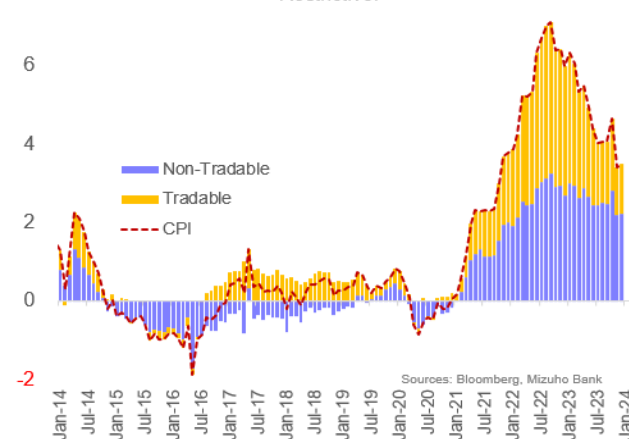


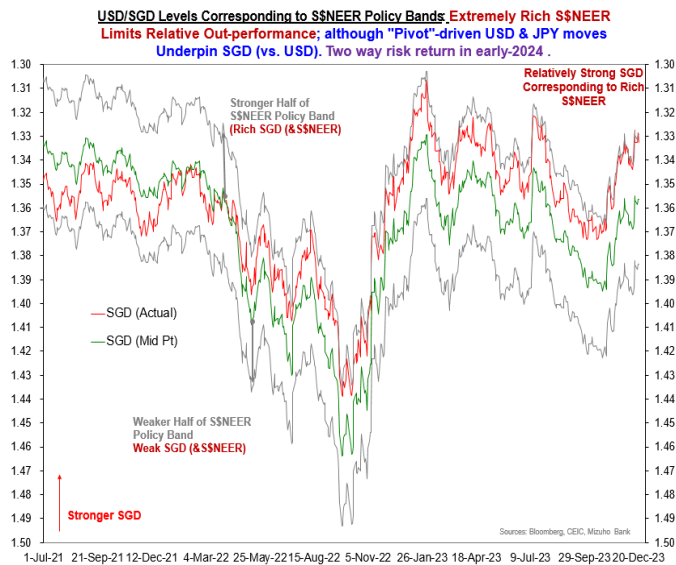
Dynamic Tensions

- The **MAS is set to hold** (29th Jan). And the accompanying language may turn **less overtly hawkish**; *although proper shift to “neutral” will be conditional on continued dis-inflation.*
- *But* rather than comfort with equilibrium around the balance of risks, the hold will **underscore intensifying dynamic tensions**; between growth-inflation risks.
- On one hand, **sticky inflation remains an inconvenient bugbear** despite braider dis-inflation trend; with end-2024 price pressures re-accelerating across headline and core.
- *Yet* on the other, **lingering downside risks to growth** amid external demand headwinds confronted by persistent geo-political stress are **accentuated by threats of unforeseen financial shocks**.
- **Dynamic tensions** don't just exist between growth-inflation risks, but is evident even **within growth and inflation drivers**; adding to policy complexity and uncertainty.
- The **underlying dis-inflation**, **flattered** by a high base, may be **challenged by spots of global geo-political cost-push flares** colliding with **tighter services capacity** and **“hotter” wealth flows**, stoking **“second-round” risks**.

Inflation: **Stickier Non-Tradable** Inflation amid **Quicker Pace of Tradable Dis-Inflation** Suggests **Diminished Need for S\$NEER Tightening** ... **Certainly No Mid-point Re-centring Higher. But Policy Needs to Remain Restrictive!**



- Inadvertently, these unprecedented layers of price pressure interactions result in greater inflation dynamic uncertainties' even with what ought to have been one-off effects of administrative (GST/carbon taxes) cost hikes.
- As for growth, **growing hopes of US “soft landing”** and **bottoming chips/electronics** to conspire and set the stage for **sustained pick-up** must **confront** inconvenient but immutable **headwinds** from **lagged tightening associated with elevated global rates**, heightened **geo-political uncertainties** and rolling **political shifts** across regions.
- The upshot is that the **MAS will maintain an uncomfortable hold**; with *every intent to stay the restrictive course* until inflation is durably and assuredly down at/below 2% *matched by a readiness to respond nimbly* to unforeseen adverse global demand triggers.
- For now though, *despite foreseeable Fed pivot*, it is a **far higher bar for the MAS to ease**.



- Simply because **absent an adverse (level) shock to demand**, a **step down in the S\$NEER will be unacceptably inflationary** from large (imported) price shocks.
- And **whilst underlying inflation remains materially elevated** above target, the **current* 2% S\$NEER slope** remains *not just appropriate, but arguably necessary to ensure inflation expectations remain anchored*.
- Meanwhile, a *rich S\$NEER means* that scope for *further (relative) SGD out-performance* is *highly constrained*.
- Retention of hawkish bias may allow for a very modest 10-20bp of SGD bump-up (all else equal) whereas balanced remarks to lingering downside risks will likely fade any such SGD out-run.

* based on back testing our S\$NEER model

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