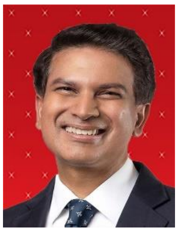
Macro Insights Weekly

Singapore at 59

Group Research

August 12, 2024



Taimur Baig
Chief Economist
taimurbaig@dbs.com

Nathan Chow
Senior Economist
nathanchow@dbs.com

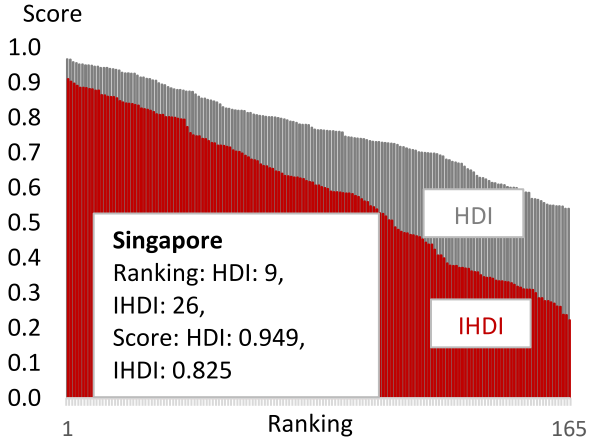
For Alliance Bank clients, please direct your enquiries to Malaysia Research +603 2604 3915 general@alliancedbs.com

- *As Singapore completes its sixth decade of nationhood, its remarkable accomplishments are well established. Challenges ahead are inequality, rapid aging, tech disruption, and climate change.*
- *Dealing with inequality will require increasingly progressive tax and transfer policies.*
- *Aging will be dealt with labour market reforms and broader safety nets.*
- *Businesses should find new opportunities in an increasingly silver and wealthy society.*
- *Tech disruption is inevitable, but sizeable tech investments are incoming, helping industries.*
- *Climate change is an existential threat; but Singapore has resources in its arsenal to manage.*

Chart of the Week: Singapore's road ahead

Singapore's success over the last six decades is underscored by its top-10 position in the global ranking of human development indicators (HDI), incorporating attainment in education, health, and income. But there is more to achieve, as seen in the inequality-adjusted ranking of 26, which discounts for inequality across the population within each driver of HDI. Distributing the nation's gains more equitably, while maintaining a high quality of living, is the key challenge for the coming decades.

165-country ranking of HDI and IHDI

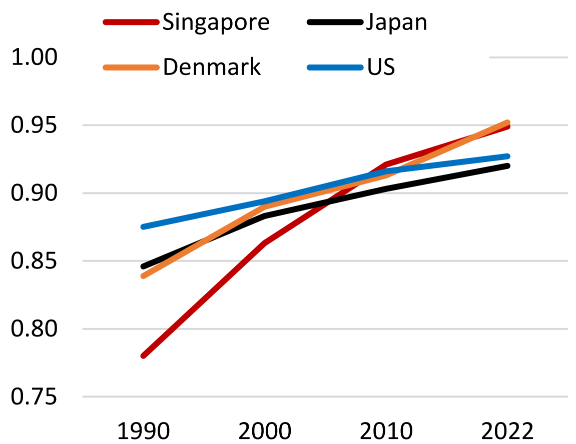


Source: UNDP 2023 HDI report, DBS. HDI: Human Development Indicator; IHDI is the same adjusted for inequality within each driver of HDI.

Commentary: Singapore at 59

As Singapore completes its sixth decade of nationhood, its remarkable accomplishments are well established. Singaporeans have some of the highest income, health, and education attainments in the world, along with deep fiscal and financial buffers to deal with shocks. Its female labour force participation rate, at 61.6%, is on part with the likes of Australia, Netherlands, and Norway. Singapore remains highly successful in attracting investment; within Southeast Asia, it has gone from 56% (2013–17) to 62% (2018–22) of total FDI.

HDI score

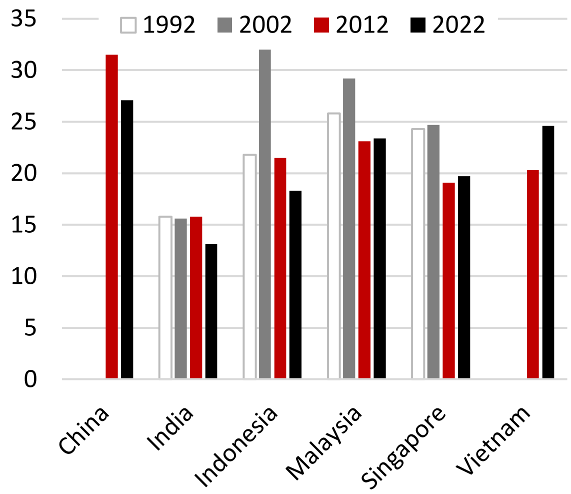


Source: UNDP Human Development Indicator (HDI) Database, DBS

Going forward, the nation will need to deal with relatively high levels of inequality, rapid aging, tech disruption, and climate change. Given its track record, there is every reason to expect such challenges will be met with sound strategy and long-term planning.

On embracing tech-enabled disruption, Singapore is already a hub for fintech, tech R&D, and high-end manufacturing. After seeing its manufacturing share of GDP decline during the 2000s, Singapore has pushed hard to prevent hollowing out, with the ratio rebounding since 2018. Given the spate of recent investment announcements in chip manufacturing, and Singapore's growing symbiosis with the neighbouring Johor region of Malaysia, issues like land availability and cost of electricity/water can be tackled, in our view.

Manufacturing value added, % of GDP



Source: World Bank, DBS

Meeting challenges like inequality and aging require progressive tax and transfer policy, labour market reforms, and resource allocation. We see concerted efforts in these areas through successive budgets, and we expect much more action in the coming years. Key impetus will come from the public sector, but entrepreneurs should also be able to find opportunities in recalibrating local businesses toward the increasingly silver and wealthy population.

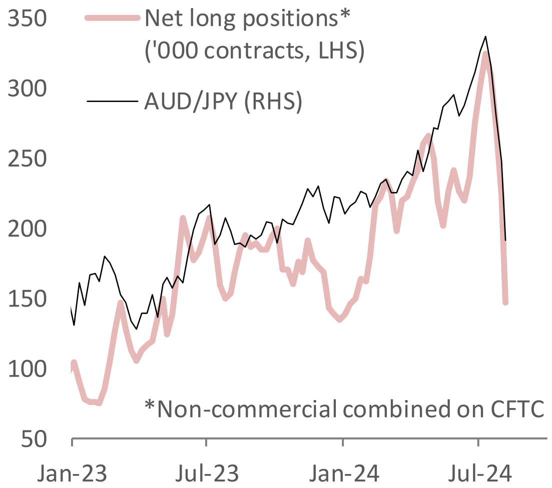
For the coming generations of Singaporeans, rising sea levels and global warming pose an existential threat. Climate change requires solutions at the global level, but they also require considerable local resources. Singapore ranks 59 in the ND-GAAN global ranking of climate vulnerability, but the same survey ranks Singapore number 1 in readiness. Cognizant of the headwinds ahead, Singapore has its growth engines revved with plenty of fuel saved up.

Taimur Baig

FX: Unwinding of JPY carry trades to subside

Risk appetite may stabilize more this week. Markets capitulated after the Nikkei 225 Index plunged 12.4% to 31458 on August 5, its worst single-day sell-off since October 1987. The index rebounded to 35025 and reduced last week's losses to 2.5%. Per the Commodity Futures Trading Commission, **speculators have liquidated most of this year's JPY carry trade positions**. For example, AUD/JPY appreciated by 1% to 96.3 last week after plunging 17.6% from 110 to 90 between July 11 and August 5. AUD/USD also rebounded to 0.6578 last Friday from the year's low of 0.6350 on August 5, receiving a boost from the Reserve Bank of Australia's hawkish pause on August 6.

Unwinding of JPY carry trades vs. AUD



Sources: DBS Research, Bloomberg data

Having brought USD/JPY down from above 160 to below 150 over the past month, **Japan will likely refrain from roiling markets**. On August 8, Bank of Japan Deputy Governor Shinichi Uchida affirmed that Japan would not raise rates when markets were unstable. Having spent 5.53 trillion yen to support the JPY in July, Japan should refrain from more interventions now that the USD/JPY has fallen from four-decade highs above 160 to below 150.

This week's US data should help the Fed to push back the market's bets for large interest rate cuts. On August 14, consensus expects CPI inflation to increase again by 0.2% MoM in July after a 0.1% decline in June. A day later, advance retail sales will likely increase by 0.4% MoM in July from 0% in June. **Fed officials do not subscribe to the market's recession fears triggered by the disappointing July labour market report.** US advance GDP growth was stronger than expected at an annualized 2.8% QoQ saar in 2Q24; consensus had expected a slower rebound to 2% from 1.4% in 1Q24. The Atlanta Fed's GDPNow Index projected 3Q24 growth holding at 2.9%. The ISM Services PMI Index rebounded to 51.4 in July from 48.8 in June. Its employment index was stronger at 51.1 vs. 46.1, while prices paid were firm at 57.0 vs. 56.3 for the comparable periods.

NZD/USD could extend its recovery after rising 0.7% to 0.60 last week, up from the year's low of 0.5850 on August 5. The OIS market is too aggressive in expecting the RBNZ to deliver 100 bps of rate cuts in the remaining three meetings this year. On August 14, the **Reserve Bank New Zealand (RBNZ) should refrain from lowering its official cash rate and signal a dovish pivot**. Although headline inflation fell significantly to 3.3% YoY in 2Q24 from 4% in 1Q24, it remained above the official 1-3% target. At its last meeting on July 10, the RBNZ projected CPI inflation returning to target in 2H24. Despite the unemployment rate rising to 4.6% in 2Q24 from 4.4% in 1Q24, employment reversed from a quarterly decline of 0.3% to a positive increase of 0.4%.

Philip Wee

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Han Teng CHUA, CFA
Economist
Asean
hantengchua@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Samuel TSE
Economist/Strategist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)