

MAS After-Thoughts - Distinctly, Even if Not Obviously, Dovish

“The probability lies in that direction” – Sherlock Holmes, The Hound of Baskervilles

Nothing with a (Dovish) Distinction

- No surprise that the **MAS did nothing**; leaving the slope, the mid-point (policy band levels) and band-width unchanged.
- **But** it is remarkable that this was a “nothing” **with the promise of something that distinctly dovish in the pipeline**. And **on two counts**.
- First, the **balance of growth-inflation risks shifting appreciably dovish**, with;
 - i) *inflation risks subsiding significantly to suggest durable dis-inflation towards target* (core inflation to 1.5-2.0%) into 2025 and;
 - ii) *risks to growth tilting to the downside despite the above-trend run of electronics-led manufacturing and tourism-/finance-led services*.
- Second, and quite separately, the MAS **unequivocal allusion to highly restrictive levels of the S\$NEER**.
- What’s notable is that the S\$NEER has undergone an exceptional surge (up 11% since Oct 2021).
- The upshot being, *absent an upside surprise to the global economy* filtering through to manufacturing and/or services, the **MAS has a very low bar to ease policy in coming months**.
- Notably, this **does not preclude a “step depreciation*”** of the S\$NEER, even if that is a slightly higher bar than **the presumed (S\$NEER) slope reduction** as the default (and less extreme) easing response.
- In fact, even in the event that downside risks are averted, and upside from China stimulus come through, the case for diminished S\$NEER slope is
- What this means is that **one-off, and possibly sizable, knock back in the SGD** (both trade-weighted and vis-à-vis the USD) is **on the cards**.
- At the very least, **S\$NEER appreciation bias (slope)** may be **reduced by some 50bps** (to 1.5% per annum appreciation by our estimate).
- And **while** this is **not as emphatic as a step depreciation**, it *may nevertheless invoke a significant pullback in the S\$NEER* (from rather rich levels) *given the underlying easing propensity*.
- Correspondingly, a **significant reduction of the USD/SGD forward point discount**** looks compelling.



* A “step depreciation” in the context of MAS policy action refers to shifting the mid-point of the S\$NEER policy bands lower for immediate reduction in S\$NEER trading range. Given a “rich” S\$NEER at the upper end of the trading bands, this is more likely to invoke an equivalent and immediate S\$NEER (and SGD) depreciation.

** See our earlier published note on “Overdone (Forward) SGD Appreciation Bias, 11th Oct 2024)

More Balanced

- In leaving policy unchanged, the MAS alluded to more **balanced risks**.
- **But this is not to be mistaken for a static balance** that may be **conflated with a prolonged policy status quo**.
- Instead, this version of “balanced” is a more specific *balance of inflation risks* away from upside and *balance to growth* given recent out-run (albeit subject to moderation).
- Crucially, the **balance of risks do not distract from a distinct case for easing** soon.
- Especially in the context of **diminishing threat of unmoored inflation** (expectations) *coinciding with downside risks to growth*.
- Notably, the MAS’s assessment of “balance of risks” is that:
 - i. Inflation that has turned a corner, with sequential easing and more durable dis-inflation dynamics to 1.5-2.0% for core inflation (barring unforeseen cost shocks), and;

- ii. [Growth that is in an uncomfortable corner](#) as recent out-run in electronics-led manufacturing and trade-/finance-led services boost looks set to confront headwinds, slowing from 3% clip now to ~2% next year.

[But Highly Uncertain:](#)

- What's more, **uncertainty is notably elevated**, potentially demanding a greater *need for greater policy "insurance" bias*, (to **protect downside risks**, which has grown).
- Trouble is, **elevated uncertainty** challenges the ability to predict and model risks, which are **harder to quantify/time**.
- **Compounding the difficulty is inter-dependence/interactions between various geo-political unknowns** (e.g. US elections and US-China trade antagonism).
- Above all, uncertainty of outcomes is exacerbated by conflicting forces from geo-political outcomes, which may be simultaneously inflationary yet with adverse income effects.
- This renders it more challenging to ascertain the appropriate policy setting.

[Consequently, Tentative about Prevailing Settings:](#)

- Hence, policy calibrations are more likely to be a **tentative state of dynamic economic-policy iterations** than a stable equilibrium.
- And the **direction of policy change leans in favour of easing**.
- This, **in the context of increased downside risks to growth** amid more solidly *anchored inflation* and *heightened uncertainty*.

[Inherited \(S\\$NEER\) Policy Elevation:](#)

- Especially **given the exceptionally rapid appreciation in S\$NEER levels** from unprecedented, front-loaded tightening over the course of late-2021 through 2022.
- The MAS deems **policy could turn out to be a tad too tight**, given that the S\$NEER has **appreciated tremendously** at an *annualized rate of >3.5% per annum^ since late 2021*.
- *Point being, the exceptionally strong levels of S\$NEER coupled with tight slope settings considerably heightens the risks that policy is too tight.*

[^] up 11% since October 2021 (when the MAS first re-introduced an appreciation bias for S\$NEER) and up 9.4% since April 2022 (when the first of three step appreciations moves was induced)

[Accentuated by Rich S\\$NEER:](#)

- This is further accentuated, if not **exacerbated, by how rich the S\$NEER is** at the top side of the policy bands (by our estimates).
- What this means is that **at the very least guidance will need to soften the S\$NEER within the bands**.

[Leading Up for Easing:](#)

- Failing which, outright **policy action to lower the policy bands will be necessitated**.

- And the bar for this is not high. That to say, severe adverse demand shocks are not preconditions for easing.
- Instead, **so long as upside risks to global growth and inflation do not get in the way, policy easing is likely.**

Notable Non-Exclusion of S\$NEER Mid-Point Shift

- And to be sure, this does not exclude the **potential for a step depreciation** (shifting the mid-point of the S\$NEER policy bands lower) *to realize upfront S\$NEER softening associated with more imminent relief.*
- Whereas the conditions for invoking a step depreciation is used to be a more onerous/extreme, typically involving financial (e.g. 2008 GFC) or adverse shocks (e.g. COVID), the **bar is lowered now.**
- A much higher (and far more restrictive) S\$NEER means that any significant drop in output alongside dis-inflation could make the case for a measured step depreciation (of 50-100bp).

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