Maybank

FX Flash

SGD & PHP: More Surprises from Central Banks

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MAS Off-cycle Re-centring, BSP Hikes +75bps

MAS and BSP joined the tightening bandwagon this morning, in off-cycle announcements. Timing of move coincided with rising bets on larger Fed hikes (markets pricing in slightly >70% chance for a 100bps Fed hike next as we write), post upside surprise in US June CPI reading overnight. MAS re-centred the mid-point of the policy band at the prevailing level of the SGD NEER (band estimated to shift higher by around +1.5%), while keeping the policy slope and width unchanged. Off-cycle action was intended to prevent inflation expectations from becoming entrenched (core CPI at +3.6% in May), especially as growth was still viewed to be somewhat resilient (house view for +2.8% GDP growth this year). For a more in-depth discussion of the growth-inflation trade-offs, please refer to our economist team's note here. Meanwhile, BSP surprised with a +75bps hike of its own (next meeting initially scheduled for 18 Aug), citing signs of sustained and broadening price pressures, and the urgent need to anchor inflation expectations further.

Maintain +0.5% to +1.5% Above Par Proj. Range for SGD NEER

Post-announcement, USDSGD fell ~100pips from the mid-1.40 levels, while SGD NEER was last seen at +0.6% above the new (higher) mid-point. In recent months, we had maintained SGD NEER projection range at +0.5% to +1.5% above par, and this has held relatively well since the Apr meeting. Our prediction that SGD NEER should head higher over Apr-Jun also largely came to pass (+0.5% post Apr policy vs. +1.5% at Jun peak). We maintain a +0.5% to +1.5% projection range for now, off the new implied mid-point, given some likely support for SGD from "haven" characteristics versus peers in this period of elevated external uncertainties. For PHP, given that recent weakening was due in part to market concerns over widening Fed-BSP divergence, the surprise BSP move could help to address part of those sentiment drags. But other macro worries including twin deficit concerns remain intact, and the recovery in PHP could be modest in the interim. 1M USDPHP NDF fell about -0.8% post announcement but has since pared losses by about half, at time of writing.

Dollar Sentiment Swings Could Dominate Near-term

Policy surprises aside, near-term USDSGD and USDPHP swings could still be subject to broad dollar biases. Interim haven demand could anchor USD in elevated trading ranges in near-term, before some easing in dollar strength possibly emerges on rising US growth risks and a slight dovish turn in Fed tones towards year end. Concomitantly, USDSGD and USDPHP could remain nearer the upper end of YTD trading ranges in the coming weeks. But staying cautiously optimistic on regional growth prospects versus DM economies, we maintain end-2022 USDSGD and USDPHP projections at 1.36 and 54.0 respectively.

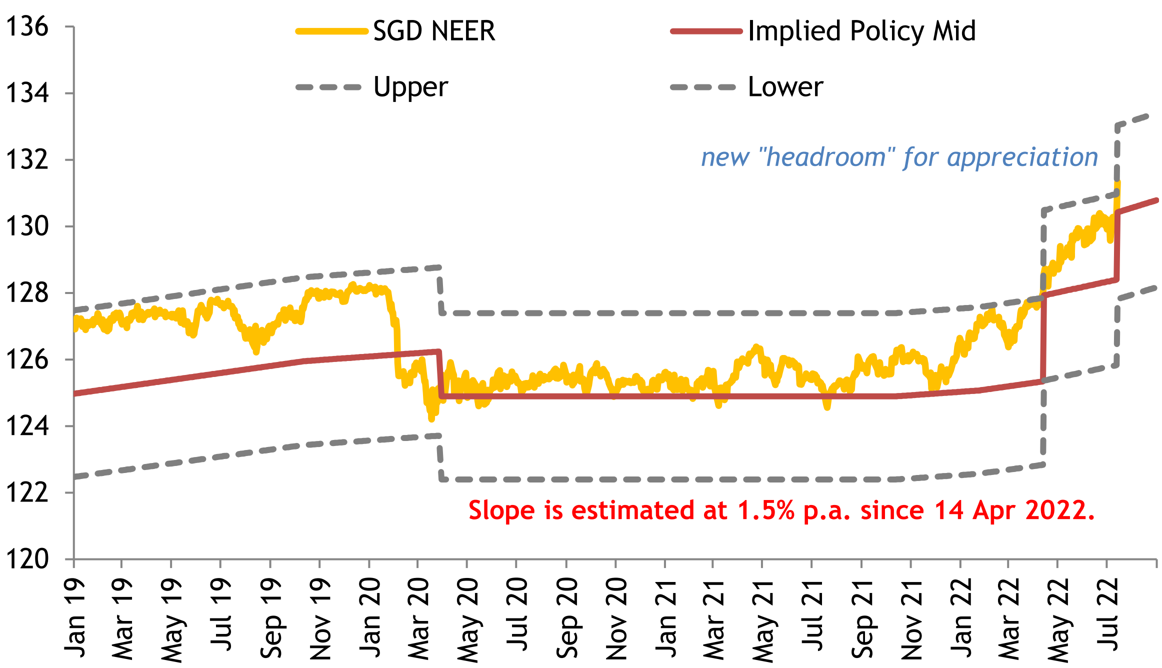
SEE PAGE 7 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

More "Headroom" for SGD NEER Appreciation

As highlighted, MAS' re-centring move was predicated on still-resilient growth expectations and rising inflation risks. The MAS policy statement notes that core inflation is expected to rise above 4% near-term—although it should ease in Q4 2022, "there is considerable uncertainty over the extent of the decline". At the same time, though growth momentum could slow, it remains on track to expand "at a creditable pace" this year. More importantly, external inflationary pressures have become more broad-based and there remain upside risks to inflation from "fresh shocks to global commodity prices and domestic wage pressures".

House view looks for MAS to maintain the current tighter stance at the October meeting, unless inflation surprises to the upside again. But in the event that another tightening move materializes, a slight slope steepening (from current estimated +1.5% p.a. to 2.0% p.a.) is much more likely than another re-centring move, given room for SGD to rise within the new higher band.

SGD NEER is +0.6% Above New Implied Policy Mid-point



Source: Bloomberg, Maybank FX Research & Strategy

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-22	0.5	-0.4	0.5	0.0	0.9	+2.5
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

One other key takeaway from the table above is that in periods of rapid shifts in global growth and Fed policy expectations, preference remains to long the SGD NEER basket on dips, rather than short the USDSGD pair, given tendencies for dollar strength to gather traction on elevated external uncertainties. In the recent Apr-2022 episode (in red in table), SGD NEER strength remained buoyant event as SGD softened significantly versus USD.

PHP Woes Extend Beyond Monetary Policy

While oil prices have been declining in recent days on global growth concerns, brent continues to see support in the US$90-100 range given supply-side constraints; i.e., signs that OPEC+ is having trouble catching up with allowed quotas in production. Energy import burden could continue to remain a drag for some time, weighing on the current account. On trade, our economist team noted that May 2022 saw third month of single-digit exports at +6.2%y/y (Apr 2022: +6.2%) amid tepid manufacturing exports & commodity-based exports surge vs continued double-digit imports growth of +31.4%y/y (Apr 2022: +29.4%), reflecting impact of high global commodity & input prices plus softer PHP amid slower consumption goods imports. Trade deficit notably widened to -US$5.7b (Mar 2022: -US$5.3b), with shipments to China & US in recent months already showing impact of external headwinds.

Current account deficit could widen to 2.5% of GDP this year from 1.7% prior, while fiscal deficit remains wide at 7.5% of GDP (narrowing from 8.6% prior but still wide versus pre-Covid 3+%). Such twin deficit dynamics, coupled with some policy uncertainty accompanying the recent change in administration, could lead PHP sentiments to remain cautious in the interim.

USDSGD and USDPHP Could Remain in Elevated Ranges Near-term

We maintain our USDSGD and USDPHP forecasts for now, but note that actualization of such (lower) outcomes will require first and foremost, some easing in dollar strength over time.

Recent dollar strength has been a function of better US data, hawkish Fed, sharp depreciation in EUR, GBP and to some extent, growing fears of global recession. Towards the latter part of 2022 though, a modest pullback is still possible, contingent on certain combinations of events. Signs of US inflationary pressures easing, i.e., if oil prices continue to remain contained after the recent drift lower and if Biden unwinds some of the US tariffs on Chinese imports, could be viewed as signals for Fed to turn a tad dovish, especially if economic data over time confirms a softening in labor market and activity outcomes.

Much of the recent dollar strength has also arguably been due to EUR pains. Recent Euro depreciation looks to have been largely driven by the market reassessing the potential for a more significant growth downturn in the Euro area, amplified by energy woes, war dragging on longer than expected and doubts of ECB's anti-fragmentation tool. ECB meeting on 21 Jul would be critical on 2 fronts: (i) if ECB delivers more than just 25bps promised and (ii) how the new anti-fragmentation tool can convince markets. A pause in EUR depreciation could also help bring the broad USD lower.

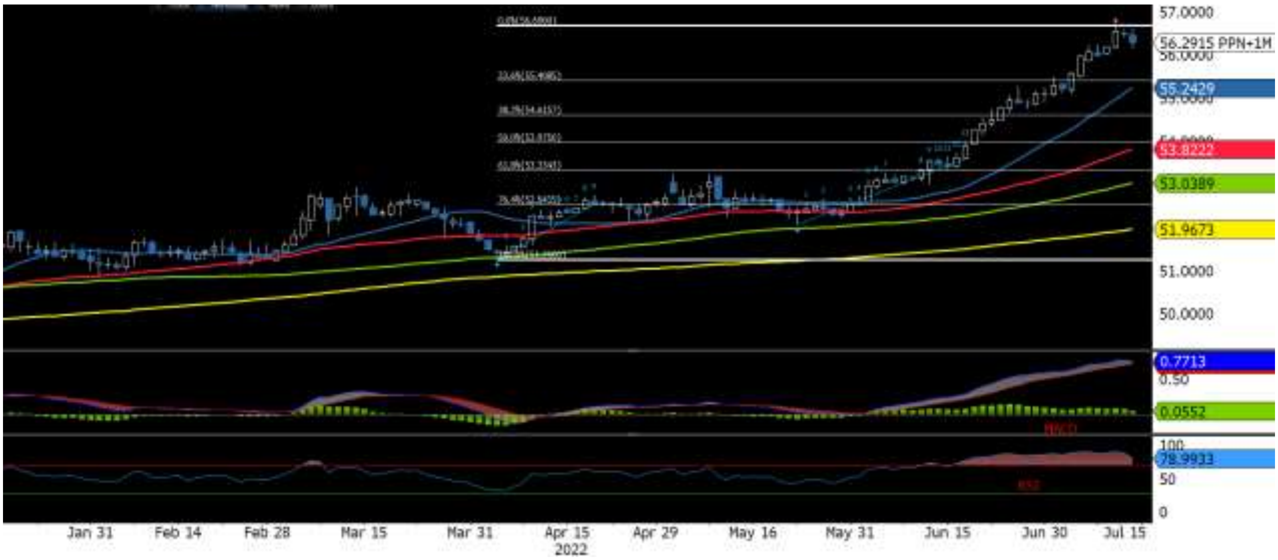
Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDSGD	1.3700	1.3600	1.3500	1.3400
USDPHP	54.50	54.00	53.50	53.00

USDSGD - Bullish Momentum Moderated

Momentum on daily chart has turned neutral from bullish earlier while RSI is falling. Signs of bearish divergence from earlier appear to be playing out. Upsides could be capped in the interim.

Resistance at 1.4080 (61.8% fibo retracement of 2020 high to 2021 low), before next at 1.42. Support at 1.3940 (21 DMA), 1.3830 (61.8% fibo retracement from May low to Jul high).

1M USDPHP NDF – Bullish But Overbought



Momentum on daily chart remains bullish, albeit showing tentative signs of moderating in extent. RSI remains in severe overbought territory.

Signs on retracement lower are mixed, but on net, up-moves could slow in pace. Resistance at 56.60-56.70 (recent high), before 57.00. Support at 56.00, 55.25 (21-DMA).

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