FX Viewpoint

Friday, April 12, 2019

MAS MPS – Potential implications of an unchanged slope

- This morning, in line with prior expectations, the MAS maintained the slope (currently estimated at 1.00% p.a.) of the NEER with no change to its width (estimated at +/- 2.00%) and the level at which it is centered.

- Not surprisingly, given that the last policy statement was in October 2018 (initial forecasts for 2019 variables: GDP in Nov 2018, CPI-All Items in Feb 2019, core inflation at the Oct 2018 MPS), we would not impute too much negativity to the downgraded official growth/inflation prognosis in today's statement (***please see: Singapore Outlook – S'pore's 1Q19 growth slowed and MAS on hold, 12 Apr 2019***).

- Meanwhile, note that the official view on the domestic labor market (and unit labor costs) remains one of relative resilience despite the negative drag from exogenous factors on GDP growth and inflation. MAS has not thrown in the towel in terms of positivity (in line with several of its regional peers). Similar to the October 2018 MPS, structural policy normalization we think has not reached its terminal point and today's decision to remain static may merely represent a pause p[ending the global date feed.

- This has implications for the relative resilience of the SGD NEER. Firstly, this may imply little inclination to depreciate from a levels perspective. Secondly, softer prospects for the output gap imply potential for the SGD NEER to drift lower relative to its perceived parity in the coming months. From current deviation levels (+1.70% above parity), we see scope for some drift lower towards the +1.0% neighborhood in the next 6 months.

- With regards to SGD forward points, this would also imply little inclination to shift right significantly on the back of today's MPS. At the back-end (10y), rate differentials with the US would also continue to remain more a function of US rates.

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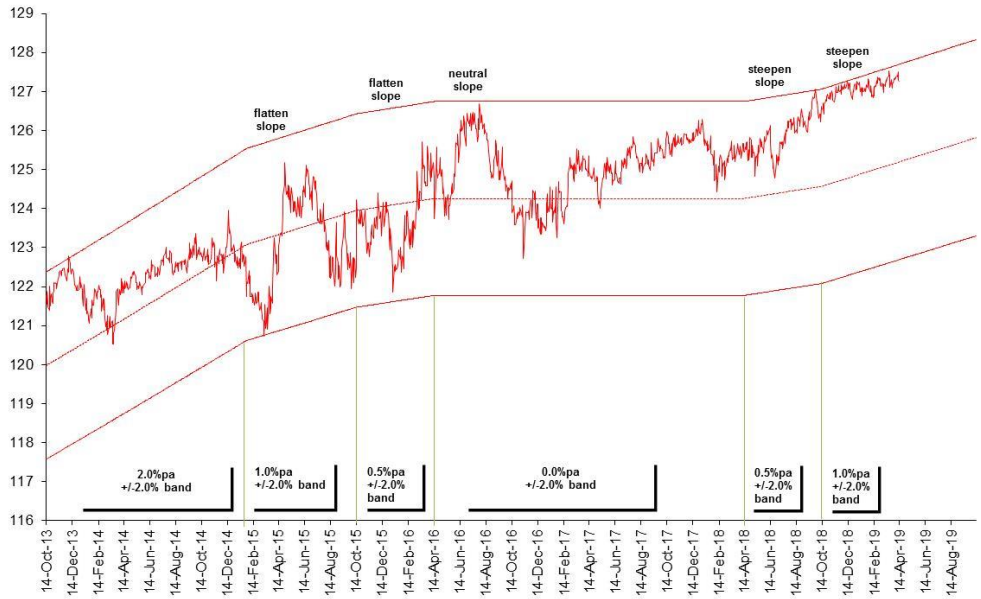
SGD NEER



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