FX Flash

SGD: Stand Pat in Line with Medium-Term Policy Objectives

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

Fiona Lim
(65) 6320 1374
fionalim@maybank.com

Alan Lau, CFA
(65) 6320 1378
alanlau@maybank.com

MAS Unchanged for the Fourth Time

MAS stood pat and left policy settings (slope, centre and width) unchanged for the fourth time since Apr-2023. This decision was widely anticipated and in line with our house view. MAS' assessment was that the current pace of appreciation remained appropriate in ensuring medium term price stability. In addition, MAS' statement remained optimistic on growth, continuing to expect the Singapore economy to strengthen over 2024.

Given the broad expectations for growth and inflation, we have reason to believe that MAS will be more inclined to stand pat over the course of 2024, barring external shocks to the Singapore economy.

Market Reaction Muted

Market reaction to the decision was relatively muted, given that it was widely anticipated. We continue to maintain that USD should gradually weaken through 2024 and we look for USDSGD to move gradually lower through the year.

Ahead of the decision, SGDNEER was trading at around +1.70% above the mid-point with USDSGD at 1.3530 levels. This was little changed immediately after the release of MAS' policy statement. SGD and the SGDNEER are likely to remain supported as MAS holds steady. However, we do think that the outperformance in the SGDNEER could potentially taper as Fed rate cuts materialize, as we think narrowing yield differentials could spur outperformance of other basket constituents.

Look for Hold at Jul Meeting

Subsequent meetings for 2024 will be in Jul and Oct. We see MAS continuing to hold at the Jul meeting and think that MAS could hold for an extended period, with current outcomes in line with their expectations for core inflation to reach a comfortable level in 2025. At this stage, it appears that MAS is in no hurry to ease policy and could elect to stand pat for longer than the market expects. It is also not likely that MAS tightens policy as long as upside risks to inflation do not materialize. In addition, as we highlighted in our preview for the MAS decision, MAS may not be able to ease like an interest rate regime, even after the inflation target is achieved.

We maintain our USDSGD forecasts on the belief that a soft landing should materialize and the USD should gradually weaken throughout 2024 on fading US exceptionalism and Fed rate cuts.

MAS Unchanged for the Fourth Time

MAS stood pat and left policy settings (slope, centre and width) unchanged for the fourth time since Apr-2023. This decision was widely anticipated and in line with our house view. MAS' assessment was that the current pace of appreciation remained appropriate in ensuring medium term price stability. In addition, MAS' statement remained optimistic on growth, continuing to expect the Singapore economy to strengthen over 2024.

MAS remains vigilant on inflation and continues to recognize that there are both upside and downside risks to the actual path. Their base case however remains for core inflation to remain elevated in the immediate quarters ahead before it steps down more discernibly in 4Q 2024 and 2025. MAS projections for both core and headline inflation were maintained at 2.5% to 3.5% for 2024. MAS mentioned that the uptick in Jan-Feb core inflation (3.4% vs. 3.3% in 4Q) was lower than expected due to a decline in food and travel-related services inflation. "Underlying inflation" (excluding impact of GST hike) was estimated to be unchanged from 4Q. Similar to our economists' expectations, MAS thinks core inflation will stay around current levels in the near term, as water prices were hiked in April (+7.3%) while prices of certain services such as education and healthcare will continue catching up with higher business costs. Nonetheless, MAS expects a sustained moderation in imported and domestic cost pressures. Global prices of most food commodities as well as intermediate and final goods remain subdued, although crude oil prices have risen over the past three months. MAS expects unit labour costs to rise at a significant slower pace in 2024, as wage growth eases and labor productivity picks up. Our economists maintain their 2024 core inflation forecast at 2.8%. Overall, inflation does look like it remains in control and importantly in line with MAS' expectations. This means that current MAS policy settings are appropriate for guiding core inflation closer to MAS' comfort level of around 2% by 2025. This also implies that MAS would be more inclined to stand pat barring any external shocks that may affect the inflationary trajectory.

MAS remains optimistic on growth and expects the domestic economy to strengthen in 2024, with broad-based growth. MAS recognized that global economic growth remained resilient at the turn of the year. However, it also suggested that there could be headwinds in the near-term as Singapore's major trading partners could experience moderating growth from past monetary policy tightening and the withdrawal of expansionary fiscal policies. Nevertheless, MAS sees demand picking up in line with anticipated easing of monetary policy and for global manufacturing to remain on a recovery path. Against this backdrop, 1Q advance estimates showed that the Singapore economy grew at +0.1% QoQ (exp: 0.5%; prev: 1.2%) and 2.7% YoY (exp: 3.0%; prev: 2.2%). The 2024 GDP forecast range was maintained at 1%-3%. In sectoral terms, manufacturing and finance are predicted to be supported respectively by the electronics cycle turnaround and lower global interest rates, while growth in domestic-oriented sectors would continue to normalize towards pre-pandemic rates. Our economists revise their forecasts for GDP growth upwards to +2.4% (prev: 2.2%) in 2024, slightly above the mid-point of the government's GDP forecast range.

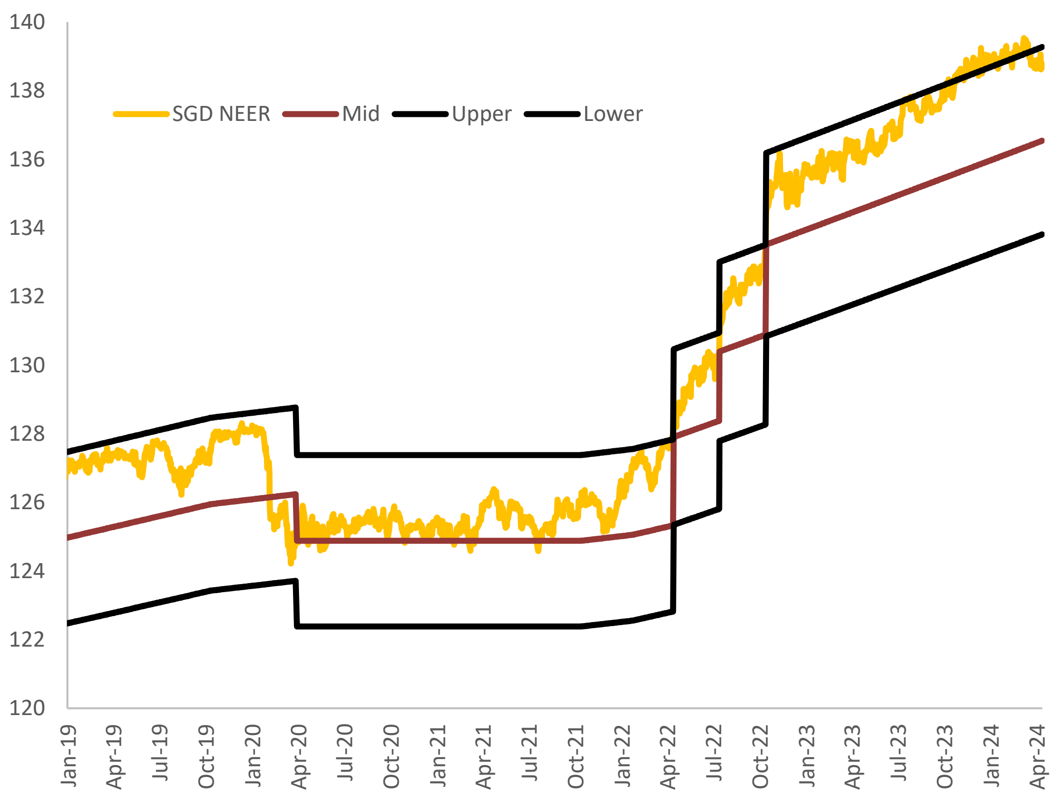
The overall outlook for growth and inflation sets the tone for future policy decisions and it looks increasingly likely that MAS will be inclined to stand pat in 2024, barring any shocks to either growth or inflation. This remains in line with our view expressed in our preview piece that MAS may have neither the appetite nor the capacity to ease like an interest rate regime after the attainment of inflation targets. This is consistent with the 6 Mar speech by MAS DMD and Chief Economist Edward Robinson on monetary policy. Moreover, inflation is only expected to return to MAS' comfort levels sometime in 2025 under current policy settings, increasing the likelihood that MAS will not ease to support growth in 2024.

Market Reaction Muted

Market reaction to the decision was muted and perhaps rightly so given that the decision was widely anticipated. We continue to maintain that USD should gradually weaken through 2024 and we look for USDSGD to move gradually lower through the year.

Ahead of the decision, SGDNEER was trading at around +1.70% above the mid-point with USDSGD at 1.3530 levels. This was little changed immediately after the release of MAS' policy statement. SGD and the SGDNEER are likely to remain supported as MAS holds steady. However, we do think that the outperformance in the SGDNEER could potentially taper as Fed rate cuts materialize. Narrowing yield differentials could spur outperformance of other basket constituents against the SGD. As mentioned, Singapore's exchange rate policy has led to the SGD being more sheltered than other basket constituents are in times of Fed rate hikes as SG rates and US rates rise in tandem. This effect could reverse itself as the Fed cut rates and allow for some tapering in the outperformance of the SGDNEER.

Chart 1: SGD NEER Remains Near Upper End of Policy Band

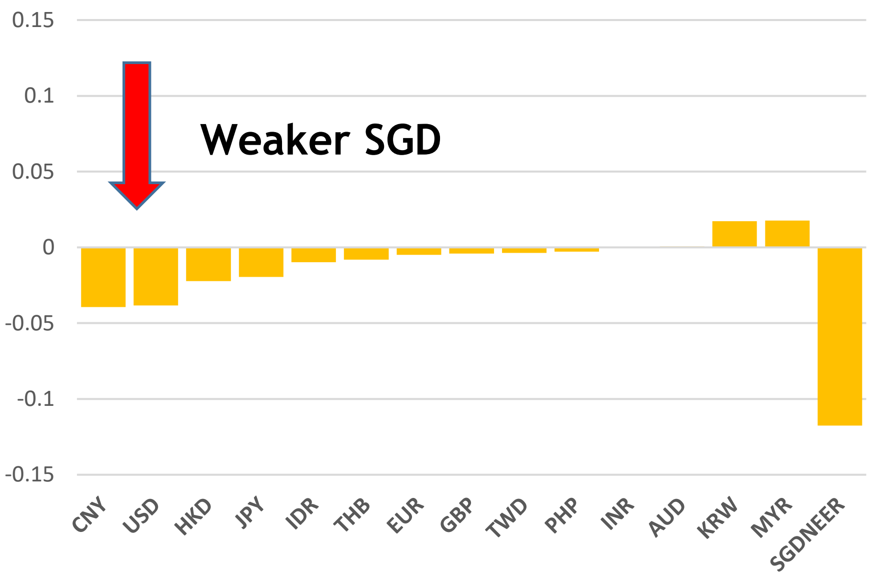


Source: Bloomberg, Maybank FX Research & Strategy

Decomposing the SGDNEER move against the basket constituents, we see that the SGD weakened against most of the constituents with the exception of the MYR, KWR and AUD. USDSGD trades within a 50-pip range today between 1.3520 to 1.3570. SGDNEER strength moderated slightly today but still remains at elevated levels.

MYR just opened for trading today after the Hari Raya Puasa holidays and is catching up to developments post US-CPI. KRW has also been under pressure amid the Bank of Korea leaning a tad more dovish today. FX movements today have largely still been driven by broader developments for the USD and most pairs are trading within relatively tight ranges (as evidenced by the relatively small movements in percentage terms today.

Chart 2: SGD % Moves Against Trading Partners for Today



Source: *Bloomberg, Maybank FX Research & Strategy*

Look for Hold at Jul

Subsequent MAS monetary policy statements (MPS) for 2024 will be in Jul and Oct. We see MAS continuing to hold at the Jul MPS and think that MAS could hold for an extended period, with current outcomes in line with their expectations for core inflation to reach a comfortable level in 2025. At this stage, it appears that MAS is in no hurry to ease policy and could elect to stand pat for longer than the market expects. It is also not likely that MAS tightens policy as long as upside risks to inflation do not materialize. In addition, as we highlighted in our preview for the MAS decision, MAS may not be able to ease like an interest rate regime, even after the inflation target is achieved.

We maintain our USDSGD forecasts on the belief that a soft landing should materialize and the USD should gradually weaken throughout 2024 on fading US exceptionalism and Fed rate cuts, even as recent data suggests that the Fed may hold off on rate cuts for longer than initially expected.

Table 1: USDSGD Forecasts

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USD/SGD	1.3450	1.3400	1.3300	1.3300

Source: Maybank FX Research & Strategy Estimates

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Malayan Banking Berhad
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Foreign Exchange
Singapore
Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com
(+65) 6320 1379

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com
(+65) 6320 1374

Alan Lau
FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim
FX Strategist
shaunlim@maybank.com
(+65) 6320 1371

Indonesia
Juniman
Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto
Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

Sales
Malaysia
Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Tan Yew Yan
Head, Sales Corporates & CFS
yewyan.tan@maybank.com

Singapore
Sheetal Dev Kaur
Head, Corporates Sales (MBS)
skaur@maybank.com
(+65) 63201335

Tan Huilin
Head, Sales FI
TanHuilin@maybank.com
(+65) 63201511

Janice Loh Ai Lin
Head, Sales (MSL)
jloh@maybank.com.sg
(+65) 6536 1336

Shanghai
Joyce Ha
Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Indonesia
Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Philippines
Angela R. Ofrecio
Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)

Fixed Income
Malaysia
Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6340 1079

Se Tho Mun Yi
Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

s