

MAS Watch: Suspend (Slope Appreciation)

"Your focus determines your reality." – Star Wars, Qui-Gon Jinn

In a Nutshell:

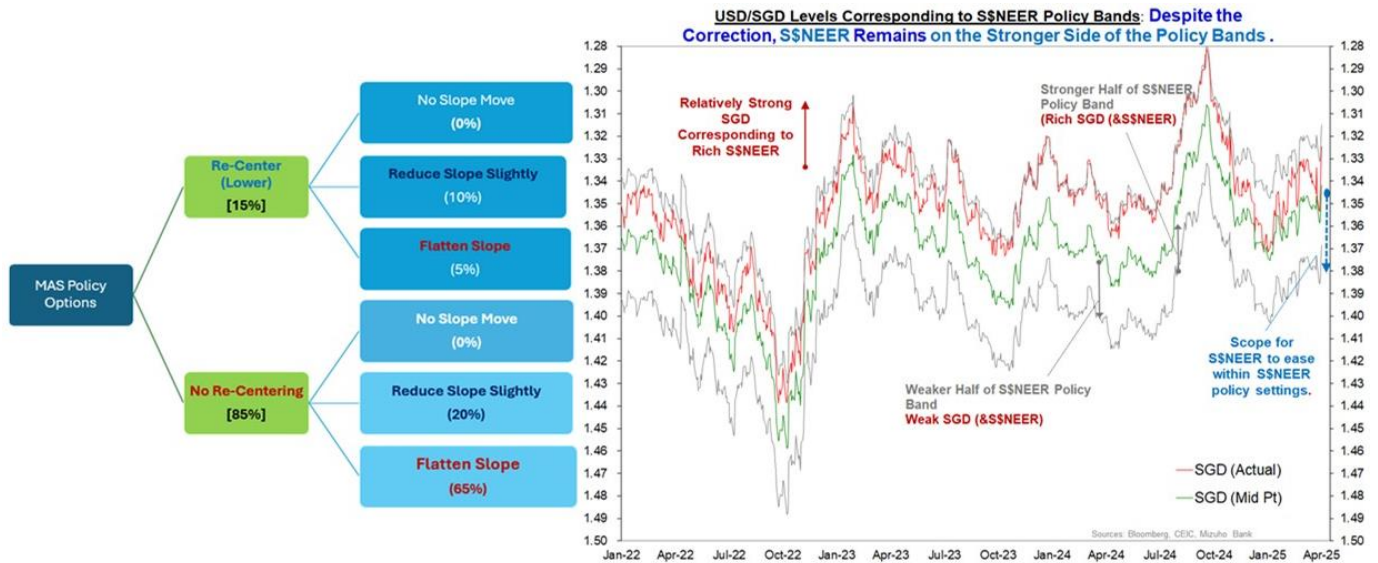
- **Gathering trade war storm clouds** and initial external headwinds suggest that the **MAS calculus ought to turn emphatically more dovish** to guard against adverse demand shocks.
- Admittedly, **both the slope** and shifting the **re-centring tools** (for the S\$NEER policy band) feature as options to ease.
- But the **focus** on the prevailing, *exceptionally adversarial global trade threats* ought to **determine** the **reality** of policy trade-offs.
- Accordingly, the optimal policy choice is arguably for **flattening of the S\$NEER slope** (the strongest viable iteration of slope easing).
- And to the **conspicuous exclusion of re-centring lower** ("step depreciation of S\$NEER that front-loads easing),, despite this being the more aggressive easing.
- For one, a **suspended slope guards against two-sided, conflicting** (price and demand) shocks rather than being wrong-footed.
- More importantly, **re-centring the S\$NEER policy bands lower away from prevailing S\$NEER** (at the strong side of the policy band) is **unprecedented, awkward, and risks being misperceived as arbitrary devaluation, to the detriment of credibility and confidence**.
- Crucially, **abstaining from re-centring lower will mitigate unfounded allegations of mercantilist FX policies** in the current adversarial global trade environment. And *averting such geo-political landmines is critical*.
- While **suspending S\$NEER appreciation bias does not automatically dampen the S\$NEER**, augmented S\$NEER appreciation (and possible future "step depreciation") expectations could *knock 25-50bp off \$NEER; especially accompanied by dovish MAS guidance*.
- Distinctly Dovish: Our earlier view of **S\$NEER slope easing** being the **optimal policy stands**, *but now takes on a distinctly more dovish form of S\$NEER slope flattening*.
- Amid Risks of Amplified Demand Shocks: Point being, the **precarious turn of global events** featuring **amplified second-order China shocks** amid heightened uncertainty, arguably calls for **appreciably** (no pun intended) **more dovish MAS response**.
- Sooner as "Insurance" Insufficient: The case for **imminent and more emphatic easing is compelling** as the **"insurance" easing** (via "slight S\$NEER slope reduction") in January increasingly **appears insufficient in the face of unprecedented global turmoil**.

- Slope Suspension Warranted: So, **flattening the S\$NEER slope** (*the strongest iteration of slope easing**) is arguably warranted.
- Most Optimal: In fact, the **focus** on, *exceptionally adversarial global trade threats* **determine** the **reality** of **suspended S\$NEER appreciation bias**, *especially given the rich (elevated) S\$NEER*, being the **most optimal move for the MAS**.
- To the Exclusion of Step (Depreciation): Specifically, **to the exclusion of so-called “step depreciation”** (re-centring the S\$NEER policy bands lower) **despite the benefit of more aggressive, front-loaded easing**.
- To Avoid Wider Mis-Steps: So as to **risks being a mis-step** (pun not intended) amid *two-way risks, geo-political sensitivities* and *policy confidence*; all of **which slope suspension avoids**.
- Accounts for Opposing (Price & Demand) Risks: For one, just **suspending the S\$NEER slope** best mitigates the **policy dilemma** and **most effectively manages heightened risks of opposing, two-way** (price and demand) **shocks** *amid exceptionally heightened uncertainty*.
- Without Sabotaging Credibility/Confidence: Moreover, the **MAS can avert pitfalls of inadvertently sabotaging** (policy) **credibility** or **confidence** (in SGD policy).
- Amid Unprecedented Re-Centring Dynamics: Especially should a **highly unusual, if not unprecedented, “step depreciation”** **away** from **prevailing S\$NEER levels** (which is higher vis-à-vis S\$NEER mid-point) is **misconstrued as arbitrary devaluation**.
- Or Inadvertently Inflaming Geo-Political Threats: Above all, the **non-negligible risk** that a **“step depreciation”** in an adversarial global trade environment **unnecessarily agitates** (*misguided*) **accusations of overtly mercantilist FX policy**^.
- “Step Depreciation” Still a Key Tool: To be sure **as threats of second-order China shocks** mount amid **exceptional global trade uncertainty** there will be **ample scope for a mid-point shift lower** *beyond the slope flattening*.
- But Subject to Deferred & Conditional Application: **But** only as a **deferred policy option**, *depending on the pace and path of global trade/geo-political events*. October MAS or inter-meeting Q3 on watch for such a move.
- Slope Flattening Has No Mechanical S\$NEER Impact: In theory, a **S\$NEER slope suspension is not expected** to have a strong influence on the prevailing relative **S\$NEER levels** (within the policy bands).
- But Expectations May Bias S\$NEER Lower Trigger: *Nonetheless*, there could be some **marginal downside pressures on the S\$NEER**, all else equal as markets price; i) *impaired appreciation bias*, and; ii) *pipeline “step depreciation”*.
- Especially on Dovish Guidance: And so, this could potentially **prompt some degree of front-running in tempering relative S\$NEER strength** *given relatively rich levels* (in the upper half of the band). And **especially with dovish MAS guidance**.
- Measured 25-50bp S\$NEER Downside: All else equal, **slope suspension alongside a dovish statement** *could prompt a 25-50bp slip in S\$NEER*.
- Attendant USD/SGD Lift Contingent on Wider USD Moves: Based on today's levels, this is **consistent with USD/SGD lift to above sub-1.33 to mid-1.33** (from current mid-1.32 levels). *Caveat being, broader USD moves will overrule*.

*Theoretically one could argue that a negative slope (i.e. S\$NEER depreciation bias) is in fact the more

** Typically entails shifting the \$NEER mid-point lower (higher in the case of “step appreciation”), which effectively front-loads aggressive easing (tightening).

^Averting a confrontation is way better than trying to resolve one with a counterpart that has suspended economic reason and logic in favour of geo-political aggression/dominance.



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