

14 October 2026

Global Markets Research

Research Alert

Unexpected hold by Singapore's MAS

MAS maintained the rate of appreciation of the policy band; no change to width & level
Expectations of moderation in CPI and GDP growth signal an end to the tightening cycle
MAS expects headline CPI around 2.0%, core between 1.5-2.0% this year; 1.5-2.5% in 2027

Overview

In an unexpected move, MAS kept its monetary policy unchanged, pausing after two consecutive tightening this year. Accordingly, the current appreciating policy band will allow the S\$NEER to continue to strengthen and lean against the anticipated near-term rise in imported inflation, ensuring the gradual easing of inflationary pressures in 2027. The decision came against a backdrop of robust economic activity. 3Q (A) GDP growth came above forecast at 5.4% y/y (2Q: upwardly revised to 6.2% y/y). Within the sub-sectors, growth for manufacturing eased to 7.5% y/y (prior: 12.9% y/y), but this was slightly offset by a steady services sector (5.2% y/y) and a pick-up in construction activities (8.8% y/y vs 6.1% y/y).

MAS expects headline CPI at 2.0%, narrowed core-inflation projection to 1.5-2.0% for 2026; headline and core to average 1.5-2.5% next year

As it is, expectations of a moderation in CPI and GDP growth by the MAS, in our opinion, signal a possible end to the tightening cycle for MAS. In terms of inflation, core inflation is expected to stay slightly elevated in the immediate term, before easing more discernibly from mid-2027 as imported inflation eases and domestic price pressures stay mild. Moderated labour cost increases amid productivity gains, coupled with government subsidies for healthcare and education will also keep services inflation low over 2027. With this, MAS expects core inflation to average 1.5–2.0% and headline around 2.0% for 2026. For 2027, both the headline and core inflation are projected to average 1.5–2.5%, in line with our in-house forecast. Notwithstanding, risks to inflation remains tilted on the upside especially in lieu of the prolonged energy shock, and in tandem, the risk of further tightening by the MAS remains prevalent.

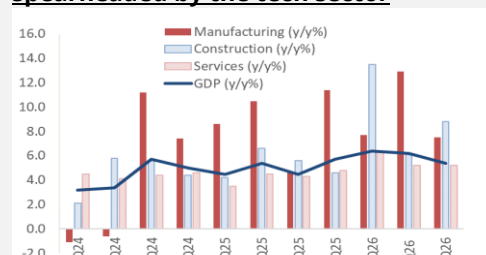
Government will be reviewing its GDP forecasts for 2026-2027 in November

On the economic front, data released showed that the economy grew at a stronger pace than expected by 5.4% y/y and 1.1% q/q in 3Q. This followed an upwardly revised 6.4% y/y/1.4% q/q in 1Q and 6.2% y/y/1.5% q/q in 2Q. With average YTD growth of 6.0%, this suggests that our in-house (5.3%) and official (4.5-5.5%) forecasts for 2026 appear to be on the conservative side. As it is, the Singapore economy is expected to expand firmly in the immediate term amid strong orders for AI goods and increase in production capacity. AI cycle is nonetheless expected to ease in the latter half of 2027 from its exceptional pace and as global financial conditions tighten. With this, the economy's positive output gap this year is forecast to narrow through 2027.

Knee jerk reaction expected

Taking cognizance that MAS' decision was unexpected, a knee jerk reaction is expected, albeit likely to be short-lived. Indeed, SGD weakened to 1.2806 against USD after the decision, but has since pared its losses to trade around its previous close/opening level at 1.2799 at the point of writing. Over the more medium term, haven bid and expectations for further rate hikes by the Fed, and a hold by the MAS, albeit with a hawkish stance, is supportive of our view for the **USD/SGD to strengthen from the current level of 1.28 to end-2026 at 1.29. SORA rates are expected to inch higher tracking the decline in Fed fund and UST yields, inching up from 1.24% currently to 1.50% for the same period.**

Figure 1: Slower but still robust growth spearheaded by the tech sector



Source: Bloomberg

Figure 2: Expect core inflation to average 1.5-2.0% in 2026, 1.5-2.5% in 2027



Source: Bloomberg

Figure 3: Temporary knee jerk reaction expected for the USD/SGD



Source: Bloomberg

Figure 4: House View and Forecasts

FX	4Q-26	1Q-27	2Q-26	3Q-27
USD/SGD	1.29	1.27	1.25	1.23
SGD/MYR	3.20	3.21	3.22	3.23
SORA (%)	1.50	1.63	1.65	1.65

Source: Bloomberg; HLBB Global Markets Research

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