Maybank

FX Flash

SGD: Sixth Time Standing Pat

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MAS Stands Pat for Sixth Time

MAS stood pat and left policy settings (slope, centre and width) unchanged for the sixth time since Apr-2023. This is in line with our view and market expectations. MAS' assessment is that the current monetary policy settings are consistent with ensuring medium term price stability.

MAS saw a pick-up in growth momentum and expects that a negative output gap closes in 2H 2024. Growth is expected to be close to its full potential in 2025, although there remain significant risks and uncertainty around the economic outlook. MAS also saw core inflation coming off and reaching its long term mean of 2% by the end of 2024. Risks to the inflation outlook were seen as more balanced than in Jul, with upside and downside risks seen as roughly equal.

SGDNEER Remains Firm, USDSGD Trades in Tight Range

Ahead of the decision, SGDNEER was trading at around +1.80% above the mid-point with USDSGD trading at a high of around 1.3077. After the release of MAS' policy statement, SGDNEER strengthened to around 1.98% with USDSGD hitting a low of around 1.3055 levels. USDSGD trades within a tight range of 1.3052 to 1.3077 today. The SGDNEER remains firm and is currently at 1.95% above the mid-point with USDSGD at 1.3060 levels. USDSGD and SGDNEER remain firm in the wake of the decision and we expect the observed resilience in the SGD to continue to hold. Nevertheless, we do see that Fed rate cuts could enable the SGDNEER strength to taper by allowing basket constituents to outperform the SGD against the USD.

Calls for Easing in Jan Build, Maintain our SGD Forecasts

Market reaction to the decision does suggest that market was initially pricing a small chance of MAS being dovish in this statement. Calls for a Jan easing have been building with 50% of surveyed economists suggesting that an MAS easing could be on the cards in Jan 25. Our economics team also pencils this in as their base case given the expectation for core inflation to dip below the 2% mean and external risks to growth that MAS has cited. However, our economists also recognize that MAS could delay easing to Apr 25 in the event that growth remains strong. Our Taylor Rule implied SGDNEER estimates remain strong, which in turn suggests that MAS should be in no hurry to ease given the current balance of growth and inflation.

We maintain our USDSGD forecasts on the belief that the SGD will continue to stay resilient with the current pace of SGDNEER appreciation (assumed to be 1.5%) and robust growth outlook being supportive of the SGD.

MAS Stands Pat for Sixth Time

MAS stood pat and left policy settings (slope, centre and width) unchanged for the sixth time since Apr-2023. This is in line with our view and market expectations. MAS' assessment is that the current monetary policy settings are consistent with ensuring medium term price stability for now.

MAS saw a pick-up in growth momentum and expects that a negative output gap closes in 2H 2024. Growth is expected to be close to its full potential in 2025, although there remain significant risks and uncertainty around the economic outlook. MAS also saw core inflation coming off and reaching its long term mean of 2% by the end of 2024. Risks to the inflation outlook were seen as more balanced than in Jul, with upside and downside risks seen as roughly equal.

Our economics team notes that MAS has turned more cautious on the growth outlook by highlighting risks in the external environment. Nevertheless, they maintain their growth forecasts at 3.5% for 2024 and 2.5% for 2025. The house growth forecasts are well above the current official forecasts, which could be revised upwards at a later date. Inflation forecasts are similarly held at 2.8% for core inflation and 2.6% for headline inflation in 2024 and 1.8% for core inflation and 1.7% for headline inflation in 2025. Inflation forecasts are broadly in line with MAS' 2024 projections but towards the lower half of MAS' projection range in 2025.

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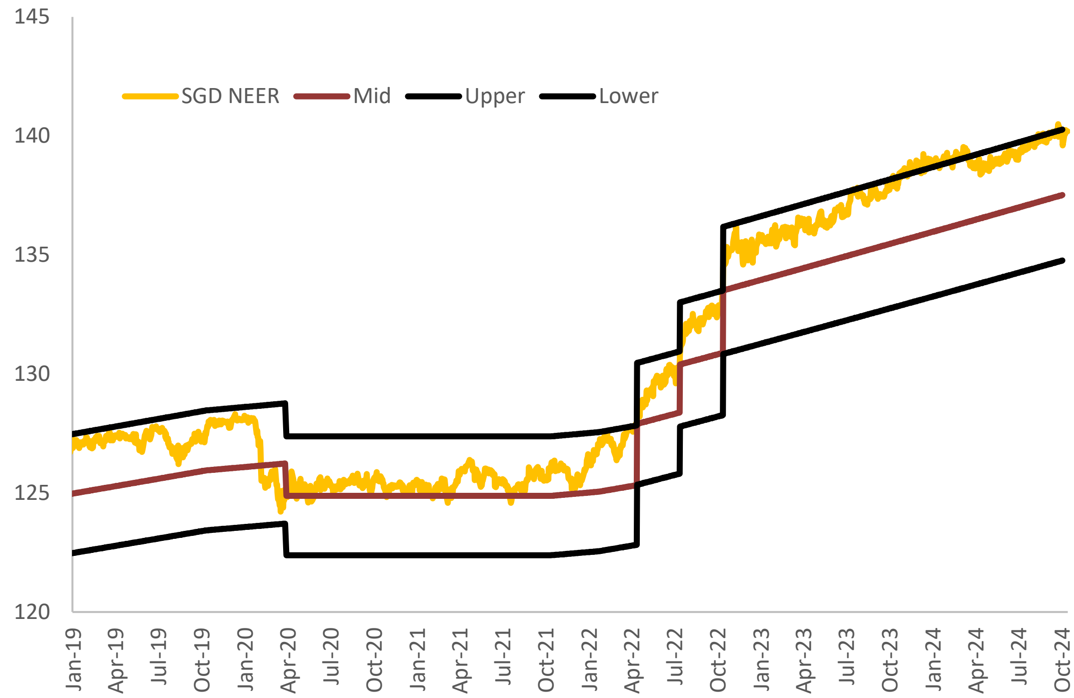
We see that the SGDNEER remains firm (Chart 1), even against the backdrop of heightened market volatility of late. The USD has swung from being generally weaker on the back of anticipated Fed rate cuts, to being better supported amid a pullback in rate cut expectations. SGDNEER has largely shrugged off these market vacillations and remains strong. Since the previous decision on 26 Jul, SGDNEER has averaged +1.92% above the mid-point.

While there is little reason to suggest that SGDNEER should underperform going forward and we do expect SGD resilience to continue, there is a case for SGDNEER strength to taper. Do recall that the default stance for the SGDNEER is some positive level of appreciation and that the SGDNEER stance has never been worse than neutral. These factors are likely to underpin support for the SGDNEER even if expectations for MAS easing are starting to build. However, we also recognize that there is room within the band for SGDNEER to come off, and that could well happen should Fed rate cuts enable the constituents of the SGDNEER basket to outperform the SGD.

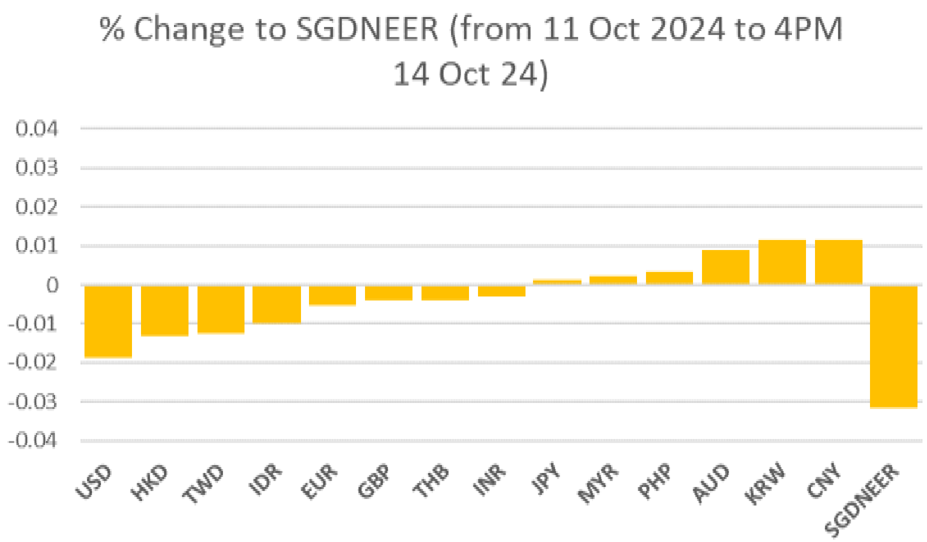
Chart 1: SGDNEER Remains Strong



Source: Bloomberg, Maybank FX Research & Strategy

Decomposing the SGDNEER move against the basket constituents (Chart 2), we see that the SGD remains resilient against most currencies, with relatively small changes to the trade-weighted SGDNEER. Main moderators were the USD-bloc (USD & HKD), TWD and IDR, while CNY, KRW and AUD offset some SGDNEER weakness. We note that today's move remains relatively small and that the SGDNEER remains strong on an overall basis.

Chart 2: SGDNEER % Moves Against Trading Partners Today

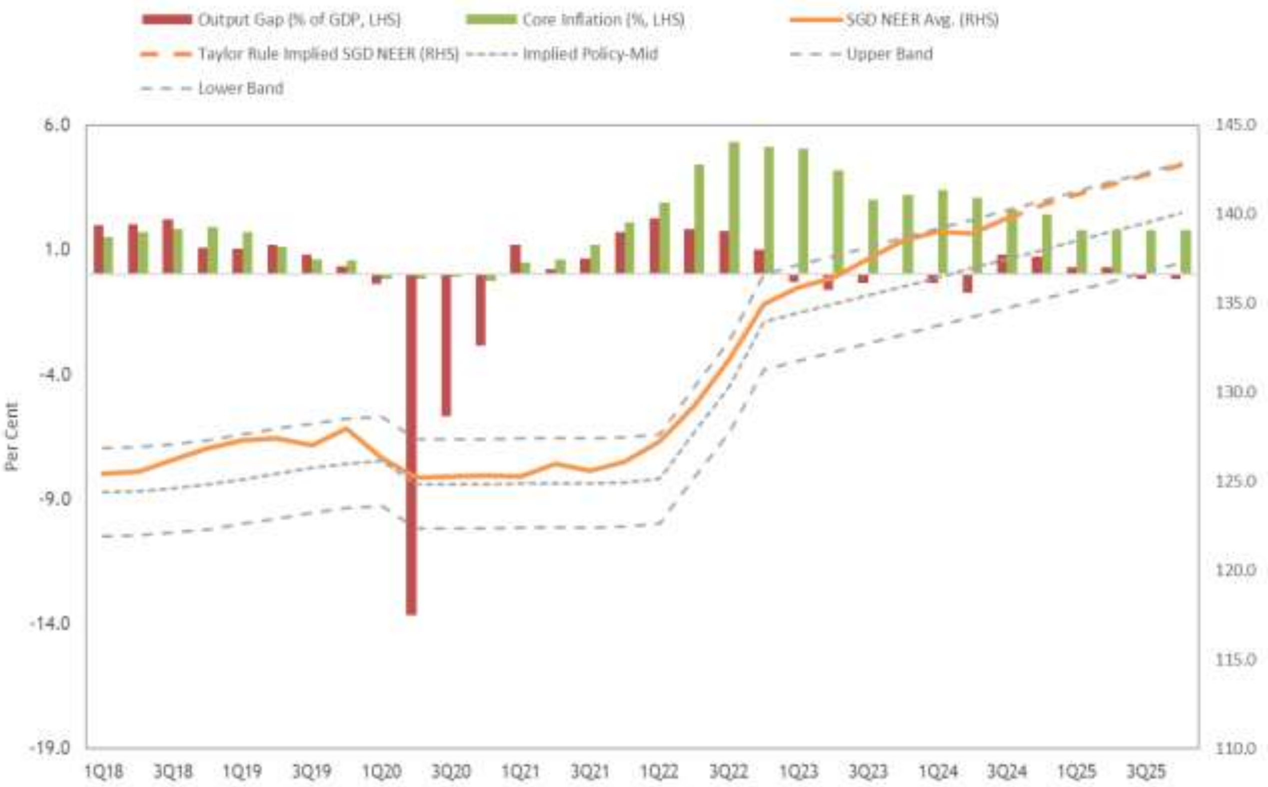


Source: *Bloomberg, Maybank FX Research & Strategy*

Calls for Easing in Jan Build, Maintain our SGD Forecasts

Market reaction to the decision does suggest that market was initially pricing a small chance of MAS being dovish in this statement. Calls for a Jan easing have been building with 50% of surveyed economists suggesting that an MAS easing could be on the cards in Jan 25. Our economics team also pencils this in as their base case given the expectation for core inflation to dip below the 2% mean and external risks to growth that MAS has cited. However, our economists also recognize that MAS could delay easing to Apr 25 in the event that growth remains strong. Our Taylor Rule implied SGDNEER estimates (Chart 3) remain strong, which in turn suggests that MAS should be in no hurry to ease given the current balance of growth and inflation. We also highlight that an exchange rate regime is fundamentally different from an interest rate targeting policy regime. The former may not be able to adjust policy parameters as quickly as the latter upon the attainment of an inflation target.

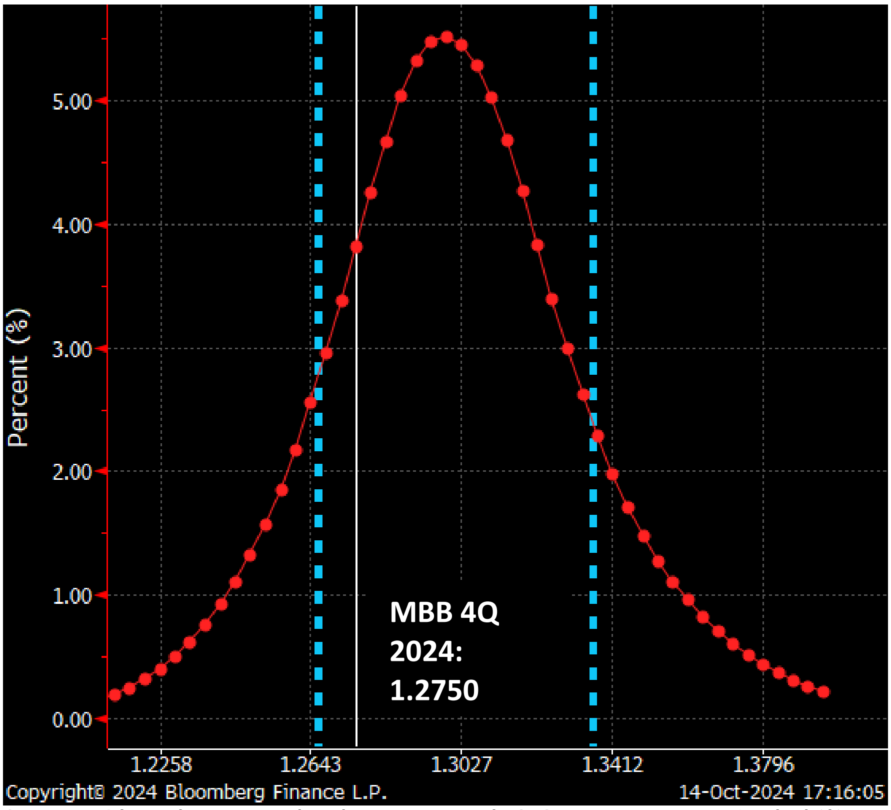
Chart 3: Implied SGDNEER to Remain Strong



Source: *Bloomberg, Maybank FX Research & Strategy Estimates; Note: The Taylor Rule implied SGD NEER shows the path that SGD NEER should take given a set of inflation forecasts and output gaps for the economy.*

Looking at USDSGD options (Chart 4), we see that our 4Q 2024 forecast of 1.2750 (white vertical line) lies within 1 standard deviation (dotted blue lines) of the option implied probability distribution. The probability that USDSGD trades within the blue lines (1.2662 to 1.33661) is 72.1%. The probability that USDSGD is below our forecast of 1.2750 stands at 20.7%, while there is a 36.0% probability that USDSGD will be between our forecast of 1.2750 to current spot of 1.3060. For now, the USD could remain better supported in the lead up to the elections and as expectations for Fed cuts recalibrate, however we do continue to maintain our view for a lower USDSGD in the long run.

Chart 4: 4Q 2024 USDSGD Option Implied Probabilities (as at 14 Oct 24)



Source: *Bloomberg, Maybank FX Research & Strategy; Note: Probability distributions are derived from the appropriate underlying volatility surfaces implied by option pricing, assuming a risk neutral world.*

We maintain our USDSGD forecasts on the belief that the SGD will continue to stay resilient with the current pace of SGDNEER appreciation (assumed to be 1.5%) and robust growth outlook being supportive of the SGD.

Table 1: USDSGD Forecasts

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025
USDSGD	1.2750	1.2700	1.2700	1.2650

Source: Maybank FX Research & Strategy Estimates

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