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# FX Flash

# SGD: Re-centring Band and Recalibrating Weights

Macro | FX Research & Strategy

Global


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### MAS "Double" Tightened Via Re-centring, Steepening Slope

MAS re-centred the mid-point of the policy band at the prevailing level of the SGD NEER, while also increasing slightly the policy slope, predicated on still-resilient growth expectations, rising inflation risks. By our estimates, **the decision shifts the policy band upwards by +2.0%, and increases the slope from 1.0% p.a. prior to 1.5% p.a.** There is no change to the width of the policy band. **The re-centring decision and policy rationale were largely in line with our MAS preview note published on 6 Apr**. The slight steepening of the slope was not in our baseline, but we had noted the risk of such an accompanying parameter change.

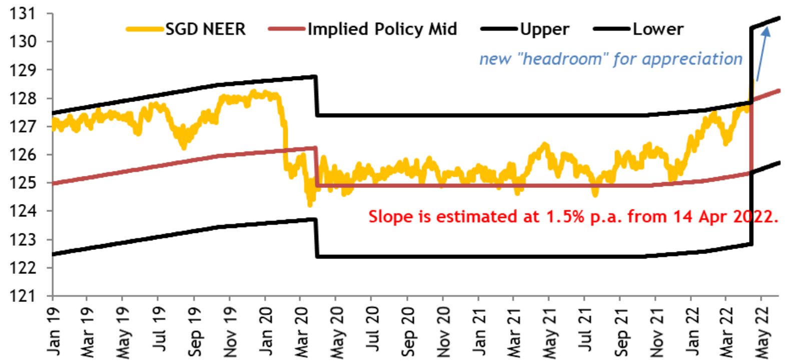
### Maintain +0.5% to +1.5% Above Par Projection Range

Post-announcement, SGD NEER has crept towards +0.5% above the new (higher) mid-point, as of noon. We had proposed on 6 Apr that **"if a re-centering materializes, a tentative trading range post-announcement could be +0.5% to +1.5% above the new mid-point"**. We maintain this projection range for now. Looking at past episodes of MAS re-centering upwards (Apr 2008, 2010, 2011), we saw potential for >+1.0% boost to SGD NEER, and there could be a tad more to go. Extent of USDSGD downswing will still depend in part on interim dollar biases. Tentative support at 1.3520 (61.8% fibo retracement from Feb low to Mar high) will need to be broken decisively to see down-moves towards 1.3410 (2022 low).

### Recalibrating our SGD NEER Basket Weights

We noticed that our SGD NEER estimates came in above the expected upper policy bound (+2.0%), showing +2.2% to +2.4% above par readings, in recent days. Incremental weighting error might have crept in given that our last calibration exercise was in 2019. We relooked at the basket weights, taking into consideration recent trade share shifts, statistical fit to MAS published series etc. We saw notable weight shifts for USD (adjusted higher) and JPY (adjusted lower), which led to a modest downshift in the SGD NEER profile versus prior basket. We believe that the re-calibration should more appropriately capture SGD NEER swings going forward. Given that any re-centring decision "resets" the policy mid-point, there should be no impact on our SGD NEER calls from this exercise.

**SGD NEER +0.5% Above New Implied Policy Mid-point at 12noon**



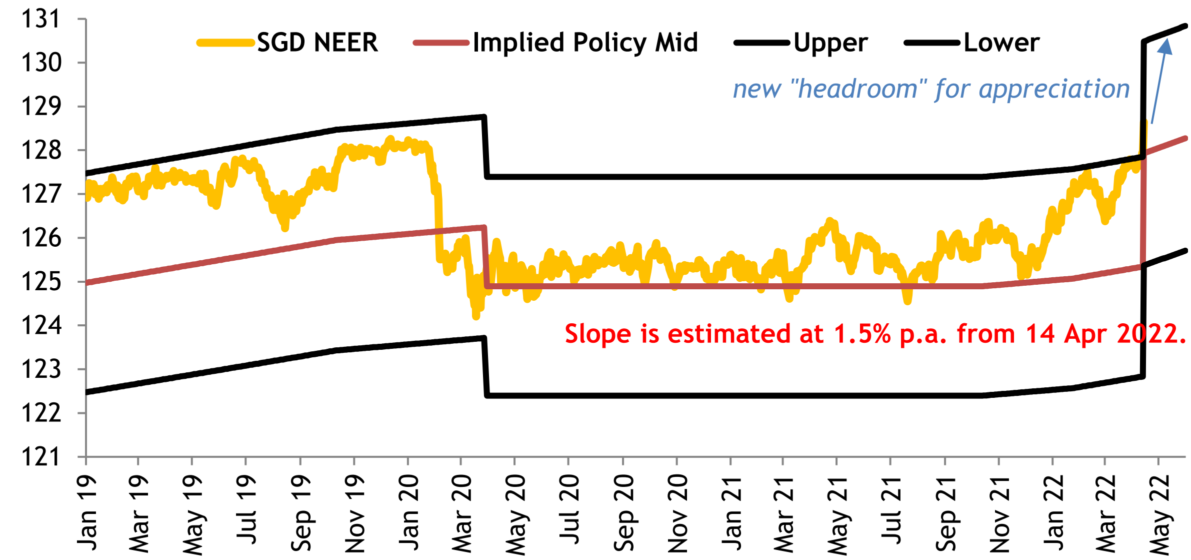

*Source: Bloomberg, Maybank FX Research & Strategy Estimates*

### New "Headroom" for SGD NEER Appreciation

As highlighted, MAS' re-centring and slight slope steepening move were predicated on still-resilient growth expectations and rising inflation risks. MAS expects "above-trend pace" for the second consecutive year in 2022, and for the output gap to "turn slightly positive" this year. MAS noted "fresh shocks to global commodity prices and supply chains", which could "bring MAS Core Inflation to a significantly higher level than its historical average through 2022."

We think there could be at least one more steepening in slope towards +2.0% p.a., particularly as MAS flagged that a tight labour market and higher domestic cost pass-through from global inflation could see inflation risks remaining elevated over the medium term. Whether this comes in during the Oct policy meeting will in turn depend on how domestic and external cost conditions evolve in the next two quarters.

**SGD NEER is +0.5% Above New Implied Policy Mid-point at 12noon**




*Source: Bloomberg, Maybank FX Research & Strategy*

Regardless, from the chart above, we see that MAS' move today creates additional "headroom" for SGD NEER appreciation. Meanwhile, from the table below, we see that post re-centring moves, the positive impact on SGD NEER is not transitory. I.e., SGD NEER remains significantly higher versus pre-policy shift levels one month post announcement.

**Past Episodes of Re-centering (Upwards) & Estimated Impact on SGD**

| | 1-Day | | 1-Week (5 Trading Days) | | 1-Month (21 Trading Days) | |
|---|---|---|---|---|---|---|
| Past Episodes of Recentering Higher | Chg in SGD NEER (%) | Chg in USDSGD (%) | Chg in SGD NEER (%) | Chg in USDSGD (%) | Chg in SGD NEER (%) | Chg in USDSGD (%) |
| Apr-11* | 0.7 | -0.8 | 1 | -1.5 | 0.9 | -1.4 |
| Apr-10 | 1.2 | -1.4 | 1.3 | -1.3 | 2.1 | -0.9 |
| Apr-08 | 1.3 | -1.4 | 1.6 | -1.8 | 1.4 | -0.3 |

* Re-centred below prevailing level of the SGD NEER.

Note: Changes are estimated versus SGD NEER or USDSGD levels just before the policy shift.

*Source: Bloomberg, Maybank FX Research & Strategy Estimates*

We maintain our USDSGD forecasts for now, but note that actualization of such outcomes will require a combination of continued SGD NEER appreciation (first towards the upper end of our projection range at +1.5% above par), and some modest retracement in broad dollar levels towards the latter part of the year as concerns over hawkish Fed and Ukraine war drags fade.

| Forecast | 2Q 2022 | 3Q 2022 | 4Q 2022 | 1Q 2023 |
|---|---|---|---|---|
| USDSGD | 1.3200 | 1.3100 | 1.3000 | 1.2900 |

**Some Key Levels for SGD Crosses**

SGDJPY: Last at 92.60. Policy divergence, i.e., hawkish MAS versus ultra-dovish BoJ, could continue to support the SGDJPY cross, but the recent ~10% surge since early March shows signs of slowing. Bullish momentum on daily chart has moderated somewhat even as cross remains in overbought conditions. Resistance near 92.9 (2015 high) could be tested, but pace of upswings could moderate. Support some distance away at 90.3 (21-DMA).

EURSGD: Last at 1.4766, seeing a broad downtrend since 3Q last year. Besides monetary policy trajectory (ECB lagging in policy normalization vs. MAS which frontloaded moves), sentiment drags from Ukraine war, sanctions on Russia, energy crises, France election uncertainty etc., have been more pertinent for Europe versus Singapore. Cross could test double-bottom (Mar, Apr lows) near 1.4730, and we expect continued volatility as European risk events play out. Next support some way off at 1.4360 (2015 low). Longer-term bias to the upside if risk concerns dissipate over time.

SGDMYR: Last at 3.1265 versus near 3.10 yesterday, breaking out of the relatively narrow 3.09 to 3.11 trading range over the last two weeks, on MAS re-centring announcement. Buoyant UST yields, some recent net moderation in oil gains from record highs, MAS front-loaded tightening versus slower rate hike trajectory from BNM (+25bps expected in 2022), have been supportive of the cross. But near-overbought RSI conditions could lead to some slowing in any upswings. Key resistance at 3.1350 (2021 double-top). Support at 3.11, 3.0960 (200-DMA).

### Taking the Opportunity to Recalibrate our SGD NEER Basket

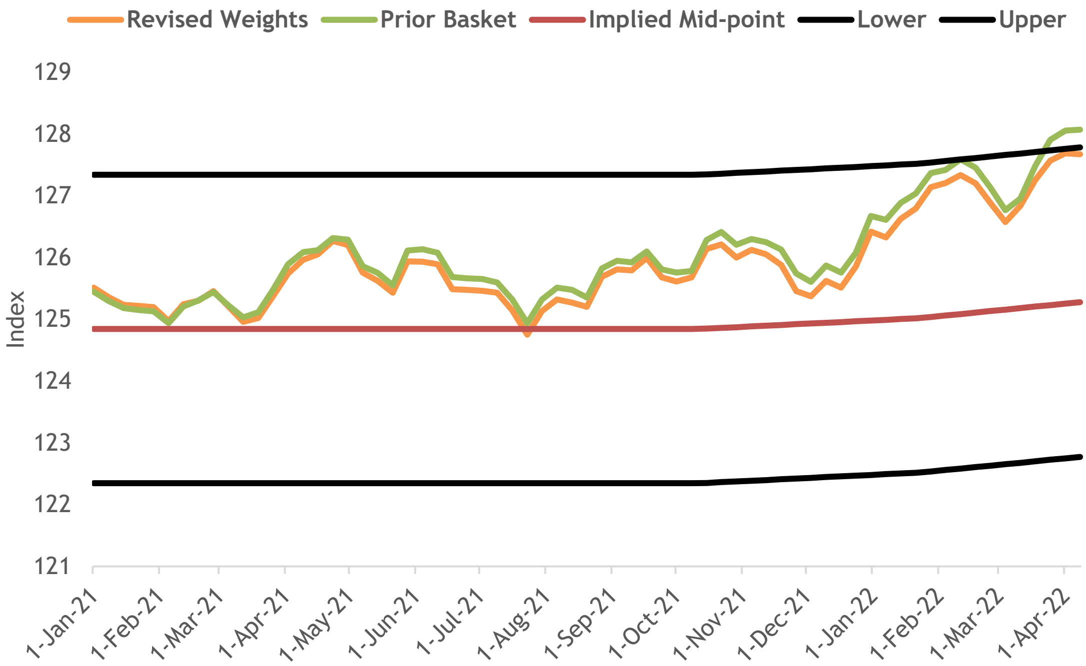
We noticed that in the lead-up to the MAS policy decision, our SGD model estimates came in above the expected upper policy bound, showing +2.2% to +2.4% above par readings on certain days.

Incremental weighting error might have crept in given that our last weight calibration was in 2019. We relook at the model weights, taking into consideration trade share shifts in recent years, statistical fit to MAS published series etc. For a lengthier description of our approach, refer to our prior note here.

While unable to reveal the exact new basket weights for our proprietary model, we saw notable weight shifts for USD (adjusted higher) and JPY (adjusted lower), which led to a modest downshift in the SGD NEER profile versus prior basket (see chart below).

We believe that the re-calibration should more appropriately capture swings in SGD NEER going forward. Given that any re-centring decision "resets" the policy mid-point, there should be no impact on our earlier or current SGD NEER calls from this calibration exercise.

**<u>Revised SGD NEER Tracks Closely, But Mildly Below Prior Estimates</u>**




*Source: Maybank FX Research & Strategy Estimates*

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