

## MAS tightened monetary policy for the first time since 2022

MAS increased the rate of appreciation of the S\$NEER policy band; no change to width & level

Hawkish tone suggests further tightening cannot be ruled out in the July meeting

Gradual appreciation in SGD till end 2026; SORA rates to fall following UST yields

### MAS slightly increased the rate of appreciation of the S\$NEER policy band, upgrades CPI forecast

As expected, the MAS increased slightly the rate of appreciation of the S\$NEER policy band. There will, however, be no change to its width and the level at which it is centred. The decision was largely driven by expectations that prices of imported goods and services will accelerate in the quarters ahead due to the recent spike in energy costs, offset to some extent by subdued accommodation inflation amid weaker housing rental growth as well as enhanced domestic subsidies like for pre-school education. **With this, MAS also raised its core and headline inflation to 1.5–2.5%** from 1.0–2.0% previously, while an update to the GDP forecast will be provided in May.

### Moderated GDP growth due to manufacturing and services clusters tied to AI

In terms of growth, Singapore's advanced 1Q GDP growth came in lower than expected even before the US/Israel-Iran war, moderating to 4.6% on a yearly basis and contracting on a quarterly basis at -0.3% q/q (prior: 5.7% y/y and 1.3% q/q). Growth continued to be supported by the manufacturing (5.0% y/y vs 11.4% y/y) and services (4.7% y/y vs 4.8% y/y) clusters tied to the global AI capex cycle on a yearly basis, while the contraction on a quarterly basis reflected moderation in trade-related and modern services activities given the high base effect in 4Q of 2025. Consequently, manufacturing fell 4.9% q/q in 1Q (prior: 4.5% q/q), while services growth eased to 0.6% q/q from 1.0% q/q. The construction sector was the outlier, accelerating to 9.0% y/y and 3.7% q/q (prior: 4.6% y/y and 0.2% q/q) supported by a step-up in both public and private sector construction works.

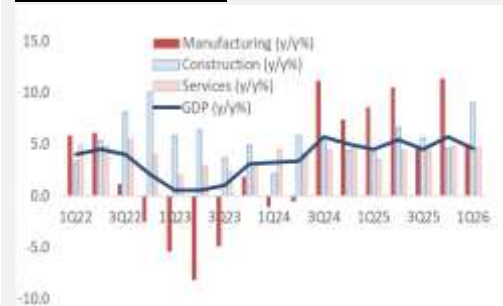
### Zero output gap expected for 2026

Moving forward, the impact from the conflict that began in end-February is expected to be pronounced for economic activities (as well as prices) in the coming quarters. As it is, there is significant uncertainty around the duration and intensity of the war as well as outlook for shipping flows through the Strait of Hormuz at this juncture. Even if supplies are restored, global energy prices are likely to remain elevated for some time, deliveries lagged and supply will take time to fully recover. The accumulated supply shortfalls and higher input costs is expected to keep inflation elevated, curtail production in the meantime, weigh on profitability of most sectors, most notably for energy-dependent industries such as petrochemicals and transport. These, will however, be offset by continued global AI-related capex spending as well as resilient regional electronics production. In this regard, we also note that MAS is now expecting output gap to average around zero percent, a downgrade from positive output gap expected in the January policy meeting.

### Another tightening in July cannot be ruled out

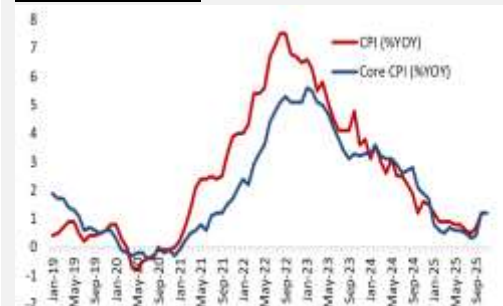
Taking cognizance of the hawkish tone in the policy statement and that the impact from the war likely more pronounced on inflation rather than growth (GDP growth eased from 9.9% in 2021 to 4.1% in 2022 during the Russia-Ukraine war, while inflation spiked from 2.3% to 6.1% for the same period), the door for another tightening remains open in the July meeting and in tandem with this, **USD/SGD should be well supported at around the current level of 1.27 to end 2026. SORA rates are expected to inch lower tracking the decline in Fed fund and UST yields, inching down from 1.06% currently to 0.90% for the same period.**

**Figure 1: Slower but still supported by clusters tied to AI**



Source: Bloomberg

**Figure 2: Expect inflation to average 1.5-2.5% in 2026**



Source: Bloomberg

**Figure 3: USD/SGD is expected to be well supported around the current level to end-2026**



Source: Bloomberg

That said, the decision by MAS to steepen the curve just slightly and not recentre the S\$NEER band suggests that July tightening is not fully in the bag at this point, with the central bank likely waiting for more clarity on the duration and intensity of the war, possibly amid some growth concerns, the latter as the economy contracted on a quarterly basis and as the output gap narrows towards zero, and as inflation remains tame for now.

**Figure 4: House View and Forecasts**

FX	2Q-26	3Q-26	4Q-26	1Q-27
USD/SGD	1.29	1.28	1.27	1.25
SGD/MYR	3.09	3.10	3.11	3.12
SORA (%)	1.06	1.03	0.90	0.90

Source: Bloomberg; HLBB Global Markets Research

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