FX Viewpoint

Friday, October 13, 2017

MAS MPS – The shift is not where you think it is

- This morning, the MAS, at its Monetary Policy Statement (MPS), kept the rate of appreciation of the NEER policy band at 0% with no change to the width of the policy band and the level at which the parity is centered.

- Despite the upside surprise in the 3Q 17 advance estimates to GDP, the MAS expect growth to remain firm "though it could moderate from this year" and "as the global economic recovery enters a more mature phase".

- With regards, to inflation, the MPS stated that "imported inflation is likely to rise mildly" with oil prices "expected to increase only slightly in 2018 compared to 2017".

- On the domestic front inflation front, the authorities remain relatively sanguine, stating that "economy-wide cost pressures should remain relatively restrained" as "Although labour market conditions have improved recently, the slack that had previously accumulated will take time to be fully absorbed. Wage pressures are thus unlikely to accelerate in the near term,…" ***On this front, we note an ever so subtle tilt in the prognosis towards a more sanguine (but gradually improving) posture. This contrasts with the April MPS, when more effort was put into justifying why wage pressures would remain restrained.***

- Overall, the statement stated that "MAS Core Inflation is likely to be stable in the near term", "broadly stable next year", and that it is projected to come in at around 1.5% in 2017 and average 1–2% next year. ***On our end, we think that that this leaves two-way latitude as opposed to something more hawkish like 1.5-2.5% for e.g.***

- In the last (and contentious) paragraph, the statement once again (as it did at the April 2017 MPS) referenced the October 2016 MPS, when it stated that that the neutral policy stance would be appropriate for an extended period. Unlike the Apr 17 statement, this portion has been moved to the top of the paragraph in question.

- In addition, this morning's statement stated that "**Given the economic outlook at this stage and consistent with medium-term price stability**, MAS will maintain the rate of appreciation of the S$NEER policy band at zero percent". The addition of the preface in bold in the previous sentence are the author's own, with the second half of the

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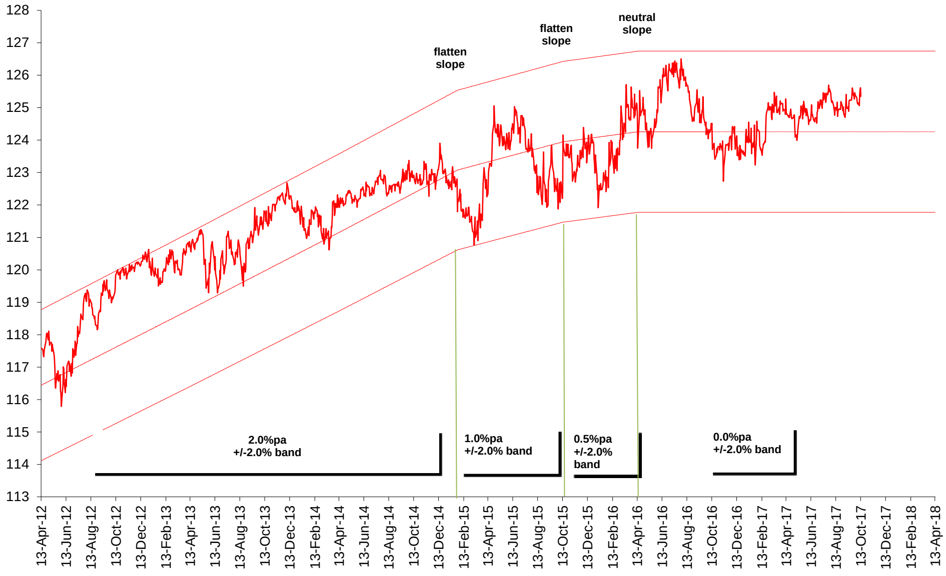
sentence verbatim from April. Note also that the segment containing "medium price stability" is now attached to the actual policy pronouncement, in contrast to October 2016 and April 2017, when the statements stated that, "a neutral policy stance is appropriate for an extended period and should ensure medium-term price stability". ***In our view this may imply some official comfort that the economy has made discernible progress towards medium price stability.***

- ***Thus, the addition of the above-mentioned preface and shift in placement of the segment containing "medium term price stability" may imply a slightly more activist demeanor going ahead while*** **diluting but not deleting the reference to October 2016's "for an extended period".**

- As we wrote earlier this week, our projections for growth and inflation for the coming quarters do not suggest implicit upside urgency in the near term and today's resulting MPS statement we think is largely in line with this view. Immediately in the wake of the MPS statement, USD-SGD spot reacted higher, rates firmed (with forward points shifting right), and short-end USD-SGD vols dipped.

- Going ahead, we think it will be crucial to continue to monitor the time path of the SGD NEER. For any signaling intent in the coming months, watch for any drift of the SGD NEER beyond the unspoken line in the sand at around +1.00% above parity. If this comes to pass, expect market expectations for a less ambiguous shift towards removing "for an extended period".

SGD NEER



Source: OCBC Bank

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