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Global

FX Insight

SGD Preview: A Possible First Easing?

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Falling Inflation, Resilient Growth Prospects

In line with MAS' expectations, inflation seems to have come off towards the end of 2024. Nov headline inflation printed at 1.6% YoY (exp: 1.8%; prev: 1.4%) and core inflation was lower at 1.9% YoY (exp: 2.1%; prev: 2.1%). Core inflation is expected to fall further with Dec core inflation expected at 1.7%. Our economists are forecasting core inflation at 1.8% for 2025.

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. Our economists are expecting 2025 growth to remain resilient at 2.6%, at the upper end of MTI's 1% to 3% range.

SGDNEER Come Off, Potentially Foreshadowing MAS Easing

Against this backdrop, the SGDNEER has come off and was last seen at 0.75% above the mid-point of the policy band. Since the Oct MAS hold, SGDNEER has averaged +1.07%. YTD, the SGDNEER has averaged +0.61% above the midpoint. Looking at the individual components, only the KRW, JPY and AUD have strengthened against the SGD YTD. After applying the relevant trade weights, the JPY is the most significant moderator of SGDNEER strength YTD. SGDNEER coming off is largely in line with the broader USD strength that has dominated FX since the US elections. It also potentially foreshadows an MAS easing as inflation abates and core inflation falls below the historical comfort zone of around 2%. Given the current balance of risks, with inflation abating and the challenging external environment, there is higher probability that MAS will ease in Jan via a slight slope easing, in line with our economists' view.

Maintain our USDSGD Forecasts

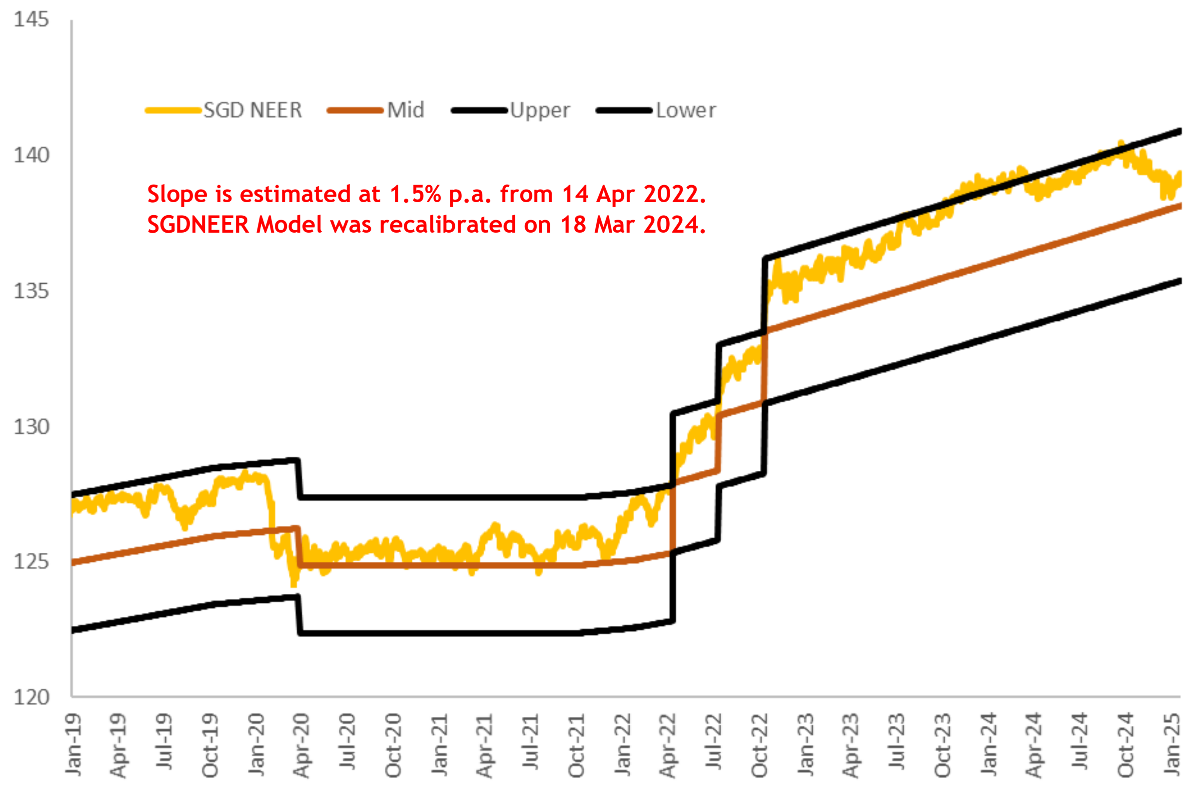
Even in the event of a slight slope easing, the pace of SGDNEER appreciation (assumed to be 1.0%, currently 1.5%) should continue to be supportive of the SGD. The external environment remains uncertain and highly volatile. However, we think that the factors for SGD-resilience remain intact and the SGD should remain a regional safe-haven. We maintain our USDSGD forecasts and do not expect the SGDNEER to come off too much more from current levels.

SGDNEER Comes Off After Oct Stand Pat (and US Elections)

In Oct, MAS stood pat as policy was assessed to be consistent with medium-term price stability. 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, MAS will likely opt to ease at the upcoming Jan meeting via a slight slope easing, which is in line with our economists' view.

Following MAS' decision to stand pat in Oct, SGDNEER has traded lower at an average of 1.07% above the midpoint of the policy band (prev: 1.92%). Following the broad-based USD strength post US elections, USDSGD has risen from a low of 1.3052 to hit a high of 1.3751 and has currently settled around the 1.36 figure. We earlier called for SGDNEER outperformance to taper, which has since materialized, and going forward we do not expect the SGDNEER to come off too much further from current levels of around 0.6% above the midpoint.

Chart 1: SGDNEER Comes Off After Oct Stand Pat



Source: Bloomberg, Maybank FX Research & Strategy

Inflation Abates as Growth Remains Robust

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2.1%). Core inflation is expected to fall further with Dec core inflation expected at 1.7%. Our economists are forecasting core inflation at 1.8% for 2025.

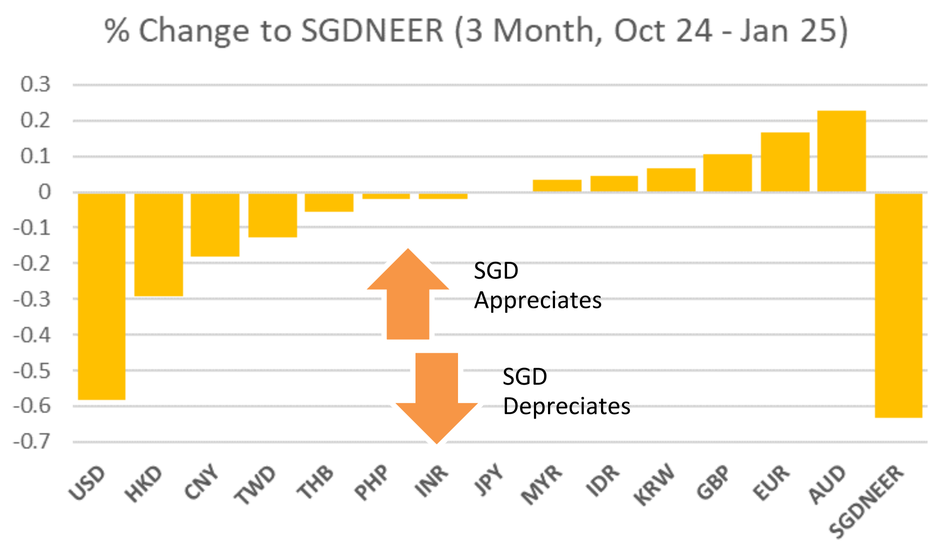
On the growth front, full-year 2024 GDP came in at 4%, higher than both our economists' forecasts of 3.6% and MTI's 3.5% estimates. Our economists are expecting 2025 growth to remain resilient at 2.6%, at the upper end of MTI's 1% to 3% range.

SGD Resilience to Continue

Against this backdrop, SGD resilience is likely to continue. 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 broad USD strength (Chart 2a). 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. In the event of a slight slope reduction (assumed 0.5%), the 1.0% positive crawl should still be supportive of the SGD. Notably, this crawl rate has consistently stayed above 0%, further instilling investor confidence in the SGD and fortifying the credibility of MAS' policy.

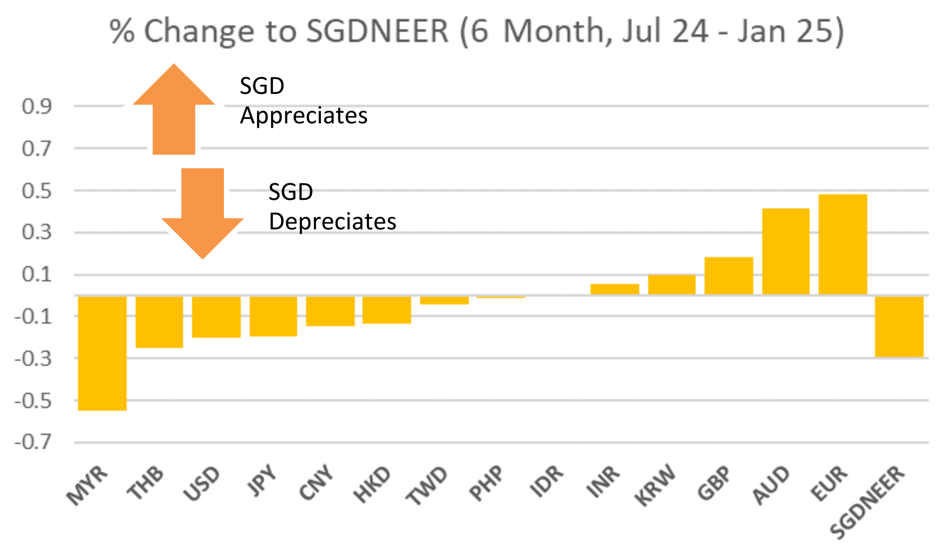
SGDNEER has remained robust and gained about 0.5% over a 12-month period (Chart 2c). SGDNEER continues to remain resilient even as ASEAN currency volatility has increased following the US elections. Previously, we had called for SGDNEER outperformance to taper, which has now materialized. Going forward, we do not expect further SGDNEER weakness even if MAS eases its slope slightly at the upcoming Jan meeting. The external environment could 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 1.0% 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. As it stands now, the currencies that have been affected are the MXN and CAD, which are squarely in the Trump administration's crosshairs.

Chart 2a: 3-Month SGDNEER Moderated Largely by the USD-Bloc



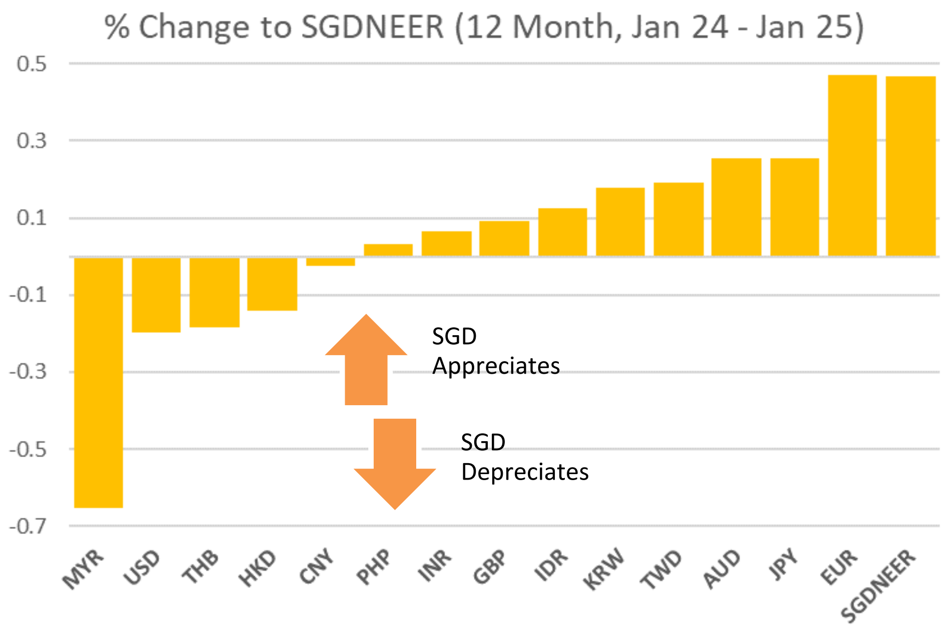
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2b: 6-Month SGDNEER Moderated by MYR, THB, USD-bloc, JPY and CNY



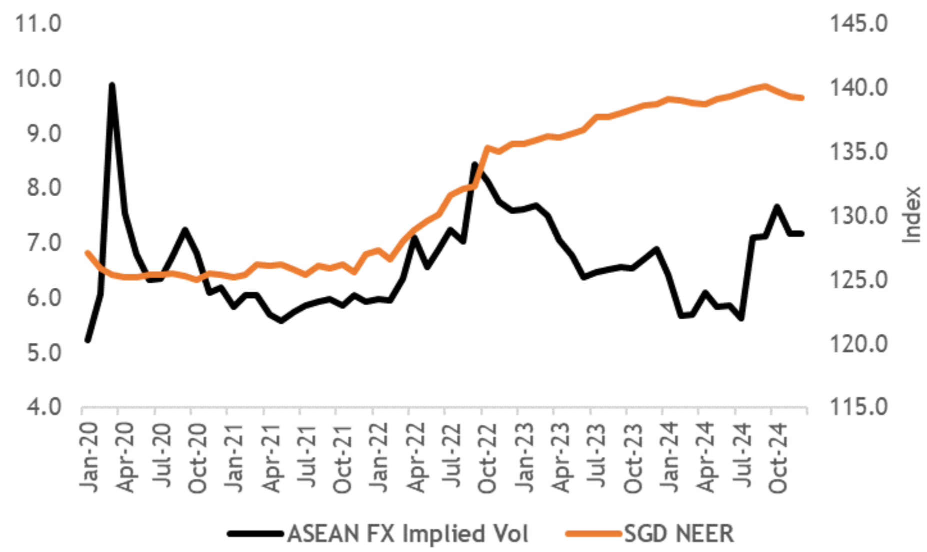
Source: Bloomberg, Maybank FX Research & Strategy

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



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: SGDNEER (RHS) Resilient Amid Increasing Volatility for ASEAN Currencies



Source: Bloomberg, Maybank FX Research & Strategy

SGD since the Oct Stand Pat

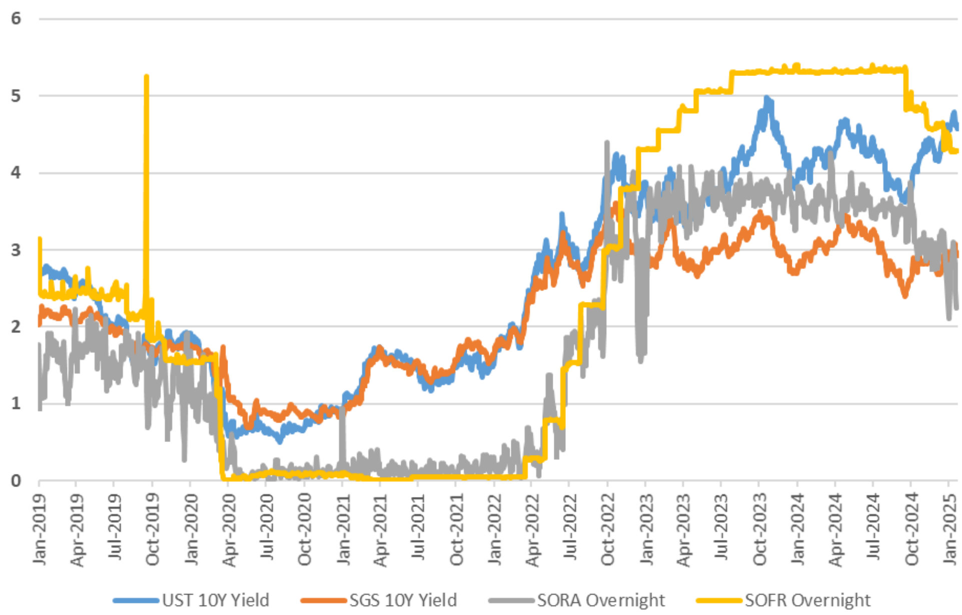
Since MAS stood pat in Oct, SGDNEER has largely come off due to broad USD strength. This reversed the earlier situation where the USD was broadly weaker in 2024 and was by far the worst performing constituent of the SGDNEER basket, as it had been for most of 2024.

As we suggested, SGDNEER strength has indeed tapered from earlier levels. Moving forward, we do not expect too much further of a dip in the SGDNEER given that 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. The SGDNEER coming off could also be a reflection of market expectations for an MAS easing.

While short term interest rates have come off recently, long term yields have risen (Chart 4). Our fixed income analysts view a 2y10y spread of 25 to 50bps being fair at this point of time. Growth and inflation trajectories remain broadly in line with MAS' expectations (Chart 5). Core inflation falling below the 2% comfort level should

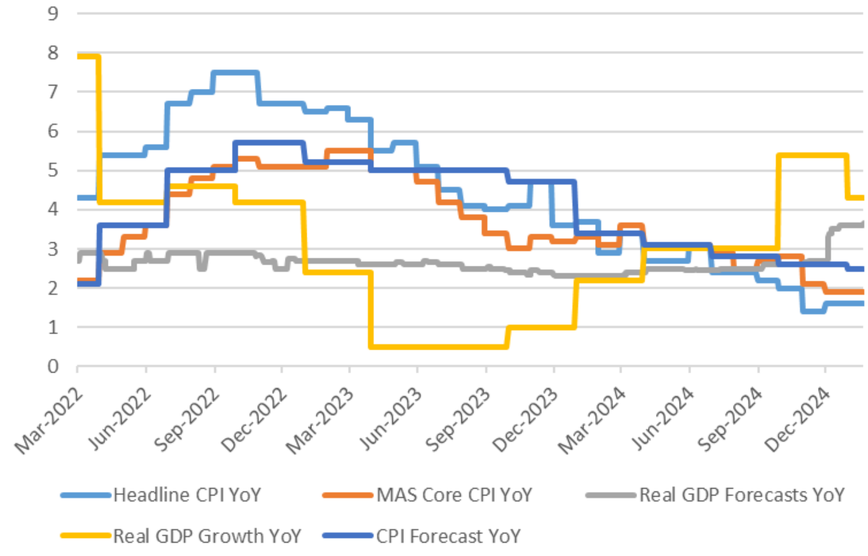
Considering the balance of risks, we think MAS will likely reduce the slope of SGDNEER appreciation slightly on 24 Jan 2025 and the post - easing appreciating stance (assumed to be +1.0% p.a.) in the SGDNEER should continue to provide support for the SGD.

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

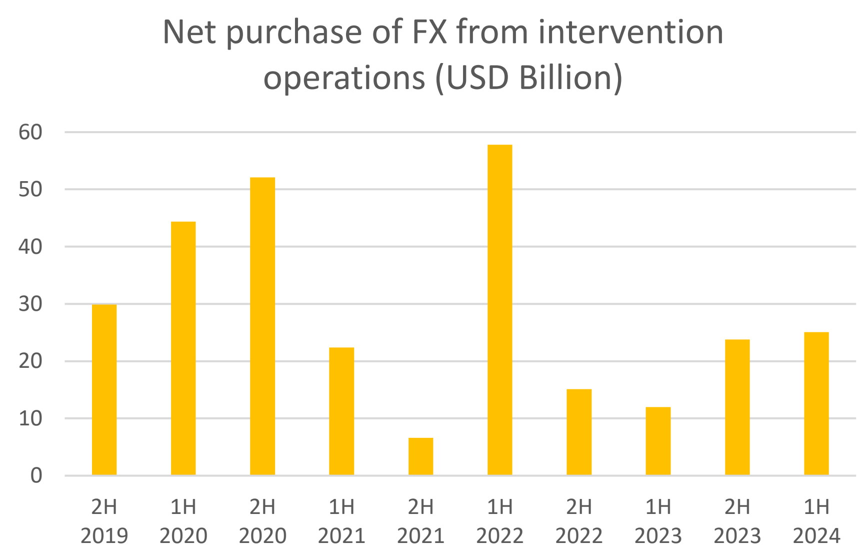
Looking at MAS operations, we see that about US$25.1b was purchased by MAS in 1H2024. Since disclosures by MAS began in 2H 2019, this is the 5th highest purchase of USD by MAS over a half year period (Chart 6). This suggests that MAS deemed it necessary to moderate the strength of the SGDNEER in 1H2024. 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.

From Dec 2023 to Dec 2024, MAS OFR rose by about US$20.4b (S$43.7b over same period). Over the same period, S$31.1b (US$23.3b) of RMGS were issued and government deposits rose by about S$14.0b. This implies that MAS potentially bought about US$18.6b in 2H2024 (RMGS issuance + 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. As it stands, we do expect that MAS purchased less USD in 2H2024 amid an easing in SGDNEER strength away from the band edge, in line with our estimates.

Chart 6: MAS Disclosure Intervention Operations



Source: MAS, Maybank FX Research & Strategy

MAS is Likely to Ease Slope Slightly (24 Jan 2025)

Core inflation has been steadily decreasing and with expectations for core inflation to fall further, we think that MAS will deem a “slight” easing of the appreciating slope as being consistent with achieving medium term price stability.

Growth remains robust although the external environment could become more challenging. We look to see if MAS alludes to this in their Jan policy statement as further justification for a “slight” easing of the slope.

The latest MAS survey (Table 1) shows that one-third (33.3%) expect a slope reduction, with two-thirds seeing no change to the slope in Jan 2025. This shows that the surveyed parties have actually turned a tad more hawkish in terms of expectations of MAS easing, although that could be due to the better growth and sticky inflation numbers ahead of the Dec survey as opposed to the Sep survey.

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

MAS Actions	Sep Survey			Dec Survey		
	2025 Jan	2025 Apr	2025 Jul	2025 Jan	2025 Apr	2025 Jul
Increase slope	0.0	0.0	0.0	0.0	0.0	0.0
Reduce slope	50.0	35.3	11.8	33.3	37.5	6.3
Flatten slope	0.0	0.0	0.0	0.0	0.0	6.3
Unchanged slope	50.0	64.7	88.2	66.7	62.5	87.5
Re-center higher	0.0	0.0	0.0	0.0	0.0	0.0
Re-center lower	5.6	0.0	0.0	11.1	0.0	6.3
Unchanged centre	94.4	100.0	100.0	88.9	100.0	93.8
Widen band	5.6	0.0	0.0	5.6	0.0	0.0
Narrow band	0.0	0.0	0.0	0.0	0.0	0.0
Unchanged band	94.4	100.0	100.0	94.4	100.0	100.0

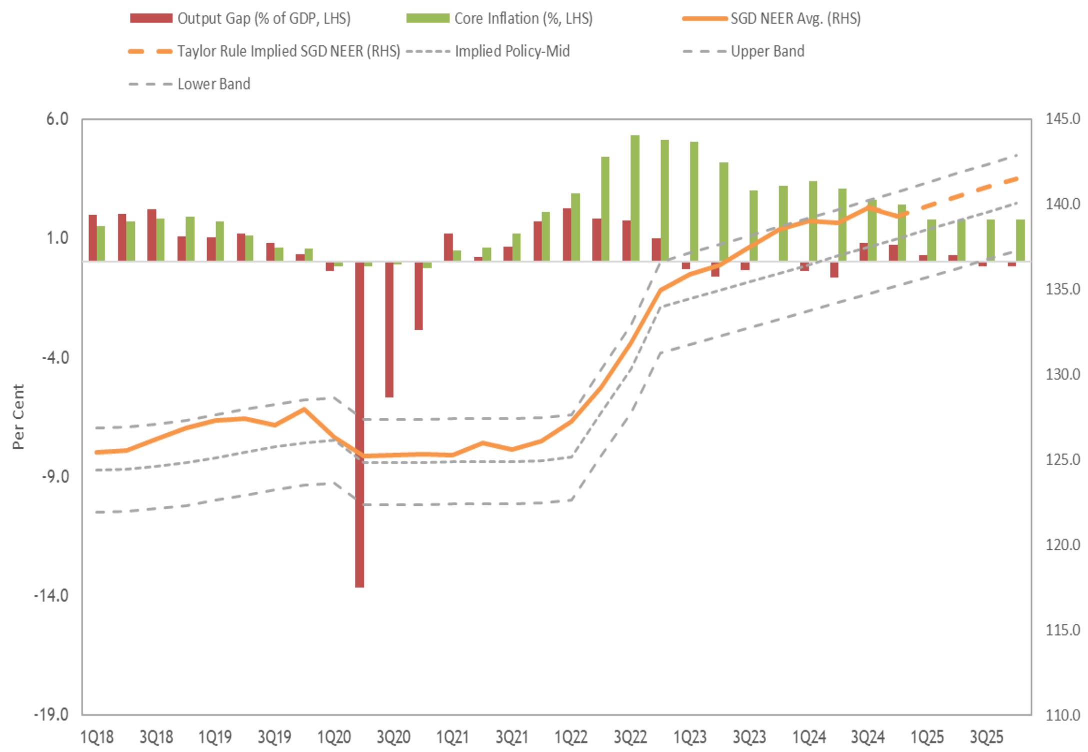
Source: MAS, Maybank FX Research & Strategy

SGDNEER to Remain Resilient

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). Our economist team's latest forecasts for core inflation and headline inflation in 2025 are 1.8% and 1.7%, 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 although it has come off from being close to the edge of the band after the recent step down in the SGDNEER.

Chart 7: Upward Pressures on SGDNEER Persist (Taylor Rule Estimates)



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Our assessment that MAS is likely to ease in Jan, and the new appreciating stance (assumed to be +1.0% p.a.) in the SGDNEER should continue to provide support for the SGD. **SGDNEER should not fall too much further from current levels of around 0.7% from the midpoint of the band.**

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 as MAS eases, the new pace of SGDNEER appreciation (assumed to be 1.0%) should continue to be supportive of the SGD. That said, there could be further upside for 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	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USDSGD	1.3600	1.3750	1.3600	1.3450

Source: Maybank FX Research & Strategy Estimates

Risks to our View

Key risk is if MAS does not ease and continues to see the current appreciating stance as appropriate. 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. 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.

If MAS does not ease in Jan, we do see potential for USDSGD to fall to as low as the 1.34 level, with the SGDNEER possibly strengthening to as much as 1.5% above the mid-point of the policy band. The language in the statement that would give hints on MAS' leanings are key. For instance, should there be hints of a potential move in Apr, then we would expect the magnitude of SGD strength to be smaller. In the situation that MAS does not hint at easing at all or hints at a more delayed move, then we expect the SGD to be better supported. Nevertheless, our base case forecasts factor in the scenario of a "slight" slope reduction in Jan.

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

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

Date	Slope of Band	Width of Band	Level at Which Band is Centred	Comments
24 Jan 2024	*Likely "Slight" Slope Reduction*			
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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