

## MAS Watch: An Exercise in (Interim) Patience

*“Patience you must have, my young Padawan” - Yoda, Star Wars*

### In a Nutshell:

- **The call is close. But contrary to emerging expectations of policy easing\*** amid significant dis-inflation, we **expect (65% probability) the MAS to exercise patience and stand pat.**
- **Admittedly**, a **sharp deceleration in core inflation** (from over 3% in H1 2024) **to sub-2%** by late-2024 is **ostensibly encouraging validation for easing.**
- **But significant S\$NEER pullback** provides **sufficient, defacto, accommodation for the time being to better assess options amid heightened two-way uncertainty.**
- Moreover, the **relative recency of emphatic dis-inflation** (compared to prolonged inflation overshoot earlier) **leans in favour of patience** as **sufficient S\$NEER slope incline in place helps to better anchor inflation expectations.**
- **Especially in the context of positive output gap and the associated inflationary risks** in the context of **substantial growth overshoot at 4.3%** (compared to the MAS' earlier upper end projections of 2-3%)
- Notably, **exceptional USD strength\*\*** from a confluence of Trump 2.0 and a restrained Fed, **flags risks of reviving imported inflation if premature easing accentuates SGD weakness** (vs. USD).
- To be clear, the **MAS' policy path is biased for more easing. And soon enough. But not just yet. Interim patience** may be the **optimal policy given the balance of risks amid uncertainty that requires dry gunpowder.**
- **SGD & S\$NEER:** Further **S\$NEER (SGD) underperformance in coming months** if dis-inflation is coupled with adverse tariff/China risks. But **more immediate, post-MAS S\$NEER/SGD rebound** on the cards **if the MAS resists rather than relents on easing** expectations.
- **USD/SGD Forward Points:** Corresponding **post-MAS volatility in USD/SGD forward points** immediately after is **par for the course.** But heading into mid-2025, for **USD/SGD forward points may turn less negative** (perhaps even positive) depending on scale of MAS easing expectations later.
- **Rates:** Consequently, the **undershoot in SGD rates vis-à-vis corresponding US rates is set to diminish**, (beginning to take shape at the front end). That said, the **wider, absolute rate direction will be Fed dependent.**

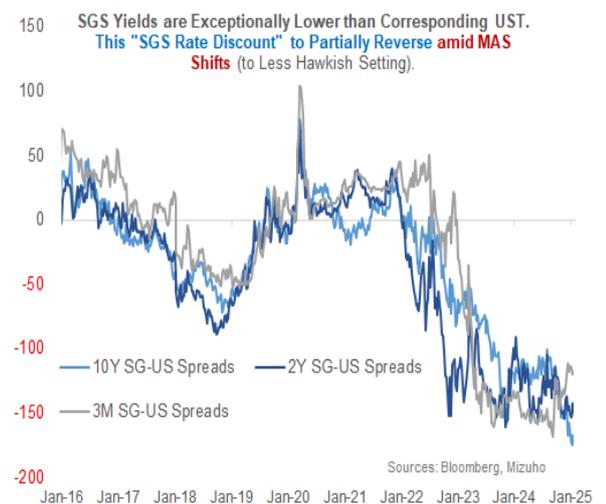
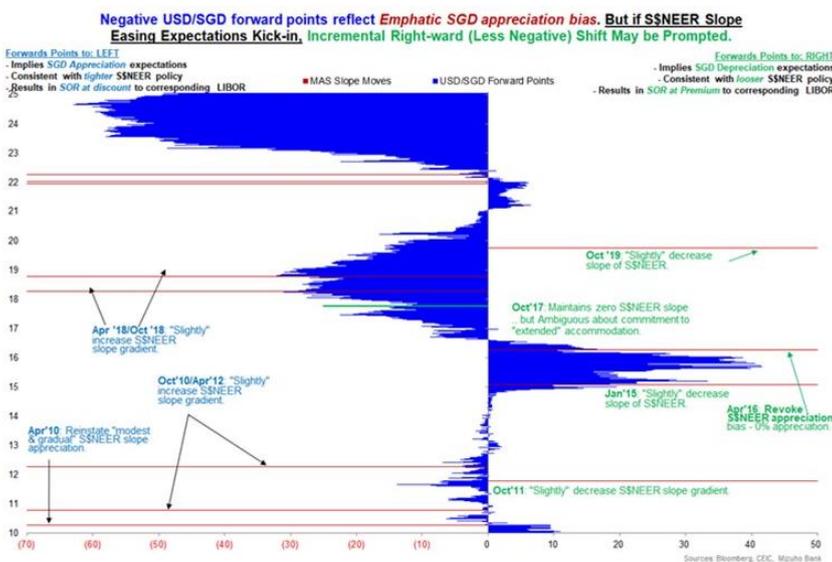
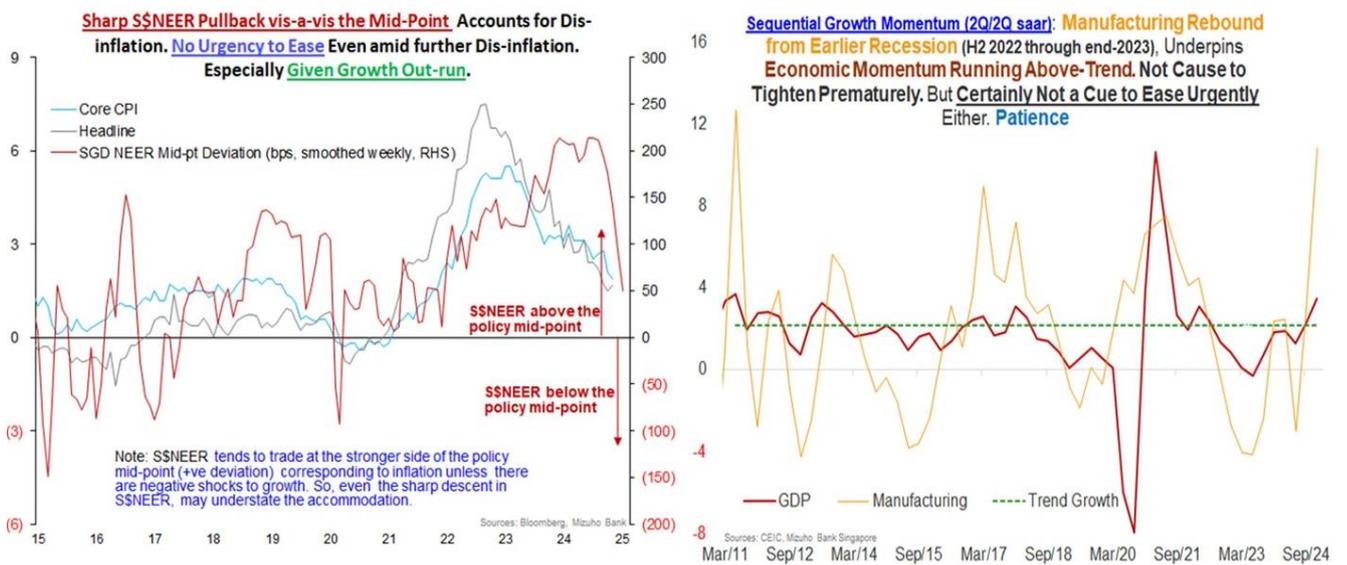
\* Mainly via S\$NEER slope reduction

\*\* Predominantly USD-denominated import prices suggest imported inflation risks may be somewhat understated by the trade-weighted S\$NEER; therefore tighter (than usual) policy during periods of exceptional USD strength.

- **Sweet Spot:** Regardless of the conspicuous spate of easing amongst many other (G10 and Asian) central banks since late last year, the **sweet spot for the MAS arguably is a hold.**
- **Despite (Inflation) Soft Spot:** And this is **despite otherwise compelling deceleration in both headline and core inflation.**
- **Close Call amid Conflicting Cues:** To be clear, the **MAS policy decision** this time is a **close call** given **conflicting policy cues** such as **strong growth juxtaposed against significant dis-inflation.**

- Exacerbated by Literal Conflict Risks: This **policy dilemma is further obfuscated by conflict risks** from heightened uncertainty relating to *Trump 2.0 tariff threats/trade conflict, on-going military conflicts,* and *wider geo-economic risks*.
- Timing, Not Tide: All said, our call for a hold at this meeting is about (a later) timing MAS easing, and not denying the turn in policy tides as the **MAS' policy path is biased for more easing** (soon enough).
- FX Policy Not Analogous to Rates Policy: Notably, the MAS' FX-based S\$NEER policy is not analogous to rates policy. Specifically, the S\$NEER policy has a more dynamic calibration built-in diminishing to MAS easing
- Interim Patience: Meanwhile, **interim patience** is a nuanced but important distinction insofar that it offers the **optimal policy position that delicately balances conflicting risks amid uncertainty that requires dry gunpowder**. On that note, a wider assessment of existing risks tilts in favour of patience for another quarter before more informed policy decision.
  1. Recency of Dis-inflation: For a start, the **relative recency of emphatic dis-inflation**, *compared to a prolonged overshoot (of the 2% target since mid-2021)* **leans in favour of a bit more patience; to ensure inflation is anchored**.
  2. Growth Out-run: What's more, the **significant out-run in growth to 4.3%** (compared to earlier MAS upper end projection of 2-3%) *warns of positive output gap* and the *associated inflationary risks*.
  3. "Insurance" Not Underwritten: Also, **pre-emptive easing** temptingly **couched as insurance against adverse demand shocks** falls short as **premature easing does not underwrite opposing** (demand and price shock) **risks**.
  4. S\$NEER Slippage: Crucially, **significant S\$NEER pullback** provides **sufficient, defacto, accommodation** for the time being to **better assess options amid heightened two-way uncertainty**.
  5. Exceptional USD Strength: Moreover, **exceptional USD strength** flags *accentuated risk of S\$NEER overstating insulation from imported inflation* (given predominant USD pricing of imports), thereby favouring more policy restraint (as gauged by S\$NEER).
- Dog & Tail: Admittedly, it may well be that *S\$NEER weakness is the tail wagged by* (markets pricing in) *easing expectations "dog"*. Although it is more likely than not that the causation runs both way amid more complex dynamics.
- (Re-)Tightening by Inaction: In any case, we concede that **MAS restraint (a hold that defies expectations of a hike)** **may entail the risk of some re-tightening via S\$NEER move back up within current policy bands**.
- Chicken & Egg: But the **"chicken and egg"** prospect of **S\$NEER pick-up on MAS hold does not warrant premature MAS easing**.
- USD Domination: **Not at the greater (and unwelcome) risk of**, and volatility induced by, **an aggressively bullish USD** in the context of *accentuated downside risks in CNY and other Asia FX*.
- Kicking Cans: As alluded to earlier, a **MAS hold is simply kicking the easing can down the road**. Patience though will probably hit positions (as Yoda told his Padawan).

- **Buying the MAS Decision, Selling the Underlying Stance:** So *reflexive rebound in S\$NEER and SGD* will *be liable for pullback further out*; albeit subject to prevailing geo-economic risks.
- **SGD & S\$NEER:** Further **S\$NEER (SGD) underperformance in coming months** if dis-inflation is coupled with adverse tariff/China risks. But **more immediate, post-MAS S\$NEER/SGD rebound** on the cards **if the MAS resists rather than relents on easing** expectations.
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