

MAS MPC Preview

7 October 2024

Stay the Course But Not Ruling Out Surprises

MAS policy decision will be announced on 14 Oct 2024, alongside the release of 3Q GDP Advance estimate. Core CPI remains well above historical mean of 2% while growth momentum continues to hold up. We expect MAS to maintain policy status quo again at the upcoming Oct MPC meeting as prevailing appreciating path of the S\$NEER policy band remains appropriate. But we do not rule out an outside chance that the MAS may surprise with an earlier easing, given that MAS adopts a forward-looking approach to monetary policy making and that the core CPI's disinflation journey remains intact, apart from the slight bump-up in August.

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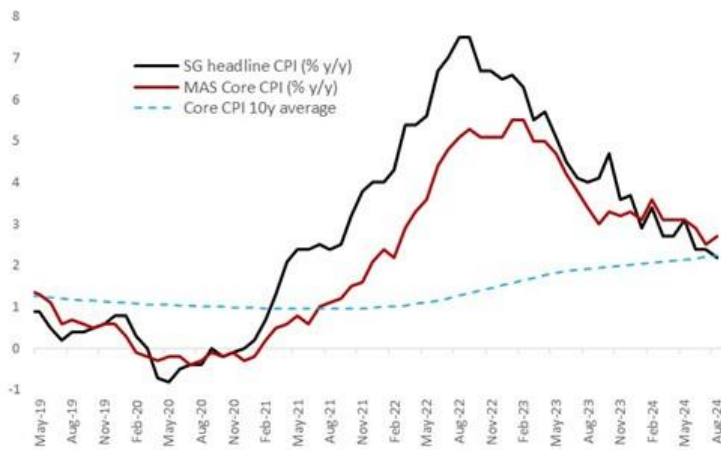
MAS Policy Options

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 ensuring medium-term price stability.

Inflation Developments

Core CPI for Aug re-accelerated to 2.7% y/y (vs. 2.5% in Jul), and this was largely due to the pick-up in services inflation. MAS-MTI statement noted that “despite services inflation experiencing some volatility, due mainly to overseas travel services, it remains on a moderating trend and should ease further over the rest of 2024”. This suggests that the policymakers may not be too bothered with the one-off blip. There is no change to official 2024 core inflation forecast of 2.5-3.5%. MAS-MTI's view is for core inflation to step down further in Q4 2024. Policymakers continue to highlight 2-way risks to inflation outlook. On the upside, “stronger-than-expected labour market conditions could lead to an increase in wage growth”. Additionally, “fresh geopolitical shocks, adverse weather events and renewed transportation disruptions around the world could put upward pressure on global energy, food commodity prices, and shipping costs”. On the downside, “an unexpected weakening in the global economy could induce a greater easing of cost and price pressures.” Our house's 2024 headline and core inflation forecasts remain at 2.6% and 2.9% y/y.

More Material Pullback in Core CPI Can Tip MAS to Ease Policy



Source: Bloomberg, OCBC Research

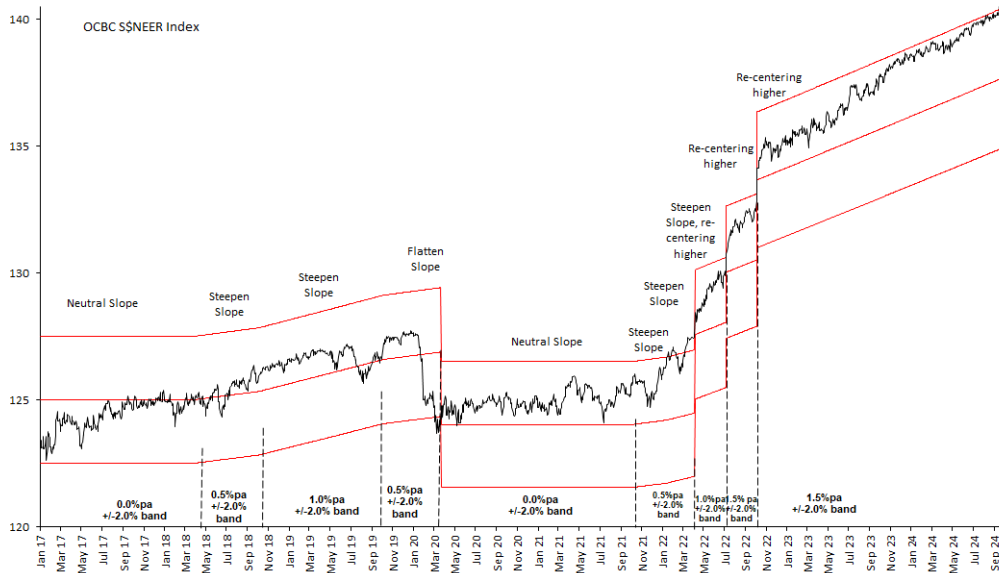
Our House View

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.

Core inflation stands at 3% y/y for the first 8 months of 2024 remains wells above historical mean of ~2%. 5y average is about 2.2% and 10y average is about 1.7%. MAS does not have an explicit inflation target, but MAS has previously indicated that a core inflation of just under 2% is close to its historical mean, and consistent with price stability in the economy. There is no rush for MAS to ease policy stance at the Oct MPC, but we do not rule out an outside chance that MAS may surprise with an earlier easing given that MAS adopts a forward-looking approach to monetary policy making.

While core inflation may still be high from a historical standpoint, the disinflation trajectory remains intact and is projected to ease further into 2025. A forward-looking approach to policymaking suggests that MAS can potentially ease policy stance earlier, by way of reducing slope of policy band slightly. This is not our baseline scenario, but we do not rule out an outside chance of this happening.

S\$NEER Still Easing Slightly from the Strong Side of the Band



Source: OCBC Research Estimates

We estimated S\$NEER at ~1.75% above our model-implied mid. Recent observation over the last 3 months shows S\$NEER appears to fluctuate in a range of 1.6%-2% above model-implied mid. MAS maintaining status quo on policy stance means that S\$NEER strength may linger and only fade at some point this year when core inflation in Singapore start to ease more in coming months.

Implications on USDSGD if MAS Surprises with a Slope Reduction

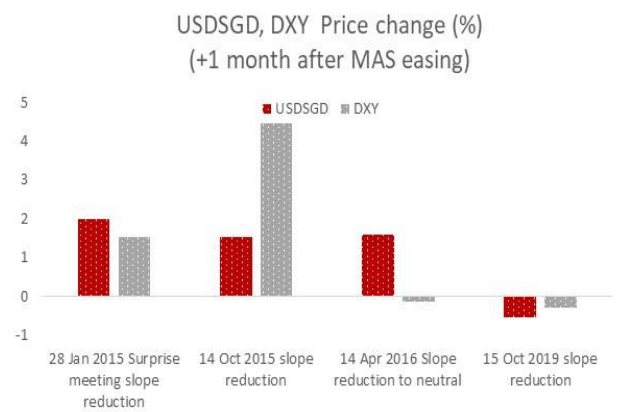
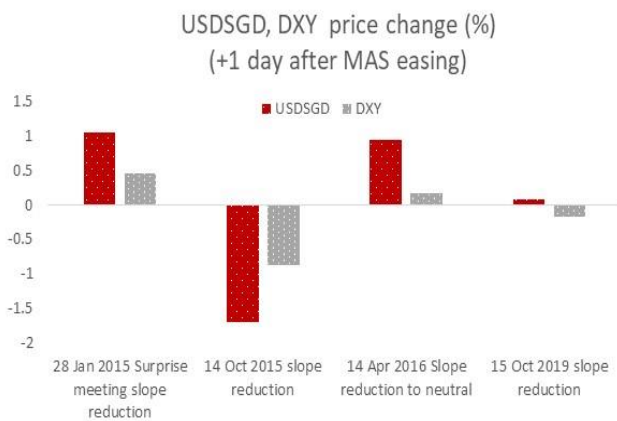
While our baseline view looks for MAS to stay on hold, we explore the potential implications that may arise out of an outside-chance of MAS policy easing (slope reduction in consideration) on USDSGD, and our view is as follows:

1/ If there is no broad USD softness, then a slope reduction by MAS would see SGD trade weaker (i.e. USDSGD can trade higher).

2/ However, if the environment of broad USD softness persists, then a slope reduction would be less clear cut on the impact on USDSGD. Firstly, MAS manages S\$NEER basket (not just SGD vs USD but against a basket of currencies). Next, a slope reduction in theory means SGD can appreciate less vs. these currencies in the basket (and not just the USD). Hence, it has been our view that S\$NEER strength can somewhat fade when MAS eases. On this note, SGD can weaken against the basket of currencies but if the weak USD trend is dominant, then the SGD may not necessarily weaken vs. USD.

The diagrams below show USDSGD % change during the past 4 episodes of slope reduction in the last 10 years. We also included DXY % change during the same period and we looked at past price action on +1 day and +1 month after MAS policy decision.

While MAS Policy Stance Matters for SGD, the USD Trend Also Matters



Source: Bloomberg, OCBC Research

Past Episodes of MAS Easing Policy Since 2015

When?	Policy Action/ Motivation
Jan 2015 (Inter-meeting)	Slope reduction after global oil prices plunged .
Oct 2015	Slope reduction. Benign core inflation outlook .
Apr 2016	Policy slope reduced to neutral. Benign core outlook and weak global demand conditions.
Oct 2019	Slope reduction. Core inflation projected to be below historical average. IP slumped and NODX contracted .

Source: Various sources, OCBC Research

USDSGD Technical Analysis (Daily Chart): Sharp Squeeze Meets 50DMA



SGD Currency (Singapore Dollar Spot) Candle Chart Daily 09OCT2019-07OCT2024 Copyright© 2024 Bloomberg Finance L.P. 07-Oct-2024 12:09:13

Source: Bloomberg, OCBC Research

The recent rebound in USDSGD has been fairly sharp as the pair came close to trading 2% higher from a low of 1.2789 (printed 27 Sep). Pair was last at 1.3040 levels. Bullish momentum on daily chart intact while rise in RSI shows signs of moderation near overbought conditions.

Upside risk remains intact. But immediate resistance at 1.3064 (50 DMA), 1.31 (38.2% fibo). Rise in USDSGD may have room to run should those resistance levels give way. Next resistance at 1.32 (50% fibo retracement of Jun high to Sep low). Support at 1.2980 (23.6% fibo), 1.2940 (21 DMA).

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