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Maybank

FX Flash

SGD NEER - MAS Easing Partly Priced In

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SGD Tanked Alongside AxJs on Covid Pessimism

On 4 Feb, when SGD NEER was estimated at +0.7% above implied policy-mid, we had introduced two potential scenarios relating to Covid impact. Actual developments panned out closer to the second scenario, involving a larger and more protracted impact roiling global economies and financial markets. Scenario 2 had called for SGD NEER to "potentially reach -0.5-1.5% below policy mid-point by end 1Q" and as of writing, **SGD NEER is estimated at -1.3% below implied policy mid-point**.

Revising USDSGD Forecasts Upwards

In Mar, **oil markets saw a significant shock in the form of the break-up in the OPEC+ alliance**, with brent prices now at ~US$32, compared to >US$50 at the start of the month. Each -10% decline in global oil prices could dent Singapore's inflation by around -0.10%-pt, leading to downside risks to inflation. Two, the current wave of Covid contagion, particularly the **escalation of confirmed cases in western countries, will likely hit global demand over a more protracted period**. House view for SG growth is now lowered to -0.3% in 2020 (from 1.1% earlier).

On net, MAS may now be more likely to ease in April. Our economist colleagues attribute **a 60% likelihood to a potential slope flattening, and a 40% likelihood to a re-centering downwards of the policy mid-point**. Concomitantly, we shift 2Q and 3Q USDSGD forecasts to 1.4000 and 1.3800, but remain positive on SGD vs. USD overall, as SG macro fundamentals are likely to pull through more strongly vs. DMs in 2H. New year-end forecast is at 1.3650.

SGD NEER Weakness Usually Priced in Prior to Announcements

There are some market chatters of a possible MAS inter-meeting policy announcement before mid-Apr, particularly since Fed has surprised with two unscheduled Fed rate cuts. Looking at SGD NEER now (-1.3% from policy mid), we think it has priced in at least a slope flattening.

In past re-centering episodes, much of the SGD weakness has also been priced in prior, and further SGD softness on policy announcement did not materialize strongly. **On net, if MAS were to simply flatten policy slope, SGD NEER might not see significant further downsides. If MAS were to re-centre downwards, SGD NEER might see modest declines, but perhaps not more than -0.5-1.0% in magnitude.**

Past MAS Re-Centering Episodes

Date	MAS Policy Details	Position of SGD NEER Relative to Policy Mid On Previous Day	Change in SGD NEER on Day of Easing
10-Jul 2003	Re-centre…at current level of the S$NEER, while maintaining a 0% appreciation path…width of the band will remain unchanged.	-1.4% below implied policy mid	-0.4%
14-Apr 2009	Re-centre the exchange rate policy band to the prevailing level of the S$NEER, while keeping the 0% appreciation path…width of the band will remain unchanged.	-2.1% below implied policy mid	+0.7%

Source: MAS, Maybank FX Research & Strategy Estimates

Review of Prior SGD NEER Scenarios

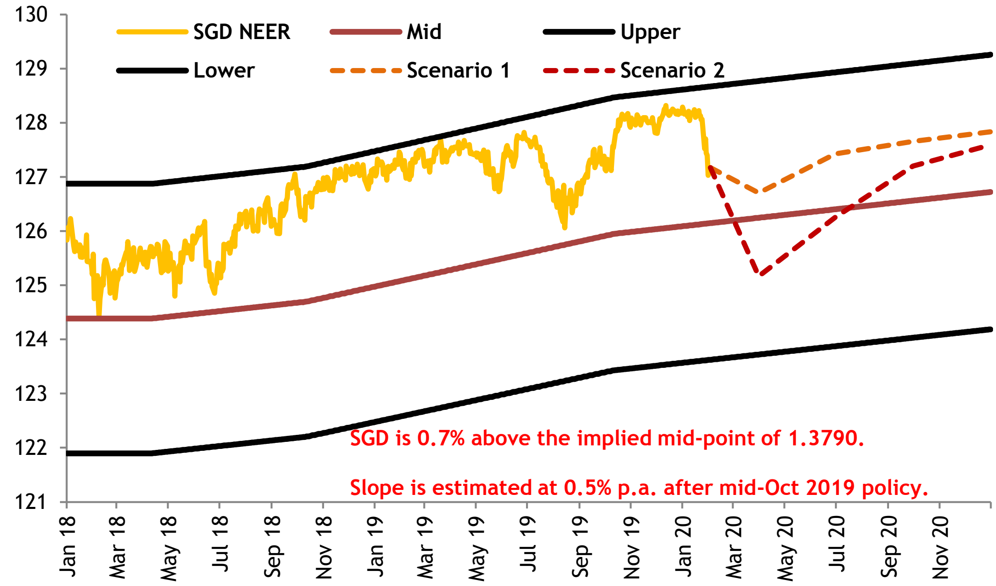
On 4 Feb, when SGD NEER was estimated at +0.7% above implied policy-mid, we had introduced two potential scenarios for how events might pan out in the interim. (*SGD NEER - More Room to Fall?*)

Scenario 1 was for Covid damage to be contained largely within 1Q, and where GDP growth forecast for Singapore could potentially be maintained above 1% in 2020. On the other hand, **Scenario 2 was for a larger and more protracted Covid impact roiling global economies and financial markets**, and where Singapore's GDP growth was expected to head towards or below zero for the year.

Based on the one-and-a-half months of developments since that report, it seems like actual developments now are closer to scenario 2. While both scenarios had envisaged further softness in SGD NEER (from +0.7% above mid-point on 4 Feb), Scenario 2 had called for SGD NEER to "potentially reach -0.5-1.5% below policy mid-point by end 1Q".

As of writing, SGD NEER is estimated at -1.3% below implied policy mid-point.

Chart From 4 Feb Describing Scenarios (Then)



Source: Bloomberg, Maybank FX Research & Strategy Estimates

SGD Forecast Revisions

USDSGD Forecast

	2Q 2020	3Q 2020	4Q 2020
USDSGD	**1.4000** (1.3700)	**1.3800** (1.3600)	**1.3650** (1.3500)
SGDMYR	**3.0140** (3.0290)	**3.0290** (3.0290)	**3.0620** (3.0520)

Previous Forecast in Parenthesis

Two key developments have occurred since end-Feb, when our monthly forecasts were released.

First, **oil markets saw a significant shock in the form of the break-up in the OPEC+ alliance**. (See *The Domino Impact of An Oil Shock*) As of writing, brent prices are at around US$32, compared to >US$50 at the start of the month. Our economist colleagues estimate that each -10% decline in global oil prices could dent Singapore's inflation by around -0.10%-pt. Given that inflation was already soft prior to the oil market shock—core inflation averaged 0.6%y/y for Jul 2019 to Jan 2020—there are downside risks on this front.

Two, **the current wave of Covid contagion, particularly the escalation of confirmed cases in western countries, will likely hit global demand over a more protracted period**. PMIs globally could see downward pressures in the interim, even as Chinese factories slowly get back to work. Given the open nature of the Singapore economy, house view for GDP growth is now lowered to -0.3% in 2020 (from +1.1% earlier). (See *Recession Fears & A Second Package*)

MAS may now likely ease in April. Our economist colleagues attribute a 60% likelihood to a potential slope flattening, and a 40% likelihood to a re-centering downwards of the mid-point of the policy band.

Given above developments, we shift 2Q USDSGD forecast to 1.4000 and 3Q forecast to 1.3800, but keep the downwards trajectory intact. I.e., we remain positive on SGD vs. USD, particularly in 2H. SG macro fundamentals (high structural current account surplus, resilient employment) could pull through more strongly vs. DMs even in an environment of protracted Covid impact. On the other hand, US growth could suffer a greater-than-expected negative shock if Covid escalation impinges on retail and corporate demand, productivity, investment plans. New year-end forecast is at 1.3650.

Alongside, SGDMYR could continue to remain above the key 3-level as oil adds to Covid concerns in Malaysia and posts a greater drag on MYR sentiments vs. SGD. We also look for SGD to recover from Covid concerns slightly faster vs. MYR given the more open nature of the Singapore economy. On net, an upward sloping forecast trajectory for SGDMYR could be possible.

Potential MAS Moves; SGD NEER Trajectory

We note that there are now market chatters of a possible MAS inter-meeting policy announcement, particularly since Fed has surprised the markets twice with 2 unscheduled Fed rate cuts (-50bps on 3 Mar, -100bps on 16 Mar), arguably leading to heightened expectations for bouts of global monetary policy easing by central banks.

We think that a slope flattening has likely been priced in current SGD NEER (at -1.3% below implied policy mid), and more aggressive policy signalling would be needed for SGD NEER to see significant further downsides.

We note too that past re-centering moves in Jul 2003 and Apr 2009 have not translated to significant downward pressures in SGD NEER when markets had already incorporated easing expectations (i.e., SGD NEER significantly below policy mid prior to policy announcement).

Past MAS Re-Centering Episodes

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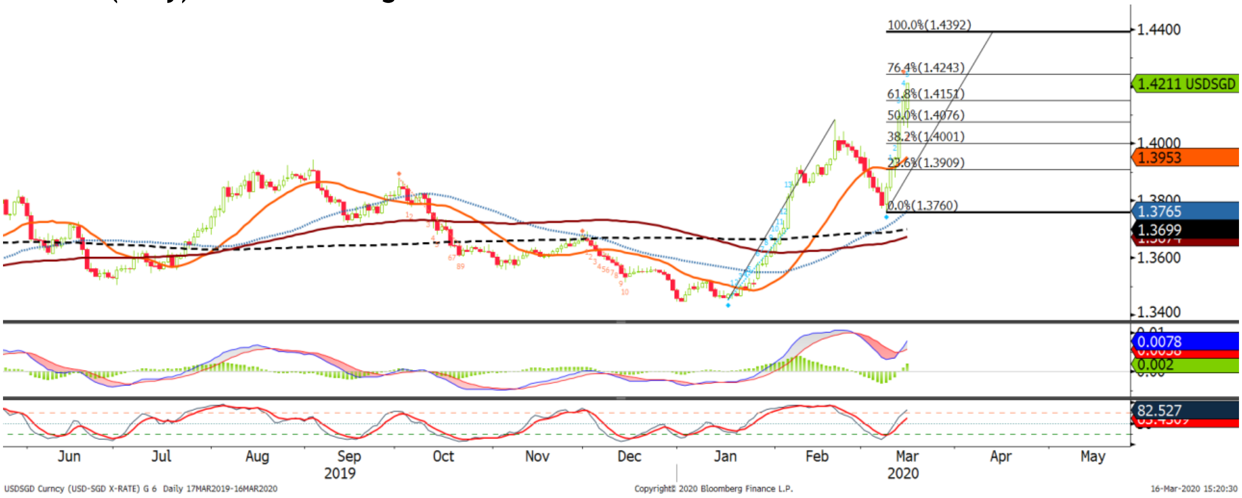
Source: MAS, Maybank FX Research & Strategy Estimates

One modest difference this time round could be that MAS policy is now at estimated at +0.5% policy slope vs. 2003 and 2009 when policy slope was already flat prior to re-centering. So a combination of a slope flattening and a re-centering downwards could still induce some weakness in SGD NEER.

On net, if MAS were to simply flatten policy slope, SGD NEER might not see significant further downsides. If MAS were to re-centre downwards, SGD NEER might see modest declines, but perhaps not more than -0.5-1.0% in magnitude.

USDSGD (Daily): Near-Overbought

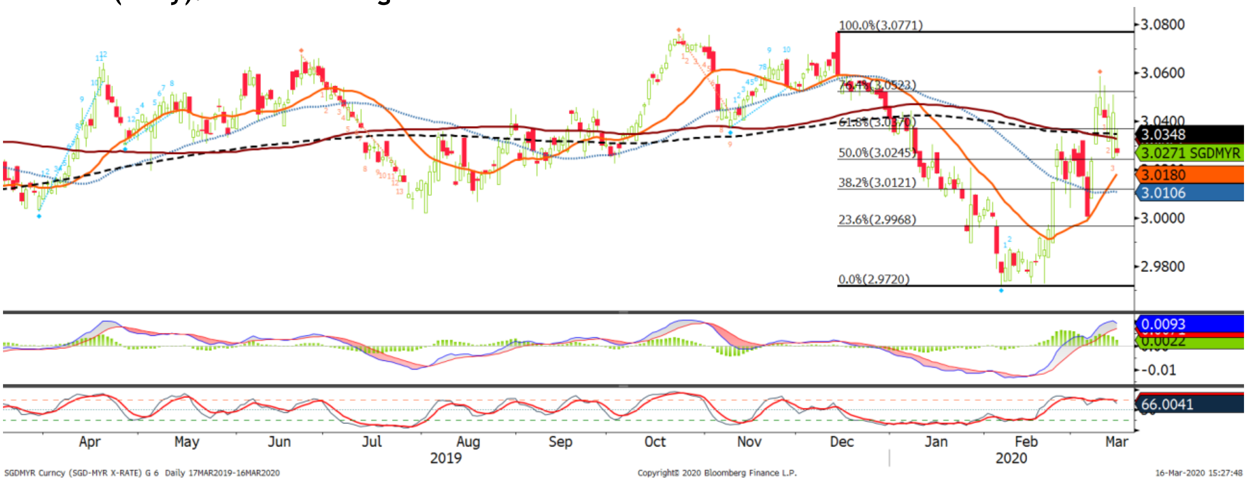


Source: Bloomberg, Maybank FX Research & Strategy

Momentum on daily chart has turned mildly positive, and stochastics are on the climb towards near over-bought conditions. Resistance at 1.4240, 1.4390. Support at 1.4000, 1.3900.

We watch for MACD/RSI to see if tentative signs of bearish divergence (i.e., higher high in level but MACD forming lower highs) could be setting in, which is usually a bearish signal.

SGDMYR (Daily): Bearish Divergence



Bullish momentum is fading while RSI is easing. A bearish divergence on MACD, RSI is forming. Support at 3.0250, before 3.0120 levels. Resistance at 3.0350 (100, 200 DMAs), 3.0520 levels.

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