

MAS: Considering Adverse Demand Shocks amid Uncertainty?

- The **MAS tightening via an increased S\$NEER slope** is **neither surprising nor aggressive**.
- Afterall, this was **from a position of a previously reduced slope** (appreciation bias).
- And so, this S\$NEER slope increment, *by our estimation*, **merely amounts to a restoration of the defacto “modest and gradual” (2% per annum) S\$NEER appreciation rate**.
- *Whereas* the **decision not to re-center the S\$NEER mid-point** higher **was a considered restraint** (on an underlying tightening instinct).
- All too evident in the allusion to *“considerable risks around the outlook for inflation and growth”* [emphasis ours].
- Notably, the **MAS is arguably assessing the risk of adverse demand shock multipliers**
- Whereby an **inadvertent interaction** between *activity dent from energy deprivation* (both price and access) *tighter financial conditions* and *AI capex pullback* amplify demand shocks.
- **In contrast**, there is **an appreciation that inevitable inflation risks* may not only be fleeting, and perhaps even ultimately deflationary** (via demand channels).
- This is clearly referenced in its statement: *“...more persistent disruption to energy supplies will exacerbate inflationary pressures worldwide, as well as deepen the drag on growth.”*
- The tension for policy is not peculiar to the MAS.
- And stems from the fact that **diametrically opposed** (inflation and growth) **risks do not negate one another**. But **instead pose heightened binary risks down the line**.
- Keeping this in mind, we expect that the S\$NEER will likely have a tendency to be in the stronger half of the band.
- So *buying back S\$NEER/SGD on dips in excess of 50-80-bp* is preferred.

*MAS has lifted both headline and core inflation forecasts by 0.5%-pts to 1.5-2.5% for 2026.

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