FX Flash

SGD: No Move as Expected

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MAS Unchanged for the Fifth Time

MAS stood pat and left policy settings (slope, centre and width) unchanged for the fifth time since Apr-2023. This is in line with our view and market expectations. MAS' assessment continues to be 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 evolution of growth and inflation have been broadly in line with expectations, we think that MAS continues to stand pat in 2024, barring any major 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, although the path could be a tad bumpy, and we look for USDSGD to move gradually lower through the year.

Ahead of the decision, SGDNEER was trading at around +1.80% above the mid-point with USDSGD at 1.3430 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 Oct Meeting

The final MAS meeting in 2024 is in Oct. In line with our view of an extended MAS hold, we think MAS stands pat in Oct, with current outcomes in line with their expectations for core inflation to reach a comfortable level i.e. closer to the historical 2% mean in 2025. MAS is in no hurry to ease policy and is unlikely to change the policy stance in Oct. 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 the SGD will continue to stay resilient as MAS stands pat on policy and as the Fed cuts rates amid fading US exceptionalism. The current pace of SGDNEER appreciation (assumed to be 1.5%) should continue to be supportive of the SGD.

MAS Unchanged for the Fifth Time

MAS stood pat and left policy settings (slope, centre and width) unchanged for the fifth time since Apr-2023. This decision was in line with our house view and widely anticipated by markets 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 that both upside and downside risks to the outlook remain. Specifically, they see that the pace of domestic labour cost increases may reaccelerate if aggregate demand turns out stronger than expected, which would cause renewed inflationary pressures. Intensification of geopolitical tensions is also seen as a possible upside for imported inflation. However, a higher for longer period of global interest rates could weaken external demand and dampen growth momentum for Singapore. Nevertheless, MAS' base case is for inflation to step down more discernibly in 4Q 2024 and into 2025. Sequential pace of price change is expected to be lower in 2H 2024 than in 1H 2024. For the year, MAS sees core inflation within a 2.5% to 3.5% range (1.5% to 2.5% excluding impact of GST increase). Headline inflation forecast has been lowered to 2.0% to 3.0% (prev: 2.5% to 3.5%), a reflection of softer than expected increases to private transport costs. Our economists maintain their CPI inflation forecasts at 2.8% core and 2.6% headline for 2024. More broadly, the general trajectory for inflation has come in line with MAS' expectations from earlier in the year and should continue to do so, barring major shocks to the global macro environment. This also implies that MAS would be more inclined to stand pat barring any external shocks that may affect the inflationary trajectory.

Recent CPI print was broadly supportive of MAS' base case outlook with inflation in Jun moderating to 2.9% core (exp: 3.0%; prev: 3.1%) and 2.4% headline (exp: 2.7%; prev: 3.1%). We note that the moderation in prices is not broad-based. Inflation looks to remain somewhat sticky and firm in services and administrative prices/fees (in particular for food services and healthcare costs). In recent months, there had also been a pickup in imported inflation which could compel MAS to take a more cautious approach to setting its monetary policy. However, MAS does see that domestic unit labour costs should rise at a significantly slower rate this year compared to the preceding two years, amid the dissipation of labour market tightness and an anticipated pick-up in productivity. This implies that the increase in service costs could eventually slow. However, we do not expect MAS to ease prematurely given the current backdrop and balance of risks. We expect SGD to remain well supported even as inflation eases more discernibly, given that MAS may elect to stand pat on the current pace of appreciation (estimated to be 1.5%) for an extended period. Factors that are supportive of SGD resilience also remain intact, so current MAS policy settings provide a favourable backdrop for continued resilience in the SGD on both a bilateral and trade-weighted basis.

MAS remains optimistic on growth and sees an improvement to growth momentum in 2H 2024 as the slightly negative output gap closes by year end. MAS saw that economic activity in Singapore's major trading partners was broadly stable in recent months. Resilient business investment in the US was seen to support the pick up in global electronics manufacturing and trade, which was supportive for regional economies. Growth in China was underpinned by strong exports, even as private consumption slowed. MAS expects that global final demand should pick up in the quarters ahead amid anticipated lowering of interest rates and continued investments into IT.

Latest advance estimates for 2Q 2024 are broadly supportive of a more positive growth outlook with YoY growth surprising to the upside at 2.9% (exp: 2.7%; prev: 3.0%) and QoQ growth higher at 0.4% (exp: 0.4%; prev: 0.3%). Our economists revised their forecasts upwards for 2024 growth to account for a broadening growth recovery with the electronics pick up gathering steam to 3.0% (prev: 2.4%). They also suggest that MTI could upgrade the growth forecast in Aug after the release of final 2Q GDP to 2.5% to 3.5% (currently 1% to 3%).

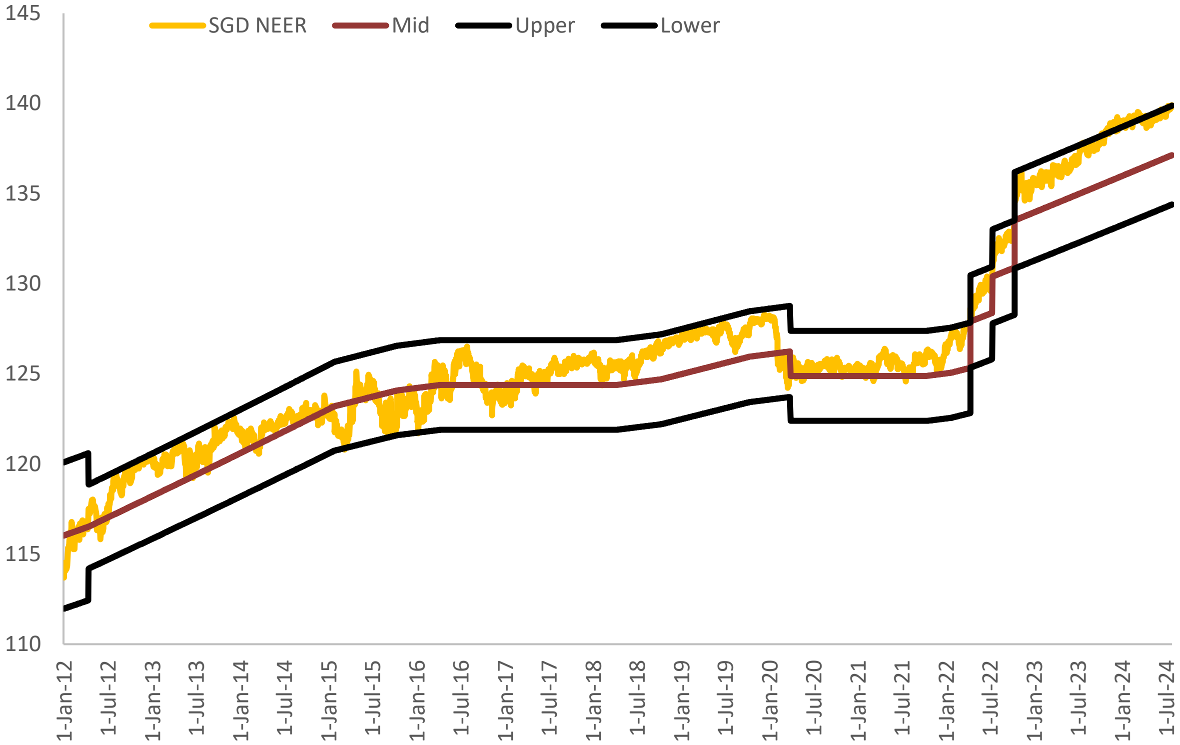
The overall outlook for growth and inflation sets the tone for future policy decisions and we stick to our view that MAS will stand pat in 2024. This remains in line with our reiterated suggestion that MAS may have neither the appetite nor the capacity to ease like an interest rate regime after the attainment of inflation targets and 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 i.e. closer to the historical 2% mean in 2025 under current policy settings, and there is no need for MAS to prematurely ease to support growth (which is expected to further improve). Furthermore, the balance of risks remains unclear with possible external factors (US elections, supply chain issues, geo-politics etc may evolve) possibly having some impact on both growth and inflation towards end 2024 and 2025. Therefore we think MAS is in no hurry to ease as we suggested in our preview piece.

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 +1.80% above the mid-point with USDSGD at 1.3430 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. We reiterate 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. We still see support for the SGDNEER and the SGD and do not think that it drastically falls, rather it may not remain as firm as it has against the current backdrop of higher for longer Fed rates, which weighs on the non-USD partner currencies in the basket.

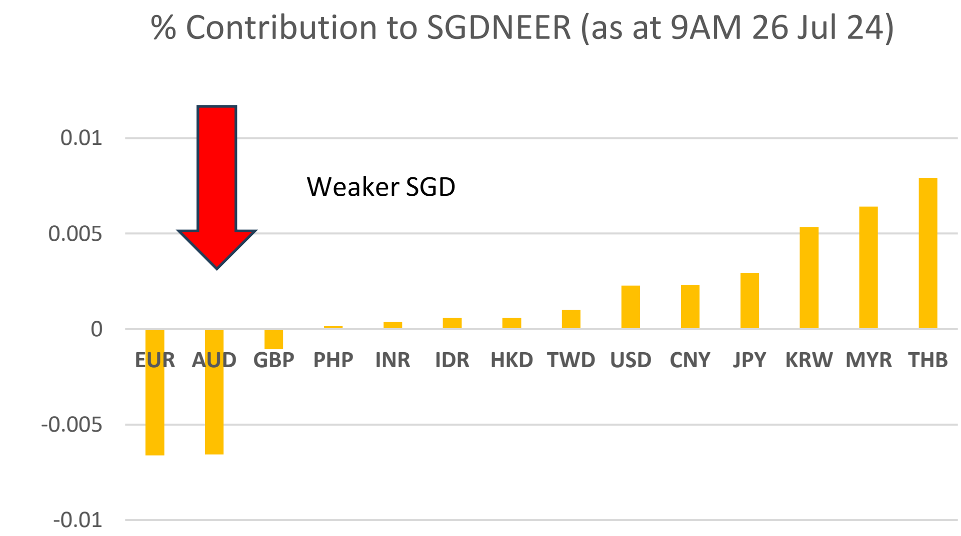
Chart 1: SGD NEER Remains Firm and Close to the Upper Band



Source: Bloomberg, Maybank FX Research & Strategy

Decomposing the SGDNEER move against the basket constituents, we see that the SGD remains resilient against most currencies, with relatively small changes to the trade-weighted SGDNEER. Main contributors were KRW, MYR and THB, while main moderators were EUR and AUD.

Chart 2: SGD % Moves Against Trading Partners for Today



Source: *Bloomberg, Maybank FX Research & Strategy*

Look for Hold at Oct Meeting

The last MAS Monetary Policy Statement (MPS) will be in Oct. We see MAS continuing to hold at the Oct MPS, with current outcomes in line with their expectations for core inflation to reach a comfortable level in 2025. At this stage, there is no compelling reason for MAS to ease policy. It is also not likely that MAS tightens policy as long as significant upside risks to inflation do not materialize. In addition, we have consistently reiterated that 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 the SGD will continue to stay resilient as MAS stands pat on policy and as the Fed cuts rates amid fading US exceptionalism. The current pace of SGDNEER appreciation (estimated to be 1.5%) should continue to be supportive of the SGD.

Table 1: USDSGD Forecasts

Forecast	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USDSGD	1.3450	1.3350	1.3300	1.3300

Source: Maybank FX Research & Strategy Estimates

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