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Global

FX Flash

SGD NEER - More Room to Fall?

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How Much More Can SGD NEER Fall After Recent Move?

In our last S$NEER note (published mid-Oct 2019 after MAS easing), we had looked for a gentle decline in S$NEER, from around "1.5% above policy mid" to "0.5%-1.0% above policy mid". This did not materialize for most of end-2019, as market optimism over easing of tensions between US and China lent support to AxJ currencies. However, post US-China deal signing, the advent of the Wuhan coronavirus outbreak has led **SGD NEER to fall from 1.7% in mid-Jan to around 0.7% now**. Perception of Singapore as a regional transport hub with tight (China) linkages likely amplified negative sentiments.

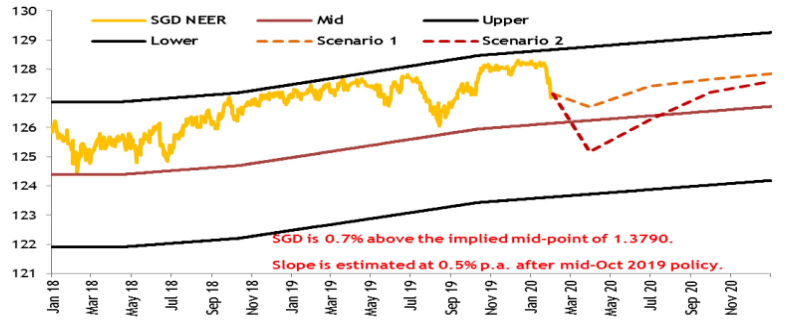
For such crises, once the tide turns, the pick-up in sentiments can be relatively fast. **But for now, SGD and regional currencies such as RMB, KRW, THB, could remain under pressure as long as case counts in China do not see tapering in pace of increase.** Some hope lies in the fact that the effectiveness of government measures taken in late-Jan has yet to be fully seen.

During SARS, S$NEER declined by around **-2% over a period of 50 days.** We simulate two scenarios for the current crisis. On net, any further decline in S$NEER could be more modest if negative economic impact is contained—S$NEER could remain above policy mid at end-1Q despite interim overshooting (lower). On the other hand, a more drawn-out crisis, especially if it takes more than 1Q for contagion to peak, and if community spread occurs locally, could see a more severe impact to growth and S$NEER (potentially reach 0.5-1.5% below policy mid by end-1Q).

	Brief Description	SGD NEER by End-1Q
Scenario 1 (New Baseline)	0.6%-pt hit to 2020 GDP Growth; Damage Concentrated in 1Q	0 to 1.0% above policy mid by end-1Q, despite potential interim overshooting lower.
Scenario 2 (Severe Case)	1.8%-pt hit to 2020 GDP Growth; Damage Concentrated in 1Q & 2Q	0.5 to 1.5% below policy mid by end-1Q, before subsequent recovery.

Note: Initial GDP growth projection pre-outbreak was 1.8% for 2020.

SGD NEER Could Head Below Policy Mid If Damage To Economy is Deeper & More Long-Drawn Than Expected

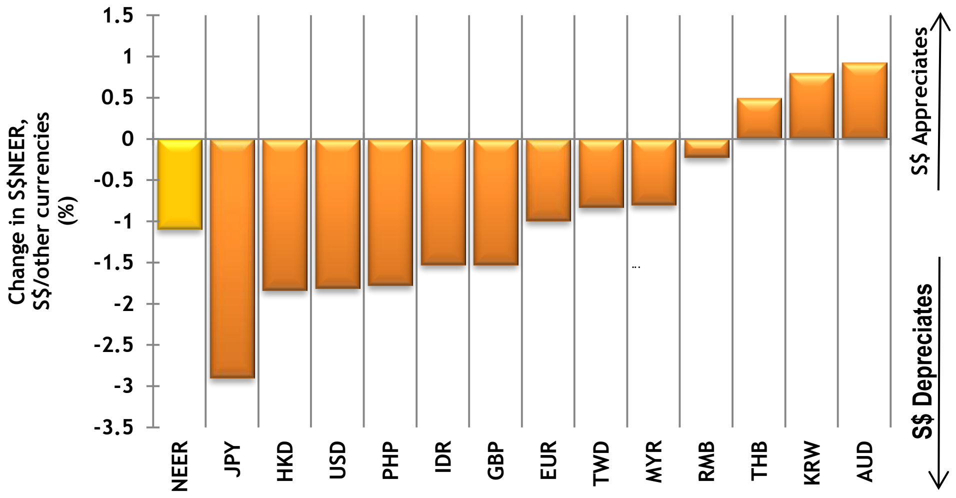


Source: Bloomberg, Maybank FX Research & Strategy Estimates

Weakness in Regional FX Tied to Extent of Exposure to China

Concerns over the current virus outbreak have escalated quickly since mid-Jan, alongside the rapid increase in cases within China, and contagion in other countries. Regional equities, particularly those in accommodation, air transport and retail have been hit, and accordingly currencies of AxJ economies have softened alongside.

SGD NEER Fell ~1% Since mid-Jan



Source: *Bloomberg, Maybank FX Research & Strategy Estimates*

SGD has softened more compared to most of its trading partners. Perception of Singapore as a small open economy and regional transport hub with tight trade linkages with China likely amplified negative sentiments as the Wuhan virus outbreak developed.

The only currencies to have performed worse than the SGD are THB (a-third of tourism receipts from Chinese tourists), KRW (high-beta to risk events; tight electronics linkages with China), AUD (high commodity trade exposure to China; bushfires).

Looking at the table below, there is a discernible correlation between the extent of recent FX softening with (i) exposure to China's demand (including tourism) and (ii) extent of probable contagion.

PHP & IDR Likely Shielded vs. KRW, THB, SGD

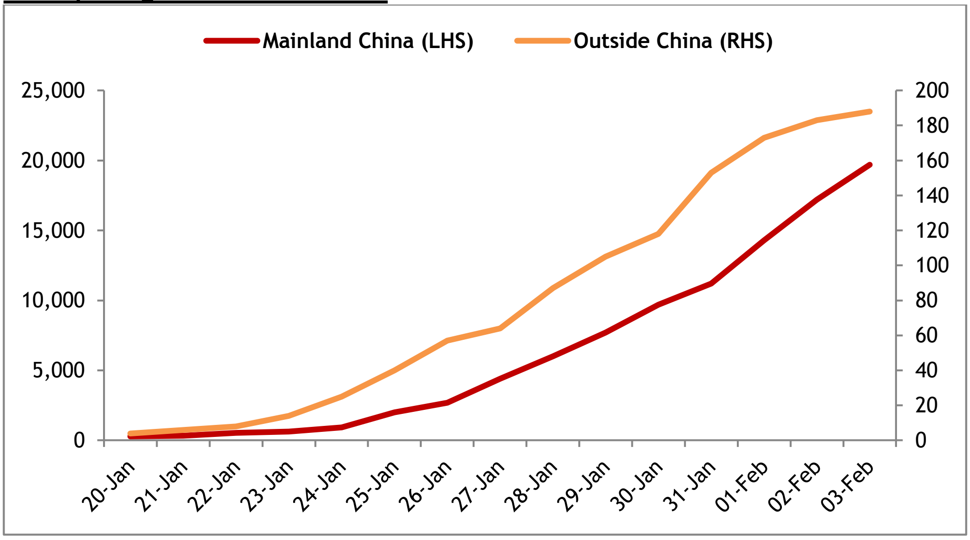
					Exposure to China	
Country	FX change vs. USD since 15 Jan	Cases	Deaths	Recoveries	% of Tourists (2018)	China's Share in External-facing Sectors (%)*
China	-1.6%	20386	425	639	-	-
S. Korea	-2.6%	15	-	-	31	25
Thailand	-2.3%	19	-	5	28	17
Singapore	-1.8%	18	-	-	18	14
Taiwan	-1.0%	10	-	-	24	33
Malaysia	-1.0%	8	-	-	11	20
Indonesia	-0.3%	-	-	-	14	15
Philippines	0%	2	1	-	18	19

Source: *John Hopkins CSSE, OECD TiVA, Bloomberg, CEIC, Maybank FX Research & Strategy*
Note: Data for 2019-nCoV cases are as of morning of 4 Feb.
* Computed by OECD by decomposing the actual input of each country in the production of goods & services consumed worldwide. Latest data point is 2015 due to complexity of calculations.

Buy the Dip? Maybe Not Yet, But Stay Nimble…

For now, **sentiments could swing on a day-to-day basis but are broadly expected to remain dampened** as long as case counts in China do not see tapering in pace of increase.

No Tapering in New Cases…Yet



Source: John Hopkins CSSE

However, based on incubation period of around one-two weeks, current emerging new cases are likely still tied to the period of cross-country movements just before/during/post the Lunar New Year celebrations.

The effectiveness of measures taken by governments, including the lock-down of Wuhan and more than a dozen other Chinese cities, remains to be fully seen, but will be critical in determining whether the outbreak can be contained in the following weeks.

Effectiveness of Measures (Bold) Since Late Jan Yet to Be Fully Seen

Date	Key Event(s)
1 Dec 2019	First Patient
5 Jan 2020	59 cases; Early Investigation, Quarantine
9 Jan 2020	WHO Confirmation of Novel Coronavirus
13 Jan 2020	First Case Outside China, in Thailand
19 Jan 2020	First Cases In Guangdong & Beijing
20 - 22 Jan 2020	Confirmation of Human-to-Human Transmission; New Cases in South Korea, Taiwan, US, Macau, HK
23 Jan 2020	New Cases in Singaporean Vietnam; **Wuhan Lock-down; Construction of Emergency Hospital Begins**
24 Jan 2020	**Most of Hubei Province under Lock-down**
26 Jan 2020	**Extended Spring Festival Break to Contain Outbreak; Nationwide screening; Wildlife Trade Banned; Schools Remain Closed**
27 Jan 2020	**China allocates US$8.74bn to Contain Outbreak**
30 Jan 2020	**WHO Declares Public Health Emergency of International Concern (PHEIC)**

Source: Wikipedia; Various News Sources

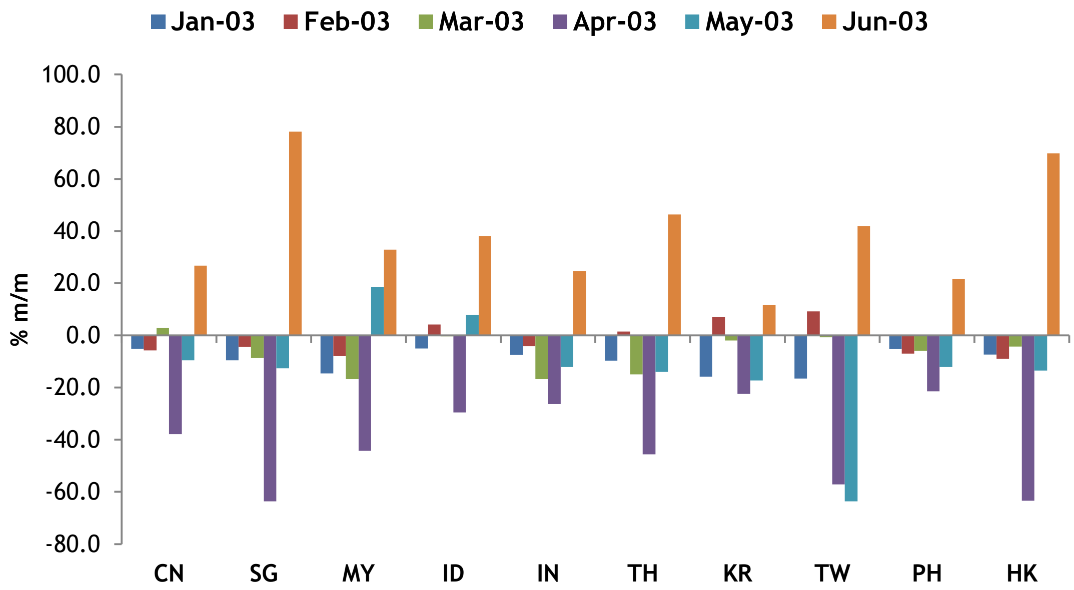
Meanwhile, an increasing number of countries including Indonesia, India, Italy, New Zealand, Philippines, US, Australia, Singapore, Israel and Russia have imposed travel restrictions on travellers from China, while South Korea and Japan have imposed restrictions on Hubei residents.

These actions could serve to help contain the international spread of the outbreak, even as Beijing has criticized them as "overreactions" which might "make things worse".

Rationally, faster response by other governments and more efficient communication among healthcare experts this time round could still help contain the virus outbreak at some point, **even if the aggressive containment measures could sacrifice GDP growth momentum in 1Q (or even 2Q) for affected countries.**

Once the tide turns, the pick-up in activity and sentiments can be relatively fast. During SARS (headlines in Feb 2003), the impact on visitor arrivals was largely over Mar-May 2003; visitor arrivals rebounded by June. Most equity indices also reached their troughs within 1-2 months from the initial market dip, and proceeded to recover after.

SARS: Visitor Arrivals Rebounded in June 2003 Once Signs of Effective Containment Emerged



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

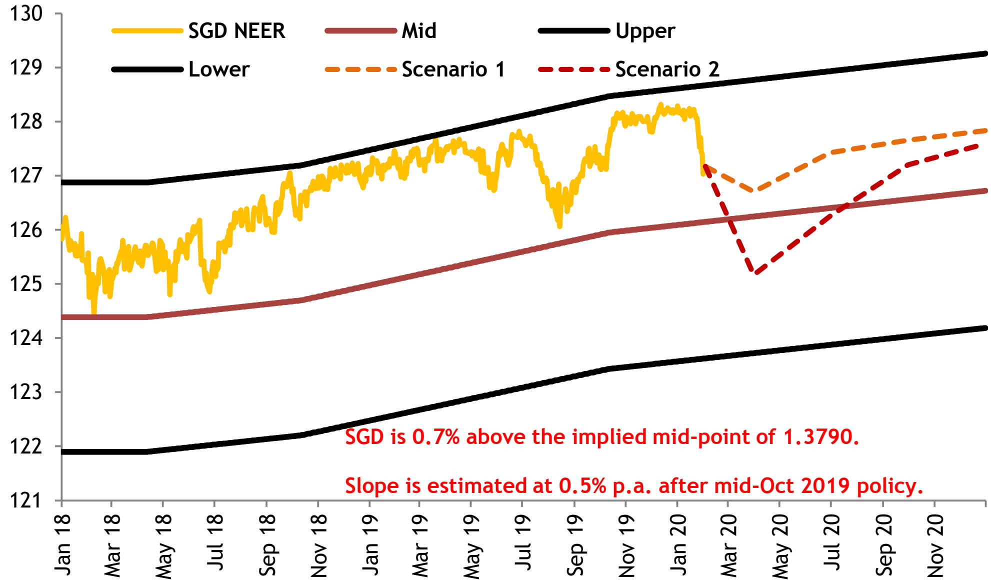
What Does This Mean For SGD NEER?

Coming back to the SGD NEER, we note that during SARS, the duration to trough from 11 Feb 2003 (when China reported SARS to the media/WHO) was **50 days**, and the % change seen during that time was **-2%.**

We simulate two possible scenarios this time round (Taylor-Rule model).

	What it Entails
Scenario 1 (New Baseline)	0.6%-pt Decline in 2020 GDP Growth vs. Pre-Outbreak Baseline, with Damage Concentrated in 1Q.
Scenario 2 (Severe Case)	1.8%-pt Decline in 2020 GDP Growth vs. Pre-Outbreak Baseline (i.e., **flat growth for 2020**), with Damage Concentrated in 1Q and 2Q.

SGD NEER Could Head Below Policy Mid If Damage To Economy is Deeper & More Long-Drawn



Source: Bloomberg, Maybank FX Research & Strategy Estimates

On net, we think that any further decline in SGD NEER could be more modest if negative impact on economy turns out to be contained. SGD NEER could remain above policy mid at the end of 1Q despite any interim overshooting (lower) due to amplified sentiments.

On the other hand, a more drawn-out crisis, especially if it takes more than a quarter for contagion to peak, and if community spread locally occurs, could see a more severe impact to growth and SGD NEER (potentially reach 0.5-1.5% below policy mid by end 1Q).

USDSGD Daily Chart - Overbought; But Modest Potential Upsides

Momentum on the daily chart is bullish, while stochastics are in overbought conditions. Pair has risen past 100-DMA at 1.3620 and 200-DMA at 1.3670. A stretch towards 1.3750 (61.8% fibo retracement from Sep 2019 high to Dec low) or even 1.3820 (76.4% fibo) should not be ruled out if negative headlines on the Wuhan coronavirus outbreak intensifies in the interim. Support at 1.3640 (38.2% fibo), 1.3560 (23.6% fibo).

SGDMYR Daily Chart - Mixed Signals Remain; Stay Sideline

Technical signals remain mixed. 50 DMA cuts 100, 200 DMAs to the downside – death cross – typically a bearish signal while bearish trend channel remains intact. However momentum on daily chart has turned neutral (from bearish) while stochastics is showing signs of turning from oversold conditions. This continues to suggest that the risk of rebound remains on the table. Resistance at 3.010 (23.6% fibo retracement of Dec 2019 high to recent low), 3.040 (200-DMA). Key support at 2.990. Given the confluence of mixed signals and little conviction, we continue to stay sideline for now.

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