

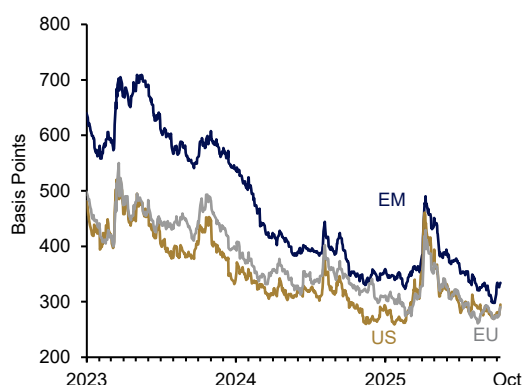
# 1 Financial Conditions

## 1.1 Global Developments<sup>1</sup>

Buoyant risk sentiments and expectations of further US monetary policy easing have led to looser financial conditions globally

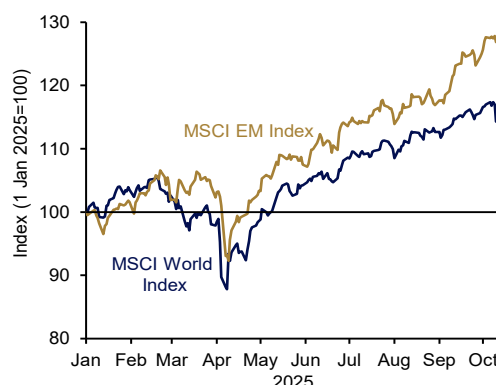
Global financial conditions have eased further since the last *Review* as financial markets continued to exhibit buoyant risk sentiments. Since end-July, two-year US Treasury yields have declined by 46 bps as markets have priced in more rate cuts by the US Federal Reserve. At the same time, continuing optimism in credit markets have extended the compression of credit spreads, which are near historic lows (**Chart 1.1**). Also, the MSCI World and EM equity indices have risen by 4.0% and 9.8%, respectively, since end-July (**Chart 1.2**), while market volatility stayed subdued (**Chart 1.3**). In the advanced economies, bank lending to corporates saw sustained growth (**Chart 1.4**), although a slight tightening in lending standards was reported. Meanwhile, the Nominal Broad US Dollar Index fell by a further 1.0%, with the year-to-date decline at 8.8%.

**Chart 1.1: High-Yield Credit Spreads**



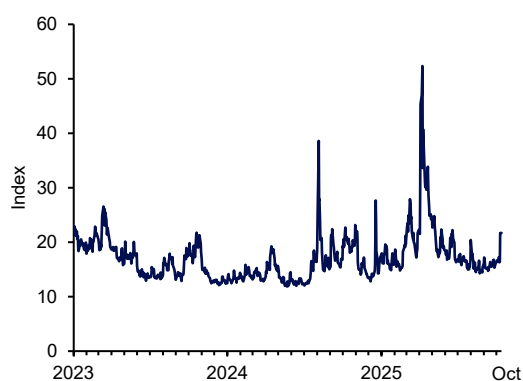
Source: ICE Data Indices, LLC, retrieved from Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis

**Chart 1.2: Global Equity Indices**



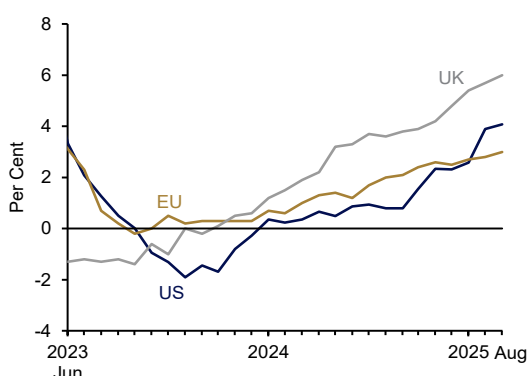
Source: Bloomberg

**Chart 1.3: VIX Index**



Source: Bloomberg

**Chart 1.4: Bank Loans to Corporates**



Source: Haver Analytics

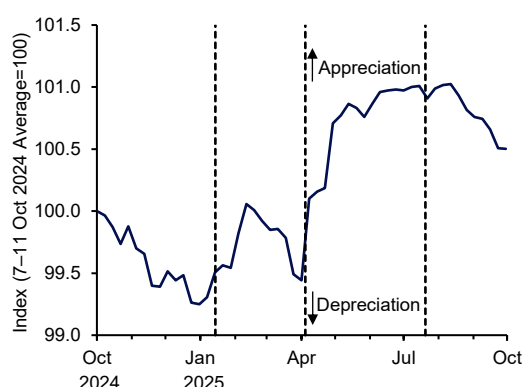
<sup>1</sup> The commentary in this section is based on data that is available up to 13 October, unless otherwise stated.

## 1.2 Domestic Developments

### The S\$NEER has depreciated within the policy band in recent weeks

Appreciation pressures on the trade-weighted S\$ were significant in the initial weeks following the July MPS, but have abated since late August. Over the period from end-July to early October, the S\$NEER depreciated modestly within the upper half of the S\$NEER policy band (Chart 1.5). Since the last *Review*, the S\$ has generally weakened against the major economy currencies, including the US dollar and RMB, and appreciated against some regional currencies (Chart 1.6).

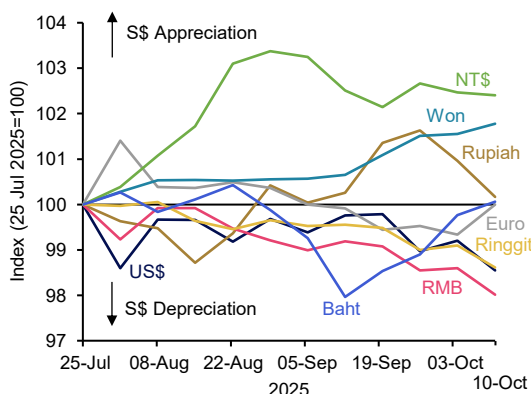
Chart 1.5: S\$NEER, Weekly Average



Source: EPG, MAS estimates

Note: Vertical dashed lines indicate the last three releases of the MPS. Data displayed are up to 10 October.

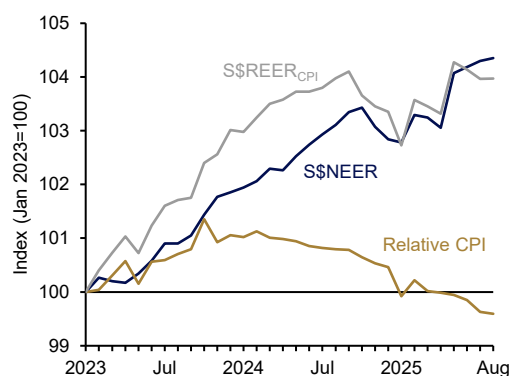
Chart 1.6: Bilateral Exchange Rates



Source: EPG, MAS estimates

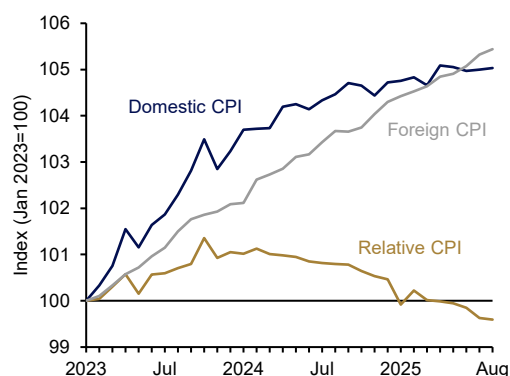
The recent depreciation in the S\$NEER would have likely contributed to a further easing in the S\$REER in September. As at end-August, the S\$REER has weakened since its peak in May 2025, reflecting relatively lower inflation in Singapore than abroad (Chart 1.7 and Chart 1.8).

Chart 1.7: S\$ Real Effective Exchange Rate



Source: EPG, MAS estimates

Chart 1.8: Domestic and Foreign Consumer Price Indices

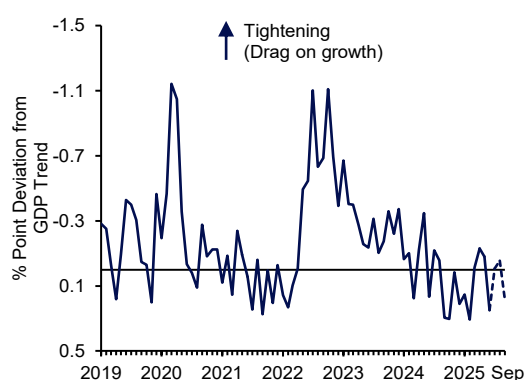


Source: Haver Analytics and EPG, MAS estimates

## Domestic financial conditions have eased on the back of supportive asset prices and falling risk-free rates

**Singapore's financial conditions have eased in recent months relative to Q2 (Chart 1.9).** Domestic interest rates and yields fell further in Q3 (Chart 1.10), while the local equity market extended its positive momentum, climbing by 7.8% from July to September. Lending to consumers and businesses also continued to expand by 6.3% y-o-y, while money supply, as measured by M2, rose by 9.5% y-o-y in August (Chart 1.11). The increase in money supply was partially driven by strong loan growth and repatriation flows from resident individuals and non-financial corporates. (See **Box A** for a review of MAS Money Market Operations in FY2024/25).

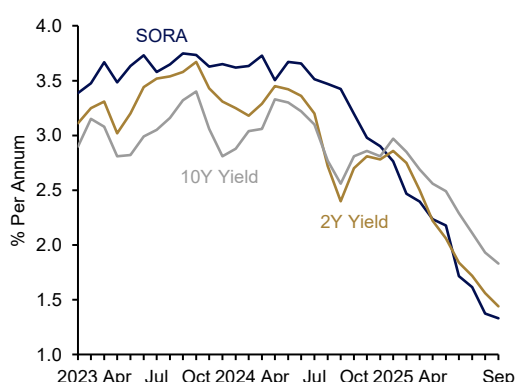
**Chart 1.9: Domestic Financial Conditions Index (FCI)**



Source: EPG, MAS estimates

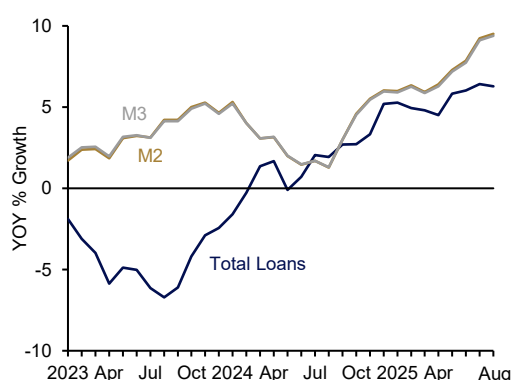
Note: The Jul–Sep 2025 FCI values are interim figures based on latest available component data. The FCI methodology has been enhanced since the July 2025 *Macroeconomic Review*.

**Chart 1.10: S\$ SORA and S\$ Government Bond Yields**



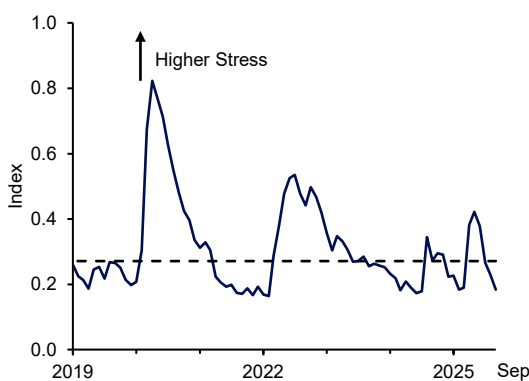
Source: MAS

**Chart 1.11: Total Loans and Monetary Aggregates**



Source: MAS

**Chart 1.12: Singapore Financial Stress Index (FSI)**



Source: Haver Analytics and EPG, MAS estimates

Note: The FSI is normalised to [0,1], with 1 indicating historic high levels of stress. Its median level is indicated by the dotted line.

**Looking ahead, accommodative domestic financial conditions should help to support real economic activity. However, the outlook for financial conditions is vulnerable to global market developments.** While Singapore's FSI has further moderated from its peak in April (**Chart 1.12**), reflecting reduced volatility in the currency and equity markets, renewed trade conflict or an escalation in global fiscal sustainability concerns could trigger revisions in investor risk sentiments. This could lead to potentially sharp corrections in financial markets, especially amid rich valuations and compressed risk premia.