

MAS MPC Preview

22 January 2024

Likely To Maintain Policy Status Quo

Policy decision will be out on 29 Jan. We expect MAS to maintain policy status quo as prevailing appreciating path of the S\$NEER policy band remains appropriate given that inflation risks remain. Near term, Red Sea situation can disrupt global trade and can pose upside risks to global inflation as shipping rates, insurance premium jump. Knock-on implications for inflation will depend on how long the disruption persists and whether other shocks (relating to oil or food prices) occur. This is a risk that we may have to closely monitor. Looking back at past cycles of disinflation in Singapore, MAS did not rush into easing after inflation peaked at previous cycles. Instead, the MAS maintained its appreciating policy stance on hold for a while. That said, we are also mindful of policymakers' cautious tone on growth outlook. We won't rule out MAS easing policy at some point this year if external sources of inflation are deemed to be more benign and core inflation in Singapore continues to ease materially.

Christopher Wong
FX Strategist
+65 6530 4367
christopherwong@ocbc.com

MAS Policy Options

MAS will announce decision on 29 Jan 2024, Monday. This is the first time that MAS switches to quarterly MPC.

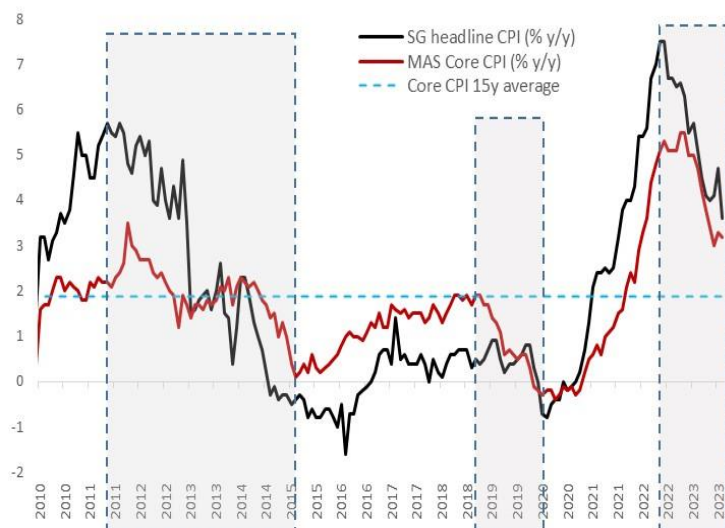
There are various options that MAS can go about setting its policy and that includes: (1) adjust the policy band to allow for an immediate strengthening or weakening of the SGD on a trade-weighted basis; (2) adjust the policy slope to influence the pace at which SGD appreciates or depreciates on a trade-weighted basis; (3) widen the policy band from current estimated $\pm 2\%$ in light of volatility across international financial markets; or (4) do nothing – to keep policy stance status quo (which is already on an appreciating path) to contain domestic and imported price pressures and ensure medium-term price stability.

Inflation Developments – Taking Stock

Headline CPI fell to 3.6% y/y in Nov, from 4.7% in Oct (due to lower private transport inflation) while core inflation inched lower to 3.2% y/y in Nov, from 3.3% in Oct (due to lower inflation for retail & other goods, electricity & gas as well as food). While disinflation trend in Singapore remains on track, current inflation at 3%-handle remains well above historical averages.

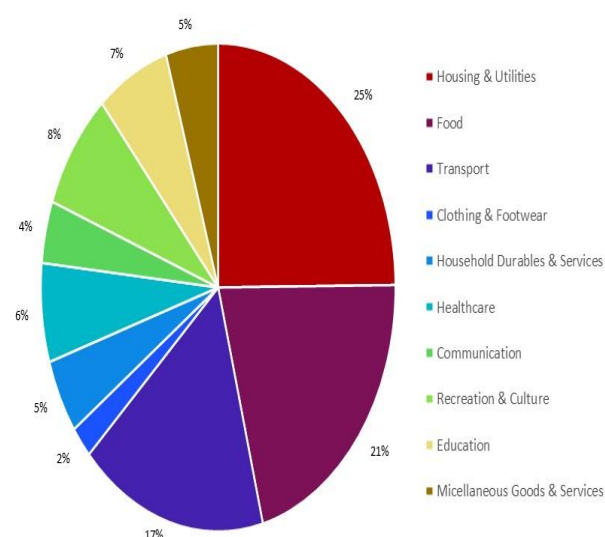
Our house's forecast for headline and core CPI are at 3.4% and 3.1% YoY respectively for 2024, compared to 4.8% and 4.1% estimated for 2023, albeit the recent additional 1% GST hike and other price adjustments (eg. the electricity tariffs hike for January-March 2024 due to higher costs) may mean somewhat stickier prices in the near-term.

Headline/ Core CPI Continues to Trend Lower



Source: Bloomberg, OCBC Research

SG CPI Basket Weights (Gen. H/hold 2019-based)



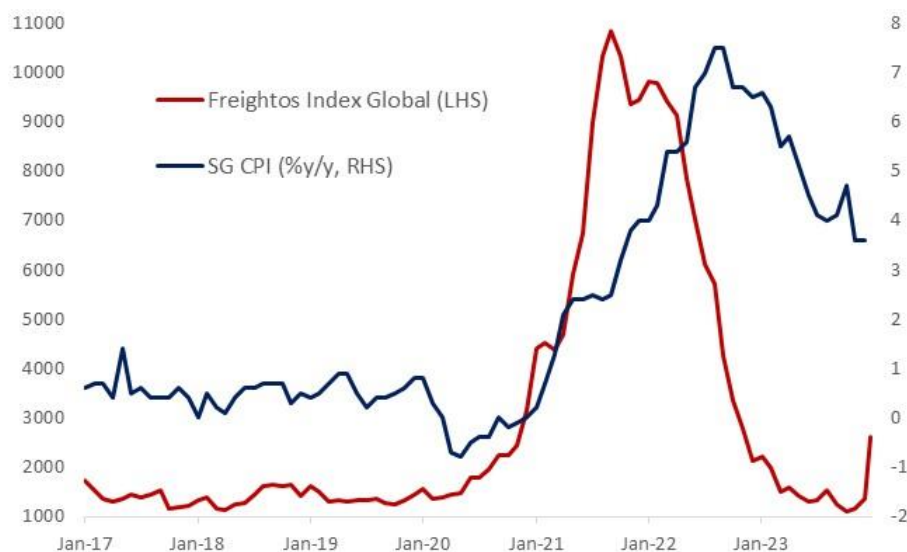
Source: Singstat

Joint statement (MAS-MTI) post CPI release (26 Dec) noted that Singapore core inflation is expected to be impacted by the increase in GST as well as seasonal effects, but core CPI should resume a broadly moderating trend over the year as import cost pressure decline and tightness in labour market eases. Headline CPI could still remain volatile in the near term due to swings in COE premiums but is expected to decline as private transport inflation and accommodation inflation slow.

Statement also noted 2-way risks to inflation: *Upside risks remain, including from fresh shocks to global energy and food commodity prices due to geopolitical conflicts and adverse weather events, and more persistent-than-expected tightness in the domestic labour market. At the same time, there are also downside risks such as a sharper-than-projected slowdown in the global economy, which could induce a greater easing of cost and price pressures.*

Near term, the worsening of Red Sea situation can potentially disrupt global trade, supply chain and pose upward pressure on global inflation as shipping rates, insurance premium jump. The Freightos Baltic Global Container Index (FBX), which captures spot prices for 40-foot shipping containers on 12 routes jumped 91% this year though shipping costs remain well below the levels since around pandemic in 2021.

Shipping Cost on the Rise though Level Below Pandemic Peak



Source: Bloomberg, OCBC Research

A typical trip through the Suez Canal/Red Sea from Europe to Asia/Singapore takes about 8,500 nautical miles in a 26-day trip. But now, some major shipping lines, including Maersk, MSC and Hapag-Lloyd are doing a re-route around the Cape of Good Hope in South Africa. And that would take about 11,000 nautical miles in a 36-day trip. The knock-on implications for inflation will depend on how long the disruption persists and whether other shocks (oil prices, etc.) occur. This is a risk that we may have to closely monitor with regards to potential impact on Singapore inflation-growth. But for now, the impact appears limited and contained.

Past Policy Action in Periods of Disinflation

In the last MAS preview we sent (6 Oct), we had looked at MAS policy action during periods of disinflation in the past and we think it is perhaps useful to reiterate some of those findings again. There were 2 main periods over the last decade that saw disinflation trend in Singapore.

- 1) **the period from 2012 to early-2015** saw disinflation trend played out. Headline CPI eased to -0.4% y/y in Jan-2015 from the 5.7% peak in Nov-2011 while MAS core CPI also eased to 1% in Jan-2015 from 3.5% peak in Jan-2012.

During the period from 2012 to 2014, MAS adopted a policy status quo (i.e. no further tightening or easing) and the policy stance then was a modest and gradual appreciation path.

MAS subsequently held an inter-meeting in Jan-2015 to ease policy by way of reducing the slope of the policy band. And MAS cited *developments in the global and domestic inflation environment have led to a significant shift in Singapore's CPI inflation outlook for 2015*. Indeed, there was a sharp decline

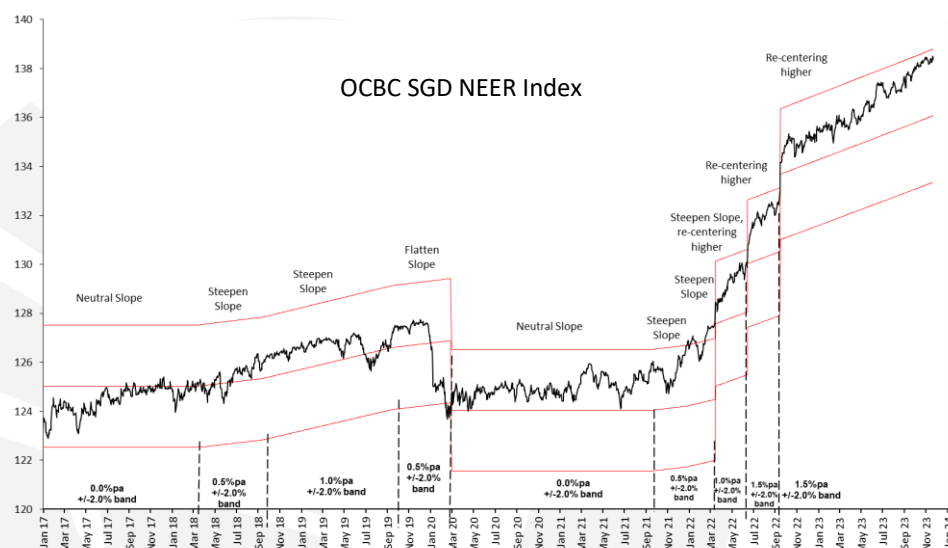
of over 40% in Brent prices from Nov-2014 to early Jan 2015 and the sharp decline in oil prices saw import prices declining sharply by an average of 6.5% in Oct-Nov 2014. On net, MAS' decision to ease was due to the change in market developments that fall outside of MAS' assessment at Oct-2014 MPC, when core CPI was projected to pick up gradually into early 2015 before easing while headline CPI was expected to stay subdued in late 2014 and throughout 2015.

MAS then kept policy status quo in Apr-2015 but eased policy again in Oct-2015 (by way of reducing the slope of the policy band). The assessment then was that *the subdued global growth will exert a drag on the external-oriented sectors in Singapore in the quarters ahead*. Singapore industrial production slumped 11.9% y/y in Dec-2015 while NODX contracted 8.6% y/y in Jan-2016. Singapore also experienced its longest run of negative inflation from Nov-2014 to Oct-2016.

- 2) **for most parts of 2019**, inflation continued to trend lower after core CPI peaked at 1.9% in Jan 2019.

At Apr-2019 MPC, MAS adopted policy status quo (i.e. no further tightening or easing) and the policy stance then was a modest and gradual appreciation path.

But at the Oct-2019 MPC meeting, MAS eased policy (by way of reducing the slope of the policy band). The assessment then was *...level of output will remain below potential. Consequently, inflationary pressures should be muted. MAS Core Inflation is likely to remain below its historical average over the next few quarters before rising gradually over the medium term.* Singapore industrial production slumped 12.3% y/y in Nov-2019 while NODX contracted 12.5% y/y in Oct-2019. Singapore also experienced a period of deflation in 2020.



Source: Bloomberg, OCBC Research

Our House View

We expect MAS to maintain policy status quo as prevailing appreciating path of the S\$NEER policy band remains appropriate given that inflation risks remain.

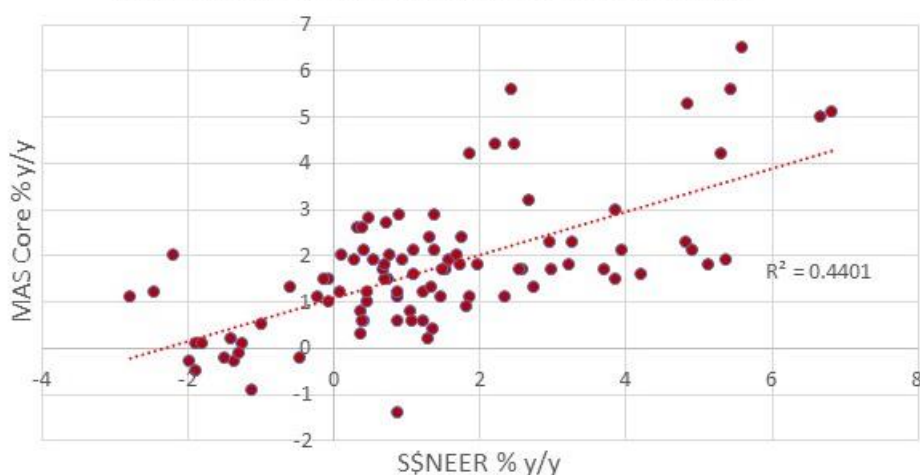
Near term, the Red Sea situation can disrupt global trade and pose upside risks to global inflation as shipping rates, insurance premiums jump. Knock-on implications for inflation will depend on how long the disruption persists and whether other shocks (relating to oil or food prices) occur. This is a risk that we may have to closely monitor.

Looking back at past cycles of disinflation in Singapore, MAS did not rush into easing after inflation peaked at previous cycles. Instead, the MAS maintained its appreciating policy stance on hold for a while. The subsequent shift to ease policy typically occurred when growth conditions worsened (for instance, NODX, IP), and inflation eased into negative territories. In the Jan-2015 inter-meeting, the motivation to ease was due to the sharp 40% decline in Brent prices. And the common policy move back then was to reduce policy slope.

That said, we are also mindful of policymakers' cautious tone on growth outlook. We won't rule out MAS easing policy at some point this year if external sources of inflation are deemed to be more benign and core inflation in Singapore continues to ease materially.

MAS Policy Can Afford to be Less Tight if Core Inflation Eases Further

% y/y in NEER vs. MAS core % y/y1Q 2000 to 4Q 2023



Source: Bloomberg, OCBC Research

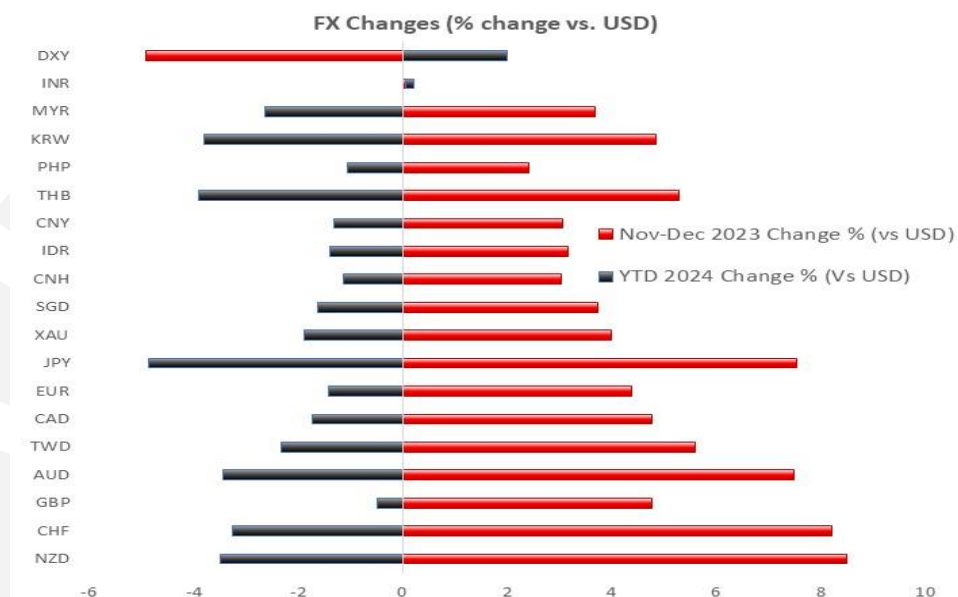
Taking Stock of USDSGD

USD turned lower in the final 2-3 months of 2023 as Fed rhetoric turned less hawkish while US data including CPI fell more than expected. In particular, Fed Chair Powell indicated that officials discussed the prospects of easing policy while dot plot guided for 75bps of cut for 2024 (vs. 50bps cut projected in Sep FoMC). Markets ran ahead to price in about 160bps of Fed cut at one point. Over Nov-Dec, DXY fell nearly 5% while the top gainers vs. USD were CHF and NZD (>7%) while amongst AXJs, TWD, THB led gains (>5%). SGD appreciated +3.7% vs. USD.

Moving to 2024, USD short squeeze has been the dominant trade since the year started as markets scaled back aggressive bets on Fed cuts. The messaging out of FoMC minutes (4 Jan) was one of the catalysts that warranted a re-look at the aggressive Fed cut expectations markets were pricing. Specifically, Fed officials said that rates could remain high for some time. Subsequently, US data including CPI, NFP, retail sales, industrial production, etc all surprised to the upside. Comments from Fed's Waller also further lent USD a boost. He said that "with economic activity and labor markets in good shape and inflation coming down gradually to 2%, he sees no reason to move as quickly or cut as rapidly in the past". Such calibrated and cautious remarks on rate cut trajectory from a heavyweight Fed official can dampen markets hopes for deeper cuts.

Asian FX, including the SGD were not spared, given the less favourable mix of China growth concerns, sell-off in equities and geopolitical tensions (Red Sea developments). YTD, SGD fell 1.63% while other regional peers such as JPY, THB and KRW fell more (between -3.8% and -4.9% vs. USD). SGD's lower beta (or sensitivity to market developments on a relative perspective) and MAS' appreciation stance somewhat underpinned SGD's resilience

USD Short Squeeze YTD



Source: Bloomberg, OCBC Research (YTD as of 19 Jan 2024)

USDSGD rose >2% (trough to peak) YTD. But the move higher may have lost momentum in the interim as markets wait key events/data this week or two, including upcoming MAS MPC (no later than 29 Jan), FoMC (1 Feb) and US core PCE data (26 Jan) that may drive direction.

Pair was last at 1.3410 levels. Bullish momentum on daily chart intact for now but RSI turned lower from overbought conditions. Risks may be skewed to the downside in the short term. Support at 1.3389 (38.2% fibo retracement of 2023 high to Dec low), 1.3357 (50 DMA) and 1.33 (21DMA, 23.6% fibo). Resistance at 1.3460 (200 DMA, 50% fibo), 1.350530 levels (61.8% fibo, 100DMA).

USDSGD Near Term Interim Top



SGD Currency (Singapore Dollar Spot) Candle Chart Daily 23JAN2019-22JAN2024

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Source: Bloomberg, OCBC Research

Macro Research

Selena Ling
Head of Strategy &
Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau Economist
herbertwong@ocbcwh.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

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

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com

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