OCBC TREASURY RESEARCH

FX Viewpoint

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October MAS MPS Post-view

- **This morning, the MAS kept the slope, width and centre of the SGD NEER policy band unchanged in its Monetary Policy Statement (MPS).** This is in-line with our view as set out in the Preview (see FX Viewpoint: SGD NEER and the Oct MAS MPS Preview, 2 October).

- The premise of our view is that although the macro outlook is still soft, it is definitely on the mend, leaving the MAS with little need to step up monetary accommodation at a time when fiscal policy is the primary support mechanism. The MPS this morning revealed as much.

Macro outlook: Guarded optimism

- On the growth front, the messaging is somewhat mixed. The MAS acknowledged the bounce in economic activity in Q3 2020, implying that Q2 2020 is likely the trough in this episode. Nevertheless, the bounce was attributed to the resumption of activity after the local circuit breaker measures and the global departure from lockdowns.

- The inherent guardedness comes through when guiding for the growth trajectory ahead. The usual litany of downside risks were listed – course of the pandemic, extent of future fiscal policy support and Sino-US issues – before acknowledging that “sequential growth in the Singapore economy is expected to slow in Q4”. The negative output gap is also expected to narrow “by the end of next year”. This is perhaps somewhat more downbeat than our own estimates on the output gap, which we expect to close by Q3 2020.

- Some concern should be placed in the labour sector, where the resident unemployment rate is expected to be “elevated”, and the “accumulated slack in the labour market” is expected to dampen wage growth. This translates to domestic cost pressures staying subdued.

- Overall, the MAS expect “above-trend growth” in 2021, with core inflation and headline inflation expected between 0.0 to 1.0%, and -0.5% to 0.5% respectively. Our house view call for 2021 growth at 4-6% yoy.

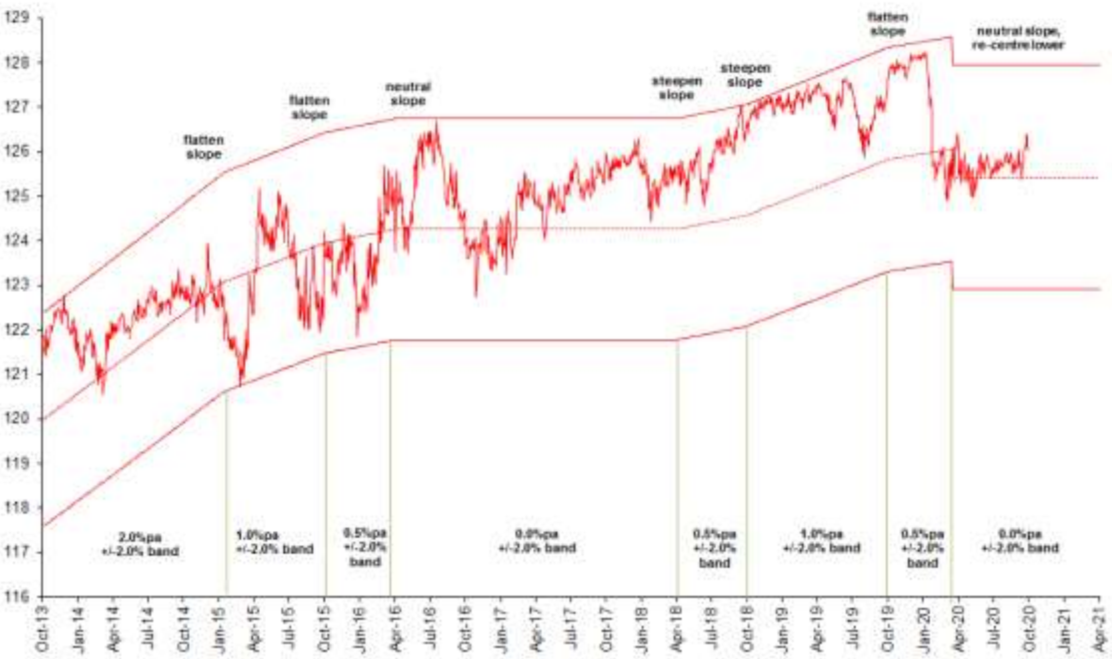
Looking forward: Unchanged SGD NEER policy baseline scenario for 2021

- Going forward, we do not expect the MAS to be on a preset path, especially when the recovery trajectory is mostly dependent on the course of the pandemic. **Our baseline expectation is for the policy parameters to remain unchanged in 2021, and for the SGD NEER trajectory to persist in its now-familiar range just above the perceived parity level in the immediate horizon.** This scenario should hold so long as the status quo in the pandemic situation (that is, domestic situation contained, sporadic localized second wave outbreaks in other countries, and vaccine in development) persists.

- **A move in either direction by the MAS in 2021 is a much lower probability event.** A tightening move perhaps has a marginally higher probability, especially in October 2021. A historical parallel is the late-2009 to 2010 period, where we recovered quickly from the 2008/09 financial crisis. The MAS was quick to shift to a tightening bias in April 2010. A similar reaction should not completely be written off, although that would depend on the pace of recovery in the coming quarters.

- Further easing by the MAS should not be dismissed outright as well, although the bar to this is considerably high. This would require a material worsening of the pandemic situation locally and globally, and also some signal that fiscal policy has been / will be insufficient to provide support. This is perhaps inconsistent with the current messaging. **Overall, we keep a close watch on the time-path of SGD NEER as a precursor to the next move by the MAS.**

- In the immediate horizon, the +0.50% above parity mark for the SGD NEER is where we keep a close watch. Spikes towards +0.80% are perhaps an opportunity to fade the basket, unless they are accompanied by a material shift in the domestic outlook. With the SGD NEER still expected to be anchored, the **USD-SGD will remain beholden to global cues and broad USD movements.** Given that we expect the broad USD to stay supported ahead of the US elections, and the USD-CNY having arrested its downward slide after PBOC's actions early week, this should imply that the near term bottom in the USD-SGD is probably in place.



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