OCBC TREASURY RESEARCH

Daily Market Outlook

14 April 2023

MAS Review: Joining the Pause Party

- **SGD. Surprise Dovish Assessment.** MAS maintains policy stance (no change to slope, center and policy band), joining the pause party (BoK, BoC) earlier this week and the RBA last week. Overall, the **statement took a dovish turn from its Oct MPC as <u>concerns on Singapore growth prospects this year seems to take priority</u>**. Statement did acknowledge the risks to inflationary pressures (in event of fresh shocks to global commodity prices) but also countered back to say that a sharper than expected downturn in advanced economies could result in general easing of inflationary pressures. Importantly, MAS made mention to 1/ **imported inflation turning more negative** and 2/ **core inflation expected to <u>ease materially</u>** by end 2023. In addition, MAS assessed that the 5 back-to-back tightening since cycle begun in October 2021 have tempered momentum of price increases and effects of policy tightening are still working through the economy and should dampen price pressures. **Current policy stance (which is already on an appreciating path) should continue to reduce imported inflation and curb domestic cost pressures**. On growth, MTI noted in their GDP advanced estimates that SG GDP contracted by 0.7% QoQ in 1Q 2023 (vs. +0.1% in 4Q 2022). Trade and modern services sectors contracted while activity in the domestic-oriented and travel-related sectors remained firmed. MAS' MPS noted that *drag on **global investment and manufacturing from tighter financial conditions will intensify** in the quarters ahead* and **reopening demand post-pandemic will fade over 2023**. It also noted that *growth in major trading partners will be slower in 2023, below pace recorded in the last 2 years, prospects for SG GDP growth this year have therefore dimmed*, and *below-trend pace of growth will cause the **positive output gap at end 2022 to turn slightly negative this year***. **Our take on SGD is that SG economy can be affected during episodes of global and US downturn. In this scenario, the SGD can come under pressure especially during episodes of US recession, deep equity correction. To some extent, market consensus of long S$NEER may eventually shift, and we would look to fade SGD strength on relative value play amongst trade peers**. As of 1030am, our S$NEER trades a touch lower at ~1.15% above model-implied mid, down from +1.47% above model-implied mid prior to announcement this morning. There was no surprise that USDSGD spot jumped post-no move decision from intra-day low of 1.3204 levels to intra-day high of 1.3276. With MAS policy decision out of the way, we expect USDSGD to revert back to trading the broader USD downtrend. Pair was last at 1.3240 levels. Daily momentum is flat while decline in RSI moderated. Range-bound trade still likely. Support at 1.32, 1.3160 (76.4% fibo). Resistance at 1.3250 (61.8% fibo), 1.33 (21 DMA) and 1.3360/70 levels (50 DMA, Feb low to Mar high).

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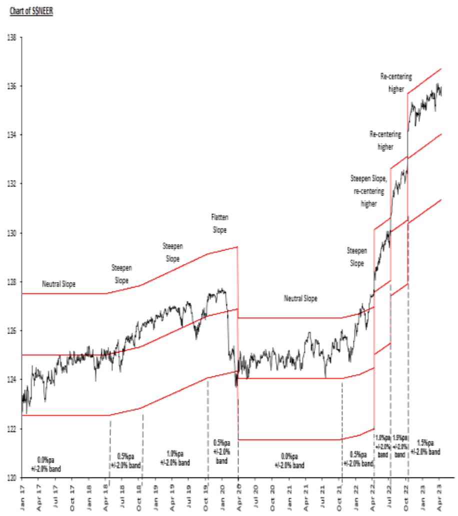
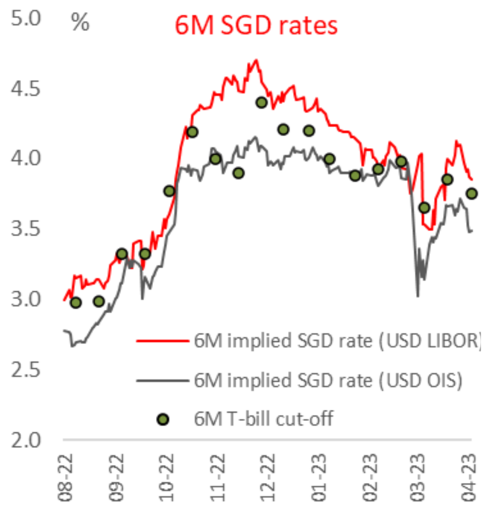
S$NEER



Source: CEIC, OCBC Research

- **SGD rates**. SGD OIS were initially paid up upon MAS decision to keep the parameters of its SGD NEER policy unchanged, against split expectations. We considered such reaction as appropriate, but this was short-lived and rates were trading a tad softer at the time of writing, as forward outright rose as well. We maintain the view that SGD rates are likely to underperform USD rates, i.e. SGD-USD rates spreads shall become less negative and the forward points shall go higher over the course of the year, especially if easing expectations for both places become more entrenched. Today's muted reaction shall provide better levels to pay SGD rates versus receive USD rates. On bill side, the cut-off at Thursday's 6M T-bill auction came in at 3.75%, which was in the middle of market implied SGD rate range, versus being nearer the high end at the last auction on 30 March. This reflects strong investor demand, probably on the back of the peaking rate narrative with some expectations for rates to go lower later in the year. Cut-offs have been moving in line with FX swap implied SGD rates, but with varying spreads; the trend in cut-offs for short-end bills is not straight forward, being a function of USD rates, the forward points and investor demand (which affect the spread vis-à-vis implied rates). We will have a better gauge of potential level of cut-off only nearer the auction date.



Source: MAS, Bloomberg, OCBC Research

Recap of MAS Policy Decision for Current Tightening Cycle

Dates	Policy Action		
	Slope	Midpoint	Economic Consideration
14 Oct 21	√	-	MAS core inflation expected to rise to 1-2% for 2022 due to accumulating external and domestic core pressures
25 Jan 22*	√	-	MAS revised its core inflation forecast upwards to 2-3% for 2022 due to higher inflation outlook
14 Apr 22	√	√	MAS revised its core inflation forecast higher at 2.5-3.5% for 2022 due to global inflationary pressures and tight domestic labour market
14 Jul 22*	-	√	MAS revised its core inflation forecast higher at 3-4% for 2022 due to elevated inflationary pressures
14 Oct 22	-	√	MAS Core Inflation should come in at 3.5–4.5% on average over the year, and CPI-All Items inflation at 5.5–6.5%.
14 Apr 23 [PAUSE]	-	-	1/ Core CPI expected to ease "materially" by end-2023; 2/ output gap to turn 'slightly negative' this year while 3/ GDP growth projected to moderate significantly in 2023.

** Represents offcycle moves from MAS*

Source: Bloomberg, OCBC Research

- **UST** yields fell upon the release of US PPI but rebounded afterwards to close the NY sessions higher in a steepening manner. The market might have digested the softening in headline inflation as of now. USD OIS pricing of the May FOMC outcome was little changed, at 74% chance of a 25bp hike. Usage at the Fed's o/n reverse repo facility edged further higher to USD2.32trn, the rate remains appealing compared to front-end bills and aggregate USD liquidity stays flush. TGA balance fell to USD86.6bn as of 12 April but it shall pick up upon tax collections; US Treasury plan is to continue paying down bills amounting to a hefty USD52bn next week (timing on settlement basis).

- **DXY. Retail Sales Tonight.** USD extended its decline overnight, building on momentum. US PPI fell -0.5% MoM in March (vs. 0% expected) while earlier, US headline CPI fell more than expected to 5% YoY (vs. 5.1% expected). Softer US data can weigh on USD. We stuck to our view on potential goldilocks play on the back of a combination of 1/ US disinflation trend staying intact, 2/ Fed + most central banks nearing end of tightening cycle and; 3/ growth neither hot nor cold. This should benefit carry trades. In the region, IDR, PHP should benefit. DXY traded heavy; last at 100.90 levels. Daily momentum and RSI indicators are turning mild bearish. Key support here at 100.85 (2023 low). Break will open further downside towards 100, 99.20 levels. Resistance at 102 (76.4% fibo), 102.80 (61.8% fibo) and 103.40 levels (50% fibo retracement of 2023 low to high, 50 DMA). Tonight brings import/export price index, retail sales.

- **EURUSD. Upside Risks.** EUR continued to march higher amid softer USD and hawkish ECB speaks. Kazaks said he sees no reason to slow down on rate hikes and would not exclude 50bp hike while Scicluna said there is still some way to go on rate increases as policymakers are worried about core CPI not yet peaking. Pair broke above 1.1030 key resistance. Last at 1.1060 levels. Bullish momentum on daily chart intact while RSI rose. Risks remain skewed to the upside. Sustained price action above 1.1030 should see the pair test higher towards 1.1150, 1.1210. Support at 1.1030 (previous resistance turned support), 1.0870 (21 DMA).

- **AUDNZD. TP Tactical Long.** AUDNZD rose as high 1.0813 yesterday and came close to our second objective of 1.0850. Price action suggests that the move is more or less done. We suggest taking profit on the tactical long AUDNZD for now and re-assess markets especially with NZ CPI data coming up next Thursday. Pair was last at 1.0780 levels. Price action overnight suggests a potential evening star setup (bearish reversal). Support at 1.0720 (21 DMA), 1.0680 levels. Resistance at 1.0780 (50% fibo retracement of Dec low to Feb high), 1.0820 levels.

- **KRW rates**. The KRW basis were paid up mildly and spot fell, upon the announcement of an agreement on FX swap transactions between the MOEF and NPS; the reaction in the basis did not last. MOEF and NPS have agreed on FX swap transactions with a limit of USD35bn, lasting till end 2023. The limit for the previous FX swap was USD10bn. This confirms earlier report that the authority was looking to add to the swap deal amount. This refers to USD facility granted by BoK to NPS for them to fund overseas investment needs with FX hedged, reducing the needs for NPS to buy spot and/or buy/sell from the market. The increased amount shall be able to cover most of NPS overseas investment needs – back in September NPS said its annual overseas investment amounted to USD30bn. The impact on the KRW basis may be more of limiting extreme downside rather than exerting a strong upward pressure for now. The implication on Korea's FX reserves will be a reduction when the FX swap is transacted, and an increase back when the swap expires.

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