Daily Market Outlook

26 July 2024

MAS Review

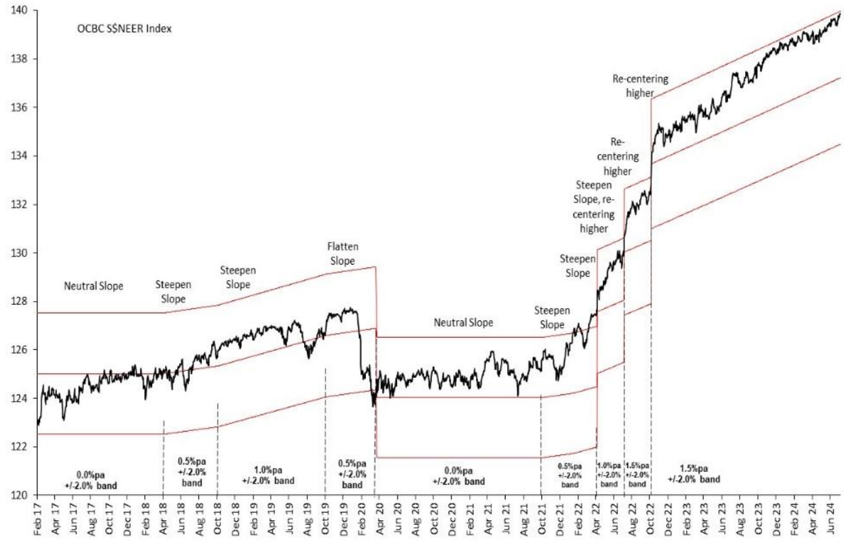
Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- ***MAS on Hold but Oct MPC May Turn Live.*** As widely expected, MAS kept monetary policy settings unchanged for the 5th consecutive meeting, maintaining the prevailing rate of appreciation in the S$NEER policy band. MAS' view is for core inflation to remain unchanged: **to step down more discernibly in 4Q 2024 and into 2025.** MPS noted that global crude oil prices have fallen from their peak in April while prices of most food commodities and intermediate/final goods have been stable. Domestic unit labour cost is also expected to rise at a significantly lower rate amid dissipation of labour market tightness and anticipated pick-up in productivity. MPS **continued to caution for 2-way risks to the inflation outlook**. On the upside, "pace of domestic labour cost increases may reaccelerate if aggregate demand turns out stronger than expected, causing renewed inflationary pressures" It also noted "that an intensification of geopolitical tensions could also add to imported costs". On the downside, "if global interest rates stay high for longer than expected, external demand could weaken and dampen the growth momentum in the Singapore economy. This in turn would induce a faster pace of easing in cost and price pressures". MPS also noted that the **official full-year headline CPI forecast is lowered to average 2 – 3% for 2024**, down from previous projection of 2.5 – 3.5%. MAS core inflation forecast remains unchanged at 2.5-3.5%. **We believe an easing stance can be considered when core CPI eases more.** This can take place by a slight reduction in policy slope, and we do not rule out a policy shift taking place as early as at the Oct MPC should core CPI ease materially more in coming months. There are questions on whether the MAS can ease policy before the Fed eases. The more important point here is that MAS' overriding objective of monetary policy is *maintaining price stability conducive to sustainable growth of the economy*. Price stability is described as a situation in which *broad-based inflation is contained and does not constitute to a significant consideration for households and businesses when they make decisions on consumption and investments*. Core inflation did ease to 2.9% in Jun but remains well above historical mean. 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. In the MPS, there was mention about sequential pace of price change, which has declined to an annualised rate of 2.1% in 2Q. To add, MAS expects sequential inflation to be lower in 2H of 2024, compared to 1H. (para 8 of MPS). Markets, including ourselves, would have to be a bit more patient for further progress in disinflation trend, before policy easing can occur. We continue to monitor inflation readings in coming months.

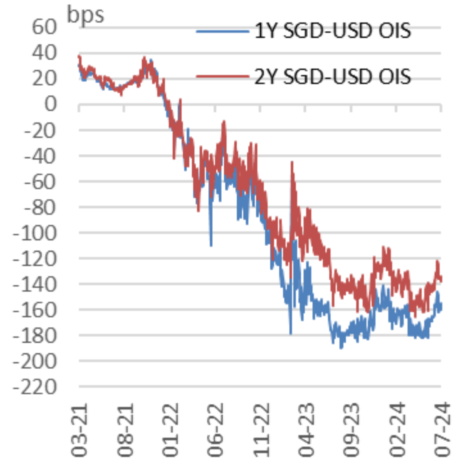
- **S$NEER *Steady Near Upper Bound*.** Post-MAS this morning, S$NEER was estimated at ~1.9% above our model-implied mid, largely steady from the past few sessions. YTD, S$NEER has been fluctuating on the stronger side of about 1.3% to 1.9% above model-implied mid (and most recently closer to 1.9%). S$NEER strength may still linger and only fade at some point this year when core inflation in Singapore start to ease more in coming months. 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.



Source: Bloomberg, OCBC Research

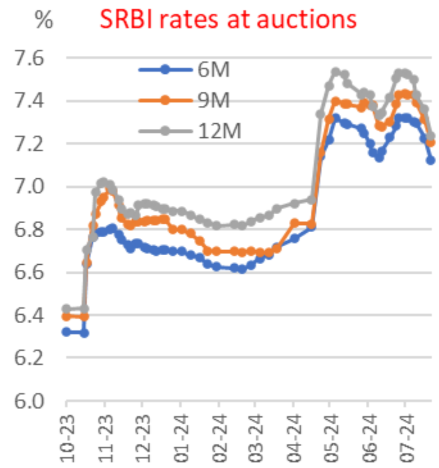
- **USDSGD. *Consolidation*.** Moves in USDSGD post-MAS decision was largely muted. USDSGD trades near recent lows, owing to recent decline in USDJPY and USDRMB. Speculations of Fed closer to a pivot, undertaking a larger cut at the Sep FoMC or even an outside chance of a cut next week have also been some factors weighing on USDSGD. More importantly, RMB moves (watch the fixings going forward) and core PCE data would be some of the key data to keep a look out on for USDSGD directional bias. Softer USDCNH and a softer than expected core PCE print tonight can help USD and USDSGD trade lower in coming sessions. Pair was last seen at 1.3435 levels. Daily momentum and RSI indicators are flat. Consolidation likely. Support at 1.3410, 1.3390 (38.2% fibo retracement of Oct high to Jan low). Resistance at 1.3460 (200 DMA, 50% fibo), 1.35 (50, 100 DMAs).

- **SGD rates**. Impact of today's MAS policy decision on SGD rates shall be small. While a positive S$NEER slope *per se* tends to exert a downward pressure on front-end SGD rates through the FX swap dynamics, given that S$NEER is already elevated at 1.9% above our model-implied mid, additional downward pressure on SGD rates upon today's decision shall be minimal. Looking further ahead, as and when market expectation builds up for an easing – in particular through a reduction in the slope, then our medium-term view for SGD rates underperformance against USD rates shall gain more traction. 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. The 1Y SGS T-bill auction on 25 July garnered decent demand with a bid/cover ratio of 2.95x, versus 1.97x at the last auction on 18 April. Cut-off came in at 3.38%, which was 20bps lower than the 3.58% at the 18 April auction. The fall in the cut-off mostly matched the falls in the 6M implied SGD rates between the two auctions. Still, the recent 6M T-bill cut-off at 3.64% (adjusted with market move since 18 July the date of the last 6M T-bill auction) and the latest 1Y T-bill cut-off at 3.38% point to an implied 6M6M rate at around 3.1% i.e. an expected 50bp fall in the 6M rate.



Source: Bloomberg, OCBC Research

- **IndoGBs** started to strengthen since mid-day yesterday, following the global bond rally. Short-end IndoGBs probably also benefited from the continued easing in SRBI rates. At Wednesday's auction, SRBI rates eased further across the 6M, 9M and 12M tenors, to 7.1203%, 7.20612% and 7.2351% respectively. The 12M SRBI rate has fallen by a cumulative 29bps since the 3 July auction, underpinning our view that the next policy rate move is likely to be a cut rather than a hike. During June, foreign investors added to positions at bonds with 1Y tenors or below, after trimming such positions over the past couple of months, which might also reflect the view that peak rates have been reached. The size of the next week's sukuk auction has been reduced to IDR8trn from IDR10trn prior; there may be leeway to increase the reliance on pre-funding, international bonds, and/or retail tranches.



Source: Bank Indonesia, OCBC Research

- **USD rates**. USTs pared gain after Q2 GDP print, with yields still ending the NY sessions a few bps lower compared to previous day close. The earlier rally in USTs – and in Bunds and Gilts – happened in midday Asia, probably triggered by some unwinding of popular trades as the lower rate-view became more entrenched. US Q2 GDP printed much firmer than expected at 2.8% QoQ, with personal consumption strengthening to 2.3%; core PCE price index slowed to 2.9% QoQ from 3.7% prior, although not as slow as market had expected. June durable goods orders unexpectedly fell by 6.6%MoM. 2Y UST did a round trip, with market not deterred away from rate cuts expectation as investors looked pass the lagging GDP numbers. Fed funds futures last priced a total of 67bps of rate cuts by year end, with a 25bp cut by the September FOMC more than fully priced.

- **DXY.** ***Consolidation.*** DXY traded continued to trade little changed this morning. Data focus on core PCE (tonight 830pm). Softer print may weigh on USD downside while a hotter print may see DXY retrace recent losses. DXY was last seen at 104.32. Bearish momentum on daily chart faded but RSI was flat. Bearish crossover observed earlier as 21 DMA cuts 50, 100 DMAs to the downside. Support at 103.98 (50% fibo), 103.65 (recent low). Resistance at 104.80/90 (61.8% fibo retracement of Oct high to 2024 low, 21, 50, 100 DMAs).

- **USDJPY.** ***Upside Reversal Risk Near Term.*** Recent decline in USDJPY showed signs of taking a pause. UST yields rose after US 2Q GDP surprised to the upside overnight. Focus next on US core PCE tonight. An upside print may see JPY returning gains especially after the recent sharp move. Pair was last at 153.80. Bearish momentum on daily chart intact but RSI dipped into oversold conditions. Resistance at 155.50 (100 DMA), 156.80 (76.4% fibo). Support at 153.66 (61.8% fibo retracement of 2024 low to high), 151.60 (200DMA). Ahead of BoJ and FoMC event risks next week, USDJPY may continue to trade choppy. Markets are expecting BoJ hike and a taper of its bond purchase program. The combination of BoJ normalisation and Fed possibly cutting rate in due course is a case of monetary policy convergence and should underpin USDJPY downside. The risk is that BoJ fails to live up to expectations and USDJPY sell-off risks a sharp correction upwards.

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W