FX Flash

SGD: Holding Steady in Turbulent Times

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MAS Stands Pat Amid Moderating Inflation and Growth Surprise

MAS stood pat and left policy settings (slope, centre and width) unchanged. This is the second stand pat after the first in Apr 2023. This decision is in line with our house view and the market consensus. MAS assessed that the current policy stance is "sufficiently tight" to ensure medium-term price stability. 3Q2023 advance estimates showed that growth picked up to +1.0% QoQ SA (exp: +0.6%; prev: +0.1%) and +0.7% YoY (exp: +0.4%; prev: +0.5%), with MAS recognizing that the risk of a sharp global downturn has receded and acknowledged potential for better growth prospects in 2024, although growth was still subject to significant uncertainty. MAS expects inflation to further moderate moving forward, although they recognize that both upside and downside risks to inflation exist. Given the growth and inflation outlook, this decision strikes a balance between continuing to ensure medium-term price stability and the muted growth prospects for Singapore moving forward.

Move to a Quarterly Policy Statement Schedule

MAS also announced that it would move to quarterly statement schedule in Jan, Apr, Jul and Oct from 2024. The next statement will be in late Jan 24, with the exact date to be announced at the start of the month. MAS views this as an effort to improve monetary policy communications and emphasized that there is no change to the medium-term price stability objective. This change gives them the ability to adjust policy and respond to any change in economic conditions with greater flexibility and agility. While the change entails more risk events and potentially more volatility for the SGD as we approach the meetings, it could be viewed as a possible reduction in volatility from the previous regime where unscheduled off-cycle announcements usually surprise the market.

Upward Pressures on SGDNEER Remain Although USDSGD Could Trade Higher

Ahead of the decision, SGDNEER was trading at around +1.60% above the mid-point with USDSGD at 1.3695. Immediately after the announcement, USDSGD fell to around 1.3685, with the SGDNEER at +1.80% above the mid-point immediately after the announcement, where it currently trades. We expect upward pressures on the SGDNEER to remain and think our earlier recommendation to buy the SGDNEER on dips should hold. However, USDSGD could trade higher as the higher-for-longer US yields and USD narrative remains intact.

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MAS stood pat and left policy settings (slope, centre and width) unchanged. This is the second stand pat after the first in Apr 2023. This decision is in line with our house view and the market consensus. MAS assessed that the current policy stance is "sufficiently tight" to ensure medium-term price stability. The statement today seems generally balanced with expectations that risk of a global slowdown has receded somewhat and a pickup in major trading partners should be accompanied by a slowing down in core inflation in 2024.

On growth, advance estimates showed that growth surprised to the upside by +1.0% QoQ SA in 3Q2023 (exp: +0.6%; prev: +0.1%) and grew by +0.7% YoY (exp: +0.4%; prev: +0.5%). Our economists' were expecting growth to be weaker at +0.1% YoY. Actual outturns were better than expected largely due to an improvement in the manufacturing sector, which was offset by some easing in domestic-oriented sectors. MAS expects GDP growth for 2023 to come in at the lower half of the 0.5 to 1.5% forecast range. For 2024, MAS is expecting growth to come in closer to its potential rate with a slightly negative output gap amid an improvement in external conditions, as growth in major trading partners should gradually pick up in 2024. However, MAS also recognized that there would be significant uncertainty to the timing and extent of a growth recovery. Our economists maintain their GDP forecast at 0.8% in 2023 and +2.2% in 2024.

On inflation, MAS acknowledged that inflation had come off and should continue to moderate. For 2023, MAS Core Inflation is projected to come in at around 4%, unchanged from 2022. Excluding the impact of the Jan GST hike, MAS saw core inflation lower compared to 2022. Headline inflation is expected to average around 5% in 2023 (prev: 6.1%). MAS thinks this should pick up slightly from the 4% YoY August figure amid higher COE premiums and petrol prices. In 2024, MAS Core Inflation is expected to be on a broad moderating trend and is projected to slow to an average of 2.5 to 3.5%, excluding GST this would be 1.5 to 2.5%. Our economists maintain their forecast of MAS Core Inflation at +2.8% (within the range) and raise their 2024 headline inflation forecast to +3.3% (prev: 2.9%), in line with the latest MAS guidance of 3.0 to 4.0% (2.5 to 3.5% excluding GST impact). MAS sees both upside and downside risks to inflation arising from shocks to global food/energy prices or domestic labour costs. However, sharper than expected downturns in the global economy could also contribute to easing price pressures.

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MAS also announced that it would move to quarterly statement schedule in Jan, Apr, Jul and Oct from 2024. The next statement will be in late Jan 24, with the exact date to be announced at the start of the month. MAS views this as an effort to improve monetary policy communications and emphasized that there is no change to the medium-term price stability objective. This change gives them the ability to adjust policy and respond to any change in economic conditions with greater flexibility and agility. While the change entails more risk events and potentially more volatility for the SGD as we approach the meetings, it could be viewed as a possible reduction in volatility from the previous regime where unscheduled off-cycle announcements usually surprise the market. Perhaps MAS also recognizes that in times as uncertain and as turbulent as these, there is a need for more frequent correspondence to the market on its monetary policy outlook. If necessary, they would also be able to respond to any changes in the growth/inflation outlook without having to shock the market with an unscheduled policy announcement.

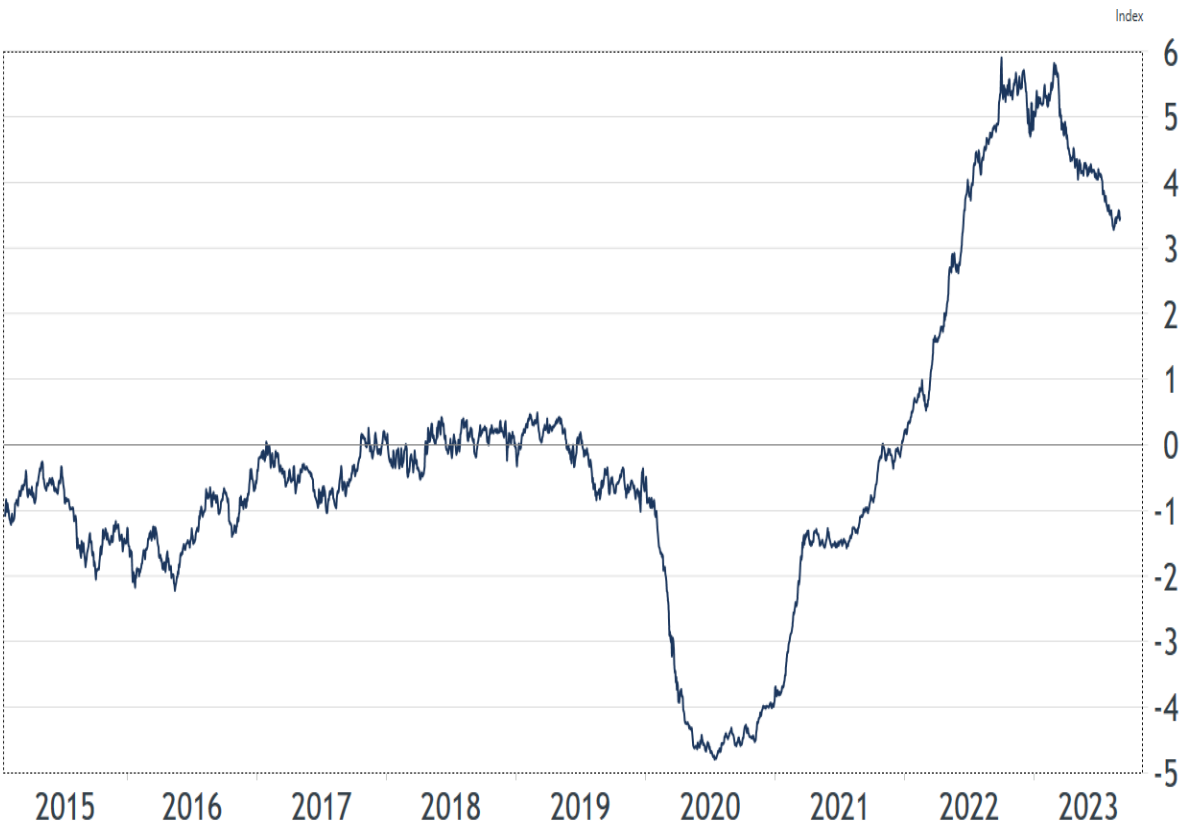
MAS' Monetary Policy in 2024

We think that should the current outlook for growth and inflation hold, MAS would be biased towards standing pat in Jan. Our economists share this view since inflation is expected to still remain sticky above historical norms next year, while the growth outlook is brighter than previously expected. We do recognize that these are however turbulent times as escalation in geopolitical conflicts could easily change the growth and inflation outlook and would not rule out MAS changing their stance that the current SGDNEER appreciation is "sufficiently tight" if the growth/inflation outlook does change.

Financial Conditions are Relatively Tight and Should Mitigate Domestic Price Pressures

Based on the Maybank Singapore Financial Conditions Index (Chart 1), a combination of short-term rates, exchange rates, equity indices, government bond yields and business cycle leading indicators, it appears that financial conditions in Singapore remain at relatively tight levels although they appear to be easing from highs. The elevated tightness should dampen domestic sources of price pressures and work together with the current appreciating policy stance, which would mitigate external price pressures, to alleviate overall inflation.

Chart 1: Financial Conditions at Elevated Tight Levels



Source: Macrobond, Maybank FX Research and Strategy

We do believe that MAS' exchange rate policy is in itself insufficient to address the rising cost of living, which is a function of both external and domestic factors. The Singapore government has already tried to address this via a top-up of the cost of living support package, with the scheduled GST hike and extension of the Progressive Wage Model sources of further price pressures. There could perhaps be further measures in the 2024

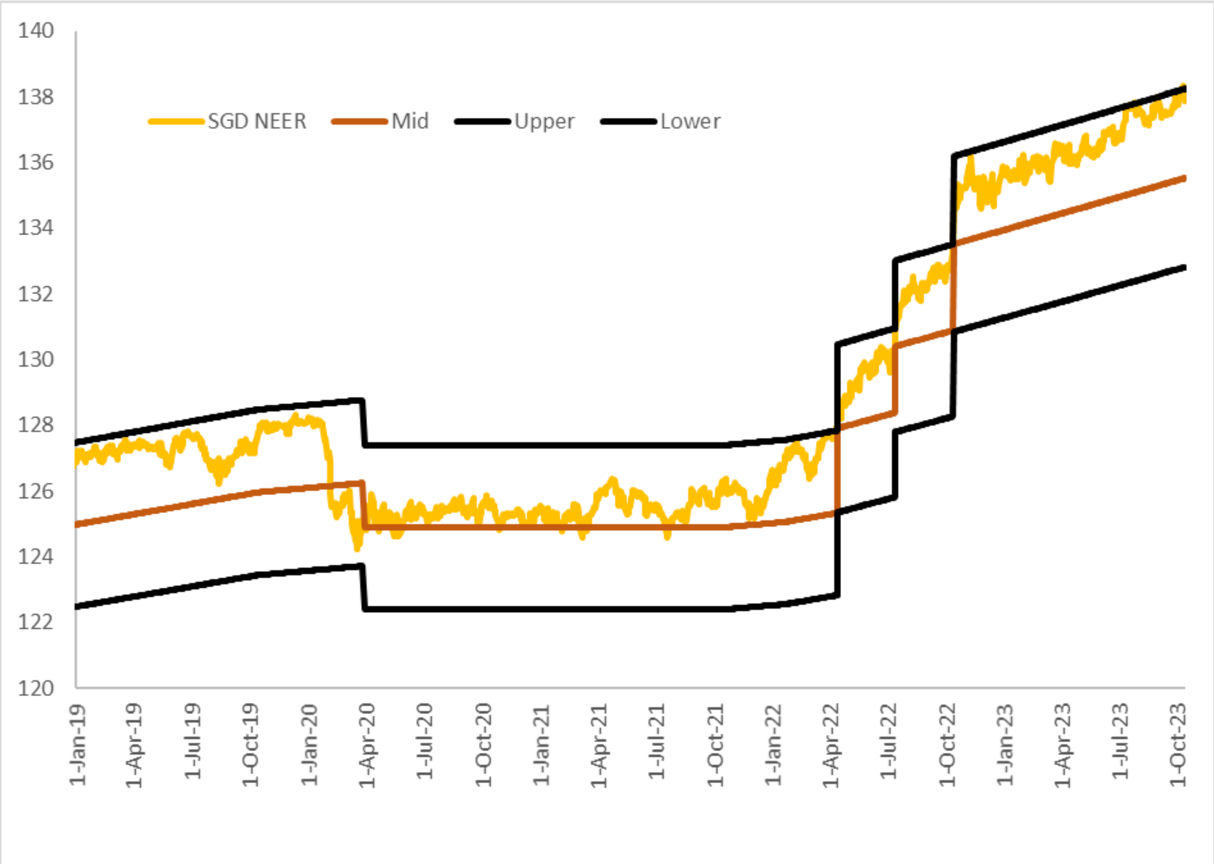
Budget to address this, and the government is already looking at supply-side measures such as increasing the supply of housing, although this particular measure could have a longer lead-time to come into effect.

Upward Pressures on SGDNEER Remain Although USDSGD Could Trade Higher

On market reaction, ahead of the decision the SGDNEER was trading at around +1.6% above the mid-point with USDSGD at 1.3695. Immediately after the announcement, USDSGD fell to around 1.3685, with the SGDNEER at +1.80% above the mid-point (Chart 2).

Given the appreciating path of the SGDNEER (assumed to be 1.5%); we expect upward pressures on the SGDNEER to remain and think our earlier recommendation to buy the SGDNEER on dips is still viable. We think that SGDNEER should trade between 1.00% and 2.00% (YTD Avg: 1.45%) above the mid-point. The close correlation of UST yields and SGS yields should also be further supportive of the SGD and SGDNEER, since further widening of yield differentials of the US vis-à-vis the rest of the world should affect the SGD less than other currencies. However, USDSGD could trade higher as the higher-for-longer US yields and USD narrative remains intact in the near-term. We therefore maintain our USDSGD forecasts that shows the USD gradually weakening (Table 1).

Chart 2: SGD NEER is now around +1.80% above the Policy Mid-Point



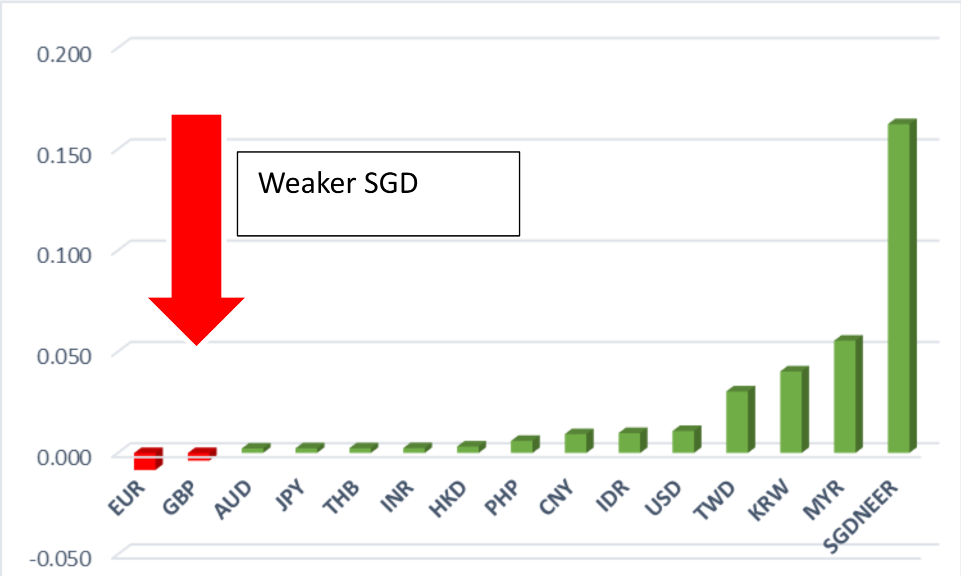
Source: Bloomberg, Maybank FX Research & Strategy

Decomposing the SGDNEER move against the basket constituents, we see that the SGD strengthened against most constituents with the exception of the EUR and GBP. Main contributors of strength were MYR, KRW and

TWD (Chart 3). USDSGD trades within a tight 20-pip range today between 1.3680 to 1.3700.

Apart from buying SGDNEER on dips, we would suggest selling SGDJPY looking for the reversal from all-time highs of around 109.40 levels where the pair currently trades. We think that the JPY as a traditional safe-haven could potentially benefit in an increasingly uncertain world, in line with our implied SGDJPY forecasts (Table 1).

Chart 3: SGD's Moves Against Trading Partners for Today



Source: *Bloomberg, Maybank FX Research & Strategy*

Table 1: SGD Forecasts

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USDSGD	**1.3650** (1.3400)	**1.3650** (1.33250)	**1.3550** (1.3150)	**1.3450** (1.3000)	**1.3400** (1.2800)
SGDJPY	**1.0989** (1.0638)	**1.0989** (1.0526)	**1.0753** (1.0204)	**1.0417** (1.0000)	**1.0101** (1.0000)
GBPSGD	**1.6380** (1.6750)	**1.6380** (1.6430)	**1.6396** (1.6175)	**1.6409** (1.5990)	**1.6482** (1.5744)
EURSGD	**1.4401** (1.4606)	**1.4469** (1.4575)	**1.4499** (1.4728)	**1.4526** (1.4950)	**1.4740** (1.4720)
SGDMYR	**3.4066** (3.3955)	**3.4066** (3.3585)	**3.3579** (3.3080)	**3.3086** (3.3077)	**3.2463** (3.2813)

(previous forecasts in parentheses)

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