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FX Insight

SGD Preview: A Close Call in The Face of Uncertainty

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SGDNEER Remains Above Midpoint Even After Jan Easing

In Jan, MAS eased the slope of appreciation as a measured adjustment to align monetary policy with the medium-term price stability objective. Given the current balance of risks, and with inflation abating, our economists see a further slight (-0.5%) slope easing by MAS at the Apr meeting (14 Apr). However, there could be risks to this outlook that arise largely from tariff-related complications and the highly uncertain and challenging external environment. Our call for SGDNEER support has materialized, with the SGDNEER trading at an average of 1.06% above the midpoint of the policy band (prev: 1.07%).

SGD Resilience to Continue with Some Nuances

Against this backdrop, SGD resilience is likely to continue even if MAS eases via a slight slope reduction. 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 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. Additionally, the SGD derived support from a positive crawl rate (assumed to be +1.0%) against its peers in the SGDNEER basket. In the event of a slight slope reduction (assumed 0.5%), the 0.5% positive crawl should still be supportive of the SGD. Notably, this crawl rate has consistently been at worst a neutral (0%) level, further instilling investor confidence in the SGD and fortifying the credibility of MAS' policy. **We expect the SGD to do worse against the JPY, and do better against the CNY and AUD going forward against the backdrop of tariffs.**

Maintain our USDSGD Forecasts

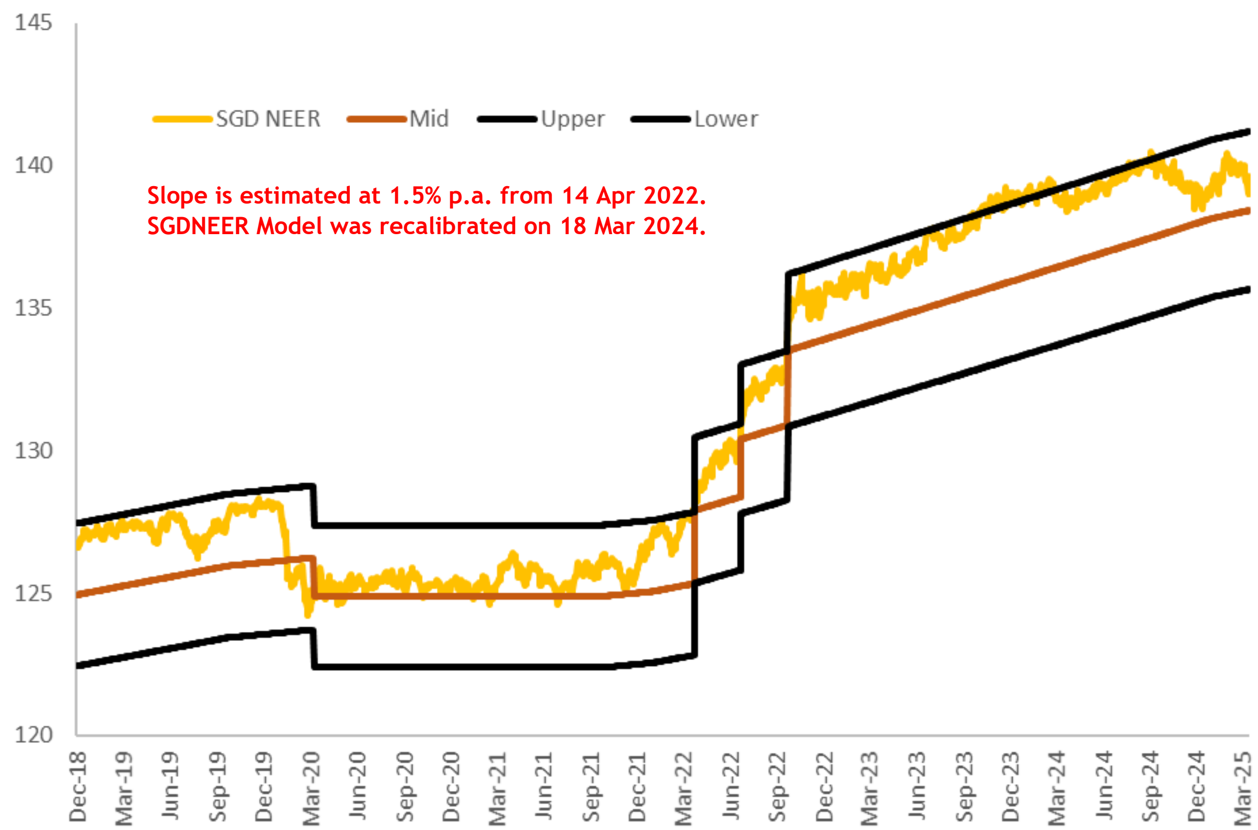
Even in the event of a slight slope easing, the pace of SGDNEER appreciation (assumed to be 0.5%, currently 1.0%) should continue to be supportive of the SGD. The external environment remains uncertain and highly volatile. However, we think that the factors for SGD-resilience remain intact and the SGD should remain a regional safe-haven. **We maintain our USDSGD forecasts and do not expect the SGDNEER to come off much more from current levels.**

SGDNEER Remains Above Midpoint Even After Jan Easing

In Jan, MAS eased the slope of appreciation as a measured adjustment to align monetary policy with the medium-term price stability objective. Growth and inflation outturns thus far have been consistent with MAS' expectations. Inflation is expected to fall further with core inflation below the 2% historical comfort zone for MAS and growth prospects should remain resilient although there could be downside risks from the uncertain and highly volatile external environment. Given the current balance of risks, and with inflation abating, our economists see a further slight (-0.5%) slope easing by MAS at the Apr meeting (14 Apr). However, there could be risks to this outlook that arise largely from tariff-related complications and the highly uncertain and challenging external environment.

Following MAS' decision to ease in Jan, SGDNEER has traded at an average of 1.06% above the midpoint of the policy band (prev: 1.07%). FX has been volatile, with USDSGD trading within a 1.3279 to 1.3700 range over the period (24 Jan to 4 Apr 2025). Volatility in bilateral USDSGD notwithstanding, our call for SGDNEER stability and support has largely materialized, with the SGDNEER largely well supported and staying above the mid-point of the band.

Chart 1: SGDNEER Remains Supported After Jan Easing



Source: Bloomberg, Maybank FX Research & Strategy

Inflation Abates as Growth Remains Robust

In line with MAS' expectations, inflation has continued to come off. Feb headline inflation printed at 0.9% (exp: 1.0%; prev: 1.2%) while core inflation fell to 0.6% (exp: 0.7%; prev: 0.8%), the lowest seen since Jun 2021. Our economists are forecasting core inflation at 1.0% for 2025 and 1.2% for 2026. The main justification for MAS easing the slope slightly is the benign inflation and rising trade-war headwinds to external demand that our economists see ahead. This view is also largely in line with both the regional and more broadly global central bank view as the balance of risks tilts more towards being growth supportive and less towards mitigating inflationary pressures.

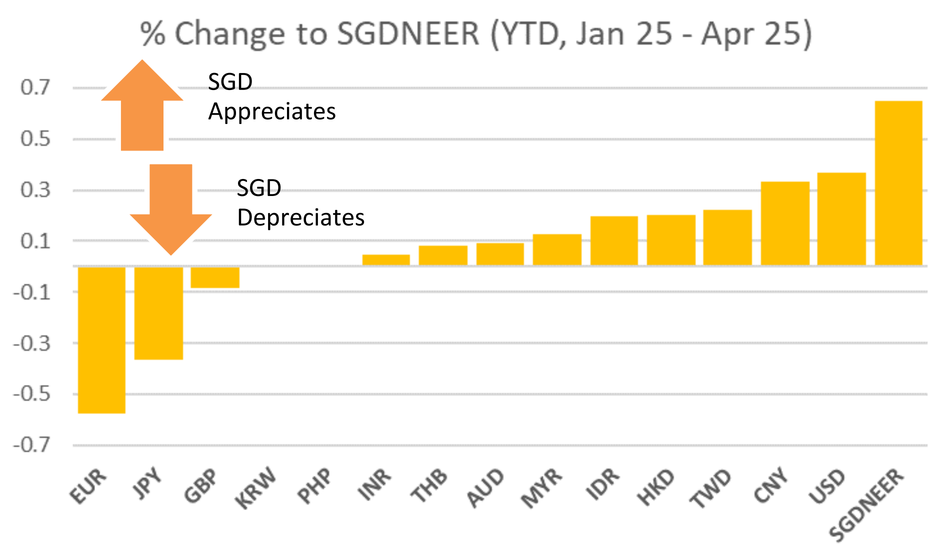
On the growth front, full-year 2024 GDP came in at 4%, higher than both our economists' forecasts of 3.6% and MTI's 3.5% estimates. Due to the negative impact of tariffs, our economists are expecting 2025 growth to be lower than their previous forecasts at 2.1% (prev: 2.6%), close to the middle of MTI's 1% to 3% range. Our economists see 2026 growth lower at 1.8%.

SGD Resilience to Continue, Albeit with Some Nuances

Against this backdrop, SGD resilience is likely to continue even if MAS elect to ease via a slight slope reduction. Once again, 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 (Charts 2a, 2b and 2c). SGDNEER moderation more recently was largely due to EUR, JPY and GBP strength (Chart 2a) from the rise of the defence spending narrative in Europe (including the UK) and safe-haven support for the JPY. 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 +1.0%) against its peers in the SGDNEER basket. In the event of a slight slope reduction (assumed 0.5%), the 0.5% positive crawl should still be supportive of the SGD. Notably, this crawl rate has consistently been at worst a neutral (0%) level, further instilling investor confidence in the SGD and fortifying the credibility of MAS' policy.

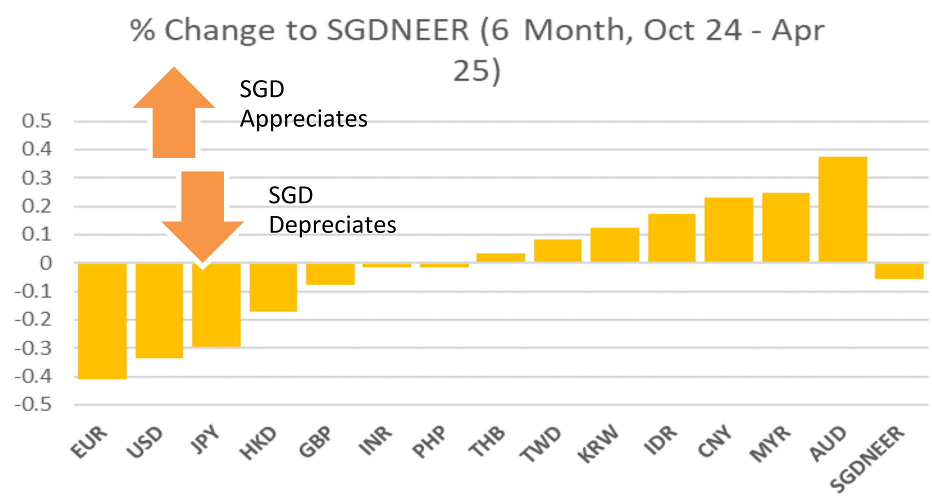
SGDNEER has remained robust and gained about 0.5% over a 12-month period (Chart 2c). Note that this is not equivalent to the assumed annual crawl, since spot SGDNEER is allowed to vary within the band (assumed to be of width +2%/-2%). SGDNEER continues to remain resilient as ASEAN currency volatility eases, with more defined trading ranges for currencies of late (Chart 3). Our call for SGDNEER resilience and support has materialized. Going forward, we expect the same resilience and do not see SGDNEER weakness even if MAS eases its slope slightly at the upcoming Apr meeting. The external environment has indeed become more challenging, but we expect SGD resilience to continue alongside the resilience in growth prospects for Singapore. A slight (assumed to be 0.5%) slope reduction would still imply a 0.5% p.a. crawl and that should still provide support for the SGDNEER and in turn the SGD. Our current forecasts already account for a more challenging outlook for the SGD given the considerable uncertainty over US foreign trade policies. We do not expect the SGD to be unscathed, but we suggest that Singapore's bilateral trade surplus with the US should keep it out of the crosshairs for further action. That view has been vindicated by the lowest possible 10% tariff that has been imposed on Singapore. We however suggest that the SGD should fare worse against the JPY and fare better against the risk-sensitive AUD and the CNY against a backdrop of tariffs and heightened uncertainty. We therefore suggest going long SGDNEER on dips, but omitting the JPY (~7.2% weight) and perhaps allocating the weight to being more long SGDCNY and SGDAUD.

Chart 2a: YTD (3-Month) SGDNEER Gains Broad-Based, Moderated by EUR, JPY and GBP



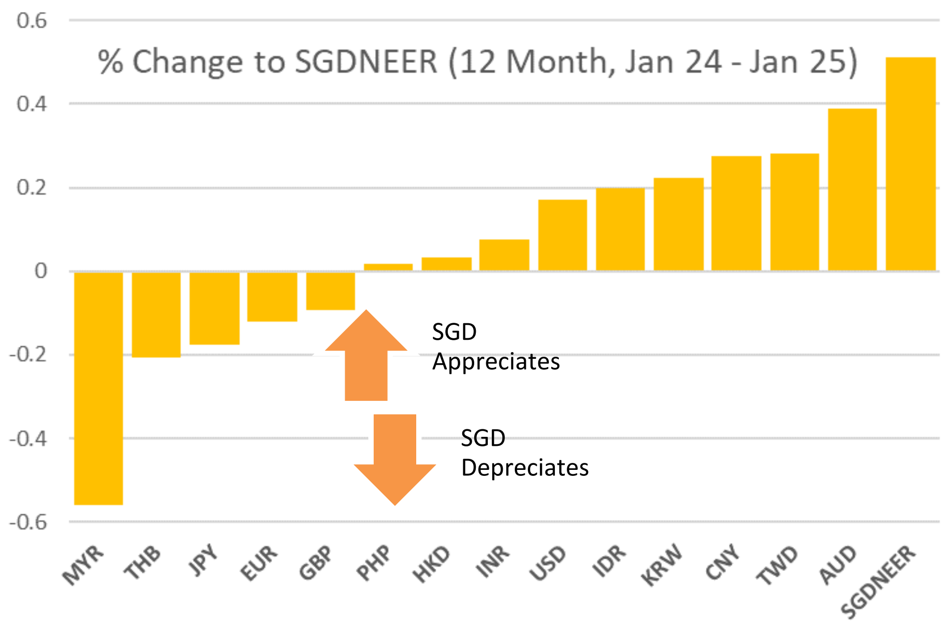
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2b: 6-Month SGDNEER Largely Stable, Gains from AUD, MYR and CNY Moderated by EUR, USD-Bloc and JPY



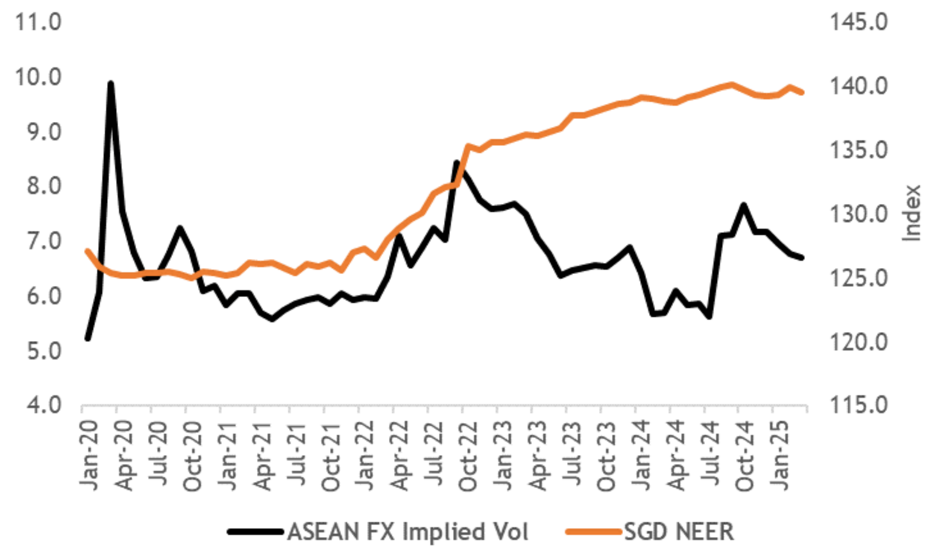
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2c: 12-Month SGDNEER Strength from AUD and North-Asians (ex JPY), Moderated by MYR, THB and JPY



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: SGDNEER (RHS) Remains Supported as ASEAN FX Volatility Falls



Source: Bloomberg, Maybank FX Research & Strategy

SGD since the Jan MAS Easing

Since MAS eased in Jan, SGDNEER has been broadly supported largely due to the fading in USD strength and the anticipated weaker CNY (recall our annual view on expecting a weaker CNY TWI). We still expect the USD to weaken and factor in a 2Q peak for the USD although we recognize that risks for being short USD are larger given its unique status as a global reserve currency and it should be better supported in times of uncertainty.

As we suggested, SGDNEER has indeed been better supported. Moving forward, we think that SGDNEER remains above the midpoint of the band

and recommend buying SGDNEER on dips. Singapore's economic fundamentals remain robust and resilient. In addition, inflation is falling below 2%, referred to as MAS' historical comfort zone and a slightly more accommodative policy could therefore be better aligned to achieving medium term price stability. However, we do recognize that the stability of the SGDNEER could also be reflective of the market not expecting much further easing from MAS.

SGD rates have largely come off recently, and maintained their correlation with US rates (Chart 4). Growth and inflation trajectories remain broadly in line with MAS' expectations (Chart 5). Core inflation falling below the 2% comfort level is indeed a necessary condition for MAS to ease, but it may not be sufficient and we suggest that there are risks to the view that MAS will ease.

Firstly, growth remains resilient and as such MAS may elect to retain the policy space to respond to any future unanticipated growth shocks, especially if the fall in inflation has already been anticipated. This has no doubt become more likely given the recent downward revision of growth forecasts amid the worries that tariffs could drag global growth down, but has by no means already resulted in a crisis or a situation that necessitates further easing by MAS.

Second, MAS has historically never slightly reduced the slope of policy crawl in consecutive meetings. Slight reductions in themselves are relatively rare (3 occurrences in 56 meetings since 2001) and have typically been followed by setting the slope at 0% (Apr 2016, Mar 2020). MAS may not feel that current conditions justify such an easing. However, we note that the old adjustments were under the old semi-annual MPS regime. Under the new quarterly regime, we cannot rule out that MAS could opt to make more gradual adjustments to policy.

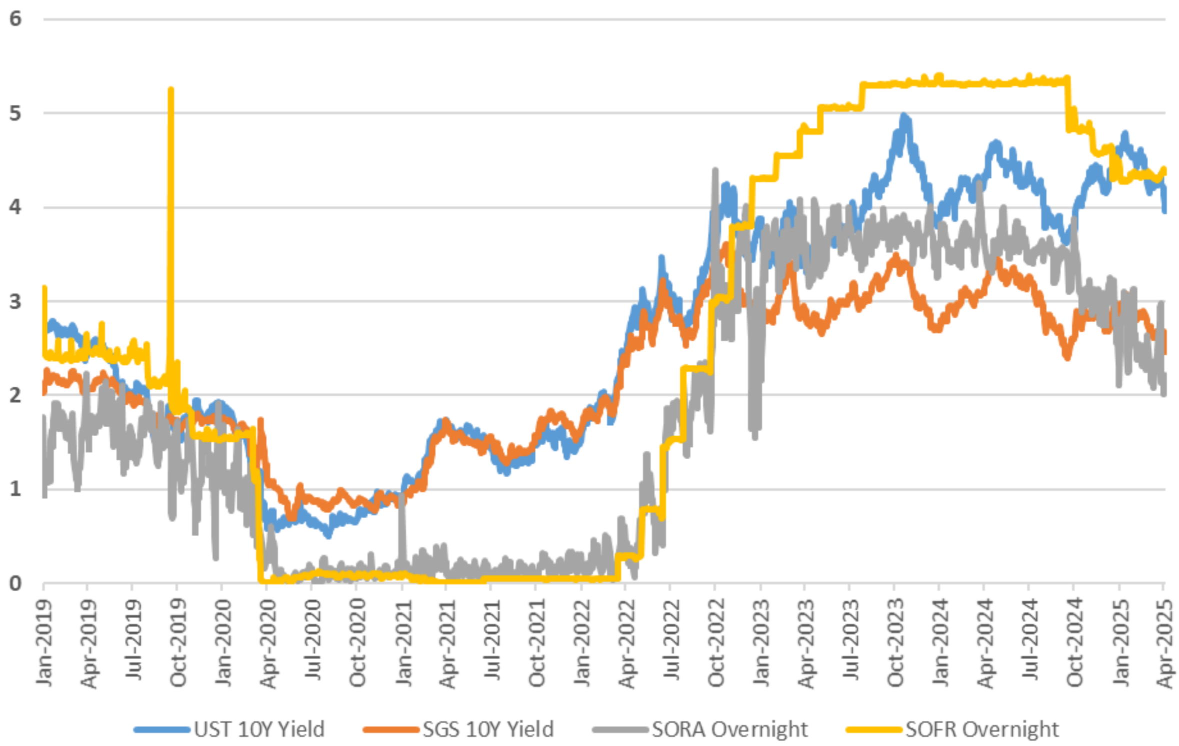
Third, the Chairman of MAS, Deputy Prime Minister (and also Trade Minister) Gan has already declared that while Singapore is disappointed with tariffs, it would not retaliate and instead seek to engage the US further on the matter. The US has also repeatedly cautioned against "currency manipulation" to gain a trade advantage. While Singapore has a bilateral trade deficit with the US, MAS may not want to risk an easing being misconstrued as an attempt to retaliate against tariffs or "currency manipulation". The US has said that it factors in non-tariff measures into account and with Singapore already at the best possible situation of a 10% tariff, it would be wise to avoid provoking the ire of the US in this situation. In our view, this also reduces the chance that MAS brings the slope to a neutral level at this point.

At the same time, note that MAS issued a media release on 3 Apr 2025 to comment on market conditions in the Singapore FX and money markets, likely in response to post-tariff announcement volatility. Such announcements are not common, with prior comments coming post-2016 US elections (12 Nov 2016) and during the 2008 Global Financial Crisis (Sep 2008). This likely demonstrates MAS' resolve to curb excessive volatility and ensure smooth functioning of markets, which could also be achieved by not making unexpected policy adjustments i.e. by flattening the slope.

To conclude, there are relevant risks to our house view for an MAS easing. **However, considering the balance of risks between growth and inflation, our economists see an easing in the MAS slope by -0.5%. Should MAS**

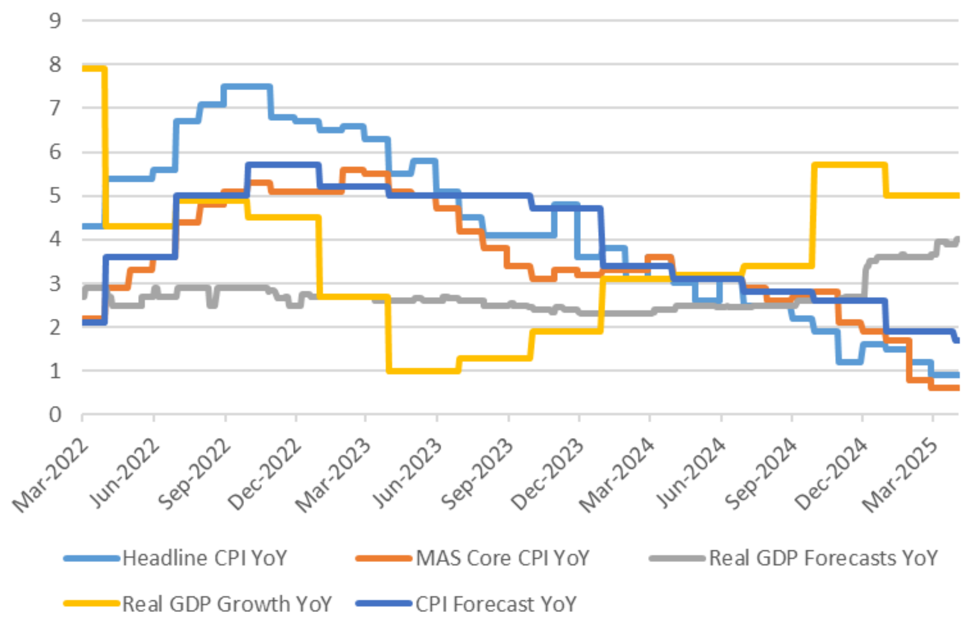
indeed ease, the post-easing appreciating stance (assumed to be +0.5% p.a.) in the SGDNEER should still be supportive of SGD resilience, albeit with what we think will be some key nuances in a post-tariff world (JPY to outperform SGD, AUD and CNY to underperform) going forward. If MAS does not ease, this strategic view is still likely to hold given the additional 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

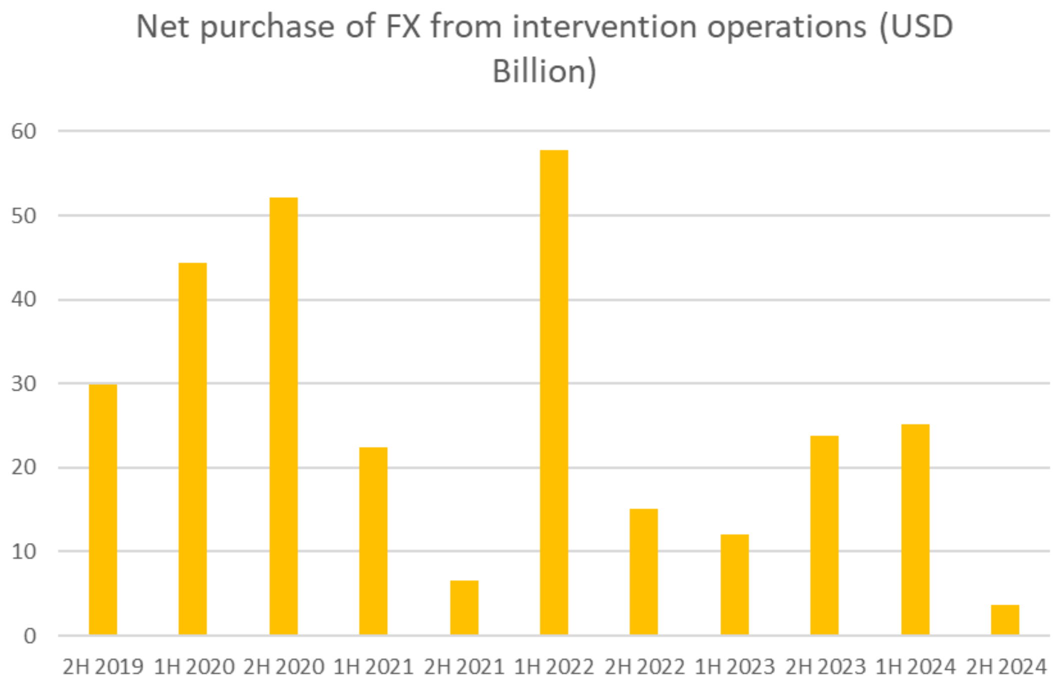
MAS Market Operations

Looking at MAS operations, we see that the magnitude of intervention operations has fallen with only US$3.7b purchased in 2H2024 versus US$25.1b that was purchased by MAS in 1H2024. Since disclosures by MAS began in 2H 2019, this is the lowest ever purchase by MAS over a semi-annual period (Chart 6). This also coincided with a period of relative stability in the SGDNEER (Chart 7). Over the same period, MAS' Official Foreign Reserves (OFR) were relatively stable (+US$0.7b). A total of S$12.6b (~US$9b) of Reserve Management Government Securities (RMGS) were issued over the same period, which suggests that MAS continued to transfer OFR to GIC for longer-term management. The amount transferred over the same period, suggests that OFR had effectively risen by about US$9b to US$10b i.e. OFR would have increased had MAS not transferred to GIC.

The US$3.7b falls short of our previous estimates of MAS intervention at US$18.6b. However, our previous estimate also assumed no investment gains to the OFR and should instead be viewed as a likely ceiling to the amount of intervention. Considering that MAS' swap book fell by about US$9.1b in 2024, investment gains should account for the remaining US5.8b of the increase in reserves for 2024. For 2024, MAS OFR rose by about US$20.4b (S$43.7b over same period). Over the same period, US$23.3b (S$31.1b) of RMGS were issued and government deposits (GDs) rose by about S$14.0b (implying no likely transfers that led to a drawdown in GDs). The overall increase in reserves had transfers not been effected was US$18.6b in 2H2024 (RMGS issuance/Transfers to GIC + OFR increase - declared 1H2024 operations).

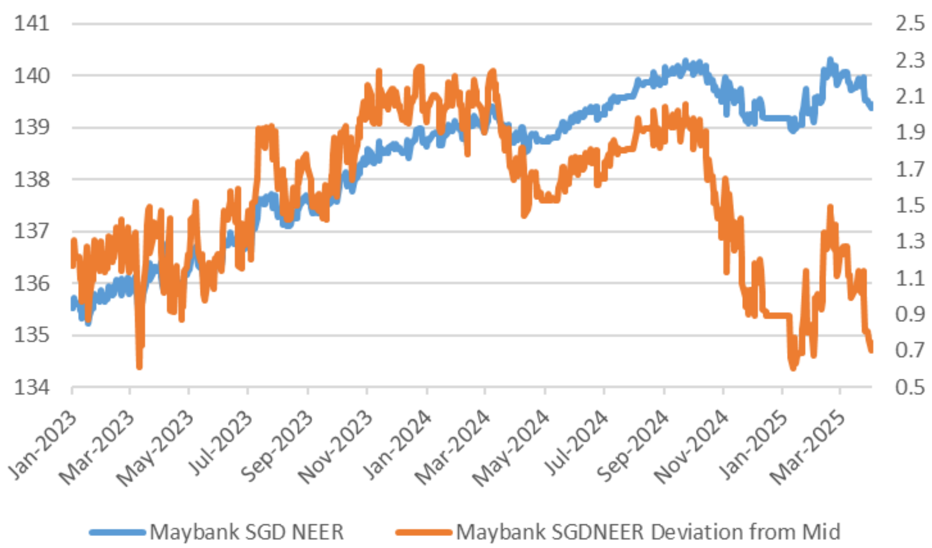
MAS' disclosure of intervention is aggregated on a six-month basis and declared three months after the period. Looking at changes in OFR and transfers to the government (GIC) are a good estimate for intervention, but are by no means a perfect measure since we cannot perfectly account for MAS' investment 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. We continue to monitor and estimate MAS' intervention operations for more colour on their leanings.

Chart 6: MAS Disclosure of Intervention Operations



Source: MAS, Maybank FX Research & Strategy

Chart 7: Deviation from Mid (RHS) Falls as SGDNEER (LHS) Stabilizes



Source: Maybank FX Research & Strategy

Consensus Forecasts Do Not Expect an Easing in Apr

The latest MAS survey (Table 1) shows that one-third (15.8%) expect a slope reduction in Apr, less than the 37.5% that saw an Apr slope reduction at the previous survey. This shows that the surveyed parties have actually turned a tad more hawkish in terms of expectations of MAS easing, although responses were solicited on 14 Feb 2025, prior to the Jan (24 Feb) and Feb (24 Mar) CPI releases that showed a sharp drop in core inflation from 1.8% in Dec to 0.8% (Jan) and 0.6% (Feb) respectively.

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

MAS Actions	Dec Survey			Mar Survey		
	2025 Apr	2025 Jul	2025 Oct	2025 Apr	2025 Jul	2025 Oct
Increase slope	0.0	0.0	0.0	0.0	0.0	0.0
Reduce slope	37.5	6.3	0.0	15.8	29.4	0.0
Flatten slope	0.0	6.3	0.0	0.0	0.0	5.9
Unchanged slope	62.5	87.5	100.0	84.2	70.6	94.1
Re-center higher	0.0	0.0	0.0	0.0	0.0	0.0
Re-center lower	0.0	6.3	0.0	0.0	5.9	0.0

Unchanged centre	62.5	87.5	100.0	100.0	94.1	100.0
Widen band	0.0	0.0	0.0	0.0	5.9	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	94.1	100.0

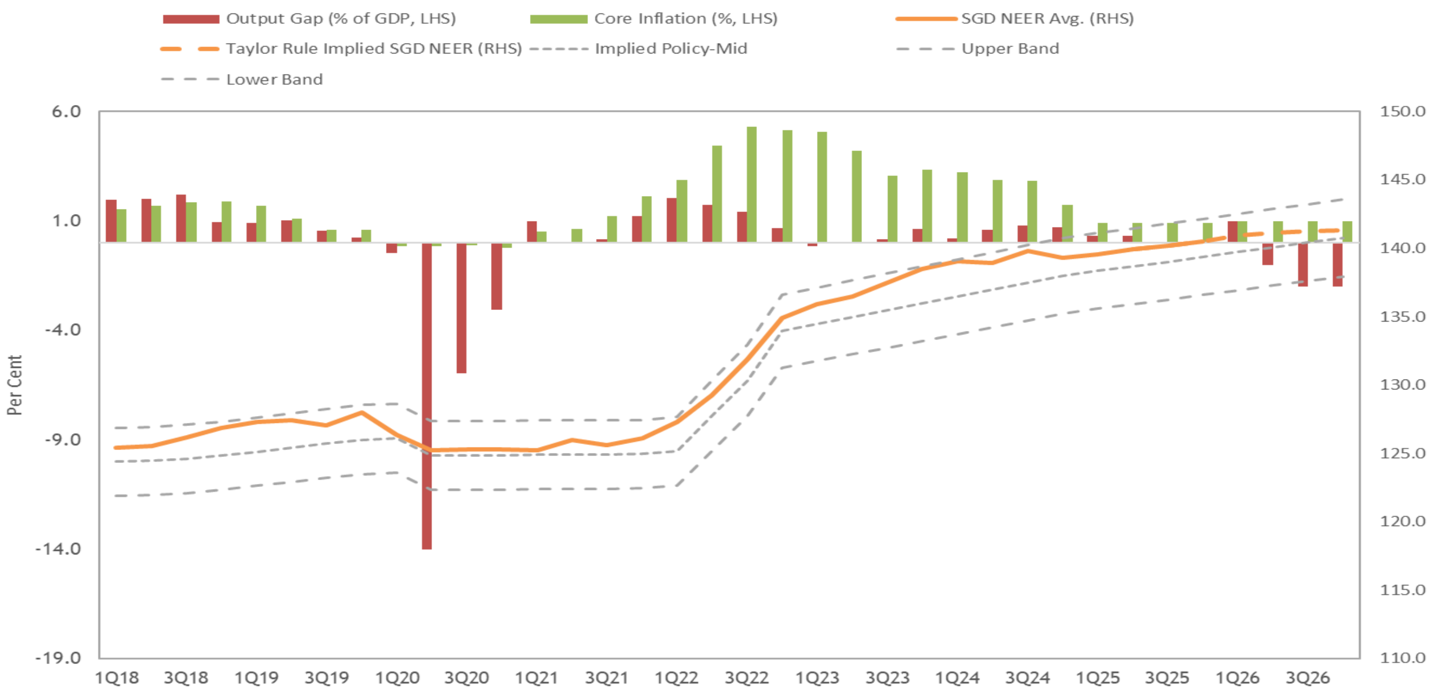
Source: MAS, Maybank FX Research & Strategy

Taylor Rule Also Supports an Upward Sloping SGDNEER

For a check on the potential trajectory for SGDNEER going forward, we turn to our Taylor rule model to derive an implied SGDNEER (Chart 8). Our economist team's latest forecasts for core inflation and headline inflation in 2025 are 0.9% and 1.0%, respectively. Based on our estimates and our economists' growth forecasts, output gaps are relatively small and turn negative going into 2026.

Given the estimates of these macroeconomic conditions, our Taylor rule implied SGDNEER estimates (dotted orange line in Chart 7 below) suggest that SGDNEER should continue to be upward sloping in the coming quarters. Our estimates are also somewhat supportive of a slight easing of the SGDNEER policy slope. This is to be expected as growth prospects worsen and economic slack increases as evident in the negative output gaps, while core inflation remains benign.

Chart 7: SGDNEER Continues to Appreciate (Taylor Rule Estimates)



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Maintain USDSGD Forecasts

We maintain our USDSGD forecasts for the upcoming four quarters (Table 2). We see support for SGD as a regional safe-haven against a backdrop of elevated trade tensions and geopolitical frictions. Even if MAS eases, the new pace of SGDNEER appreciation (assumed to be 0.5%) should continue to be supportive of the SGD. That said, there could be further volatility in USDSGD amid a more challenging and uncertain external environment. While we do not expect the SGD to be unscathed from potential trade tensions, we expect that Singapore's bilateral trade deficit with the US should keep it out of the US' crosshairs for further measures. In addition, the Taylor rule still implies an upward trajectory for the SGDNEER.

Table 2: Quarterly USDSGD Forecasts

Forecast	2Q 2025	3Q 2025	4Q 2025	1Q 2026
USDSGD	1.3750	1.3600	1.3450	1.3400

Source: Maybank FX Research & Strategy Estimates

What if MAS Doe Not Ease?

MAS not choosing to ease would not threaten our strategy, but could present risks to the nuances in our strategy of omitting the JPY from the long SGDNEER trade. From table 3, easing by MAS is not common historically. There have also been earlier hints from Chief Economist Robinson's speech that MAS may not be able to ease as easily as an interest rate regime in the pursuit of medium-term price stability. In addition, we earlier highlighted reasons for MAS not to ease. However, we do note expectations are for inflation to be below the 2% historical comfort zone and in itself that could be enough reason for MAS to ease. Moreover, with a likely more challenging and uncertain external environment for growth, the balance of risks could be skewed in favour of an MAS easing.

Table 3: Historical Easing by MAS

Date	Easing Action	Comments
24 Jan 2025	Reduce slope slightly (0.5%)	Slight adjustment to achieve medium-term price stability
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

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

Date	Slope of Band	Width of Band	Level at Which Band is Centred	Comments
14 Apr 2025	*Possible Slight Slope Reduction*			
24 Jan 2025	Reduce slightly	-	-	-
14 Oct 2024	-	-	-	-
26 Jul 2024	-	-	-	-
12 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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