FX Flash

SGD - Impact from Weak Growth to Slowly Play Out

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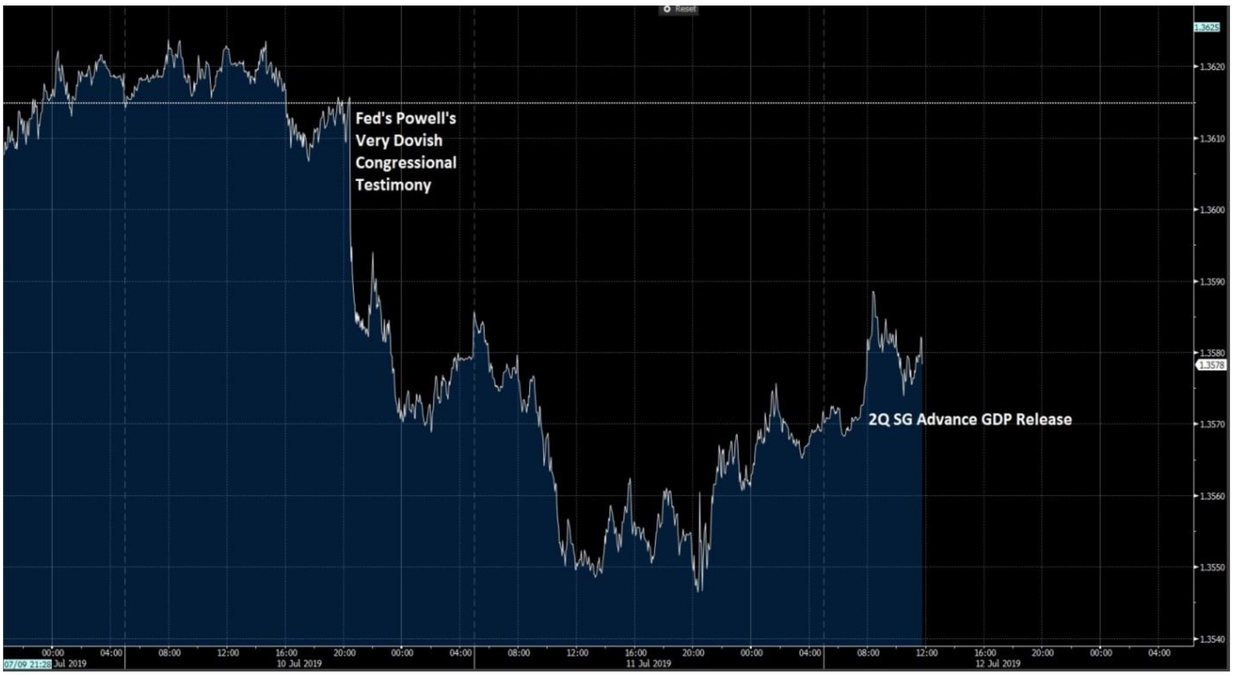
Immediate Market Reaction was Modest

Our caution yesterday for mild upside risks for the pair (see here) arising from Singapore's 2Q *Advance GDP* release this morning came to pass, as a significantly weaker-than-expected outcome (0.1% y/y vs 1.1% expected; -3.4% qoq saar vs 0.5% expected) led to a step-up in the pair (i.e., weaker SGD). The magnitude of the immediate increase was relatively modest, again as expected, at 15-20 pips. Gains are now partially reversed. Levels last seen at 1.3578.

We note that in the interim, US-led developments would still likely have a larger impact on the USDSGD pair. On Wednesday night for instance, Powell's very dovish congressional testimony had led to broad USD softening, bringing the pair down around 30 pips immediately and another 30-35 pips afterwards as markets digested statements.

Nonetheless, the negative reading of sequential SG growth (-3.4% q/q saar) could increase the risks of a technical recession in 3Q, especially since the sequential decline in activity was relatively broad-based across various industries, including manufacturing (-6.0%), construction (-7.6%) and services (-1.5%). We hence see greater drag from growth sentiments on the SGD in the months ahead, alongside an increasing likelihood of a MAS policy easing in Oct.



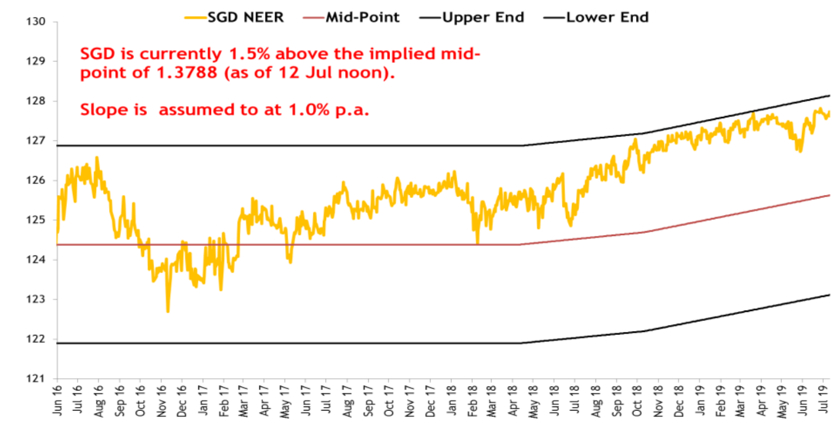
Source: *Bloomberg, Maybank FX Research & Strategy*

SGD NEER Slips

As of writing, SGD NEER is estimated to trade around +1.5% above the mid-point of the policy band, coming off modestly from the upper end of the band compared to yesterday morning (+1.7%). The implied USDSGD mid-point is currently estimated at 1.3788, with the top at 1.3512 and the floor at 1.4063.

Our Economist team has reduced their SG growth forecast to +1.1% growth in 2019, from +1.3% previously. Updating our Taylor Rule model with these estimates also shows a decline in the slope of the SGD NEER that is consistent with expected growth and inflation outcomes. We think there is an increasing chance that MAS will ease policy in Oct, and if so, the extent of easing (to +0.5% slope or neutral, from estimated 1.0% currently) will depend on upcoming growth and price data releases. In particular, given the forward-looking nature of the MAS, oil price outlook going into Oct will influence the policy decision as well.

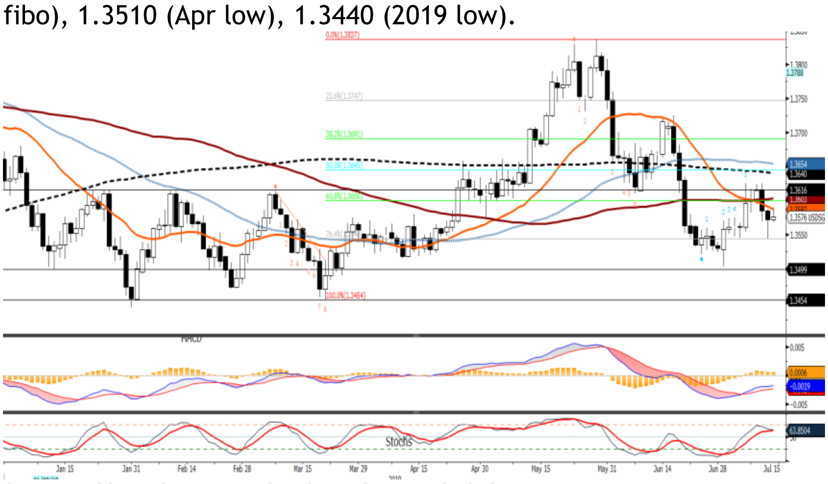
Developments thus far (i.e., slipping SGD NEER) are in line with our call for a weighted "basket" approach where we Long USD, CNH, MYR, IDR, PHP (30%/35%/20%/10%/5%) vs. Short SGD on 3 July (see here). We note that this proxy has the potential to track potential SGD NEER weakness relatively well in the interim, while also returning overall positive carry.



Source: *Maybank FX Research & Strategy estimates*

Modest Bullish Conditions for USDSGD Pair in Interim

Momentum and stochastics indicators on the daily chart point to modest bullish conditions. Immediate key resistance at 1.3590/1.3600 (21 DMA, 100 DMA, 61.8% Fibonacci retracement from 2019 low to high). If this breaks, and SG growth sentiments sour further, the pair could push further out to 1.3640/50 (200 DMA, 50 DMA). Support at 1.3540 (76.4% fibo), 1.3510 (Apr low), 1.3440 (2019 low).



Source: *Bloomberg, Maybank FX Research & Strategy*

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