MAS MPC Preview

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MAS Likely to Ease, Again

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Our base case is for MAS to ease policy slope slightly as policymakers take into consideration softer core CPI and potential growth implications from US tariffs. That said, we do not rule out an outside chance of MAS flattening the policy slope (i.e. 0 rate of appreciation) if the assessment of both external and domestic growth outlook is drastic.

A slight easing in the policy slope should see little impact on S$NEER as expectation is largely priced in. However, S$NEER may continue to weaken if policy outcome is a larger than expected easing (i.e. neutral slope) or if the statement contains more dovish leaning rhetoric (such as implying willingness to ease further if the need arises). In the low probability scenario that MAS maintains status quo, S$NEER would strengthen.

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. While the impact on SGD interest rates appeared to have been minimal when MAS last reduced the slope in January, we see a higher chance that another slope reduction at this juncture will have an impact on short-end SGD rates.

MAS Decision Closely Watched

The upcoming **MAS MPC meeting will be held on 14 Apr (8am SGT),** alongside the release of 1Q Advanced GQP data.

PM Wong's ministerial statement (8 Apr) has gone at length to touch on tariffs and its implication on Singapore. He warned of the increasing likelihood of a full-blown trade war, which could lead to weaker global growth and reduced demand for Singapore's goods and services. He also mentioned that MTI is reassessing Singapore's growth forecast and will likely revise it downwards. Currently, the government's forecast for 2025 growth is 1–3%.

On MAS policy, there are various options that MAS can go about setting its monetary 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) adjusting the policy slope to influence the pace at which SGD appreciates or depreciates on a trade-weighted basis; (3) widening the policy band from the current estimated ± 2% in light of volatility in the financial markets; or (4) do nothing – to keep policy stance status quo (which is currently on an appreciating path). MAS can also deploy a combination of options.

Our House View

There is a wide range of market expectations as to what MAS' choice of policy lever may be, but the consensus is for a policy slope reduction.

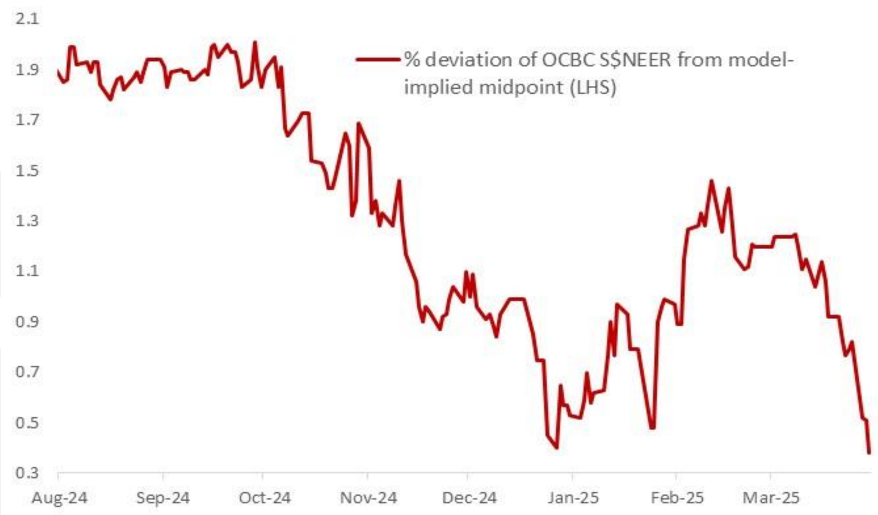
Notably, the forecasting community has turned more dovish, with some looking for MAS policy to go neutral (i.e. 0 rate of appreciation). Judging from our S$NEER model, markets are likely to have fully factored in a slight reduction of policy slope.

Our base case is for MAS to ease policy slope slightly as policymakers take into consideration softer core CPI and potential growth implications from US tariffs. A slight reduction in policy slope implies lowering the rate of appreciation as focus shifts from fighting inflation to supporting growth.

We do not rule out an outside chance of MAS flattening the policy slope (i.e. 0 rate of appreciation) if the assessment of both external and domestic growth outlook is drastic or potentially in a crisis mode. The last time the S$NEER policy band was flat was during covid period and in Apr 2016 when the external environment was assessed to be less favourable.

In terms of S$NEER implication, a slight easing in the policy slope should see little impact on S$NEER as expectation is largely priced in. Based on our model, S$NEER index has already retreated while % deviation from model-implied mid has decreased since Feb 2025. With that said, S$NEER may continue to weaken if policy outcome is a larger than expected easing (i.e. neutral slope) or if the statement contains more dovish leaning rhetoric (implying willingness to ease further if need arises). In the low probability scenario that MAS maintains status quo, S$NEER would strengthen.

Markets Pricing in Some Degree of Policy Easing



Source: Bloomberg, OCBC Research

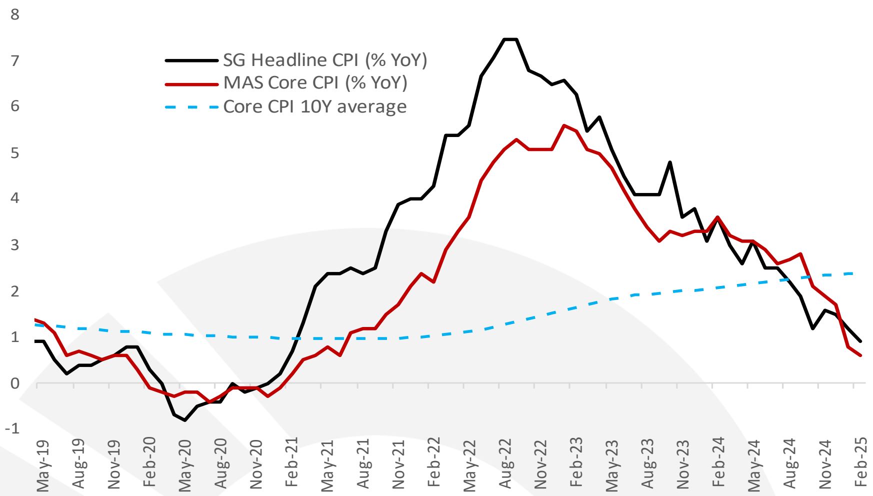
Disinflation Continues; Growth Outlook Trimmed

CPI report for February saw another downside surprise. Core CPI was 0.6% YoY (vs 0.7% expected) while headline CPI was 0.9% YoY (vs 1% expected). This was a moderation from the January readings of 0.8% and 1.2% respectively, and was the softest print since February and June 2021.

Our Chief Economist highlighted that the high base last year was due to the Chinese New Year festive season, as well as the easing of price pressures across most major categories of the CPI basket, namely services (due to cheaper airfares and holiday expenses), food, lower electricity & gas prices, and a slower pace of increase in private transport costs (due to smaller hikes in car and petrol prices) that contributed to this positive outcome.

Looking out, MAS is also projecting core CPI to be softer in the range of 1.0–2.0% for 2025. Policymakers expect *imported inflation to remain moderate, reflecting favourable supply projections for key food commodity markets and forecasts of a decline in global oil prices*. MAS-MTI statement also highlighted that *while an escalation of trade frictions could be inflationary for some economies, their impact on Singapore's import prices is likely to be offset by the disinflationary drags exerted by weaker global demand. The trade-weighted S$ exchange rate policy band remains on a modest and gradual appreciation path and will continue to temper imported inflation.*

Our house's 2025 headline and core inflation forecasts remain at 1.5%.



Source: Bloomberg, OCBC Research

Our Chief Economist had also earlier trimmed our 2025 GDP growth forecast from 2.2% to 2.1% in light of the 10% tariff announced on April 2, but the risk remains to the downside if global trade tensions escalate further and financial market volatility persists. The official 1–3% growth forecast looks increasingly likely to be downgraded, possibly to 0–2% in our view.

USDSGD view

The downward kink in USDSGD's 1Q forecast we projected for at the start of the year played out, as USDSGD fell from peak of 1.3750 (early Jan) to trough at just under 1.33 (mid Mar). Looking out, USDSGD forecast is projected to skew to the upside for most parts of 2025, taking into consideration the implication of Trump tariffs on global growth, trade and sentiments, as well as the potential MAS policy easing. That said, the prospects of a firmer recovery in EUR and RMB may turn out to be surprise factors that would support SGD. We will monitor 1/ RMB – how China's economic recovery, including the re-rating of Chinese tech stocks, pan out; 2/ EUR – German spending plans, EU economic recovery and the prospect of a Ukraine peace deal; 3/ USD trend and Fed cut cycle – if dovish repricing resumes; 4/ if Trump roll back tariff threats and global growth improves. Positive developments on these fronts (i.e. stronger recovery in EUR, RMB and weaker USD) could pose risks to our forecasts.

For now, tariff impact, sell-off in STI, expectations for MAS to ease policy, escalation in US-China trade tensions and higher USDCNH are some factors adding to SGD softness. While Trump imposed a 10% tariff (lowest tier tariff) on Singapore, potential sectoral-tariffs on pharmaceuticals and semiconductors are additional factors that may undermine tech and trade-dependent FX such as SGD.

USDSGD was last at 1.3420 levels (after Trump temporarily paused higher tariffs on 10 Apr. Bullish momentum on daily chart shows signs of slowing while RSI fell. Technically, this would suggest consolidation. Support at 1.3380/90 levels (21 DMA, 38.2% fibo retracement of Sep low to Jan high), 1.3330 levels (200 DMA). Resistance at 1.3520/50 levels (38.2% fibo, recent high), 1.3620 levels. But we caution that fluid tariff headlines can be 'noisy' and may potentially distort the technical view in the interim.

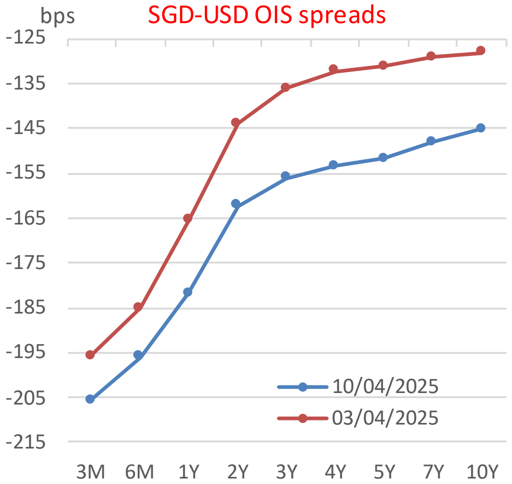
Source: Bloomberg, OCBC Research

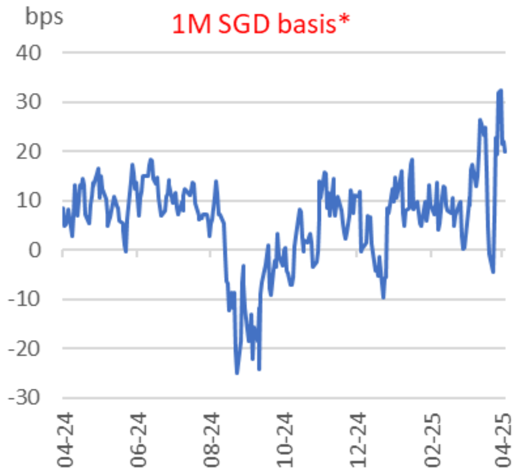
Implications on SGD Rates

Impact on SGD rates, if any, from a change in S$NEER policy is mainly through the FX swap dynamics, especially if there is a change in the slope. A slope reduction per se may exert a mild upward pressure on the forward points and hence some upward pressure on short-end SGD interest rates, all else equal. Granted, the actual movements in SGD rates depend on how spot versus forward outright reacts upon and following policy announcement, and on USD rates performances around that time. While the impact on SGD interest rates appeared to have been minimal when MAS last reduced the S$NEER slope in January, we see a higher chance that another slope reduction at this juncture will have an impact on short-end SGD rates.

When we tried to explain the absence of impact on interest rates of previous slope reduction, we wrote "the slope remains positive and there is room for S$NEER to move within the current band". That was to mean markets could still expect appreciation in S$NEER with a less steep slope. Sentiment has since changed; S$NEER has moved lower of late and last traded at 0.7% above mid-point. If MAS delivers another slope reduction, there is a higher chance that it will translate into some mild upward pressure to the forward points and hence front-end SGD interest rates. This is not the expected net direction of movements in short-end SGD rates as again, USD rates movement is the other part of the equation. Put into the context of USD rates movements, this means an expectation for short-end SGD rates to underperform USD rates, more so with the very negative short-end SGD-USD OIS spreads currently – and there is sign that SGD liquidity has become less flush (below). Should MAS deliver a larger than expected easing (i.e. neutral slope) or a more dovish statement, then the chance that front-end SGD rates will react is higher.

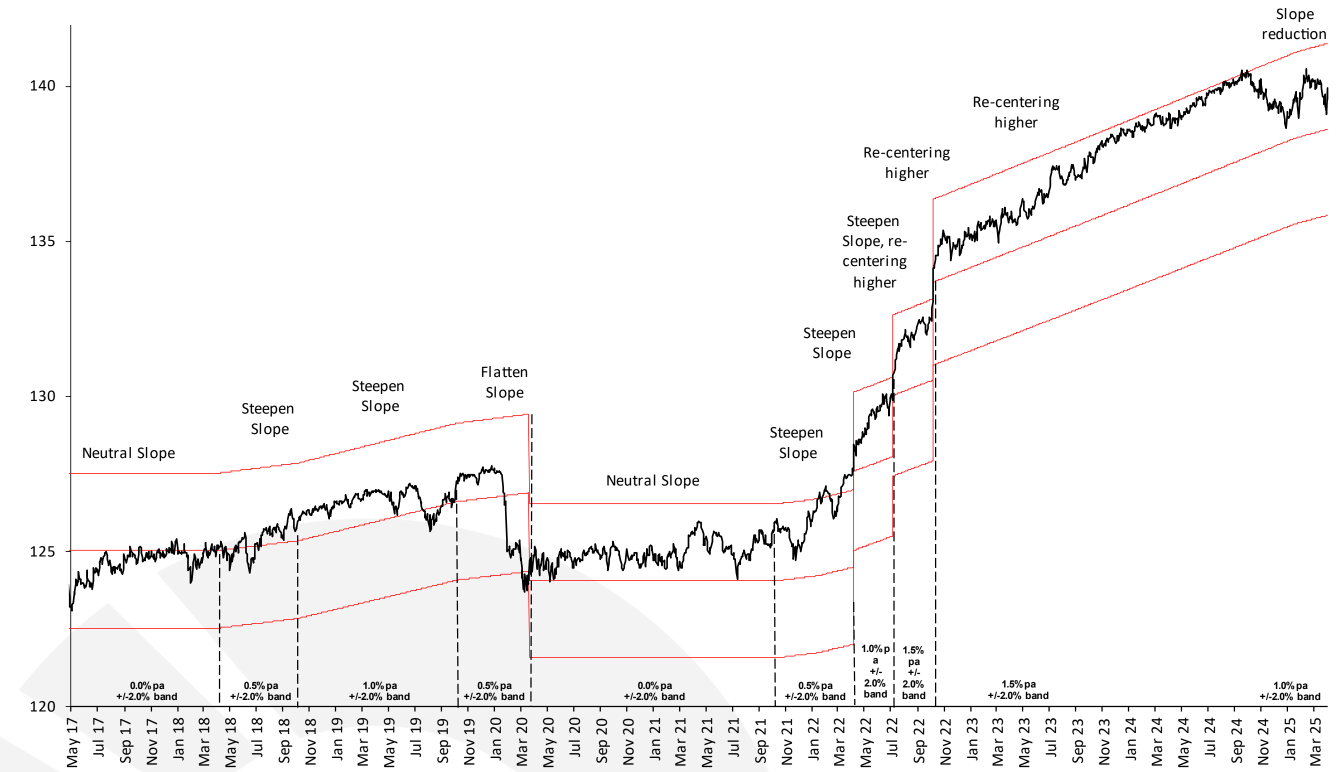
While SGD liquidity has stayed supportive, it appears to have become less flush. SORA the overnight rate itself has rebounded from lows for a few times, moving in a wide range of 2%-3% in a matter of one month. SORA was last at 2.3326%, compared to the recent low of 2.01%. The latest 4W MAS bills cut off at 2.70%, which was around 20bps above the 1M implied SGD rate. While this spread was within recent range, the 1M implied SGD rate itself had rebounded from recent low of 2.32% to about 2.50% around auction time. Compared to OIS, the "cash premium" (MAS bills cut-off minus OIS) was wide. To track liquidity, we also compare OIS with implied rates. 1M SGD OIS was last at 2.24% and 1M implied SGD rate was last at 2.42%. The 1M "basis" (implied rate minus OIS) has been trading in a higher range over recent days, reflecting a tighter SGD liquidity situation. This could be partly due to higher precautionary demand for liquidity in the volatile market environment.





Source: Bloomberg, OCBC Research
*1M implied SGD rate minus 1M SGD SORA OIS

OCBC S$NEER Index



Source: Bloomberg, OCBC Research

A Summary of Past MAS Policy Since 2015

Dates	Policy Action			Economic Considerations (Respective MAS policy statements)	Estimated slope (%)
	Slope	Band	Midpoint		
28 Jan 15*	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to be 0.5-1.5% and -0.5-05% respectively due to lower oil prices and moderate economic growth environment.	From 2 to 1
14 Oct 15	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 0.5-1.5% and -0.5-0.5% respectively due to benign core inflation outlook and weak global demand.	0.5
14 Apr 16	Reduce to zero	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 0.5-1.5% and -1.0-0% respectively due to benign core outlook and less favourable external environment.	0
13 Apr 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0-1% respectively due to improving labour market and projection of higher imported inflation.	0.5
12 Oct 18	↑	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1.5-2% and 0.5% respectively due to imported inflation from higher O&G. Wage growth expectations.	1
14 Oct 19	↓	-	-	MAS Core Inflation and CPI-All Items inflation is expected to come in at 1-2% and 0.5% respectively due to low projected core inflation. Oil prices slumped and NODX contracted.	0.5
30 Mar 20	Reduce to zero	-	↓	MAS lowered the forecast range for both Core Inflation and CPI-All Items inflation to -1-0% due to external and domestic pressures.	0
14 Oct 21	↑	-	-	MAS Core Inflation expected to rise to 1-2% for 2022 due to accumulating external and domestic core pressures	0.5
25 Jan 22*	↑	-	-	MAS revised its Core Inflation forecast upwards to 2-3% due to higher inflation outlook.	1
14 Apr 22	↑	-	↑	MAS revised its Core Inflation forecast higher at 2.5-3.5% for due to global inflationary pressures and tight domestic labour market.	1.5
14 Jul 22*	-	-	↑	MAS revised its Core Inflation forecast higher to 3-4% due to elevated inflationary pressures.	1.5
14 Oct 22	-	-	↑	MAS Core Inflation should come in at 3.5–4.5% on average, and CPI-All Items inflation at 5.5–6.5%.	1.5
24 Jan 25	↓	-	-	MAS Core Inflation and CPI-All Items inflation is forecast to average 1.0–2.0% and 1.5-2.5% respectively due to core inflation moderating more quickly than expected.	1

↓ denotes reduction in slope/re-centering of midpoint downwards
↑ denotes increase in slope/re-centering of midpoint upwards
Green shading represent easing while orange represent tightening move
*Denotes offcycle moves

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