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FX Insight

SGD Preview: Continued Stand Pat Likely

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Continued Stand Pat on Appropriate Policy Settings
We think MAS will maintain their monetary policy parameters at the upcoming Apr meeting. MAS views current monetary policy settings as appropriate for core inflation to reach 2% by early 2025. Moreover, given the export-driven economic recovery and still elevated inflation, MAS is unlikely to be in a rush to ease monetary policy. **As such, we believe MAS will stand pat and continue to see current policy settings as appropriate.**

SGDNEER Trades in Upper-Half of Band
SGDNEER continues to remain robust and trades well in the upper half of the band at +1.69% above the mid-point. On average, our SGDNEER model has been at +2.03% above the midpoint YTD. This can be further decomposed to the period before we recalibrated our SGDNEER weights and model (1 Jan 24 to 15 Mar 24) where the average was +2.12% and post-recalibration (18 Mar 24 to 8 Apr 24) where the average was +1.73%. We continue to believe that the SGDNEER will remain firmly in the upper half of the band and will likely stay between +1.50% to +2.00% above the mid-point. The SGD should remain supported if MAS is not in a hurry to ease. In addition, MAS may not be able to ease as much as the market is expecting even after inflation has come off. Singapore economic data has also been robust, with a recovery in growth underpinned by a rebound in exports and manufacturing. Core inflation is likely to remain elevated A combination of these factors should be supportive of the SGD and keep the SGDNEER relatively firm. Nevertheless, we do still think that SGDNEER outperformance could taper if and when Fed rate cuts set in. Specifically, if the more rate sensitive components in the basket start to outperform the SGD i.e. appreciate by more against the USD than the SGD.

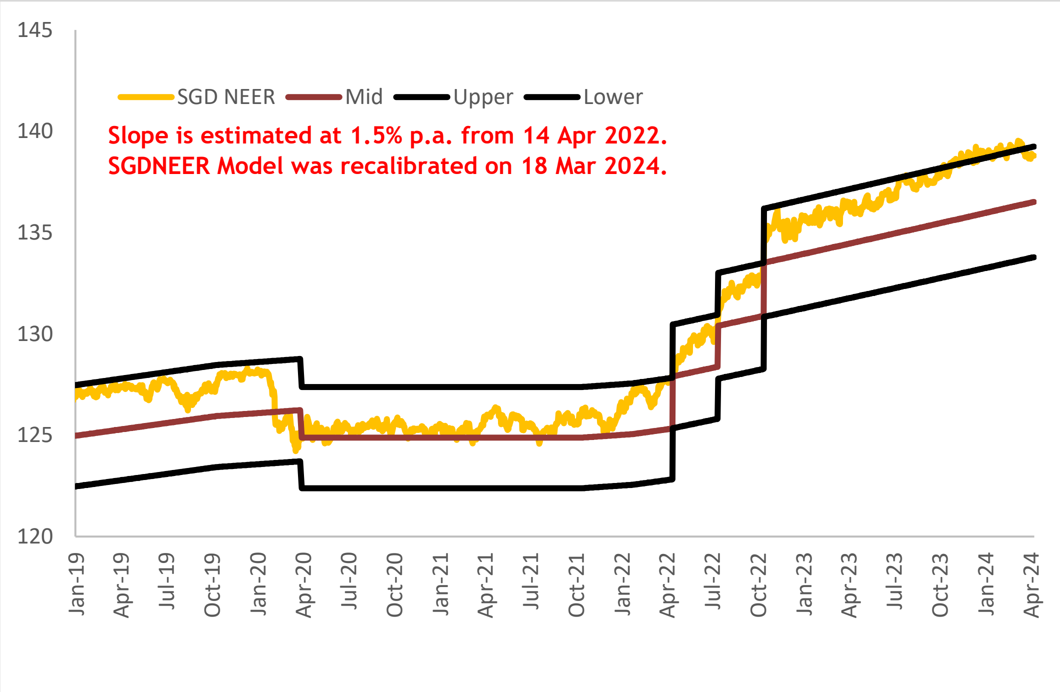
USDSGD to Come Off Gradually
Against the narrative of a global soft landing and fading US exceptionalism, we therefore maintain our forecast trajectory for USDSGD to come off gradually i.e. for SGD to strength against the USD gradually through 2024. To account for some probability of MAS not being able to ease in 2H or as much as the market is expecting, we made a slight downward revision to the USDSGD forecast for 4Q 2024. The current pace of SGDNEER appreciation (assumed to be 1.5%) should continue to be supportive of the SGD. Fed rate cuts should also be supportive of SGD strength, although cuts could benefit other constituents more than the SGD given that Singapore does not have an explicit interest rate policy and is a price taker for interest rates. Several themes that we expect this year such as the export/manufacturing recovery, AI exuberance and bottoming of the chip cycle mentioned in our annual outlook are further supportive of the SGD.

SGDNEER Remained Firm Since Jan Stand Pat

In Jan, MAS stood pat as policy was assessed to be appropriate to guide core inflation back to historical levels by early 2025 against a backdrop of gradually improving growth and slowing inflation. Thus far the outcomes for both growth and inflation are in line with MAS' expected trajectory. SGDNEER has remained firmly in the upper half of the band (Chart 1). We believe that MAS will stand pat once again at the Apr meeting given that current outcomes are in line with their expectations and there is therefore no hurry to ease policy or pivot to a more growth supporting stance.

Following MAS' decision to stand pat in Jan, SGDNEER has remained firm at an average of +2.00% above the midpoint. USDSGD has largely traded sideways in a range of around 1.33 to 1.35 levels. SGDNEER should remain supported going forward, although outperformance could eventually taper off - especially if SGDNEER basket constituents start to do better against the USD (than the SGD) in an environment of rate cuts, which could happen.

<u>**Chart 1: SGDNEER Remains Firm in Top Half of Band**</u>

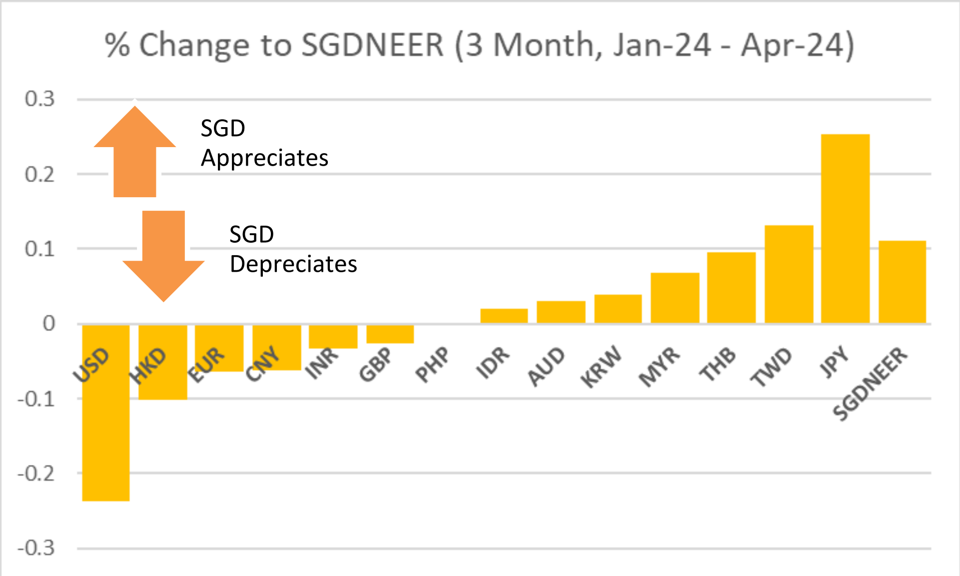


Source: Bloomberg, Maybank FX Research & Strategy

The "safe-haven" qualities of the SGD - its resilience both in bilateral and trade-weighted contexts against most other currencies continues to hold. The SGDNEER demonstrated remarkable resilience primarily because the SGD served as a notably steadfast store of value compared to most other basket currencies amidst market fluctuations (Chat 2a, 2b and 2c). This durability can be attributed to Singapore's robust macro fundamentals, including fiscal discipline, and the credibility of MAS' unique exchange rate based monetary policy. Singapore remains shielded better shielded than other currencies from market vacillations over rate cuts and this is due to the absence of an explicit interest rate policy and a robust correlation (estimated at 97%) between SG rates and US rates (Chart 4). Additionally, the SGD derived support from a positive crawl rate (presumed to be +1.5%) against its peers in the SGDNEER basket. Notably, this crawl rate has consistently stayed above 0%, further instilling investor confidence in the SGD and fortifying the credibility of MAS' policy.

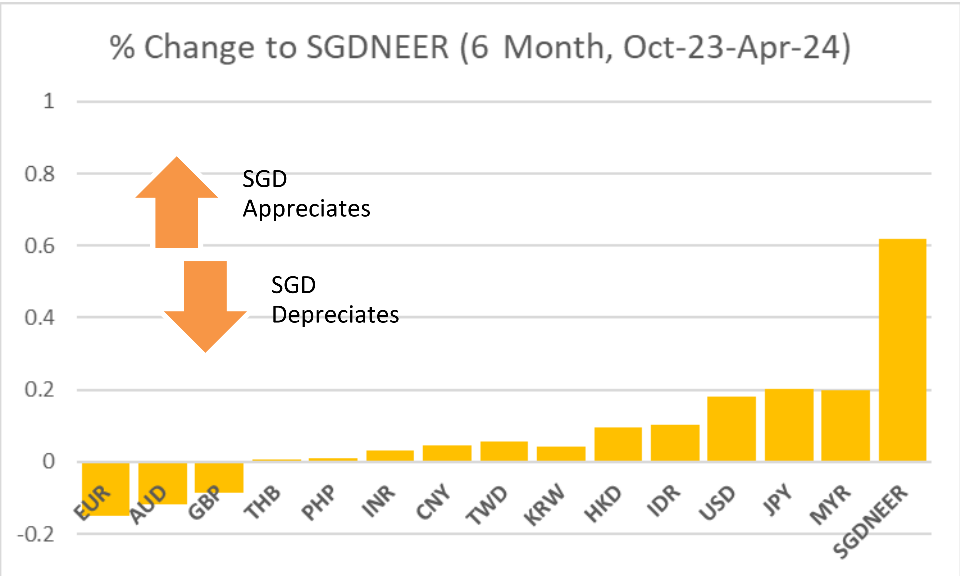
SGDNEER has remained elevated and gained about 2.09% over a 12-month period (Chart 2c). While Asean FX volatility has fallen, SGDNEER has remained at elevated levels (Chart 3). Over a 3-month and 12-month period, the USD-Bloc (USD & HKD) was a moderator to SGDNEER strength. However, the USD-Bloc actually contributed to SGDNEER strength over a 6-month period. We think that given these developments, other constituents could actually moderate the strength in the SGDNEER when rate cuts finally happen, and this should allow SGDNEER outperformance to taper.

Chart 2a: 3-Month SGDNEER Strength from THB, TWD and JPY



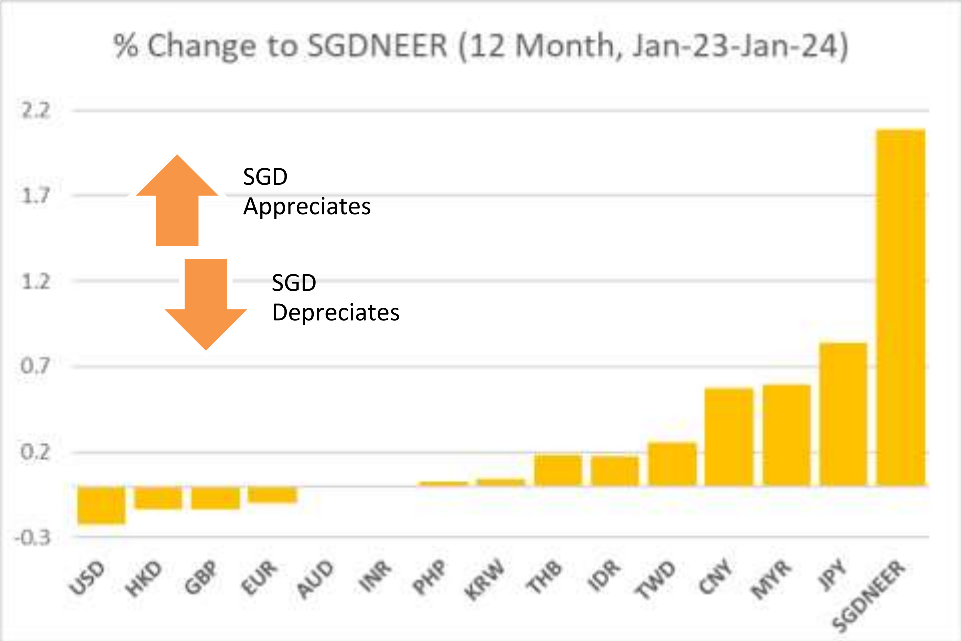
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2b: 6-Month SGDNEER Strength Moderated by GBP, AUD and EUR



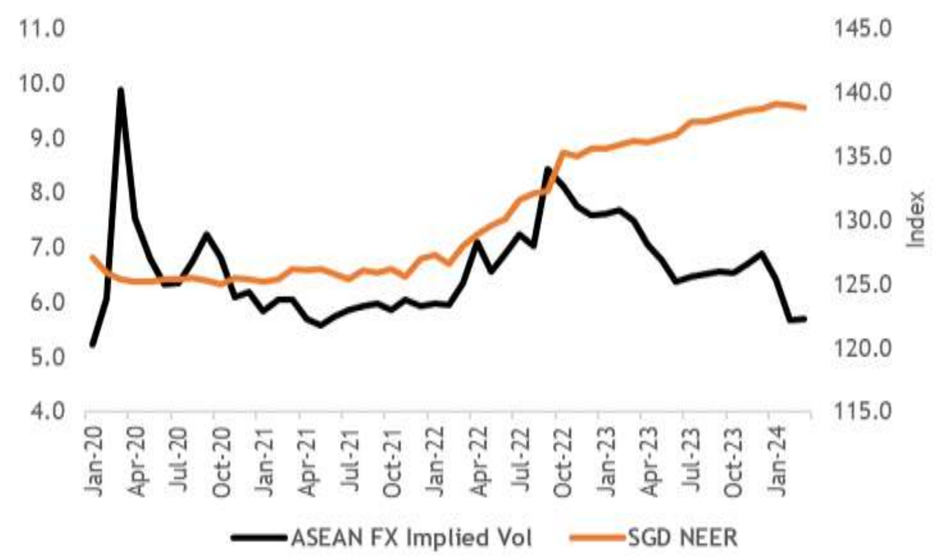
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2c: 12-Month SGDNEER Strength from CNY, MYR and JPY offset by EUR, GBP and USD-Bloc



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: SGDNEER (RHS) Robust Amid Lower Volatility



Source: Bloomberg, Maybank FX Research & Strategy

Since the Jan MAS policy decision, SGDNEER appreciation has been due to the SGD appreciating against the JPY, TWD and THB. Over the same period, SGDNEER strength was moderated by gains in the USD-Bloc, EUR and CNY, the three largest components of our SGDNEER basket. With the global soft landing narrative still intact, a reversal of this price action could reinforce our thesis that SGDNEER outperformance could taper as the US Fed cuts rates later in 2024. That is to say it is entirely possible that currencies other than the USD-bloc on outperform the SGD vs the USD.

However, we do maintain that the SGDNEER should remain resilient amid market fluctuations, given that the Singapore's strong macroeconomic fundamentals such as persistent current account and fiscal surpluses. So while SGDNEER outperformance could taper, we do not expect SGDNEER strength to turn to weakness as long as MAS maintains its appreciating crawl of the SGDNEER. Our economists think that MAS is in no hurry to ease given the export-driven economic recovery and still elevated inflation. The earliest an easing is seen is in Oct 2024 and even then we do not think that it is a guarantee.

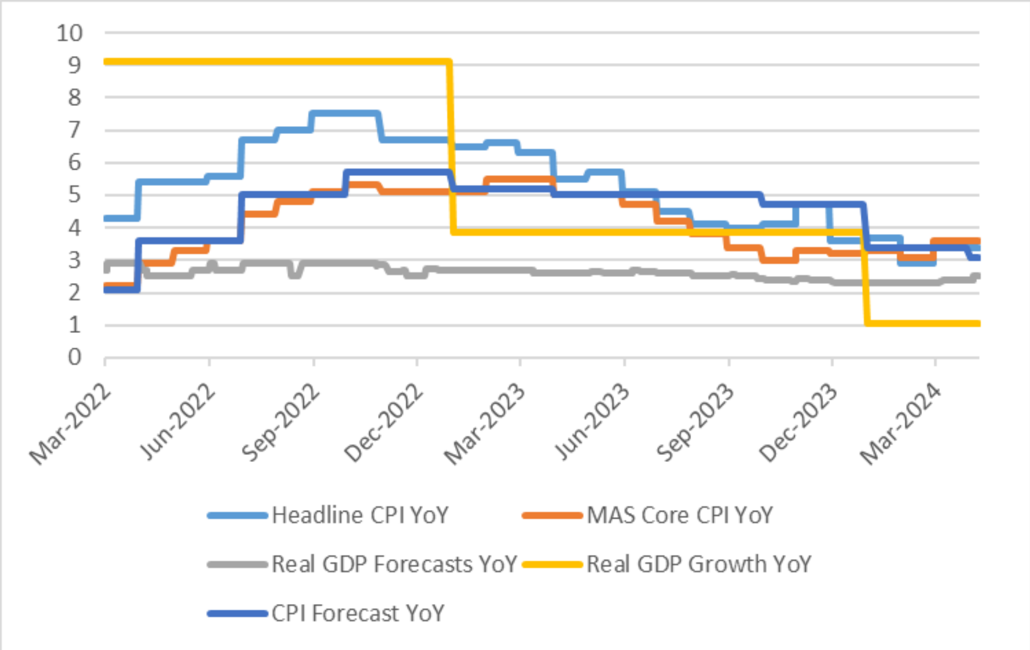
Global and domestic interests rates have largely remained within range, although UST yields and SGS yields have been trending higher (Chart 4). Our fixed income analysts are expecting US rates to decline in 2024 which should continue to weigh on the USD in 2024. Alongside this, growth and inflation are broadly in line with MAS' forecasts (Chart 5). These forecasts should be reflective of MAS' expectations that core inflation will reach the historical mean of about 2% in early 2025.

Therefore, it is likely MAS will stand pat in Apr, and the continued appreciating stance (assumed to be +1.5% p.a.) in the SGDNEER should continue to provide support for the SGD.

Chart 4: USD Rates and SGD Rates Remain Highly Correlated

Source: Bloomberg, Maybank FX Research & Strategy

Chart 5: Singapore Growth and Inflation Broadly in Line with MAS Forecasts



Source: Bloomberg, Maybank FX Research & Strategy

MAS is Likely to Stand Pat (12 Apr 2024)

Although upside risks to inflation still exist and while there are downside risks to growth as well, MAS remains unlikely to prematurely switch to a growth supporting mode. **Actual growth and inflation prints have largely come in line with MAS' forecasts and we think that they will continue to view the current appreciating stance as appropriate given current balance of risks.**

Full-year GDP growth came in at +1.2% in 2023, a shade above our economists' +1.1% forecast. Growth should be stronger and more balanced and our economists forecast economic growth of +2.2% in 2024, as manufacturing recovers while revenge spending in services moderates. Trade-related and outward-oriented services sectors, including wholesale trade and financial services, will return to growth in 2024 with the global demand pickup and easing domestic interest rates. Our economists' 2024 GDP forecast of +2.2% stands at the upper half of MTI's 1%-3% forecast range. This is predicated on a rebound in manufacturing seen in late 2023, which our economists think could herald a brighter outlook for exports and manufacturing in 2024. MAS' forward looking policy stance therefore suggests there is no need to prematurely shift to a growth supporting stance (i.e. easing bias) and should continue to see the current stance as appropriate.

Core inflation was at +3.6% in Feb-24 (Jan-24: 3.1%), and this was in line with the uptick that our economists saw in early 2024 given hikes in GST, carbon taxes and other administrative prices including water and public transport. Our economists see that core inflation will likely remain sticky near current levels in the first half of the year. For Jan-Feb, core inflation averaged +3.4%, slightly higher than the +3.3% in 4Q 2023. Core inflation will remain sticky and above historical norms in 2024 (Maybank forecast:

+2.8%), given that labor costs could stay elevated due to the tight job market and stricter manpower measures. Higher wage costs from the expansion and scheduled increases in the Progressive Wage Model scheme, stricter dependency ratio ceiling, and recent hikes to qualifying work pass salaries will likely keep wage cost pressures elevated.

Market consensus based on the MAS survey (Table 1) is also overwhelmingly in favour of a stand pat in Apr, with only a minority expecting an easing. This minority grows in size in Jul (14.3%) and Oct (30.0%). Our economists think that MAS is in no hurry to ease and see Oct as the earliest possible date for an easing via a slight slope reduction. We suggest that MAS may not be able to ease as easily as the market is expecting given that growth and inflation outcomes are in line with their forecasts for core inflation to reach their comfort zone i.e. the historical 2% mean by early 2025. We also suggests further reasons for why MAS may not be inclined to ease as early as the market expects or as easily as the market expects in the section below.

Table 1: MAS Survey of Professional Forecasters (% of respondents)

MAS Actions	Dec Survey				Mar Survey		
	2024 Jan	2024 Apr	2024 Jul	2024 Oct	2024 Apr	2024 Jul	2024 Oct
Increase slope	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reduce slope	0.0	13.0	21.7	18.2	4.8	14.3	30.0
Flatten slope	0.0	0.0	0.0	4.5	0.0	0.0	0.0
Unchanged slope	100.0	87.0	78.3	77.3	95.2	85.7	70.0
Re-center higher	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Re-center lower	0.0	0.0	0.0	4.8	0.0	4.8	5.0
Unchanged centre	100.0	100.0	100.0	95.2	100.0	95.2	95.0
Widen band	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Narrow band	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unchanged band	100.0	100.0	100.0	100.0	100.0	100.0	100.0

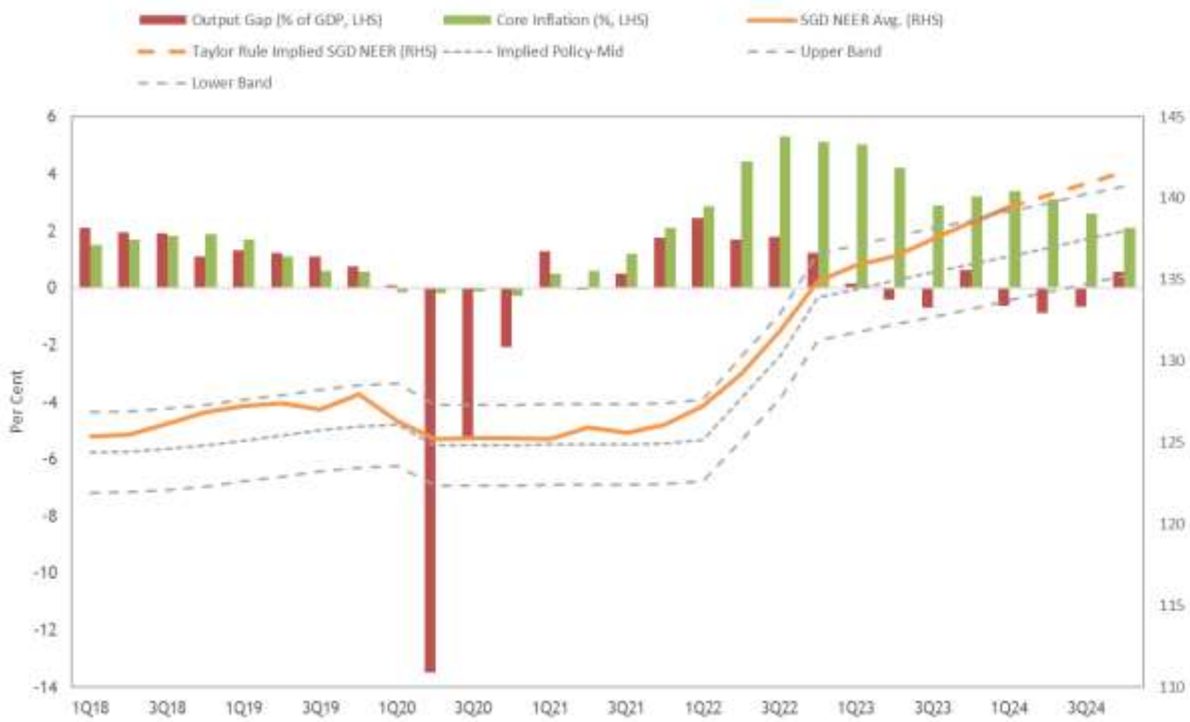
Source: MAS, Maybank FX Research & Strategy

SGDNEER Likely to Outperform

For a check on the potential trajectory for SGDNEER going forward, we turn to our Taylor rule model to derive an implied SGDNEER (Chart 6). Core inflation (green bars) has exceeded 2% since Dec 2021 and looks to remain sticky above 2% through 2024. Our economist team's latest forecasts for core inflation and headline inflation in 2024 are 2.8% and 3.0%, respectively. Based on our estimates and our economists' growth forecasts, the small negative output gaps (red bars) should turn mildly positive by the end of 2024.

Given these macroeconomic conditions, our Taylor rule implied SGDNEER estimates (dotted orange line in Chart 6 below) suggest that SGDNEER is likely to continue seeing upward pressures in the coming quarters. Notably, our estimates imply that the SGDNEER could continue to see upward pressures into 2024. This is largely due to inflation remaining high for longer which in turn implies that the central bank should maintain a sufficiently restrictive monetary policy stance.

Chart 6: Upward Pressures on SGDNEER Persist (Taylor Rule Estimates)



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Our assessment that MAS is likely to stand pat in Apr, and the continued appreciating stance (assumed to be +1.5% p.a.) in the SGDNEER should provide plenty of support for the SGD and result over time in a lower USDSGD. We do see rate cut expectations perhaps enabling other basket constituents to outperform the SGD and we could see the SGDNEER outperformance taper. Rate cuts narrow interest rate differentials between the US and other countries, which should result in a weaker USD and could lead to outperformance of constituents which have their own explicit interest rate policy. While the SGD should strengthen against the USD, it could then underperform basket constituents given that Singapore does not have an explicit interest rate policy and is a price taker for interest rates. However, we also do not foresee a complete capitulation of

SGDNEER strength and think that SGDNEER should remain supported on dips.

USDSGD to Come Off Gradually

Against the backdrop of a global soft landing and fading US exceptionalism, we therefore maintain our forecast trajectory for USDSGD to come off gradually i.e. for SGD to strength against the USD gradually through 2024. We suggest that the USD should gradually weaken. This is reflected in a gradual easing in the USDSGD through 2024 as suggested in our latest forecasts for the next four quarters (Table 2). To account for MAS not being able to ease as much as the market is expecting, we made a slight downward revision to the USDSGD forecast for 4Q 2024. Several themes, such as the export/manufacturing recovery, AI exuberance and bottoming of the chip cycle mentioned in our annual outlook are further supportive of the SGD.

Table 2: Quarterly USDSGD Forecasts

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDSGD	1.3450	1.3400	1.3300	1.3300

Source: Maybank FX Research & Strategy Estimates

MAS May Have Neither the Appetite Nor Capacity to Ease Like an Interest Rate Regime

We think that there are hints that MAS could be reluctant or unable to ease as easily as the market is expecting. From the latest MAS survey in Mar (Table 1), market expectations of SGDNEER policy vary quite widely. 4.8% of respondents see an Apr slope reduction (prev: 13.0%), 14.3% see a Jul slope reduction (prev: 21.7%) and 30% see an Oct slope reduction (prev: 18.2%). SGDNEER remains firm and trades at +1.90% above the mid-point on our model, and is likely to remain within the +1.50% to 2.00% region in the near-term.

MAS core inflation is expected to decline gradually over 2024 setting aside the one-off impact from the 1% GST hike at the start of the year. MAS projections are for core inflation to slow to an average of 2.5% to 3.5% for 2024, unchanged from its Oct-23 projections. Setting aside the impact of the GST increase, core inflation is expected to average 1.5% to 2.5% in 2024. While MAS does not have an explicit inflation target, this is within the region of MAS' historical mean core inflation of around 2%, consistent with MAS' medium-term price stability objective. In essence, MAS is expecting inflation to return back to its 2% comfort zone by early 2025, which has been explicitly referred to in a 6 Mar speech on monetary policy by Chief Economist Edward Robinson.

MAS changed their language from "sufficiently tight" (Oct 2023 statement) to "appropriate" (Jan 2024 statement) and this too suggests that further tightening should not be ruled out should upside risks to inflation materialize. Furthermore in Chief Economist Robinson's speech in Mar, the key difference highlighted between an interest rate based policy and exchange rate based policy was that the attainment of the inflation target in the former would likely induce a reduction in interest rates. However, in an exchange rate based policy, the cyclical neutral path was seen at some positive rate of appreciation to allow the exchange rate to converge to a natural steady state level in line with changing relative resource costs and productivity differentials. We infer that this suggests that MAS may not be able to ease as easily as an interest rate regime, even if inflation targets have been met. This position is also consistent with growth in Singapore expected to strengthen in 2024, which reduces the need for accommodation from monetary policy.

Looking at past easing moves by MAS, we can infer that easing by MAS in itself is a relatively rare phenomenon (Table 3). Of a total of 52 policy decisions from Feb 2001, there were only 11 instances of an easing (or roughly 20% of the time).Of these 11 instances, 3 instances were policy responses to external shocks (Covid-19, Global Financial Crisis and Dotcom Bubble). Taken together with the speech on monetary policy, we therefore suggest that it is unlikely that MAS eases at the upcoming Apr meeting. More generally, MAS may have neither the capacity nor the appetite to ease meaningfully even after inflation targets are achieved. There has historically only ever been one instance in 2016 where the slope was set to 0% when there was no major external shock. With current growth outcomes progressing in line with MAS' expectations, and inflation remaining elevated above MAS' comfort zone, we can therefore infer that an easing by MAS to a 0% slope is expressly unlikely.

Table 3: Historical Easing by MAS

Date	Easing Action	Comments
30 Mar 2020	Set slope at 0% and Re-centre downwards at prevailing	Covid-19 response (not first instance of easing)
14 Oct 2019	Reduce slope slightly	First easing
14 Apr 2016	Set slope at 0%	Not first instance of easing
14 Oct 2015	Reduce slightly	Not first instance of easing
28 Jan 2015	Reduce slope	Off-cycle
14 Oct 2011	Reduce slope	Slowdown in demand
14 Apr 2009	Re-centre downwards at prevailing	Global downturn, not first instance of easing
10 Oct 2008	Set slope at 0%	Global Financial Crisis response
10 Jul 2003	Re-centre downwards at prevailing	Not first instance of easing
2 Jan 2002	Re-centre downwards at prevailing	Not first instance of easing
12 Jul 2001	Set slope at 0%	Dotcom Bubble response

Source: MAS, Maybank FX Research & Strategy

What is Likely for MAS?

We lay out the past policy moves since Apr 2016 (Table 4). Over the course of the next 3 policy announcements by MAS for this year, we think a stand pat is the most likely outcome. This is our base case and should occur as long as growth and inflation continue on the trajectory that MAS expects. Risks such as geopolitical tensions in the Middle East and the Red Sea blockade could exacerbate and affect the 6-12 month outlook which affects MAS' policy deliberations. In such cases, we would not rule out further tightening or an earlier than anticipated easing. To recap, MAS can adjust the slope of the band, the level at which the band is centred or the width of the band. The latter is usually done to accommodate volatility, while adjustments to the slope or level at which the band is centred are to ease/tighten policy as appropriate. So at this juncture, the earliest possible easing is a slight reduction to the slope in Oct 2024 if the inflation and growth trajectory pans out over the next few quarters as our economists expect.

Table 4: Recent MAS Actions and *Possible Future Actions*

Date	Slope of Band	Width of Band	Level at Which Band is Centred	Comments
Oct 2024	*Likely Stand Pat* *Economists earliest possible slope reduction*			
Jul 2024	*Likely Stand Pat*			
Apr 2024	*Likely Stand Pat*			
29 Jan 2024	-	-	-	-
13 Oct 2023	-	-	-	-
14 Apr 2023	-	-	-	-
14 Oct 2022	-	-	Re-centre upwards at prevailing level	-
14 Jul 2022	-	-	Re-centre upwards at prevailing level	Off-cycle decision
14 Apr 2022	Increase slightly	-	Re-centre upwards at prevailing level	1.5% slope
25 Jan 2022	Increase slightly	-	-	Off-cycle decision 1% slope
14 Oct 2021	Increase slightly	-	-	0.5% slope
14 Apr 2021	-	-	-	-
14 Oct 2021	-	-	-	-

30 Mar 2020	Set at 0%	-	Re-centre downwards at prevailing level	Covid Period easing
14 Oct 2019	Reduce slightly	-	-	0.5% slope
12 Apr 2019	-	-	-	-
12 Oct 2018	Increase slightly	-	-	1% slope
13 Apr 2018	Increase slightly	-	-	0.5% slope
13 Oct 2017	-	-	-	-
13 Apr 2017	-	-	-	-
14 Oct 2016	-	-	-	-
14 Apr 2016	Set at 0%	-	-	-

Source: MAS, Maybank FX Research & Strategy

'-' denotes no change to the policy parameters

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