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Global

FX Flash

SGDMYR: Further Gains Likely Limited Near-term

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SGDMYR Touched Record High on 26 Jul

SGDMYR reached record high yesterday, near 3.22, although gains have pared slightly as of writing (last seen near 3.21). Recent SGDMYR strength can be attributed in part to monetary policy divergence as well as differentiated exposures of SG/MY to external risk events. In particular, ongoing Fed tightening, China growth concerns and softer oil outlook etc. could have weighed on MYR to a larger extent, even as SGD benefited from relative "safe haven" characteristics on robust macro fundamentals.

MYR Drag Factors Could Moderate in Extent

Positive spillovers to SGD from MAS' recent re-centring move appear to be moderating. By our estimates, SGD NEER has touched +1.0% above the new implied mid-point, versus lows of +0.3% above par earlier this month. The current reading is notably in the middle of our +0.5% to +1.5% projection range flagged in our 14 Jul note (see here). While room for SGD upsides is still intact, the basket could start seeing more two-way swings instead. Further, we note signs of slowing trade and activity indicators in Singapore (NoDX, IP), which could constrain positive sentiments somewhat near-term. Meanwhile in Malaysia, commodity and tech sectors continue to underpin robust double-digit exports growth and healthy trade surpluses. In addition, we also note that (i) China activity shows signs of bottoming out even as Covid-zero policy weighs, while (ii) signs of production challenges among OPEC+ members and reports of shrinking US stockpiles could lend some support to oil despite recession fears. Concomitantly, MYR drag factors could moderate in extent.

Upside Risks in SGDMYR Intact But Modest

Given our assessment above, SGDMYR upsides could be constrained. On net, we look for SGDMYR to remain in elevated ranges near-term, but maintain end-2022, end-2023 forecasts at 3.16, 3.12. Any upswings could be capped by key resistance near 3.25. On technicals, while momentum in cross remains bullish on daily chart, RSI is overbought and there could be tentative signs of a turn lower.

SGDMYR Daily Chart: RSI Overbought; Tentative Signs of Turn

Source: Bloomberg

SGDMYR Strength Underpinned By Monetary Policy Divergence, Sensitivity to Fed Tightening, China Growth Fears, Softening Oil

On monetary policy, MAS was the notable front-mover in the region, having undergone various rounds of policy tightening since Oct last year. Latest off-cycle move on 14 Jul saw a re-centring of the mid-point of the policy band to prevent inflation expectations from being entrenched, boosting SGD sentiments. On the other hand, while BNM has also commenced rate hikes, pace is “measured and gradual”—inflation while rising, is slower relative to peers and major economies and is predominantly cost-push. Thus far, BNM has hiked policy rates twice, by +25bps in May and Jul.

Meanwhile, earlier studies of FX sensitivity to Fed tightening (see here) had long pointed to MYR potentially seeing larger drags (-0.4% for 100bps rise in UST2Y yield) versus SGD (-0.1%), in the post GFC-period.

Another key driver in play would be the ongoing China/yuan narrative. On this front, our May Insight piece (see here) had observed some moderation in sensitivity of SGD to CNY in 1H this year (vs. 2020-21), even as MYR-CNY linkages appeared to remain tight.

Table: β1—Co-movement Coefficient Between RMB and ASEAN FX (*Reproduced from May Insight Report for Reference*)

	SGD	MYR	IDR	THB	PHP
Jan 2020 to Dec 2021	0.43	0.21	0.85	0.48	0.27
Jan 2022 to May 2022	0.28	0.42	0.17	0.38	0.15

Source: Maybank FX Research & Strategy Estimates

We had postulated that in a period when more idiosyncratic drivers are emerging for other ASEAN FX (e.g., pace of policy normalization), the MYR-CNY relationship remained significant/positive. Part of this could be reflective of trade exposures. China accounts for a larger share of Malaysia’s exports (24%) in 2021, versus just 13% for Singapore. Further, the MYR-CNY relationship could have been amplified by MYR’s exposure to oil swings (e.g., China lockdown/easing headlines impacts both CNY and oil with the same directional bias).

Going Forward, Further Gains in SGDMYR Could be Limited…

By our estimates, SGD NEER has touched +1.0% above the new implied mid-point, versus lows of +0.3% above par earlier this month. The current reading is notably right in the middle of our +0.5% to +1.5% projection range, and **while room for SGD upsides is still intact, the NEER basket could start seeing more two-way swings instead**. Further, we note signs of slowing trade and activity indicators in Singapore (NoDX, IP), which could constrain positive sentiments somewhat near-term.

- Our economist team noted that industrial production growth lost steam in Jun (+2.2%) as semiconductor production (-2.6%) fell sharply from record high in May. Slowing consumer demand for PCs and smartphones may be weighing on chips in the interim.
- NODX growth eased to +9% in June as electronics (+4.1%) softened to the slowest pace in 19 months due to the plunge in PCs, reflecting sluggish demand in the consumer electronics market. Our economist team recently narrowed 2022 NODX

growth forecast to 5%-6% (from 4%-6%), given the better than expected performance in 1H (+10.2%), but expect growth to ease to low-single digit growth in 2H. The global trade outlook is dampened by the China slowdown, Russia-Ukraine war, and global monetary tightening.

Even with stronger price increases across most categories in June pointing to upside risks to inflation still, **the bulk of the MAS policy normalization should be behind us at this point** given front-loading moves. House view currently looks for MAS to stand pat in Oct, but should a tightening move materialize, it would most likely be a slight adjustment of the policy slope (from current estimated 1.5%p.a. -> 2.0% p.a.). Another re-centring of the policy band is unlikely.

Meanwhile in Malaysia, commodity and tech sectors continue to underpin robust double-digit exports growth and healthy trade surpluses. Exports grew by 38.8%y/y in June, while trade surplus widened to +MYR21.9bn (May 2022: +MYR12.6bn). Benign trade balances and rising momentum in consumption-driven GDP recovery should allow BNM to continue with policy normalization plans. Our economist team's view of OPR outlook is total of +75bps hikes to 2.50% in 2022 and another +50bps hikes to 3.00% in 1H 2023.

In a sense, some MYR catch-up to SGD can be expected on the policy normalization front in the quarters ahead, albeit at a gradual pace.

On Fed tightening, chatters of US recession risks could lead policymakers to be more careful in calibrating rate hike pace, and we note that parts of the markets are already betting that Fed might have to start turning dovish next year. **OIS-implied currently looks for Fed policy rate to peak at around 3.4% in Feb 2023 (versus market expectations of a higher peak near 3.9% just 6 weeks ago)**. Drags on MYR on account of Fed tightening could ease over time.

On China, **recent activity indicators point to some tentative bottoming in activity, at a time when PMI readings in DM economies are softening discernibly**. While some caution is warranted on account of risks from Covid-zero policies and property sector vulnerabilities, a repeat of the yuan rout in Apr-May looks unlikely at this point. Spillover drags on MYR sentiments should moderate as well.

On oil, **despite a weakened outlook on global growth fears, house view for oil price remains at US$100/bbl average for 2022**. Continued signs of production challenges among OPEC+ members and reports of shrinking US stockpiles could continue to lend some support to oil despite recent hit from recession fears. Bloomberg reports suggest that US crude stockpiles could have fallen by 4.04mn barrels last week, in the largest draw since end-May. A case of brent prices supported above US$90/bbl in 2H 2022 could avoid excessive sentiment drags on the MYR.

Given our assessment for SGD NEER to see more two-way swings after climbing to the mid-point of our projection range, and drag factors on MYR to avoid seeing significant worsening in extent, SGDMYR upsides could be constrained somewhat. On net, we look for SGDMYR to remain in elevated ranges near-term, but maintain end-2022, end-2023 forecasts at 3.16, 3.12.

SGDMYR – *RSI Overbought*

Source: Bloomberg

SGDMYR gapped down in the open this morning. Cross was last at 3.21 levels. Daily momentum is bullish while RSI is showing signs of turning from overbought conditions. Technical pullback not ruled out after >2% run-up from Jul trough to peak. Support at 3.20 (23.6% fibo retracement from Jul trough to peak), 3.1810 (50.0% fibo). Resistance at 3.22, 3.25 levels.

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