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Kelly TayThe Business TimesWednesday, Jan 20, 2016

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SINGAPORE - The odds of an easing in monetary policy have risen, as heightened economic uncertainty and financial volatility as well as muted inflation reduce the hurdle for a move to a weaker Singapore dollar policy, said private-sector economists.

Credit Suisse economist Michael Wan told The Business Times: "I would say the probability of them easing has increased, and they can do it in two ways. They could widen the band, and blame it more on market volatility rather than an explicit change in economic conditions.

"Or they could shift the band lower, essentially to neutral - and blame it on weakness in China. I think both are possible."

Plunging oil prices - and its impact on inflation - could play a key part in prompting a tweaking of the Monetary Authority of Singapore's (MAS) current stance - a "modest and gradual" appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) band.

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Oil prices, at around or even under US$30 (S$43) per barrel, are now below MAS's 2016 projected level of US$54, StanChart economist Jeff Ng pointed out.

Bank of America Merrill Lynch economist Chua Hak Bin added: "There's this sense that inflation is probably going to surprise on the downside because of falling oil prices. Transport prices are coming off as well . . . We haven't gotten any data for the first month of the year yet (but) the data we've had late into last year was all not great - whether US data, China data. There are growing concerns about the China contagion, too."

Inflation is the key target of MAS's monetary policy to keep prices stable and set an environment conducive for growth. A strong Singapore dollar policy helps keep imported inflation at bay.

On Monday, a survey reported that challenges seen in the global economy are driving Singaporean households' expectations of price increases to their lowest levels ever. The median expectation for inflation, in the fourth quarter of 2015 for the one year ahead, was 2.74 per cent, significantly lower than the 2.92 per cent seen in the third quarter of 2015.

This would make it the lowest ever since the survey - the Singapore Index of Inflation Expectations (SInDEx) - started in September 2011, noted Singapore Management University.

Meanwhile, Singapore's key exports dived past economists' forecasts in December, as the downward spiral in external demand and oil prices continued.

Non-oil domestic exports (NODX) slumped 7.2 per cent year on year last month - more than doubling from the 3.4 per cent slide in November - and the trend is expected to continue in the months ahead.

Still, even the economists who see higher chances of an easing are not making a weaker monetary policy stance as their base case yet. It is some months to the policy review in April, assuming that there are no off-cycle policy shifts, and conditions can shift. And they pointed out that MAS's language thus far has set a high hurdle for further easing, and keeping the Singapore dollar strong amid the global volatility may also be a policy consideration.

Indeed, in its twice-yearly Macroeconomic Review released in October, MAS had made clear that a weakening Singapore dollar was not on the policy agenda.

In fact, the central bank went a step further and called earlier expectations of a more aggressive easing stroke "clearly unwarranted", given that the Singapore economy was neither experiencing an outright contraction in economic activity nor widespread price declines.

The policy approach was reiterated in the Prime Minister's Office's (PMO) addendum to the President's Address released on Tuesday evening, in which the government said that MAS would continue to focus its Singapore dollar policy on minimising overall economic volatility, while ensuring price stability in the coming years.

The two-page document set out how the regulator intends to provide an effective anchor for economic and financial stability, especially during a period of global and regional uncertainty.

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Said the document: "Our core MAS policies should not change fundamentally. Our monetary policy decisions recognise that inflation is low today, but is likely to rise over the medium-term amid a tight labour market.

"They aim to secure price stability during a period of transition when cost pressures are still significant, and while the economy moves gradually towards productivity-led growth.

"Financial sector supervision, the other major prong of MAS policies, will remain focused on pre-empting systemic risks to the financial system, promoting the safety and soundness of our financial institutions, and ensuring well-functioning financial markets."

Apart from emphasising MAS's commitment to ensuring a strong Singapore core in the financial sector, the government also said that MAS would actively promote innovations in finance - leveraging on technology to boost Singapore's status as a financial centre.

Deputy Prime Minister and Coordinating Minister for Economic and Social Policies Tharman Shanmugaratnam is the Minister-in-charge of MAS.

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