

SGD NEER and October MAS MPS View

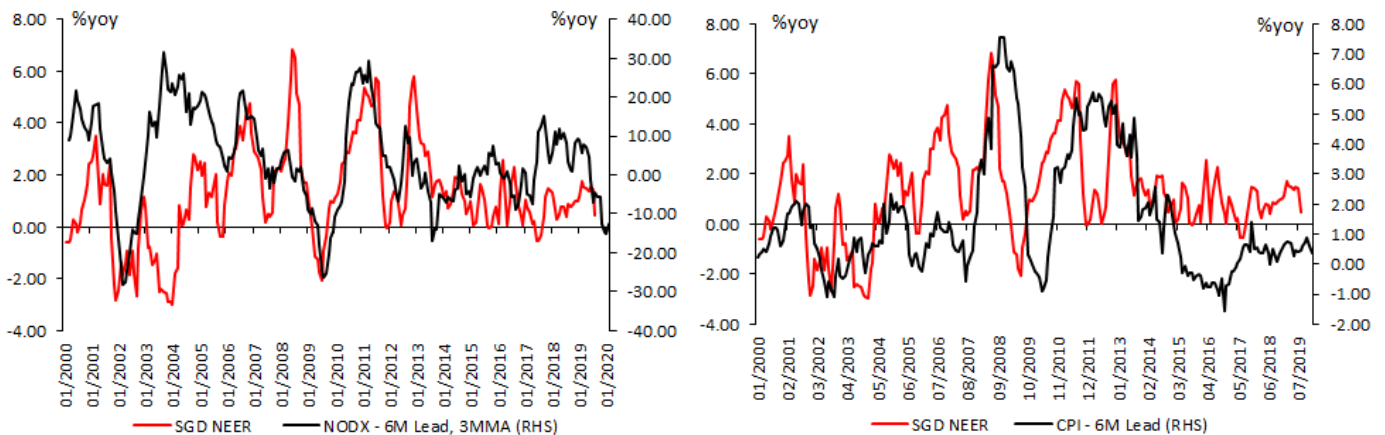
- **For the upcoming October MAS Monetary Policy Statement (MPS), our base case scenario is for the MAS to ease its monetary policy stance by reducing the slope the SGD NEER policy band from the currently estimated +1.00% p.a. appreciation path to +0.50% p.a.. We expect no change in the width and centre of the policy band.**
- The recent time path of the SGD NEER has been reflective of market focus. Since August, the SGD NEER has effectively been on an uptrend relative to its parity level. We first saw relative SGD outperformance against Asian counterparts amid RMB-led weakness in the Asian complex as the Sino-US trade tensions escalated in August, keeping the SGD NEER buoyed. Subsequently, the alleviation of tensions from September onwards saw the SGD recover against the USD and JPY, providing further support for the SGD NEER.
- Contrast that to the period between late-June and August, where the SGD NEER was on an easing trend (from an estimated +1.80% above parity to near-parity levels) as the market focused on a softening domestic economy. **Overall, the ongoing retracement higher of the SGD NEER relative to parity is largely driven by external factors, and not a reflection of reduced domestic concerns today, as compared to the pre-August period.**
- Despite the soft domestic and global growth/inflation narrative (set out below), the SGD NEER is still effectively flat year-to-date. **There is room for the SGD NEER to ease lower to provide the stimulus required for the economy.**
- Since the April MPS, the domestic growth/inflation outcomes have softened steadily, underlying the “slightly below potential” prognosis:
 - The downward revision of the 2019 official growth forecast in August to 0.0-1.0% yoy (from 1.5-2.5% yoy in May 2019, and 1.5-3.5% yoy in November 2018) probably best encapsulates the loss of momentum. A wide range of indicators, ranging from PMIs to NODX, also point towards a slowdown.
 - The inflation picture has continued to soften, with the August core and headline prints at +0.80% yoy and +0.50% yoy. The core and headline inflation averaged around +1.25% yoy and +0.59% yoy so far this year, still within the MAS forecast ranges (but below the midpoint). The headline gauge, however, is looking at risk of falling below range (+0.5-1.5% yoy). Into the year-end, while we expect headline inflation to edge higher from base effects, we will be hard-pressed to find signals that point to a quick acceleration of price pressures.

Treasury Research
Tel: 6530-8384

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

FX Viewpoint

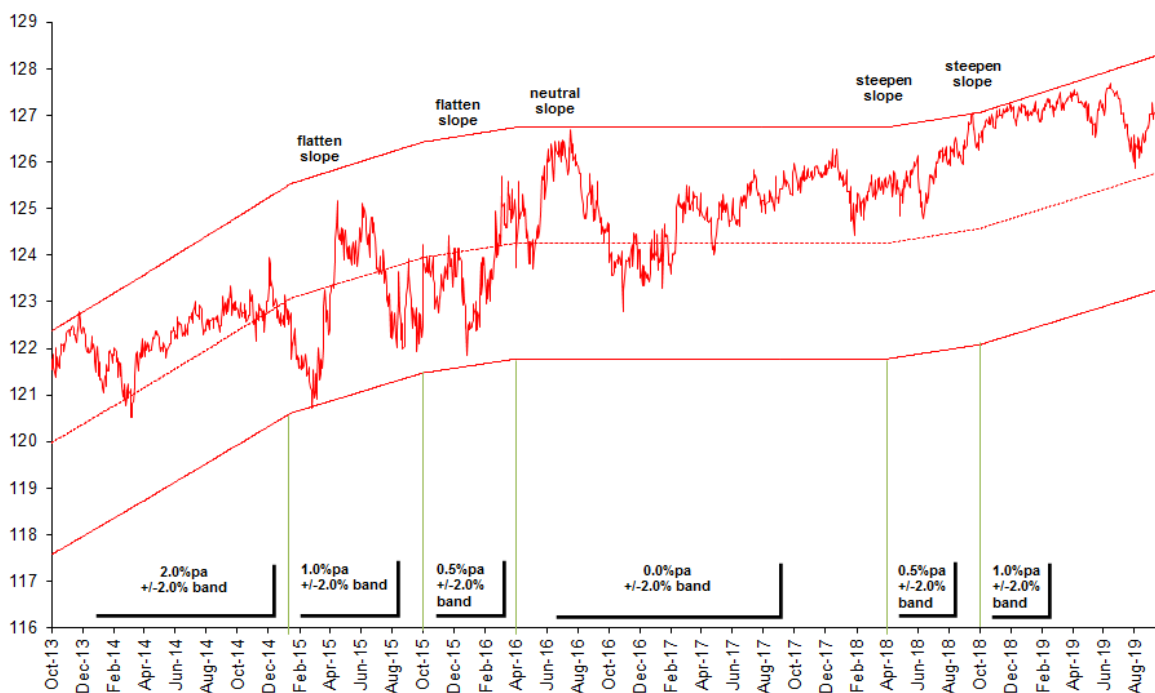
24 September 2019



- The global growth/inflation narrative has also been anemic at best. Tellingly, market focus has shifted from whether global central banks will cut rates, to when and how deep the rate cuts will be going forward:
 - Global PMIs have continued to lose traction, while the composite leading indicators show no signs of bottoming (except in the Asia Major Five sub-region). Meanwhile, headline and core inflation prints are essentially flat-lined. Thus, it remains too early to expect a global growth rebound to carry the Singapore economy.
 - Arguably, the ongoing Sino-US rapprochement is a slight bright spot for the global economy. Nevertheless, without a concrete truce (interim or otherwise) to at least nominally lock down progress on this front, the situation may be too fragile to generate sustained optimism.
- Thus, appealing to the policy reaction function should suggest that the MAS should undertake some form of easing action, with the question being the extent of easing.
- **While the risk of a more dovish move to a zero rate of appreciation cannot be fully discounted, we think this drastic step may not be warranted for now.** Taking this step would imply an official economic prognosis that is considerably worse than our expectation, or expected to deteriorate rapidly from here. Granted that the economic indicators have softened, it is insufficient to characterize the situation as a severe dislocation of the economy. Similarly, if there is a threat of a rapid deterioration, the more natural response would be for an off-cycle adjustment (just ruled out in August), rather than trudge the way to October. **On balance, we think a measured easing action to an estimated +0.50% p.a. appreciation path may be the most likely scenario.**

FX Viewpoint

24 September 2019



Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng

Senior FX Strategist
NqCYEmmanuel@ocbc.com

Tommy Xie Dongming

Head of Greater China Research
XieD@ocbc.com

Terence Wu

FX Strategist
TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li

Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau
dicksnyu@ocbc.local

Credit Research

Andrew Wong

Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst
ZhiQiSeow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).