Mizuho Flash: MAS

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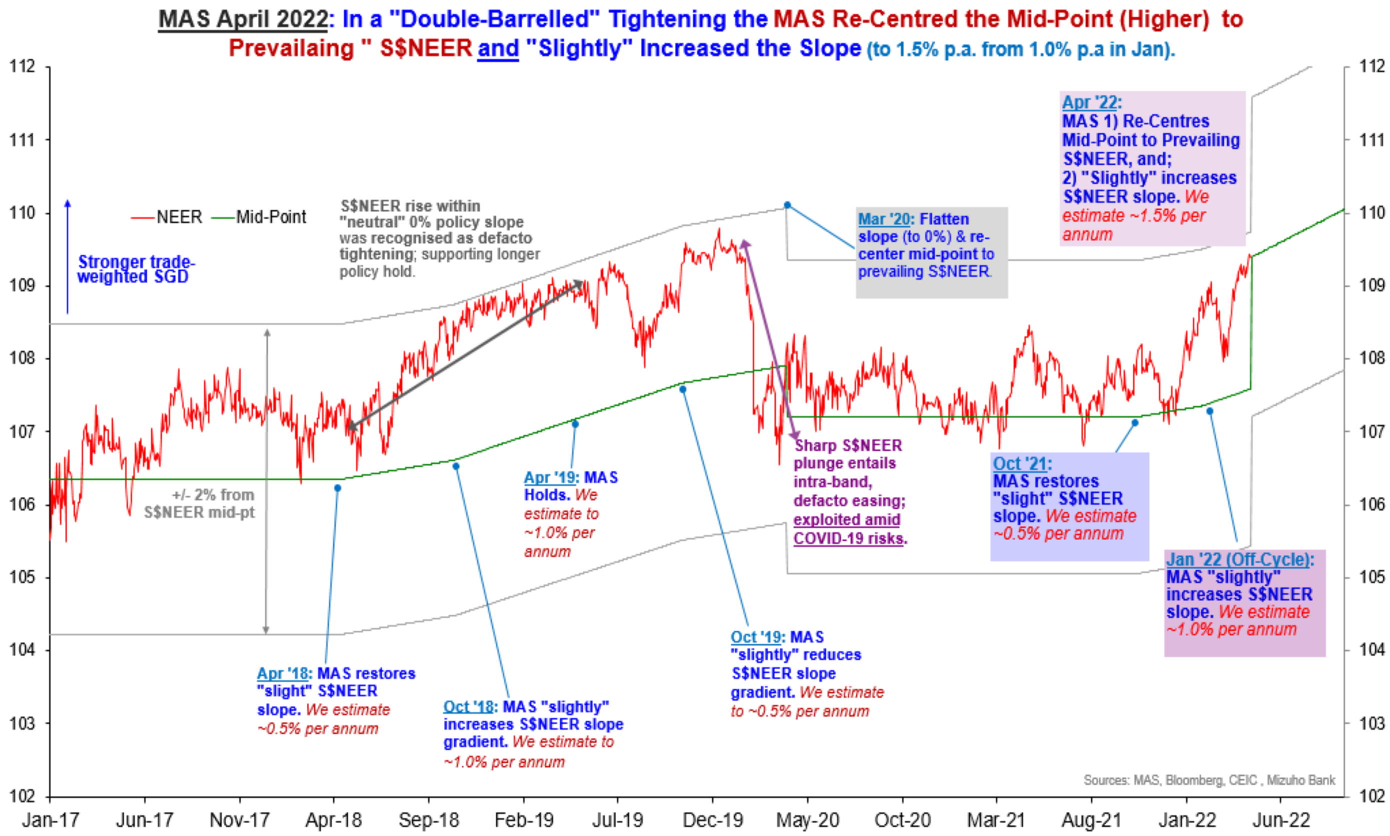
MAS: Unwavering, Despite Uncertainty



"Doubt in battle there cannot be." – **Master Yoda, Star Wars**

In a Nutshell: The **remarkable thing about the MAS' "double-barrelled" move**, was that the **unwavering doubling down** (re-centring and steeper slope) **was** not in the absence of, but **despite**, **uncertainty**. Whilst the outlook is certainly clouded, the MAS has rightly identified inflation risks as the most imminent and, arguably, important. Hence, the echoes of Master Yoda's wisdom in the **abandonment of doubt in this "battle" against inflation**; **risks from which has been stepped up** dramatically amid *geo-political price shocks, pent-up demand* and *wage-price spiral threats* from a tight labour market.

Meanwhile, being "*vigilant to (global) developments*" is a pre-condition **as geo-political, pandemic and global policy tides strike** the **resilient outlook for** growth (3-5%); which is **slightly diminished but not derailed.** *Further S$NEER slope increment remains "live", but highly fluid, into the October meeting.*

MAS Hawks Doubling Down: For the record, the **MAS doubling down on its hawkish stance with its two-pronged** move, which we expected, albeit in a slightly less aggressive iteration (of "*higher, but below the prevailing S$NEER*") comprised of;

i) *Re-centring of the policy mid-point*, "*to the prevailing level of the S$NEER*" and;
ii) *"Slightly" increasing the rate of S$NEER policy band appreciation* (for the third time).

Inflation Overrules: Admittedly, **overwhelming inflation risks necessitate a more forceful hawkish**

response. The MAS' sharp upward revisions to inflation (with the outlook for headline CPI lifted 2.0%-pts to 4.5-3.5% and core inflation projections bumped up 0.5%-pts to 2.5-3.5%) reflects **broader concerns of second-round inflation risks**. In particular as *geo-political price shocks* collide with, and are amplified by, *pent-up demand* and *wage-price spiral dynamics* threatening to take hold amid tighter labour markets.

Amid Fairly Resilient Growth Prospects: Moreover, the MAS has retained **fairly resilient growth prospects** (as have we) **at an above-trend 3.5%**. Premised on MAS' judgment that **external demand** (from major trading partners) **may** "*ease somewhat but (will) not be derailed*" alongside expectations for "*domestic-oriented and travel-related sectors will gather pace*" **underpin the MAS' front-loaded hawkish stance**.

But Doesn't Overwhelm Uncertainty: Nonetheless, it would be **remiss to ignore the hulking uncertainty elephant** in the room. The MAS expressly conceded that "*prospects for the global economy are uncertain and hinge on the evolution of the (Ukraine) conflict and regional pandemic situation*".

Crucially and tellingly, MAS' allusion to "the *geopolitical crisis*, *fresh supply disruptions* and *surge in global prices of food, energy and commodities*" is **not just about cost-shocks**, but **as worryingly and along with it**, **of attendant demand destruction** (via income and confidence erosion).

Perversion & Exertion: The wider point is that **uncertainty from geo-politics**, which clearly dominate the landscape, **constitute the perversion** of **price shocks** alongside **demand destruction**. But global central banks, captive to run-away inflation, are mounting a **concerted hawkish exertion** (led by an increasingly hawkish Fed). The resulting **unpredictable interaction between** *price shock perversion* and *hawkish exertion* **raise the likelihood of** *a premature downturn from inadvertent policy oversteer*.

Unaffordable Doubt & Exorbitant Mis-steps: All said, the **MAS' "double-barrelled" tightening** is **not at odds with** the emphatic shift to a host of **doubled down 50bps rate hikes** (BoC, RBNZ and mostly likely the Fed in coming months). It appears that ***"double" is the new single*** in this "*sooner and faster, front-loaded*" policy tightening climate.

Understandably, the **MAS** (like other global central banks) **cannot afford doubt**; and so **must necessarily be unwavering on inflation battles despite uncertainty**. But the ***rub is that cumulative global policy mis-steps may come at a far more exorbitant cost*** to the global economy. And so, while *further slope increment remains "live" into the October meeting,* policy triggers will be fluid and data- as well as headline-dependent.

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