FX Tech Flash

USDSGD: Fade the Upticks

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MAS Non-Event

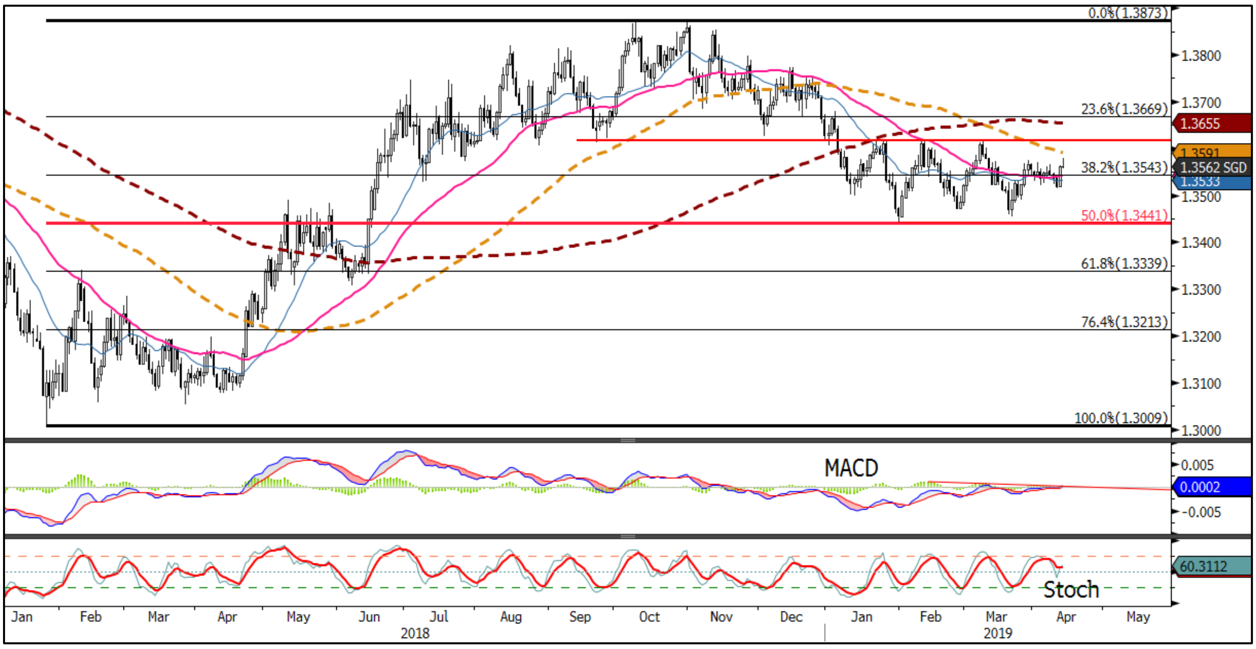
As widely expected, MAS confirmed a pause in its policy normalisation process (no change to the "slight appreciation bias stance for S$NEER) as growth slows and inflation eases and should remain contained.

MAS Core inflation forecast range for 2019 has been lowered to 1 - 2%, from 1.5 – 2.5% as decline in electricity prices due to the roll-out of the Open Electricity Market (OEM) was sharper than anticipated and take-up rate is likely to increase in the months ahead. MAS is also expecting 2019 growth to come in slightly below the mid-point of the 1.5 – 3.5% range.

On USDSGD price action, there was a brief spike to 1.3581 this morning on MAS revision to inflation forecast but the move has partially been retraced and was last seen at 1.3568 levels. On 4-hourly chart, stochastics suggests that bullish momentum seen this morning could fade intra-day. Near term support at 1.3530, 1.3515; immediate resistance at 1.3580 before 1.3620. We **continue to look for 1.3440 - 1.3620 range, with bias to fade upticks.** Statement is not overly dovish and signs of stabilisation in China and Europe are showing up amid policy stimulus support (which could be timely to ease financial conditions and provide the support for growth to pick up). We are also looking for signs of US-China trade deal coming in earlier than expected. This could help with both the real economy channel (via exports and investment recovery) and via sentiment (further be supportive of trade-sensitive currencies including SGD).

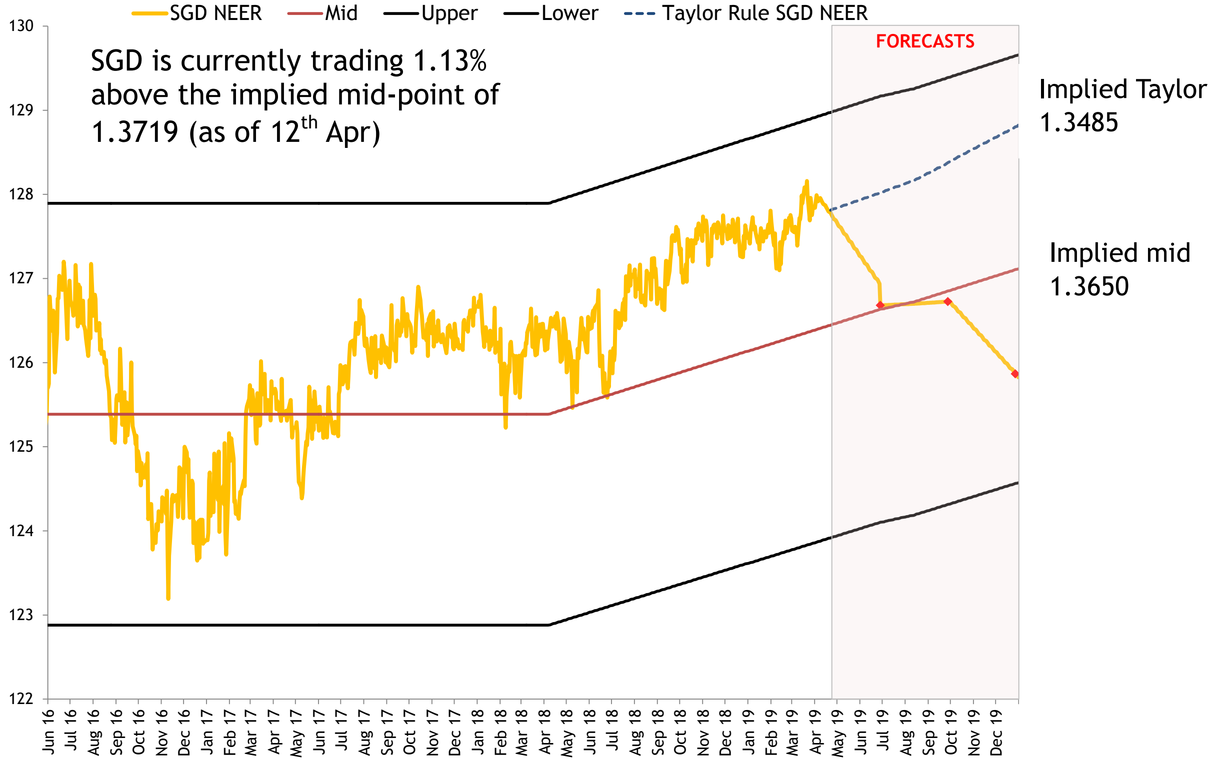
Our in-house model implies that S$NEER is trading 1.13% above our model-implied mid-point of 1.3719 with the upper band at 1.3450

USDSGD (Daily Chart): Still Sticking to 1.3440 – 1.3620 Range



Source: Bloomberg, Maybank FX Research & Strategy

Our Taylor Rule Estimates* for S$NEER Point to Stronger SGD



Note: Note that the yellow line is Maybank estimates of the SGD NEER, while the blue dotted line is our Taylor Rule-SGD NEER estimates.
*Estimated using GMM Model using an augmented Taylor Rule Framework
Source: Maybank FX Research & Strategy Estimates

Our Taylor Rule estimates for the SGD NEER highlight that the SGD NEER remains on the upward trajectory and should remain within the policy band in the forecast horizon. Our SGD NEER estimates using the Taylor Rule (growth and inflation trade-offs) suggest that the SGD NEER should strengthen ahead. The implied USDSGD forecasts corresponding to the 2019 estimates are 1.3559 (2Q 2019), 1.3530 (3Q 2019) and 1.3485 (4Q 2019). As such the implied USDSGD is likely to range between 1.3485 - 1.3650, according to our Taylor rule model.

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