Maybank

FX

Global

FX Flash

Fifth Tightening Shift Keeps SGD in Pole Position

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MAS Re-Centred SGDNEER Policy Band, Left Width, Slope Unchanged

MAS re-centered the policy band to the prevailing level of the SGDNEER whilst leaving the policy slope and the width of the band unchanged, in line with the view held by our economics team. This fifth tightening shift was intended to reduce imported inflation and aid in mitigating domestic cost pressures. MAS had assessed that core inflation is likely to "stay around 5% for the rest of 2022, and into early 2023", "before slowing more discernibly in the second half (of 2023) as cost pressures gradually ease". On growth, the economy grew by 1.5% q/q SA in Q3, reversing the 0.2% contraction in Q2. But external demand remains weak and downside growth risks are still intact, possibly contributing to MAS' decision to not implement a double-tightening.

Maintain +0% to +1.0% Above Par Projection Range

On SGD NEER, we estimate that the policy band has now shifted higher by +2.0%. Index was last seen at around +0.5% above new higher implied policy mid-point. Both policy decision and SGD NEER reaction are very much in line with our assessment in our preview note, i.e., "a tentative trading range post-announcement could be +0% to +1.0% above the new (higher) policy mid-point." We maintain that the SGDNEER could remain in this trading range above par with support from "haven" characteristics vs. peers in times of external uncertainties. However, rising risks to growth outlook led to slight downgrade in 2022 growth forecast to 3-4% from 3-5% seen in Jul by MAS. Expectation for current positive output gap to reverse could also see SGDNEER trade at a softer 0% to 1.0% range vs. the +0.5%-1.0% trading range that we looked for in past decisions.

USD Trajectory Still Key for USDSGD

SGD has strengthened more than 0.7% vs. the USD as we write, the outperformer for the day thus far. The USDSGD trajectory could still be predominantly led by the broader USD swings. With Fed committed to raise rates further into restrictive region and recent inflation report suggesting persistent inflation pressures, the USD is likely to remain supported on hawkish Fed monetary stance and fears of global growth slowdown in the near-term. That said, we note more Fed officials (such as Fed Brainard and Evans) expressing concerns on the economic risks of overtightening which could beckon calibration in the pace of rate hikes. Any slowdown in the pace of hikes from current 75bps per clip alongside greater signs of weakness in the US economy could ease the USD strength more considerably but this could surface more discernibly in 1H 2023.

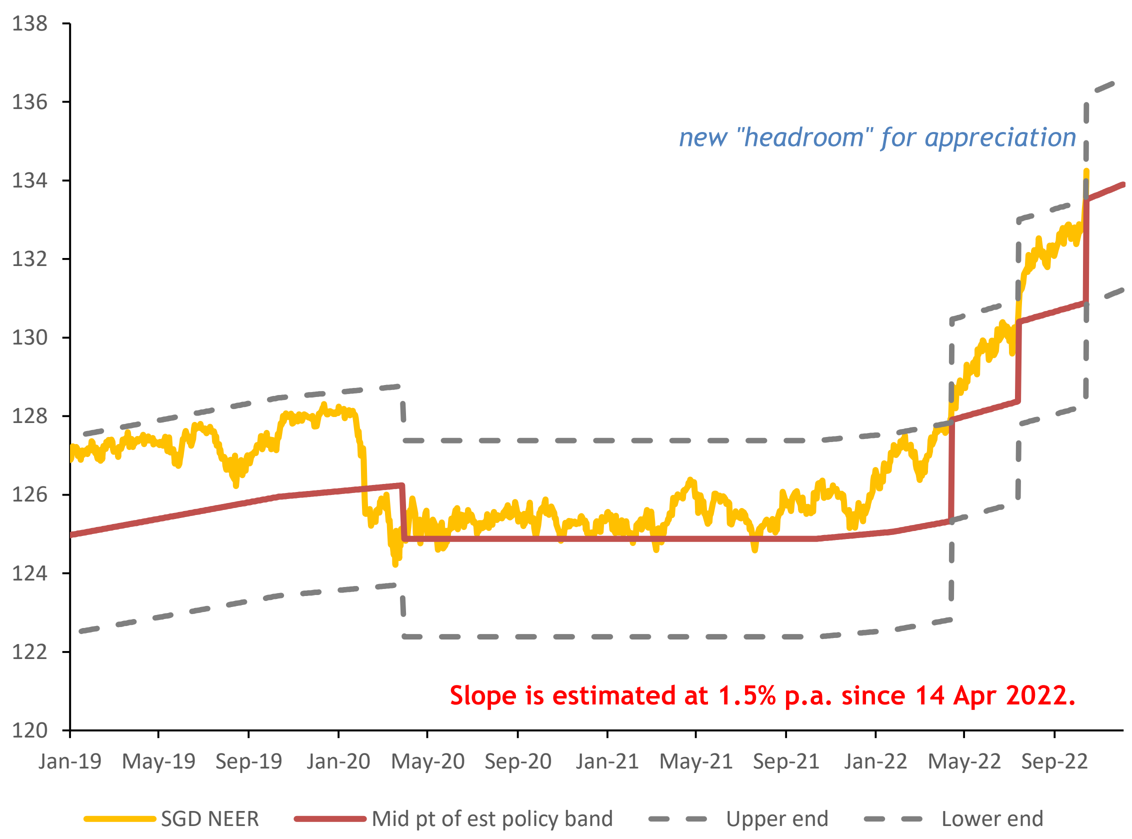
Single Barrel Move To Dampen Inflation

MAS re-centered the policy band at the prevailing level of the SGDNEER whilst leaving the policy slope and the width of the band unchanged, in line with the view held by our economist team. This fifth tightening shift was intended to reduce imported inflation and aid in mitigating domestic cost pressures. MAS had assessed that core inflation is likely to "stay around 5% for the rest of 2022, and into early 2023", "before slowing more discernibly in the second half (of 2023) as cost pressures gradually ease". However, the central bank also noted "upside risks to inflation forecasts should there be fresh shocks to global commodity prices and second-round effects associated with a prolonged period of high inflation". This leaves room for further tightening at the Apr 2023 meeting.

On growth, the economy grew by 1.5% q/q SA in Q3, reversing the 0.2% contraction in Q2. But external demand remains weak (downturn in the global electronic industry) and downside growth risks are still intact, possibly contributing to MAS' decision to not implement a double-tightening.

Our economist team maintains 2022 inflation forecast at 4.2% for core inflation and 6.2% for headline inflation. 2023 inflation forecasts are raised in line with MAS guidance to 4% for core CPI and 6% for headline CPI. GDP forecast is maintained at 1.5% for 2023. Our house view looks for MAS to tighten again at the Apr 2023 meeting, probably via another re-centering. This is conditional on the economic outlook for 2023-2024 given the transmission lag.

SGD NEER is now around +0.5% above new Implied Policy Mid-Point



Source: Bloomberg, Maybank FX Research & Strategy

On SGD NEER, we estimate that the policy band has now shifted higher by +2.0%. Index was last seen at around +0.5% above new higher implied policy mid-point. Both policy decision and SGD NEER reaction are very much in line with our assessment in our preview note, i.e., "a tentative trading range post-announcement could be +0% to +1.0% above the new (higher) policy mid-point." We maintain that the SGDNEER could remain above par with support from "haven" characteristics vs. peers in times of external uncertainties. Thus far this year, our view to long SGDNEER on dips in an environment of rapid shifts in global growth and Fed policy expectation have worked well. SGDNEER could typically accumulate gains (of around 0.9-2%) one month post decision in past episodes of re-centering higher.

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 (%)
Jul-22	0.3	0.0	0.7	-0.8	1.5	-2.5
Apr-22^	0.5	-0.4	0.5	0.1	0.9	2.5
Apr-11*	0.7	-0.8	1.0	-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.

^ Double-tightening involving slope steepening (estimated 1.0% p.a. increased to 1.5% p.a.).

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

Source: Bloomberg, Maybank FX Research & Strategy Estimates

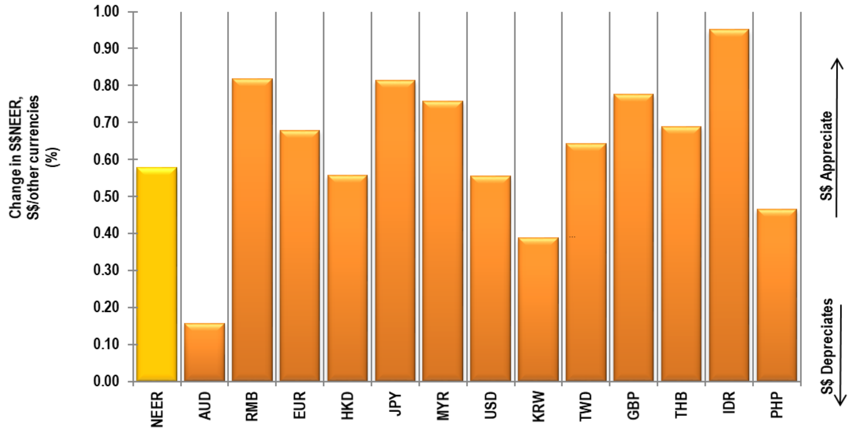
However, rising risks to growth outlook led to slight downgrade in 2022 GDP by MAS. Expectation for current positive output gap to reverse could also see SGDNEER trade at a softer 0% to +1.0% range above par as per our preview, vs. the +0.5% to 1.0% trading range that we looked for in past decisions.

USD Trajectory is still Key to the USDSGD

SGD has strengthened 0.7% vs. the USD, the outperformer of the day thus far. The USDSGD trajectory could still be predominantly led by the broader USD swings. With Fed committed to raise rates further into restrictive region and recent inflation report suggesting persistent inflation pressures, the USD is likely to remain supported on hawkish Fed monetary stance and fears of global growth slowdown in the near-term. That said, we note more Fed officials (such as that of Fed Brainard and Evans) expressing concerns on the economic risks of overtightening which could beckon calibration in the pace of rate hikes. Any slowdown in the pace of hikes from current 75bps per clip alongside greater signs of weakness in the US economy could ease the USD strength more considerably (possibly in 1H 2023). We maintain our 12month USDSGD forecast as follows.

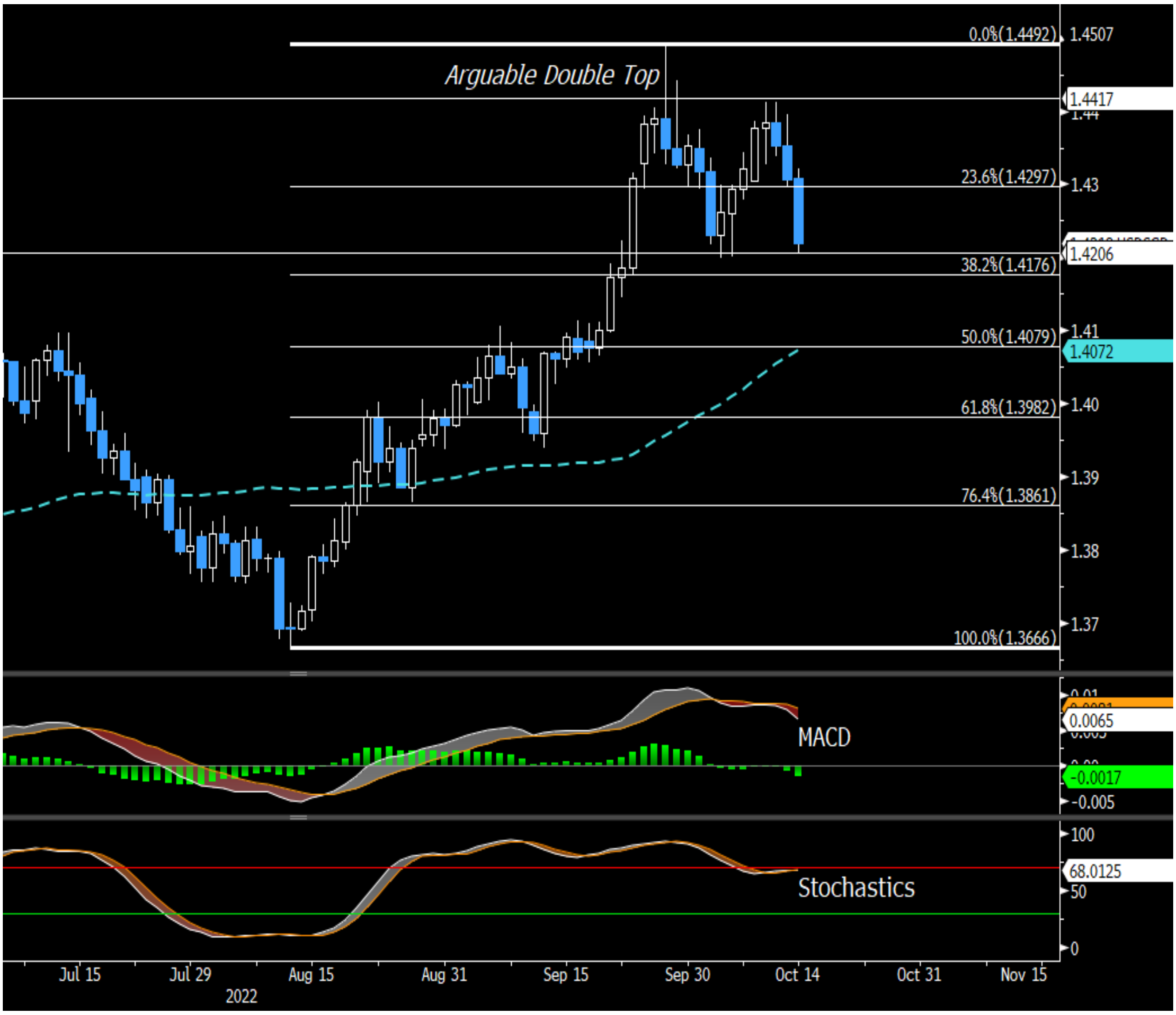
Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USD/SGD	1.4100	1.4000	1.3800	1.3700

SGD's Moves Against Trading Partners for Today



Source: Maybank FX Research & Strategy, Bloomberg

USDSGD (Daily Chart): Arguable Double Top



Note: Blue dotted denotes the 50-simple moving average

Source: Bloomberg, Maybank FX Research & Strategy

USDSGD seem to have formed an arguable double top formation that can precede a significant pullback. This pair is now threatening the neckline seen around 1.42. A clean break could open the way towards the next at 1.4080 (50-dma, 38.2% Fibonacci retracement of the Aug-Sep rally). Momentum is bearish now and stochastics indicate overbought condition. We see mild risks of further bearish extension in the near-term.

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