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SINGAPORE

MAS holds rates steady, but we are not convinced the tightening cycle is over

The Monetary Authority of Singapore left policy unchanged today. While a lower 2026 inflation forecast and a more balanced assessment of inflation risks point to a less hawkish stance, strong growth and lingering upside inflation risks suggest the tightening cycle may not be over yet



Singapore's third-quarter GDP growth of 5.4% year-on-year underscores the economy's resilience

Policy settings unchanged, Inflation forecast lowered

The Monetary Authority of Singapore (MAS) left its monetary policy settings unchanged today, surprising both us and the market, which had largely anticipated a modest tightening. MAS maintained the pace of appreciation of the SGD NEER policy band at our estimated 1.25%, with no adjustments to the width of the band or its centre.

That said, the overall tone of the statement was less hawkish than expected. MAS lowered its 2026 core inflation forecast to 1.5-2.0%, from 1.5-2.5% previously projected at its July policy review, while noting that headline inflation is likely to average around 2%.

Separately, Singapore's 3Q GDP growth came in stronger than expected at 5.4% year-on-year, underscoring the economy's resilience. Looking ahead, growth is expected to remain steady, supported by robust demand for AI-related products and continued expansion in production capacity, which should sustain strong momentum in the technology sector in the near term.

More balanced assessment of inflation risks

While MAS reiterated that inflation risks remain tilted to the upside, it also acknowledged several factors that could help contain price pressures. Energy production and shipments from the Middle East could recover faster than expected, leading to a larger decline in energy prices. At the same time, continued productivity gains should help moderate unit labour cost increases in the services sector. Enhanced government subsidies for healthcare and education are also expected to keep services inflation subdued in 2027.

Our take

We expect Singapore core inflation to average 2.0% this year, at the upper end of MAS's forecast range under our base case, which assumes oil prices moderate towards the end of the year. While the inflation outlook has improved, we do not believe risks have disappeared. Domestic inflation could prove stickier if spillovers from the AI-driven investment cycle become broader-based, boosting demand and pushing unit labour costs higher than currently anticipated. Weather-related disruptions could also add to food price pressures. As such, we continue to see the balance of risks to inflation as modestly tilted to the upside.

On growth, MAS acknowledged downside risks, including a larger-than-expected rise in global interest rates or a sharper pullback in AI-related investment. However, it continues to expect the economy to operate with a positive output gap, suggesting that underlying demand conditions remain supportive. This reinforces MAS's view that inflation pressures, while easing, have not been fully eliminated.

Policy implications

While MAS surprised markets by leaving policy unchanged, we do not view this as a dovish pivot. The combination of resilient growth, a positive output gap, and lingering upside inflation risks suggests that MAS is likely not done with tightening, and tightening in Jan is likely if the risks to inflation materialise.

SGD likely to remain firm

The SGD NEER is currently trading near the top of its policy band, at around 1.6% above the midpoint of the +-2% band. As a result, the scope for further NEER appreciation appears limited. Nevertheless, we expect the Singapore dollar to continue outperforming its regional peers, supported by Singapore's resilient macroeconomic fundamentals.

Growth remains robust, with GDP expected to expand by more than 5% in 2H, while core inflation is likely to re-accelerate in 4Q, keeping concerns about underlying price pressures alive. Together with MAS's emphasis on upside inflation risks, this should preserve market expectations that further policy tightening remains a possibility should inflation surprise to the upside.

As such, even though the SGD NEER is already near the upper end of the policy band, the combination of strong growth, a firm inflation outlook, and lingering tightening expectations should help keep the SGD well-supported relative to its regional peers.

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