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SGD Preview: Stand Pat on Sticky Inflation, Robust Growth

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Sticky Inflation, Robust Growth

As other central banks have embarked on their easing cycles, Singapore faces a unique situation with its unique exchange rate policy. Aug CPI inflation is sticky with headline at 2.2% YoY (exp: 2.1%; prev: 2.4%) and core at 2.7% YoY (exp: 2.6%; prev: 2.5%). The uptick in core inflation was mainly due to an increase in travel-related inflation. However, this is also in line with our economists' view that the last leg of disinflation could be the toughest to achieve.

On the other hand, the data does point towards a robust growth outlook for Singapore. Aug Industrial Production surged 21% YoY (exp: 8.6%; prev: 2.0%) with electronics leading broad based expansions across sectors. Our economists upgrade their full year 2024 growth to 3.5% (prev: 3.0%) on the back of the robust manufacturing print.

SGDNEER Remains Strong, MAS to Stand Pat

Against this backdrop of sticky inflation and robust growth, the SGDNEER continues to trade at elevated levels and was last seen at +1.90% above the midpoint of the policy band. Since the MAS hold in Jul, SGDNEER has averaged +1.92% and YTD, the SGDNEER has averaged +1.85% above the midpoint. Looking at the individual components, only three currencies (MYR, GBP and THB) are stronger than the SGD YTD. After considering the relevant trade weights, the MYR is the most significant moderator of SGDNEER strength YTD. In a nutshell, the SGD remains extremely resilient on both a trade-weighted and bilateral basis, regardless of whether the USD is strong or weak. The current evolution of growth and inflation remain broadly in line with MAS' expectations. Our assessment is that MAS will stand pat on 14 Oct (also last MPS of the year) given the current balance of risks.

Maintain our USDSGD Forecasts

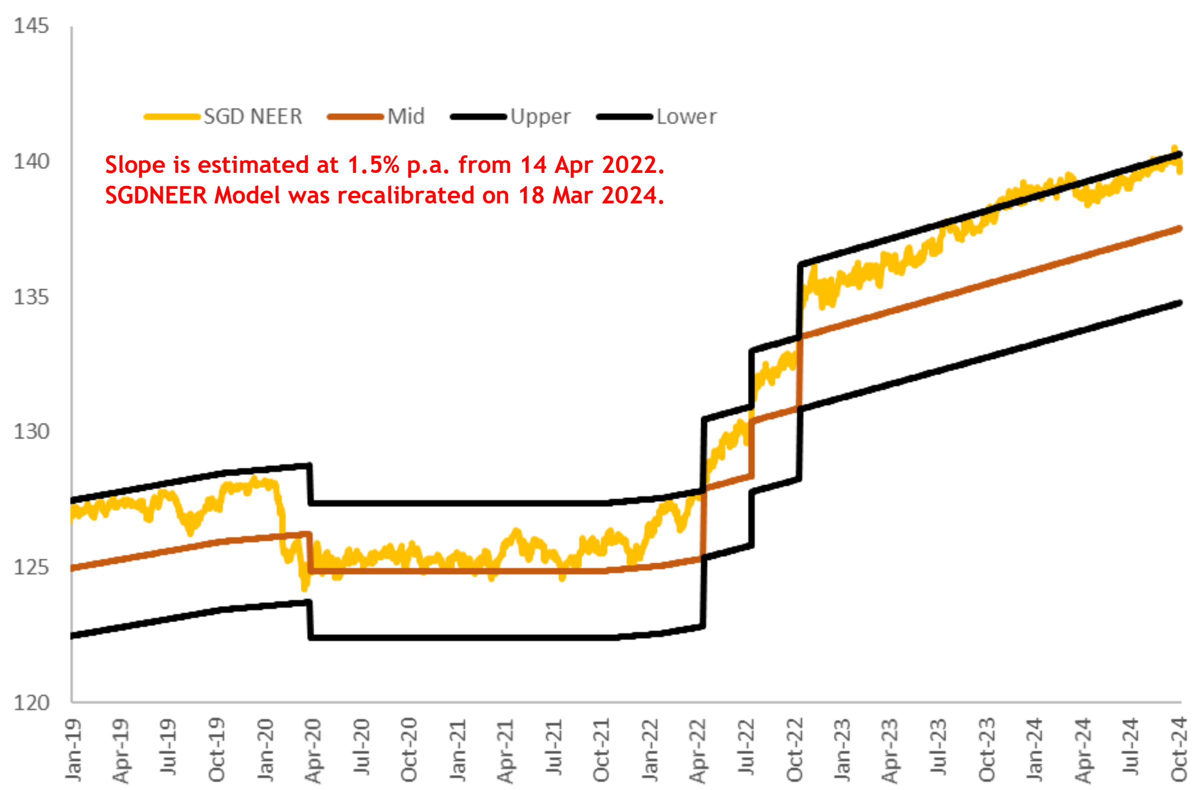
We think that the macroeconomic environment continues to be one that is favourable for the SGD. We therefore maintain our forecast trajectory for USDSGD to come off through 3Q 2025. The current pace of SGDNEER appreciation (assumed to be 1.5%) should continue to be supportive of the SGD. Fed rate cuts should also be supportive of a lower USDSGD. SGD has exhibited safe-haven qualities and we think that the factors for SGD-resilience remain intact and will continue to be supportive of the SGD. Nevertheless, SGDNEER outperformance could eventually taper should the more rate sensitive components of the SGDNEER basket outperform the SGD.

SGDNEER Buoyant Since Jul Stand Pat

In Jul, MAS stood pat as policy was assessed to be appropriate to guide core inflation back to historical levels against a backdrop of gradually improving growth and slowing, albeit bumpy, inflation. Thus far the outcomes for both growth and inflation remain broadly 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 14 Oct meeting given that growth is robust and inflation remains sticky. These outcomes remain broadly in line with MAS' expectations and there remains little need to prematurely ease policy.

Following MAS' decision to stand pat in Jul, SGDNEER has remained firm at an average of +1.92% above the midpoint. Over the same period, USDSGD has come off a high of 1.3434 to hit a low of 1.2810 and currently trades at 1.3037 levels. The SGDNEER should remain buoyant going forward, although we reiterate that outperformance could eventually taper, especially if SGDNEER basket constituents that are more rate sensitive start to do better against the USD (than the SGD) against a backdrop of Fed rate cuts.

Chart 1: SGDNEER Remains Buoyant



Source: Bloomberg, Maybank FX Research & Strategy

Growth Robust, Inflation Sticky

As other central banks have embarked on their easing cycles, Singapore faces a unique situation with its unique exchange rate policy. Aug CPI inflation is sticky with headline at 2.2% YoY (exp: 2.1%; prev: 2.4%) and core at 2.7% YoY (exp: 2.6%; prev: 2.5%). The uptick in core inflation was mainly due to an increase in travel-related inflation. However, this is also in line with our economists' view that the last leg of disinflation could be the toughest to achieve. Our economists maintain their inflation forecasts for 2024 at 2.8% for core and 2.6% for headline and they see these easing in 2025 to 1.8% for core and 1.7% for headline.

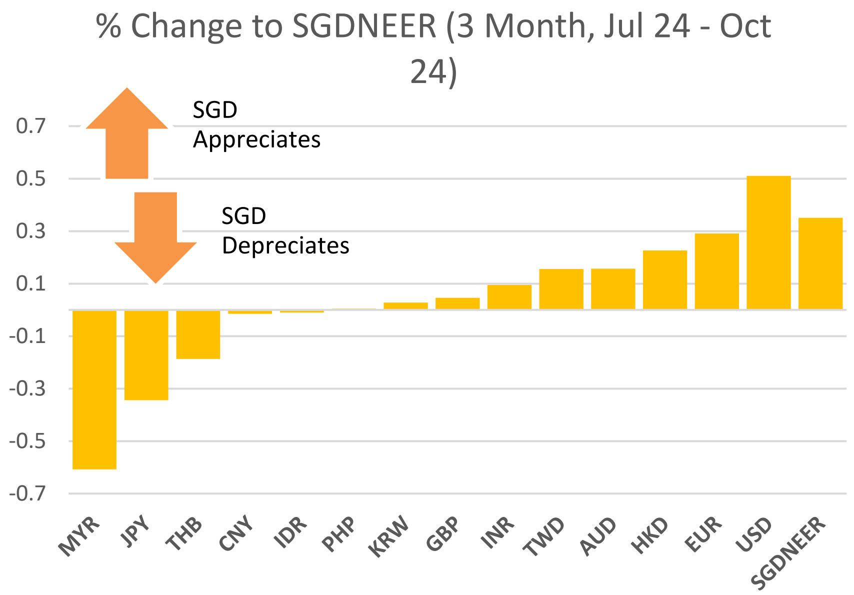
On the other hand, the data does point towards a robust growth outlook for Singapore. Aug Industrial Production surged 21% YoY (exp: 8.6%; prev: 2.0%) with electronics leading broad based expansions across sectors. Our economists upgrade their full year 2024 growth to 3.5% (prev: 3.0%) on the back of the robust manufacturing print. This is above MTI's forecast range of 2% to 3%, which our economists expect to be upgraded. Flash GDP for 3Q is also expected to come in stronger at 4.3% YoY (prev: 2.9%).

SGD Resilience Continues to Hold

Against this backdrop, SGD resilience on both a trade-weighted and bilateral basis 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). We attribute this resilience 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 central bank rate decisions 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 (assumed 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.

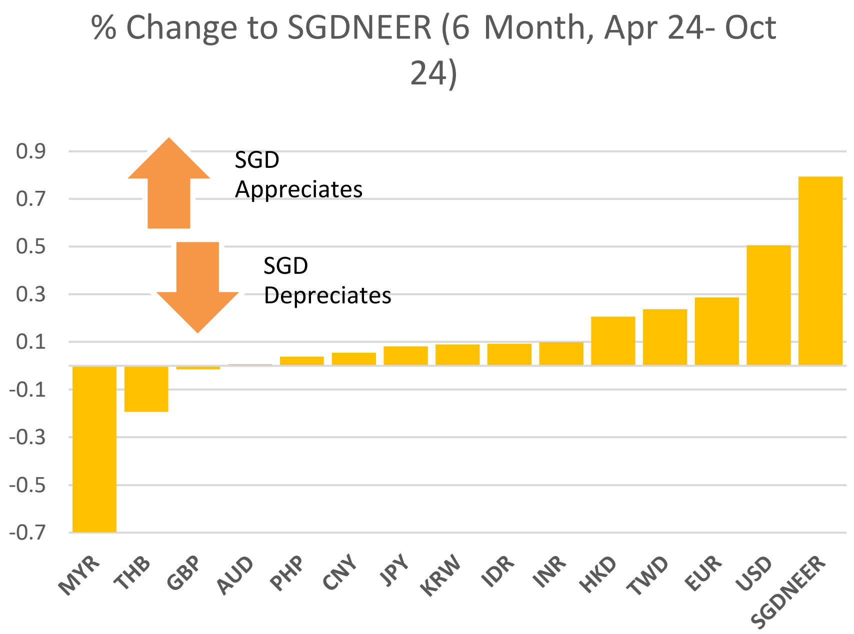
SGDNEER has remained robust and gained about 1.5% over a 12-month period (Chart 2c). SGDNEER continues to crawl up despite the fluctuations in ASEAN FX volatility of late with the recent bout of USD weakness (Chart 3). Over 3M, 6M and 12M periods, SGDNEER strength was largely broad based. The USD-bloc (HKD and USD) has been the main contributor to SGDNEER strength over the periods. The main moderators have been the MYR, which is Asia's best performing currency and the THB, whose gains have largely been underpinned by the bullishness in gold. Given these developments, other constituents could actually moderate the strength in the SGDNEER when further Fed rate cuts start to set in, which could enable SGDNEER strength to taper. We do however note that the SGDNEER continued to remain supported even after the Fed cut rates by 50bps in Sep and that could be due to expectations that MAS is not likely to ease soon and for the prevailing appreciating policy stance to provide support for the SGD.

Chart 2a: 3-Month SGDNEER Strength Moderated by MYR, JPY and THB



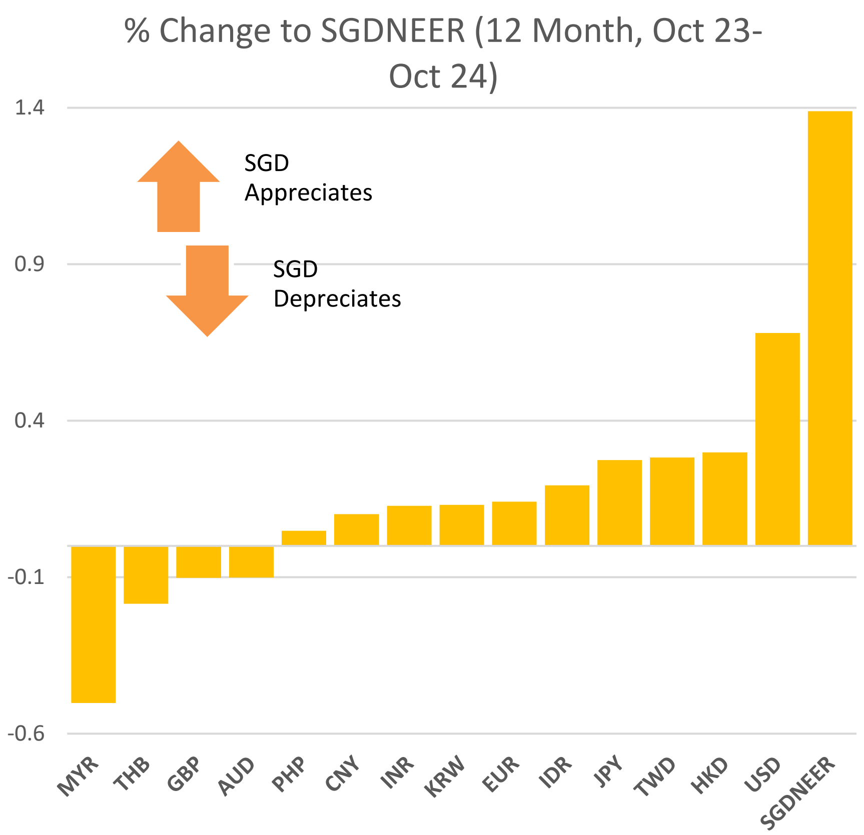
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2b: 6-Month SGDNEER Strength from USD-bloc, EUR, TWD



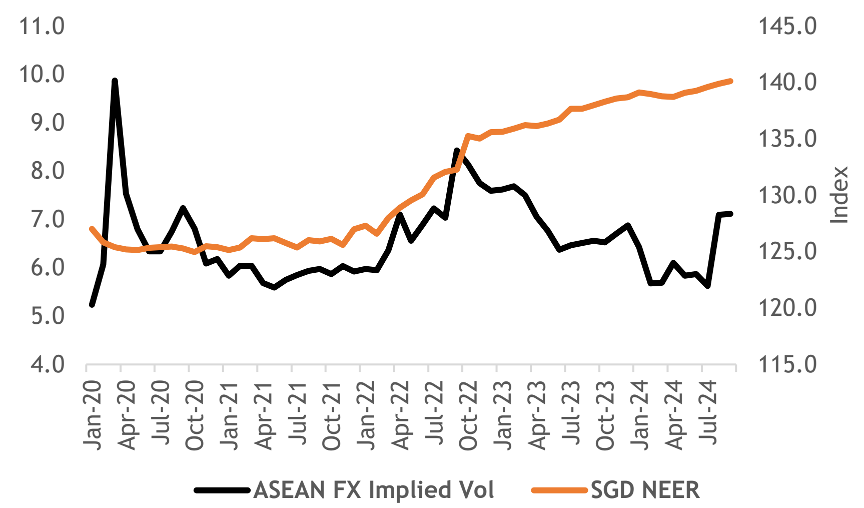
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2c: 12-Month SGDNEER Strength from USD-Bloc, TWD and JPY, Moderated by MYR, THB,



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: SGDNEER (RHS) Robust Amid Low Volatility for ASEAN Currencies



Source: Bloomberg, Maybank FX Research & Strategy

SGD since the Jul Stand Pat

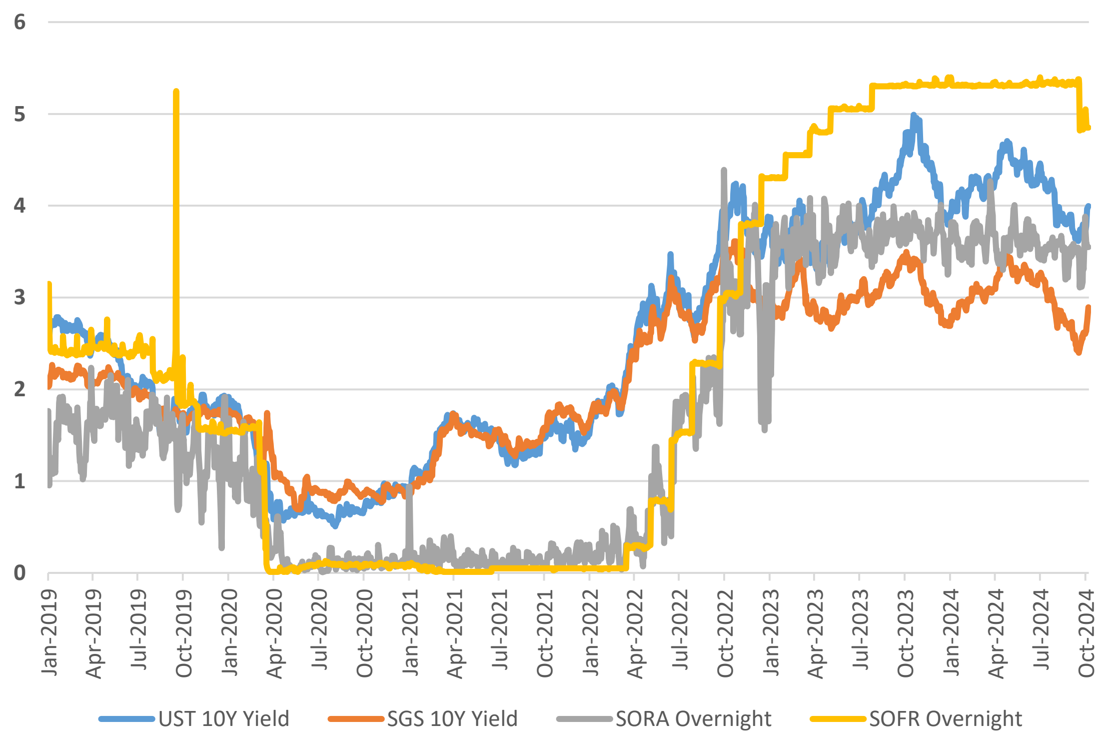
Since MAS stood pat in Jul, SGDNEER appreciated against most basket constituents. Over the same period, SGDNEER strength was moderated by gains in MYR, JPY and THB. The USD was broadly weaker over this same period and was by far the worst performing constituent of the SGDNEER basket, as it has been for 2024.

While we think that SGDNEER strength can taper as the rate sensitive constituents of the SGDNEER outperform the SGD, 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. This remains in line with our house view of MAS not easing at all this year amid robust growth and sticky core inflation.

Both yields and interest rates have recently turned lower (Chart 4). Our fixed income analysts are expecting US rates to decline in 2024 which should continue to weigh on the USD in 2024. 10Y UST yields are forecast at 3.50% and 10Y SGS yields are forecast at 2.75% by end 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.

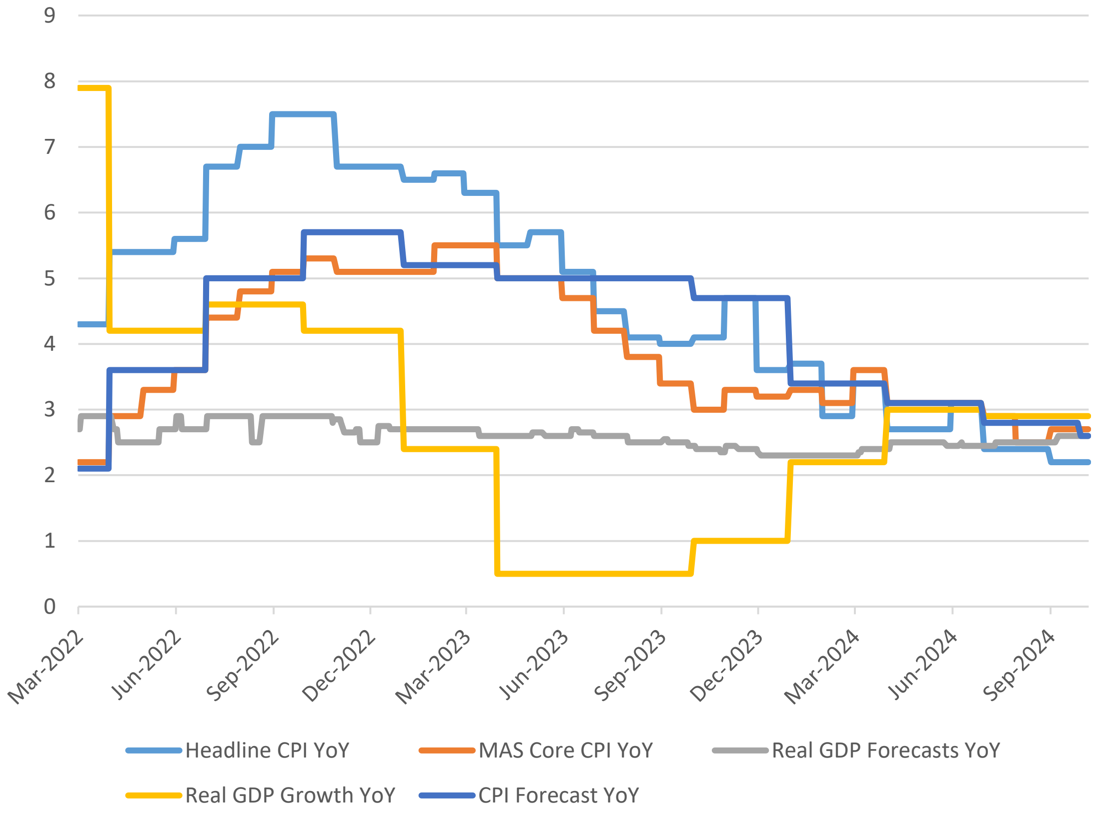
Considering the balance of risks, we think MAS will stand pat on 14 Oct 2024 and the continued appreciating stance (assumed to be +1.5% p.a.) in the SGDNEER should continue to provide support for the SGD.

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



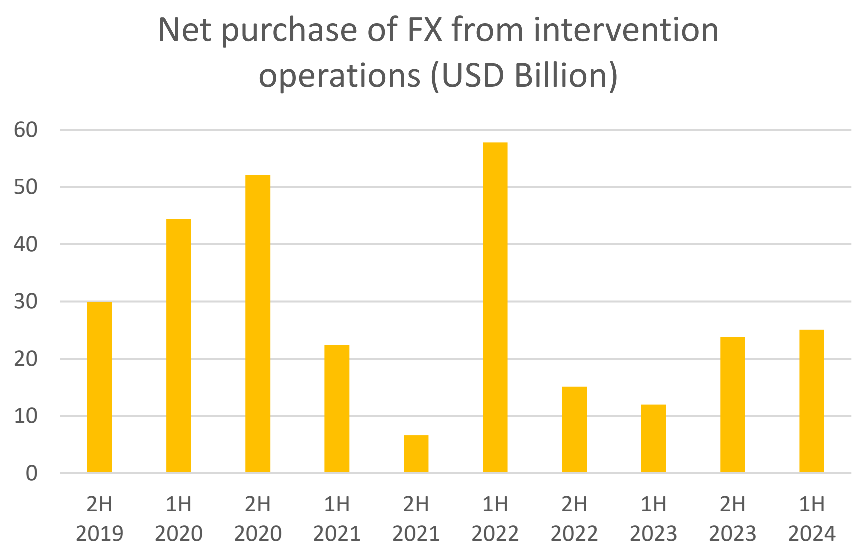
Source: Bloomberg, Maybank FX Research & Strategy

MAS Market Operations

Looking at MAS operations, we see that about US$25.1b was purchased by MAS in 1H2024. Since disclosures by MAS began in 2H 2019, this is the 5th highest purchase of USD by MAS over a half year period (Chart 6). This suggests that MAS deemed it necessary to moderate the strength of the SGDNEER in 1H2024. Over the same period, MAS' Official Foreign Reserves (OFR), rose by US$13.9b. A total of S$18.7b (~US$14.0b) of Reserve Management Government Securities (RMGS) were issued over the same period, which suggests that slightly over half of the purchased USD was transferred to GIC for longer term management over the same period.

MAS' disclosure of intervention is aggregated on a six-month basis and declared three months after the period. Looking at changes in OFR and transfers to the government (GIC) are a good estimate for intervention, but are by no means a perfect measure since we cannot perfectly account for MAS' investment gains/losses or currency translation effects. As long as the SGDNEER remains on the strong side of the band, MAS intervention should be structurally on the side of moderating strength in the SGDNEER i.e. should result in net purchase of USD (sale of SGD). This should not be viewed as an attempt to devalue the SGD however, and should be viewed as one of the reasons for the credibility of MAS' exchange rate policy framework. The accumulated reserves enable MAS to deter speculators and MAS intervention to moderate the strength of the SGDNEER also signals MAS' commitment to maintain policy parameters.

Chart 6: MAS Disclosure Intervention Operations



Source: MAS, Maybank FX Research & Strategy

Looking at this from another angle, MAS is willing to intervene when necessary and therefore does not need to make adjustments to its policy parameters when there is no need to do so. In other words, with growth and inflation in line with MAS' broad expectations there is no need for MAS to act prematurely.

MAS is Likely to Stand Pat (14 Oct 2024)

While there remain risks to both growth and inflation. 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.

Our economists recently upgraded their 2024 GDP forecasts for Singapore to 3.5% (prev: 3.0%) given the broad based manufacturing boost with electronics leading the way. From a growth perspective, 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 relatively sticky at +2.7% in Aug 24 (Jul 24: 2.4%). Our economists expect core inflation to come in at 2.8% and headline inflation to come in at 2.6% in 2024. In line with this view, our economists also expect MAS to stand pat on 14 Oct 2024. The last leg of disinflation could be the most difficult to achieve and our economists suggest that MAS could ease when core inflation steps down more discernably, which they expect to happen in 2025.

Market consensus based on the MAS survey (Table 1) shows that most (89.5%) expect a stand pat in Oct, with a minority (10.5%) seeing an easing via a slope reduction. Half of the respondents see an easing in Jan 25 and just over a third see an easing in Apr 25. We earlier suggested 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 stick to this view given the hints provided in MAS Chief Economist Robinson's speech on monetary policy (6 Mar 2024).

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

MAS Actions	Jun Survey			Sep Survey		
	2024 Oct	2025 Jan	2025 Apr	2024 Oct	2025 Jan	2025 Apr
Increase slope	0.0	0.0	0.0	0.0	0.0	0.0
Reduce slope	6.3	33.3	26.7	10.5	50.0	35.3
Flatten slope	0.0	0.0	0.0	0.0	0.0	0.0
Unchanged slope	93.8	66.7	73.3	89.5	50.0	64.7
Re-center higher	0.0	0.0	0.0	0.0	0.0	0.0
Re-center lower	6.3	0.0	0.0	0.0	5.6	0.0
Unchanged centre	93.8	100.0	100.0	100.0	94.4	100.0
Widen band	0.0	0.0	0.0	0.0	5.6	0.0
Narrow band	0.0	0.0	0.0	0.0	0.0	0.0
Unchanged band	100.0	100.0	100.0	100.0	94.4	100.0

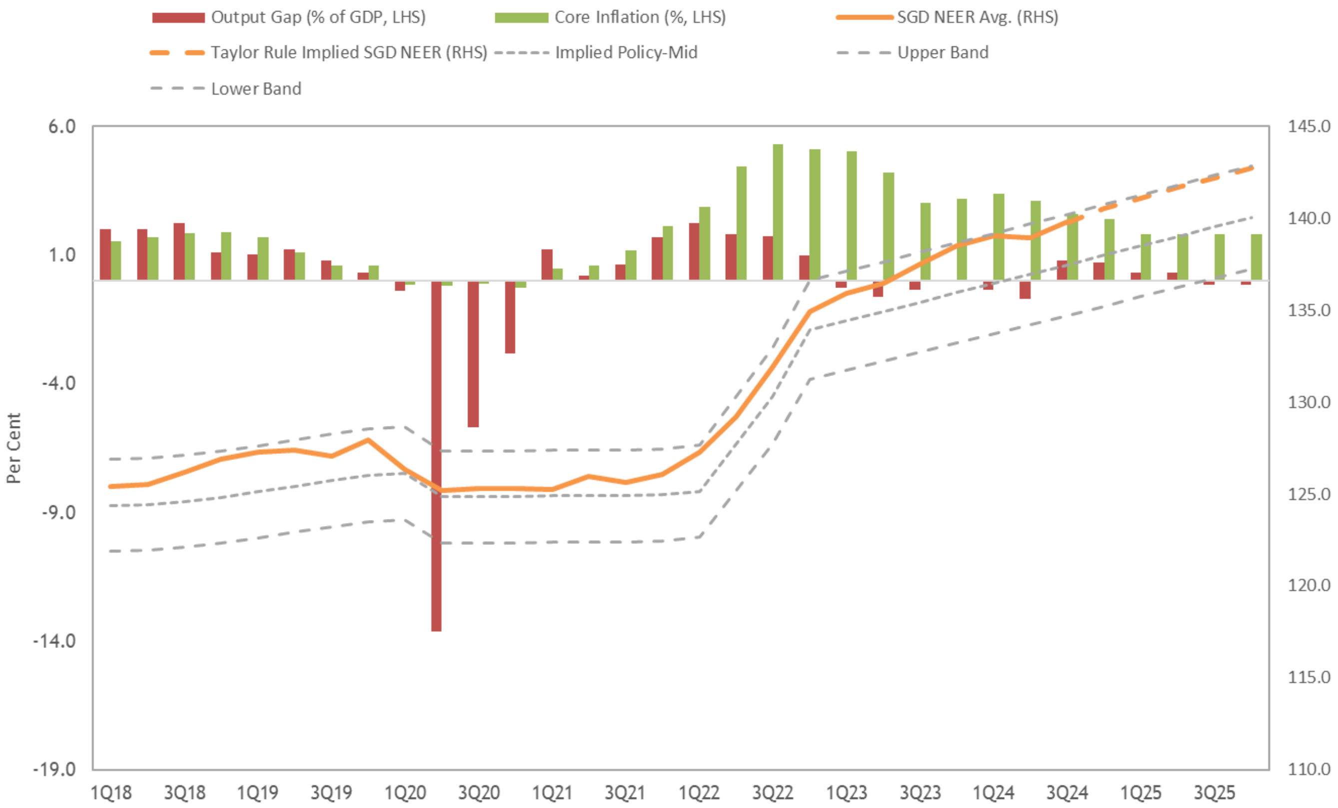
Source: MAS, Maybank FX Research & Strategy

SGDNEER Likely to Remain Elevated

For a check on the potential trajectory for SGDNEER going forward, we turn to our Taylor rule model to derive an implied SGDNEER (Chart 7). Core inflation (green bars) has exceeded 2% since Dec 2021 and looks to remain sticky above 2% through 2024 before falling to around the 2% mark in 2025. Our economist team's latest forecasts for core inflation and headline inflation in 2024 are 2.8% and 2.6%, respectively. Based on our estimates and our economists' growth forecasts, output gaps are relatively small positive output gaps that should turn into relatively small negative output gaps in the last two quarters of 2025.

Given these macroeconomic conditions, our Taylor rule implied SGDNEER estimates (dotted orange line in Chart 7 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 2025 and continue to toe the line drawn by the upper bound of the band. 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 for an extended period.

Chart 7: 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 Oct, and the continued appreciating stance (assumed to be +1.5% p.a.) in the SGDNEER should provide ample support for the SGD and result over time in a lower USDSGD. We continue to think that continued Fed rate cuts could enable other basket constituents to outperform the SGD and we could see the SGDNEER outperformance taper as interest rate differentials narrow and support non-USD currencies. 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

We maintain our forecast trajectory for USDSGD to come off gradually i.e. for SGD to strength against the USD gradually through 2024. 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) and is based on the belief that SGD will continue to stay resilient as MAS stands pat on policy and as the Fed cuts rates amid fading US exceptionalism. In addition, a global soft landing should favour non-USD currencies and we expect the SGD to benefit alongside this environment. 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 basket constituents more than the SGD. SGD could also benefit from a manufacturing recovery that could be driven by the broader AI/tech upswing narrative.

Table 2: Quarterly 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

Salient Risks for the SGD Ahead

Salient risks for the SGD remain ahead. The bottoming of the electronics/chip cycle could fail to pan out and this would be less favourable for the SGD. Lingering inflationary risks also present a real risk for the Singapore economy and could affect the SGD. Should actual growth and inflation outcomes turn out contrary to MAS expectations, we do not rule out either further tightening or an earlier than expected easing.

US Presidential Elections are also ahead and the risk there is that the USD is better supported going into the elections and post elections. Recalibration of expectations for future Fed cuts could also provide further support for the USD.

China's recent bout of stimulus could lead to sustained gains and positively impact the SGD. We think that there is upside potential here the SGD and other Asian currencies.

MAS Should See Current Policy as Appropriate

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.

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 53 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 Oct 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 quite unlikely. Our assessment is that MAS continues to see the current policy stance as appropriate going forward for the Oct meeting.

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). For the last policy announcement by MAS on 14 Oct for 2024, 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. 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. We think this policy stance for MAS could continue for an extended period going forward as inflation remains sticky and growth improves.

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*		
Jul 2024	-	-	-	-
Apr 2024	-	-	-	-
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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