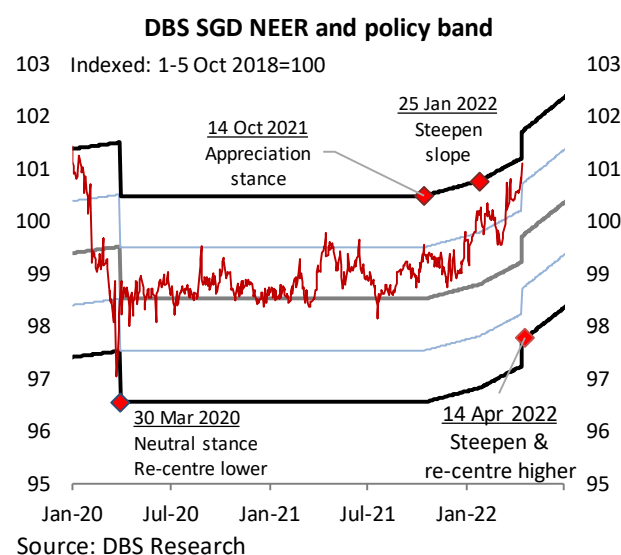
A combination of high inflation, slowdown in China and tighter monetary policy will weigh down on growth prospects. While mindful of the downside risk to growth, **we are**

maintaining our current below-consensus GDP growth forecast of 3.5% for 2022.



Tighter monetary policy to tame inflation

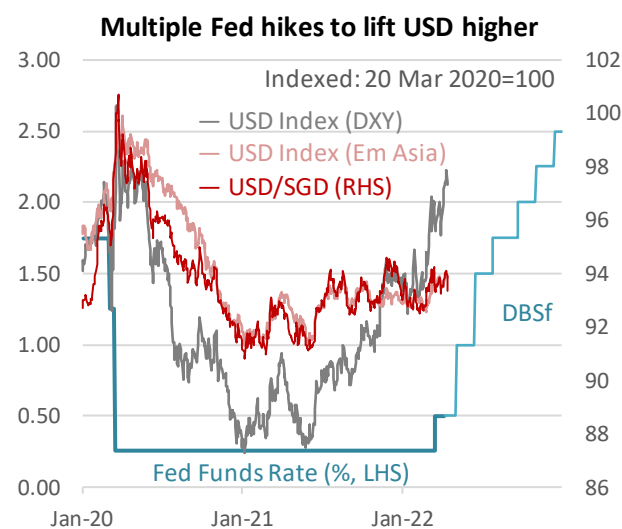
At today's policy review, the **Monetary Authority of Singapore increased the appreciation pace and re-centred higher the SGD NEER policy band.** There was no change to the width of the band. Effectively, the re-centring took back the downward shift implemented during the Covid outbreak in March 2020. Throw in the three steepening since last October, **the MAS is ahead of other**



central banks hastening the return of monetary policy to neutral and tampering inflation expectations. Unlike other Western countries, the upward revision in this year's core inflation forecast was modest, i.e., from 2.0-3.0% to 2.5-3.5%.

USD/SGD hit a low of 1.3556 at the announcement from yesterday's close of 1.3624. According to our model, the re-centring the band could lower the floor for the implied policy band for USD/SGD to 1.3500 to 1.3550 today, barring no upside surprises in the USD against its basket of currencies. While the tighter SGD policy has kept USD/SGD stable against a rising DXY, we remain vigilant of incoming aggressive Fed tightening lifting the USD against Emerging Asian currencies this

quarter. We maintain our forecast for USD/SGD to peak at 1.39 in 3Q22.



Sources: DBS Research, Bloomberg data

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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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