

## MAS MPC Preview

17 July 2024

### MAS to maintain current S\$NEER settings

MAS policy decision will be announced no later than 31 July 2024. Core CPI remains sticky downward at 3.1%YoY and is expected to step down more discernibly in Q4-24. We expect MAS to maintain policy status quo again at the upcoming July MPC meeting as prevailing appreciating path of the S\$NEER policy band remains appropriate, given the core CPI profile. Recent observation shows S\$NEER appears to fluctuate in a range of 1.5%-1.9% above model-implied mid. On this note, S\$NEER strength may linger and only fade at some point this year when core inflation in Singapore start to ease in 4Q. Short-end SGD-USD rates differentials are likely to stay deeply negative amid a positive S\$NEER slope.

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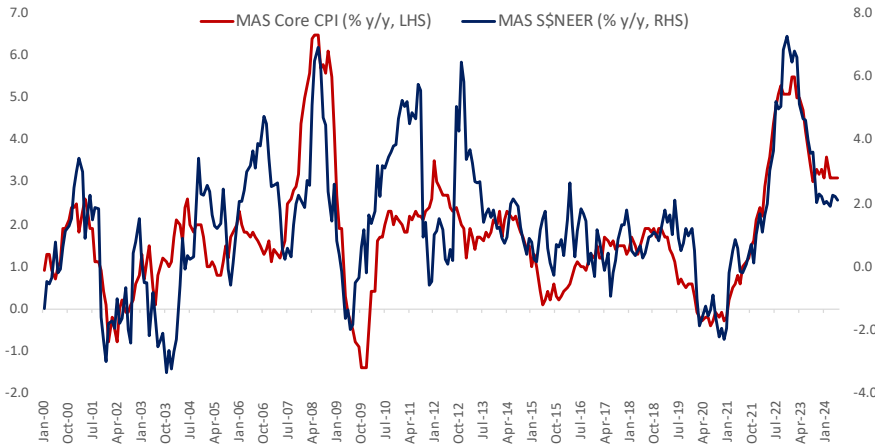
### Inflation Developments

Core inflation came in at 3.1%YoY in May, staying at the same pace for the third straight month. There is no change to official 2024 core inflation forecast of 2.5-3.5%. MAS-MTI's view is for core inflation to stay on a gradual moderating trend over the rest of the year and step down more discernibly in Q4 2024, as import cost pressures continue to decline and tightness in the domestic labour market ease. They also highlighted 2-way risks to the inflation outlook. On the upside, "fresh geopolitical shocks, extreme weather conditions, and disruptions in transportation worldwide may cause global energy and food prices to rise, along with increased shipping costs". Additionally, "a stronger-than-expected labour market domestically could result in an increase in wage growth". On the downside, "if the global economy unexpectedly weakens, it could lead to a greater reduction in cost and price pressures".

### Our House View

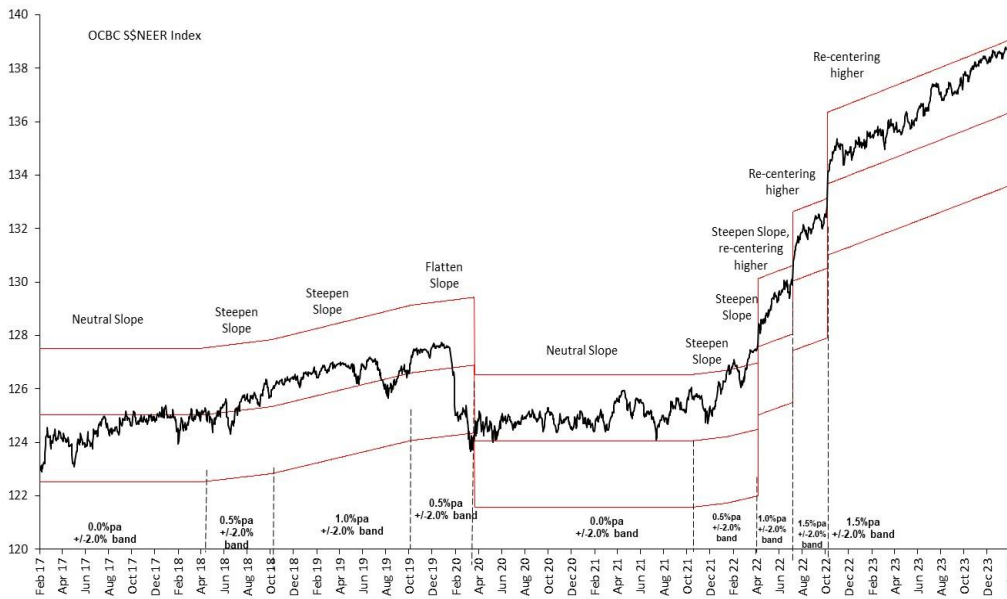
We expect MAS to maintain current policy settings – the slope, the mid-point and bandwidth, as prevailing appreciating path of the S\$NEER policy band remains appropriate. At this juncture, MAS may still choose to guard against upward inflation pressure despite mentioning risks on both sides.

**Current policy stance remains appropriate; Room for Policy to Ease if Core CPI Decelerates**



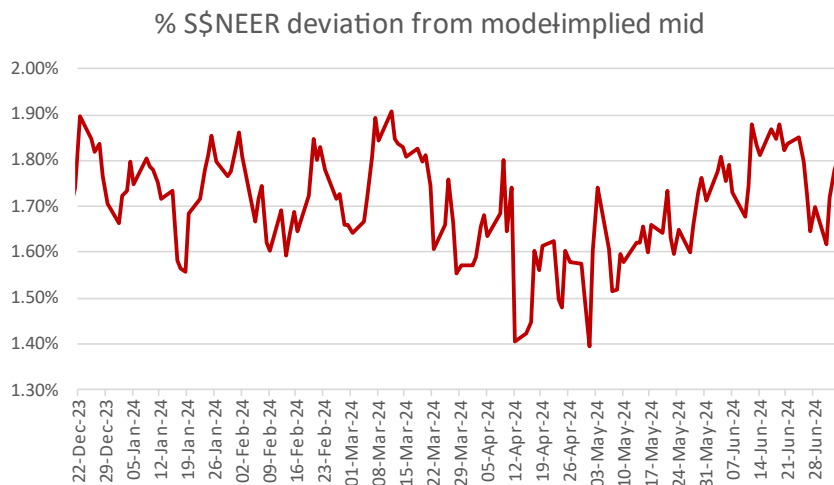
Source: Bloomberg, OCBC Research

**S\$NEER Still Trading on the Strong Side of the Band**



We estimated S\$NEER at ~1.87% above our model-implied mid. Recent observation shows S\$NEER appears to fluctuate in a range of 1.5%-1.9% above model-implied mid. On this note, S\$NEER strength may linger and only fade at some point this year when core inflation in Singapore start to ease in 4Q. Historically there is a positive correlation between the change in S\$NEER and MAS core inflation, i.e. to say if core inflation does ease materially, then there is no need for the S\$NEER policy to be so tight.

**S\$NEER Continues to Fluctuate in the Range of +1.5% to +1.9% Above Our Model-Implied Mid**

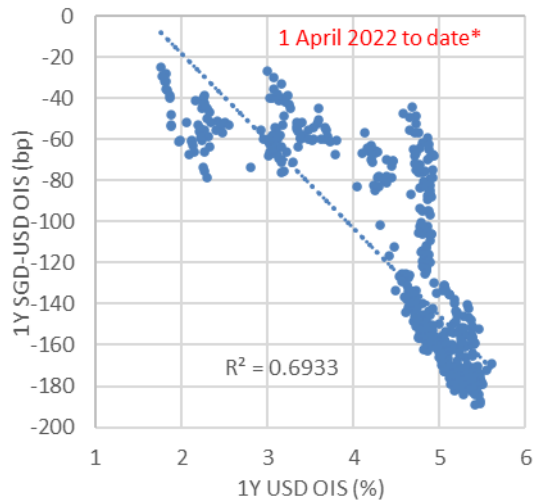
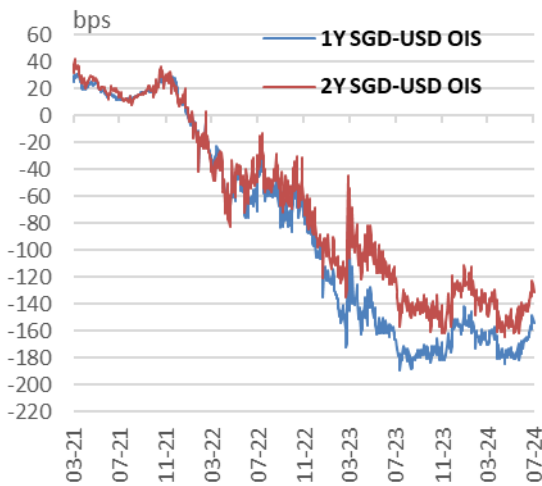


Source: OCBC Research

**Rates implications**

Before USD rates embark on a more sustained and rapid downtrend, a positive S\$NEER slope likely means short-end SGD-USD rates differentials will stay deeply negative – i.e. SGD rates to stay meaningfully below USD rates. A positive S\$NEER slope *per se* tends to exert a downward pressure on front-end SGD rates through the FX swap dynamics. That said, given S\$NEER is already elevated at 1.87% above our model-implied mid, additional downward pressure on SGD rates upon a status quo decision by MAS shall be minimum. We do not expect short-end SGD-USD rates differentials to narrow back materially, after the recent widening (as in becoming less negative).

SGD rates underperformed USD rates in the recent downward move. In either a rising or a falling rates environment SGD rates are likely to stay relatively more stable than USD rates. Our medium-term view remains for short-end SGD rates to underperform USD rates in a falling rates environment, thereby partially normalizing rates differentials. However, such SGD rates underperformance may be mild especially if MAS extends the current policy settings. On balance, we expect SGD rates to grind lower in a gradual manner over the remainder of the year on the back of our lower USD rate view, with front-end SGD OIS (3M up to 1Y) moving towards the 3.15-3.30% area.



Source: Bloomberg, OCBC Research

\*as of 12 July 2024

## A Recap of Recent Policy Action

The MAS has kept policy status quo since its last tightening in Oct 2022. Upcoming MAS decision is expected to be no later than 31 Jul 2024.

Dates	Policy Action			Economic Considerations (Respective MAS policy statements)
	Slope	Band	Midpoint	
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	-		-	MAS Core Inflation is expected to average 3.5-4.5% over 2023, and CPI-All Items inflation to come in higher at 5.5-6.5%. imported inflation turning more negative and core inflation expected to ease materially by end-2023
13 Oct 23	-		-	MAS Core Inflation is projected to slow to an average of 2.5-3.5% for 2023 and is projected to broadly decline over the course of 2024. CPI-All Items inflation is projected to average between 3.0-4.0% in 2024
29 Jan 24	-		-	MAS Core Inflation is projected to slow to an average of 2.5-3.5% for 2024, unchanged from the October 2023 MPS. MAS Core Inflation is likely to remain elevated in the earlier part of the year, but should decline gradually and step down by Q4, before falling further next year. CPI-All Items inflation in 2024 is now forecast to be lower at 2.5-3.5%, down from the previous range of 3-4%
12 Apr 24	-		-	MAS Core Inflation is projected to slow to an average of 2.5-3.5% for 2024, unchanged from the January 2024 MPS. MAS Core Inflation is likely to remain elevated in the earlier part of the year but should stay on its broadly moderating path and step down in Q4, before falling further into 2025. For 2024 as a whole, both MAS Core Inflation and CPI-All Items inflation are projected to come in at an average of 2.5-3.5%, unchanged

\* Represents offcycle moves from MAS

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