OCBC TREASURY RESEARCH

FX Viewpoint

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SGD NEER and the April 2021 MAS MPS Post-view

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- In the Preview of the April MAS MPS meeting, we called for (1) the MAS to retain the current SGD NEER policy parameters, and (2) the statement rhetoric to sound more positive in terms of the economic recovery (see FX Viewpoint: SGD NEER and the April 2021 MAS MPS Preview, 06 April 2021).

- As far as (1) is concerned, the **MAS delivered as expected**, leaving the 0% per annum rate of appreciation of the policy band in place, and keeping the width of the policy band and the level at which it is centred unchanged. Some may want to latch on the removal of the "for some time" guidance on the accommodative policy stance as evidence of a hawkish bias, but we think the overall messaging **is sufficiently cautious to leave us expecting that a tightening move will not come in October 2021**. Our base case remains for the return to the upward sloping SGD NEER to arrive only in 2022.

Macro outlook: *"better, but …"*

- Global growth prospects are thought to "have firmed", even though the by now usual caveats of the virus being still "unabated in many regions" and "international mobility restrictions" being still in place are still present. More importantly, the MAS signaled that there may be an upward revision to the official 4-6% growth forecast this year. However, "output will still be below potential" this year, although the "negative output gap … will narrow through the course of 2021."

- The MAS revised higher the forecast range for headline inflation from -0.50% to 0.50% previously to 0.50% to 1.50% now. Nevertheless, the narrative around core inflation is still cautious, with the core gauge only expected to rise "gradually" for the rest of the year.

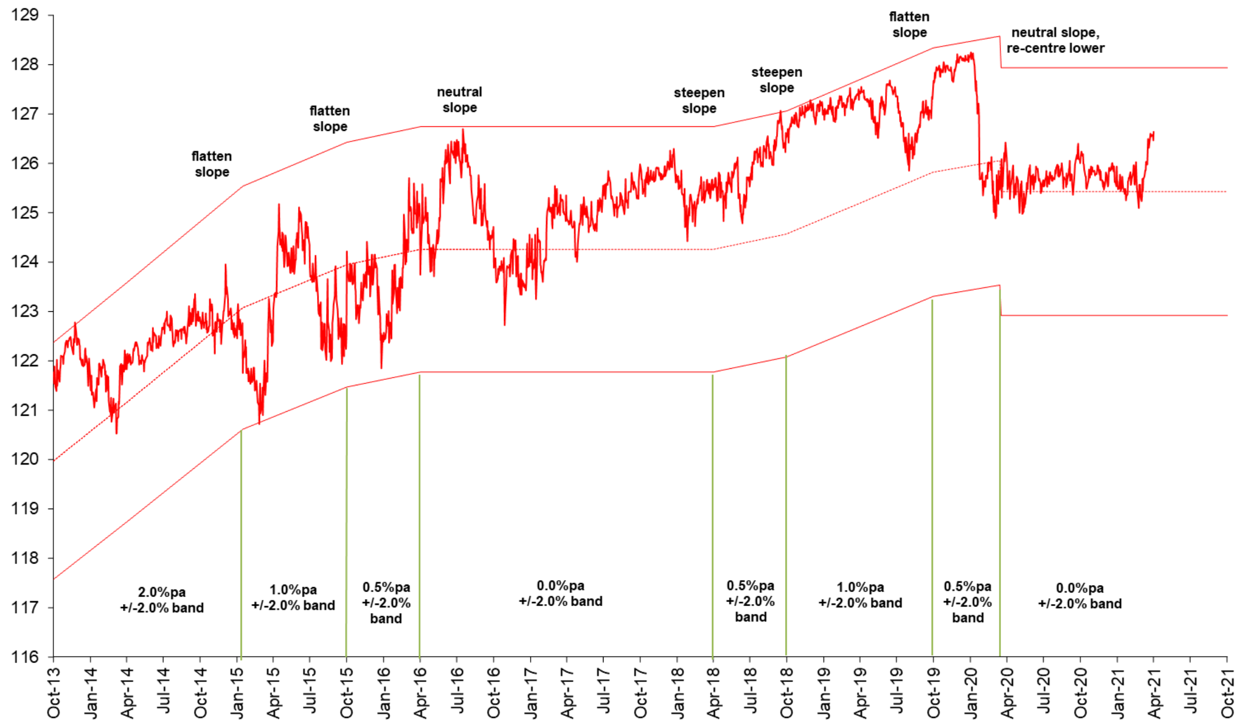
- Overall, the MAS is noticeably more upbeat about the macroeconomic outlook both internationally and locally in this MPS compared to the previous. However, the bullish bits in the statement were well-balanced by reminders of the still-challenging realities. Thus, we thought that the messaging was broadly neutral by itself, and may not have been as clearly hawkish leaning as some quarters have expected.

A return to the upward-sloping SGD NEER not imminent

- Despite the removal of the "for some time" guidance, we prefer to focus on the continued emphasis on the negative output gap and the still-soft core inflationary pressure. This suggests to us, at least as it stands now, that a tightening move by the MAS is not imminent. **This leaves us to retain our baseline expectation that any return to an upward sloping SGD NEER will be a 2022 story**. Of course, this view is subjected to the usual caveats on the pandemic and vaccination front.

- A tightening move in 2022 (especially in April) will likely still leave the MAS one of the front-runners in the departure from excessively accommodative policy. Continue to keep a close watch on the SGD NEER time-path to glean more information on this front.

- Early market response took the SGD NEER from below +0.90% above parity to the +1.00% above parity area – suggesting that the initial market reaction is to focus on the bullish bits of the statement. Nevertheless, we note that there is limited follow-through to push the SGD NEER towards the +1.50% range. Thus, **we remain comfortable with the view that the SGD NEER is likely to populate the +0.50% to +1.00% above parity zone going forward.**



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