MAS MPC Preview

14 January 2025

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Looking for MAS to Ease

We see reasonable room for MAS to ease policy at the upcoming MPC by reducing the policy slope slightly but still maintain a mild appreciation stance.

A slight easing in the policy slope should see little impact on S$NEER as expectation is largely priced in. S$NEER may continue to weaken if policy outcome looks for a larger than expected easing (i.e. neutral slope, etc) or if the statement contains more dovish leaning rhetoric. While a reduction in policy slope is likely to weigh on SGD, the USD trend also matters. The combination of USD strength, risk of shallower pace of Fed cut, softer RMB (tariff concerns) and milder MAS appreciation stance suggest that USDSGD may still continue to trend higher

A slope reduction per se may exert a mild upward pressure on the forward points and hence some upward pressure on short-end SGD interest rates; but actual movements in SGD rates depend on how spot versus forward outright react and on how USD rates perform.

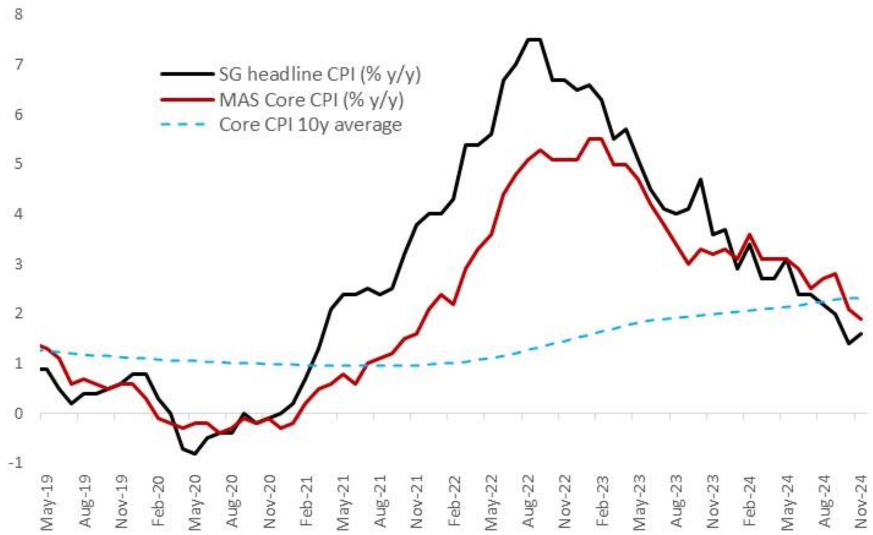
Disinflation Journey on Track

CPI report for Nov saw another downside surprise. Core CPI was 1.9% (vs. 2.1% expected) while headline CPI was 1.6% (vs. 1.8% expected). Softer CPI readings were roughly in line with MAS projection for a step down in CPI print for 4Q 2024. Core inflation for the first 11-month stands at 2.8% vs. MAS core inflation projection to average between 2.5%–3.0% for 2024.

Looking out, MAS is also projecting core CPI to be softer in the range of 1.5–2.5% for 2025. Policymakers continue to point to the risks to inflation outlook as relatively balanced. On the upside, “stronger than-expected labour market conditions could lead to a slower easing in unit labour cost growth while an intensification of geopolitical tensions may lead to higher commodity prices and add to imported costs”. On the downside, “a significant downturn in the global economy could induce a greater easing of cost and price pressures, causing domestic inflation to come in lower than expected”.

Our house’s 2025 headline and core inflation forecasts remain at 2% and 1.9%, respectively.

Disinflationary Journey Well-Entrenched



Source: Bloomberg, OCBC Research

MAS Policy Options

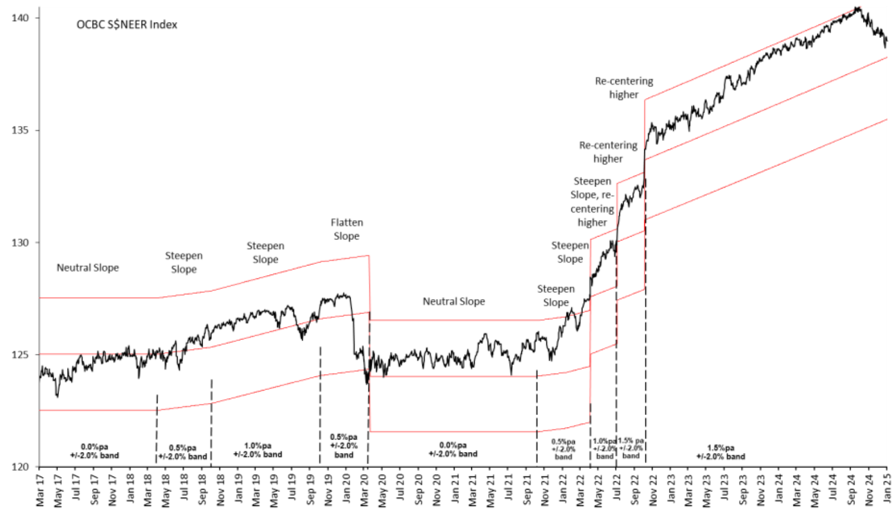
There are various options that MAS can go about setting its policy and that includes: (1) adjusting the policy band to allow for an immediate strengthening or weakening of the SGD on a trade-weighted basis; (2) adjust the policy slope to influence the pace at which SGD appreciates or depreciates on a trade-weighted basis; (3) widen the policy band from current estimated ± 2% in light of volatility across international financial markets; or (4) do nothing – to keep policy stance status quo (which is currently on an appreciating path).

Our House View and Outlook on S$NEER

Upcoming MPC meeting will be held no later than 31 Jan 2025 (exact date is typically announced a week before).

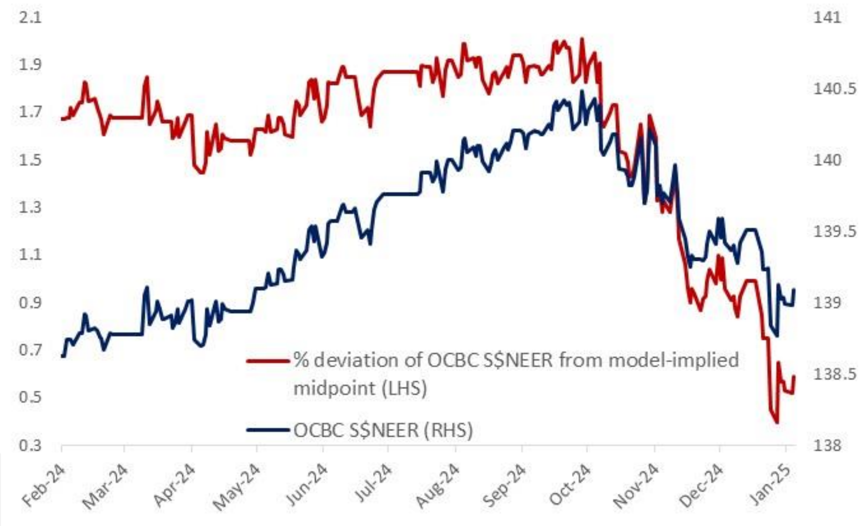
There is little need for MAS to rush to ease policy but given that the disinflation journey has made good progress, we believe **MAS now has optionality to ease**, especially if it takes on a pre-emptive stance in the face of policy transmission lag. **MAS can afford to begin with reducing the slope of the policy band** while still maintaining a mild appreciation stance overall.

Looking back at past easing cycles, MAS did not rush into reducing the slope to neutral or adjust the midpoint down in a hasty manner. Instead, it took incremental steps as a forward-looking approach to managing policy stance in a non-crisis mode suggests that an appropriate first step is possible via a slope reduction. And recall that back in the 2021-22 tightening cycle, MAS increased the policy slope on 3 separate occasions (See table 1 and 2 appended at end of report).



Source: Bloomberg, OCBC Research

In terms of S$NEER outlook, a slight easing in the policy slope should see little impact on S$NEER as expectation is largely priced in. Based on our model, S$NEER index has already retreated while % deviation from model-implied mid has decreased since Oct-2024. With that said, S$NEER may continue to weaken if policy outcome looks for a larger than expected easing (i.e. neutral slope, etc) or if the statement contains more dovish leaning rhetoric (implying further back-to-back easing).

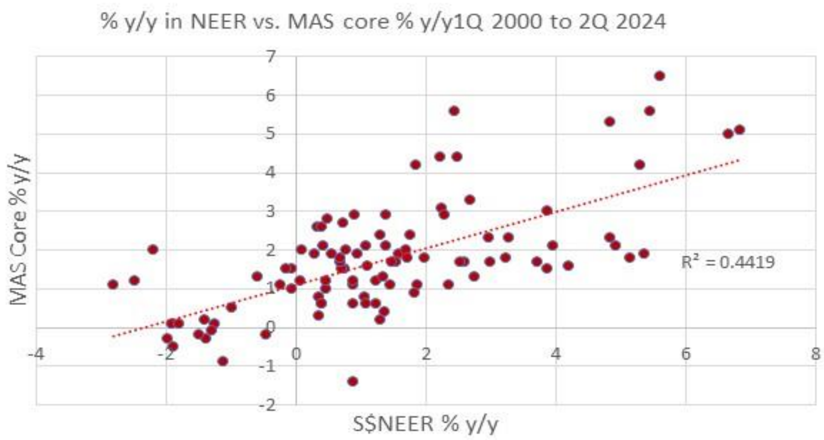


Source: Bloomberg, OCBC Research

Hence it is worth paying attention to core CPI in the coming months, including the Dec CPI (to be released on 23 Jan) to get a sense on whether the MAS easing is one-off or there will be guidance for continued easing.

Historically, the positive correlation between the change in S$NEER and MAS core inflation shows that S$NEER strength can ease when core inflation eases materially. In fact, this is already happening with S$NEER retreating since Oct-2024. Based on our model, S$NEER index was seen around 139 levels (vs. peak of 140.48 in early Oct-2024) while % deviation from model implied mid was last at 0.58%. The latter implies that the SGD strength over trade partners has faded to some extent.

Expectations for MAS to ease policy further can imply that the SGD strength seen in the past 2-3 years will continue to fade. But so long the policy band does not revert to neutral, SGD could still retain some degree of relative resilience, selectively. To add, SGD also maintains its "safe-haven" status in the region. In the event of a trade war, or escalation in geopolitical tensions, SGD may still be better supported vs. its peers. But in the event of no tariff and risk-on scenario, there may be room for peers to outperform the SGD.



Source: Bloomberg, OCBC Research

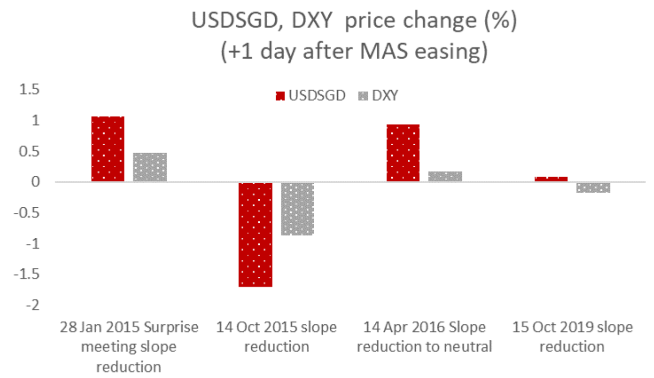
Implications on USDSGD is also Dependent on USD Moves

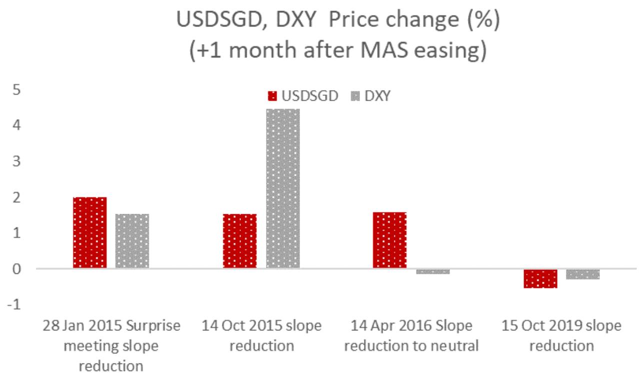
Given an environment of USD strength, a reduction in policy slope is likely to pose broader upside risks to USDSGD. There may be some pullback but it is likely to be shallow as markets may pre-empt another easing, if core inflation continues to ease more materially. The combination of softer RMB, JPY, risk of shallower pace of Fed cut, and milder appreciation stance suggest that USDSGD may still continue to trend higher.

On net, the fate of USDSGD is not only dependent on policy but also highly dependent on USD direction.

In the event MAS decides to maintain policy status quo, then it is likely we may see a knee-jerk correction with S$NEER strengthening and a pullback in USDSGD to the downside.

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



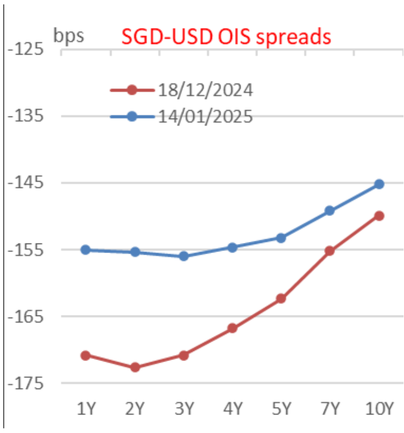


Source: Bloomberg, OCBC Research

Implications on SGD Rates

Impact on SGD rates from a change in SGD NEER policy is mainly through the FX swap dynamics, especially if there is a change in the slope. A slope reduction per se may exert a mild upward pressure on the forward points and hence some upward pressure on short-end SGD interest rates. Granted, the actual movements in SGD rates depend on how spot versus forward outright reacts upon and following policy announcement, and on USD rates performances around that time. In the scenario where spot reaction is timid and USD rates are relatively stable, then there is room for a slope reduction to translate into mildly higher short-end SGD rates.

That said, recent moves in SGD-USD OIS spreads might have reflected some MAS easing expectation and may limit near-term SGD rate reaction to a change in MAS policy. SGD rates have recently underperformed USD rates, when rates were higher compared to a few weeks back; this was somewhat against historical pattern where SGD rates had tended to underperform on a downtrend and outperform on an uptrend. SGD rates underperformance over the past month was more obvious at the short-end; as a result, SGD-USD OIS spreads have become less negative. Nevertheless, on a multi-month horizon, we still expect SGD-USD OIS spreads to become less negative, premised on our lower USD rate view and assumption of only partial passthrough from expected downward movements in USD rates onto SGD rates. A slope reduction is still likely to add to this underperformance view.



Source: Bloomberg, OCBC Research

Table 1: A Recap of Past MAS Policy Action Between Jan-2015 – Oct 2019 (Pre-covid)

When?	Policy Action/Motivation
Jan 2015*	**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.
Apr 2018	**Slope increased** from 0 percent. Core CPI, imported inflation projected to rise. Improving labour market.
Oct 2018	**Slope increased.** Imported inflation likely to rise due to O&G. Wage growth expectations.
Oct 2019	**Slope reduction.** Core inflation projected to be below historical average. OP slumped and NODX contracted.

Table 2: Recent Policy Tightening (Post-covid)

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%

**Represents offcycle moves from MAS*

Source: Various MAS MPS, OCBC Research

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