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Maybank

FX Flash

SGD NEER - Too Elevated After Policy Easing

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MAS Easing, SGD NEER Could Soften Further

House view for MAS to "*reduce the slope of the SGD NEER 'slightly' from the estimated +1% appreciation path to +0.5%, but keep the width and centre of the policy band unchanged*" was realized this morning (see "*SGD - Room for SGD NEER to Soften*"). USDSGD dropped momentarily from around 1.3720 to 1.3680 after the decision, but pared some losses after. Pair was last seen around 1.37. We note that most of the USDSGD down-move from mid last week's ~1.3820-level was on trade policy optimism out of US-China talks.

In past easing cycles, SGD NEER has always clocked in at a level in the lower half of the policy band, one month post the easing announcement. **We expect this time to be different**. SGD NEER is currently around +1.5% above the estimated mid-point of the policy band, and there is a lack of triggers to cause SGD to weaken by such a large extent in the near term.

A more likely outcome is for **SGD NEER to see a more gentle decline**, to below +1.0% relative to implied policy mid, in the next few weeks, anchored on continued weak growth momentum and tame inflation outlook for Singapore. Prospects for further easing at the next meeting in April 2020 are also intact, with MAS signalling that it is "*…prepared to recalibrate monetary policy should prospects for inflation and growth weaken significantly*".

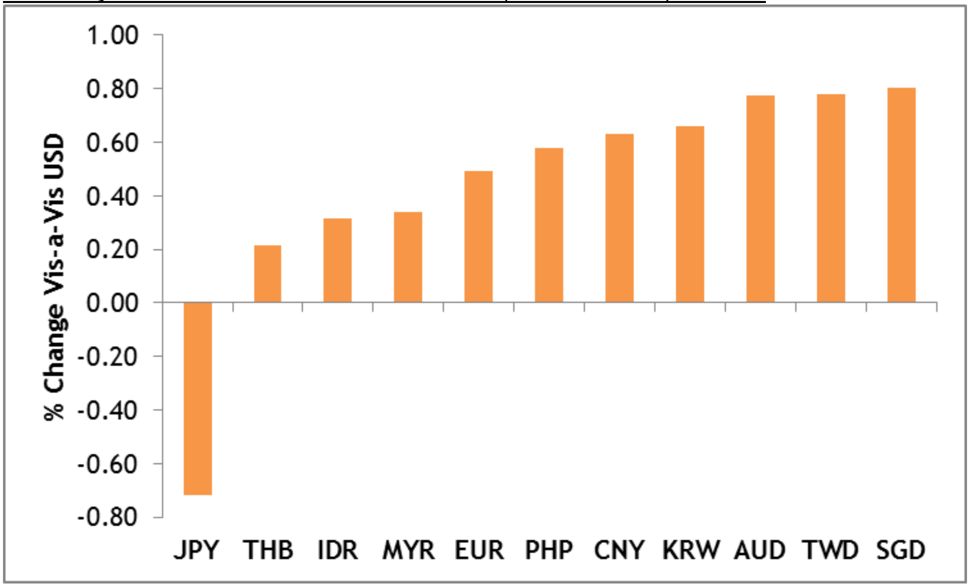
Admittedly, this does not translate cleanly to a near-term upward bias in USDSGD (i.e., SGD weakening against USD). It is possible for SGDNEER and USDSGD to see some modest divergence in outcomes, in periods of strong USD bias, or higher FX volatility. Trade talk developments are still ongoing and we expect USDSGD to continue to take cues from USDCNH in the interim. "4-5 weeks" is cited as the tentative timeframe for details of the partial US-China deal to be worked out, and from experience, two-way swings in tones can still potentially happen in the interim. Latest news headlines suggest that China is seeking more talks before the actual signing of the "phase 1" deal that Trump was trumpeting.

On balance however, the elevated nature of the SGD NEER could still help cap any downsides in the USDSGD pair (in the event of further AxJ FX strength), with 1.3630-50 being a key support area to watch out for.

Recent SGD Strength Tied to Positive Interim Trade Talk Outcomes; MAS Easing Largely Priced in Beforehand

This first phase of the US-China deal would presumably include China purchasing more US agricultural commodities, agreeing to some IP enforcement measures, as well as giving concessions on financial services and currency, in exchange for US agreeing not to hike tariffs as planned tomorrow. Barring sharp shifts in tones (again), this partial US-China trade deal also paves the way for further progress in relations, as it has been framed as part of a broader agreement that would eventually encompass more structural reforms.

Currency Moves Vis-à-vis USD From 9 Oct (Market Close) to Now



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

While SGD had strengthened 0.8% vis-à-vis USD from mid last week—when arguably most of the trade deal optimism started being priced in—we note that the magnitude of the rally in SGD was largely on par with that in KRW, AUD, TWD, and only marginally more than CNY and PHP. Hence it is likely that most of the recent USDSGD down-move was associated with the positive trade talk outcomes between US and China. There might have been a tad of SGD strengthening associated with unwinding of bets on more aggressive MAS easing (i.e, MAS adopting a neutral policy slope), but the impact of this could have been modest.

SGD NEER Still Too Elevated

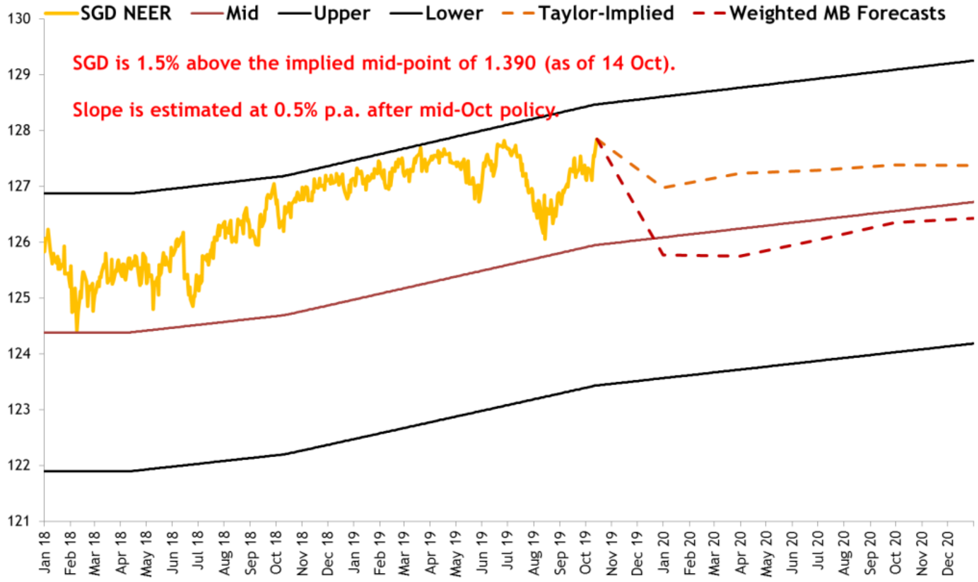
SGD NEER Level (Relative to Policy Mid-Point) Pre/Post-Easing

		Positions of SGD NEER Rel. to Mid-Point (+ve = above; At Mkt Close)				
	Estimated Reduction in Slope	1 Month Before	1 Day before	Policy Announcement Day	1 Month Later	Cumulative Change (1M prior to 1M post)
10-Oct-08	**-2.5%**	-0.4	-1.5	-1.5	-1.1	-0.7
14-Oct-11	**-1.0%**	+0.9	-1.1	-0.4	-1.6	-2.5
28-Jan-15	**-1.0%**	+0.1	-0.3	-1.1	-1.5	-1.6
14-Oct-15	**-0.5%**	-0.7	-1.5	-0.1	-1.2	-0.5
14-Apr-16	**-0.5%**	-0.1	+0.3	-0.5	-0.3	-0.2

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

Comparing the period 1-month pre/post an easing announcement, SGD NEER has always moved lower relative to the implied mid-point, usually to **a level in the lower half of the policy band**. **We expect this time to be different**, as SGD NEER is currently estimated at around +1.5% above mid-point, and there is a lack of triggers to cause SGD to weaken by such a large extent in the near term. In particular, cautious optimism on the back of positive US-China trade talk developments could provide some support to AxJ FX, barring sudden breakdown in trade relations again.

While **the magnitude is unlikely to be overly large, we still look for a downward bias to hold for the SGD NEER**, anchored on continued soft growth and tame inflation outlook. MAS had stated that "*the output gap has turned slightly negative and this is expected to persist into 2020, which will keep inflationary pressures muted*." Prospects for further easing at the next meeting are also intact, i.e., "*…prepared to recalibrate monetary policy should prospects for inflation and growth weaken significantly*".



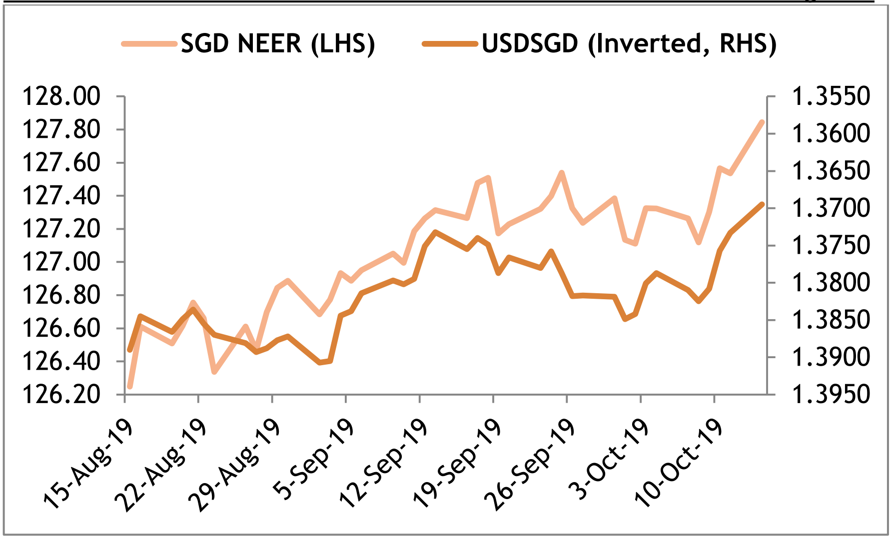
Further, while the extent differs, both our Taylor Rule and "Weighted MB Forecast" estimates suggest that there is room for SGD NEER to fall by year end, before stabilizing somewhat into 2020, alongside some positivity in AxJ currencies if outcomes from US-China talks translate to an improved growth outlook for Asia. "Weighted MB Forecast" refers to figures derived via weighting our forecasts of individual currencies in the SGD NEER basket, by their estimated weights in the basket.

On net, we still look for SGD NEER to decline to below +1.0% (relative to policy mid) in the next few weeks.

Caution for Two-Way Swings in USDSGD; But Downsides Likely Capped

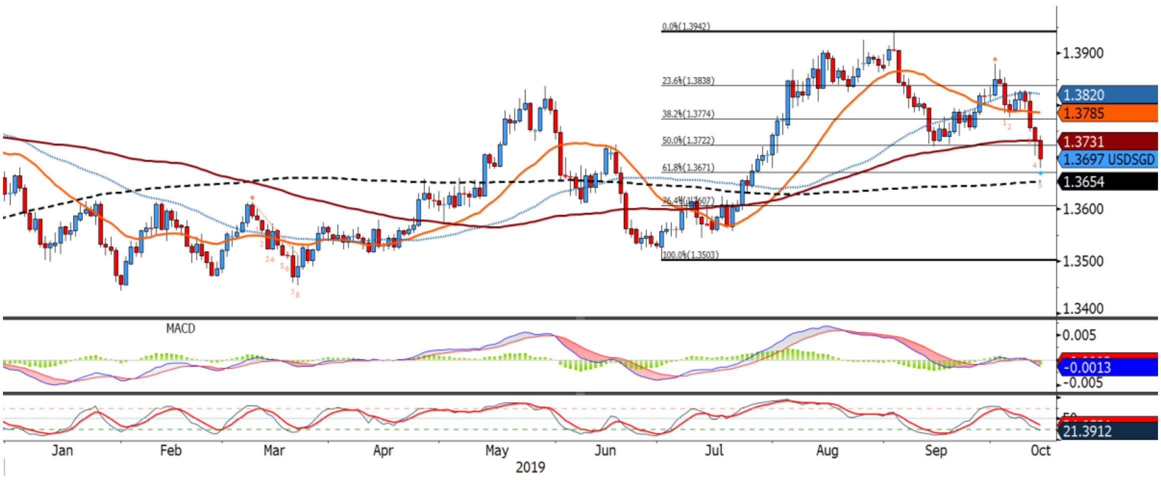
While we still expect a downward bias in SGD NEER, this does not translate cleanly to a similar near-term upward bias in USDSGD (i.e., SGD weakening against USD). It is possible for SGDNEER and USDSGD to see some modest divergence in outcomes, in periods of strong USD bias, or higher FX volatility.

Possible for SGD NEER and USDSGD to See Near-Term Interim Divergence



In particular, the USDSGD pair is highly correlated to the USDCNH pair, and fluidity of trade talk developments (now that the broad partial agreement has been announced, officials will be working on inking out the details for the next 4-5 weeks) could still swing both pairs, even as the **elevated nature of the SGD NEER helps to cap any potential downsides in USDSGD**.

USDSGD Daily Chart - 200 DMA as Key Support; Downsides Capped



Momentum on the daily chart is mildly bearish, while stochastics are inching down towards near-oversold conditions. We look to the 200 DMA of 1.3650 to act as a key support. Given current USD-levels, implied upper-end for the MAS policy band is estimated at around 1.3630. Any potential downsides could hence be capped by the 1.3630-1.3650 area. Resistance at 1.3730 (100 DMA), 1.3790/1.3820 (21, 50 DMA), 1.3840 (23.6% Fibonacci retracement from Jul low to Sep high).

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