

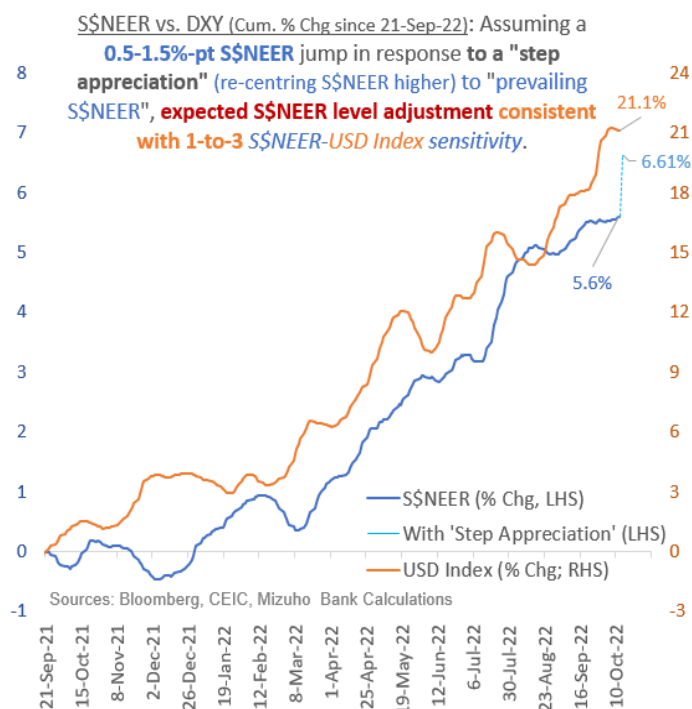
Dissociating MAS Hawks & SGD Bulls

Table of MAS Moves Coming Out of COVID Accommodation

	S\$NEER Mid-point Response (bp)	SGD* Mid-Point Reponse (bp)	S\$NEER Response (bp)	SGD* Response (bp)	Policy Move	
					Slope	Mid-Pt
14-Oct-21	0.2	8.9	12.6	21.5	Slightly (~0.5%p.a.) Increase (Reinstate) S\$NEER Slope	N.A.
25-Jan-22	0.4	-2.9	18.4	15.6	Slightly Increase (to 1.0%p.a.) S\$NEER Slope	N.A.
14-Apr-22	168.8	159.4	52.4	-52.8	Slightly Increase (to 1.5%p.a.) S\$NEER Slope	Re-Centre Higher to Prevailing S\$NEER Levels
14-Jul-22	164.9	131.3	38.5	2.8	N.A.	Re-Centre Higher to Prevailing S\$NEER Levels

* SGD (vs. USD) corresponding to S\$NEER Policy Mid-point/band/actual

Sources: MAS, Mizuho Bank Calculations



In a Nutshell: Hawkish MAS have continued to mount ahead of MAS meeting. A consequently stronger S\$NEER is the base case. But this is not to be conflated with matching SGD (vs. USD) appreciation. Two main reasons why. First, policy delivery may fall short on hawkish expectations (for “double-barrelled” tightening); in terms of the levers employed, how these tools calibrated, or accompanying guidance. All of which risk dampening S\$NEER upside, and derivative SGD strength. Crucially, sweeping USD strength may overwhelm S\$NEER boost to SGD. Upshot being, our base case for SGD to rise 20-100bp against USD (consistent with 50-150bp S\$NEER lift from double-barrelled tightening) may be severely compromised by heightened uncertainty from Fed-CPI and BoE risks, and attendant USD strength/volatility, on either side of MAS meeting.

(Hawkish) MAS Expectations

We expect the MAS to double down with a second “double-barrelled” move*; albeit with a potentially more aggressive (omitting “slightly”) slope increment (of ~1.0-1.5%-pt). Specifically, the MAS is primed to deliver both; i) “step appreciation” (re-centring S\$NEER mid-point higher) and; ii) emphatic slope increment. Question is, *what such a hawkish MAS move means for the SGD.*

Tenuous S\$NEER-to-SGD Extrapolation

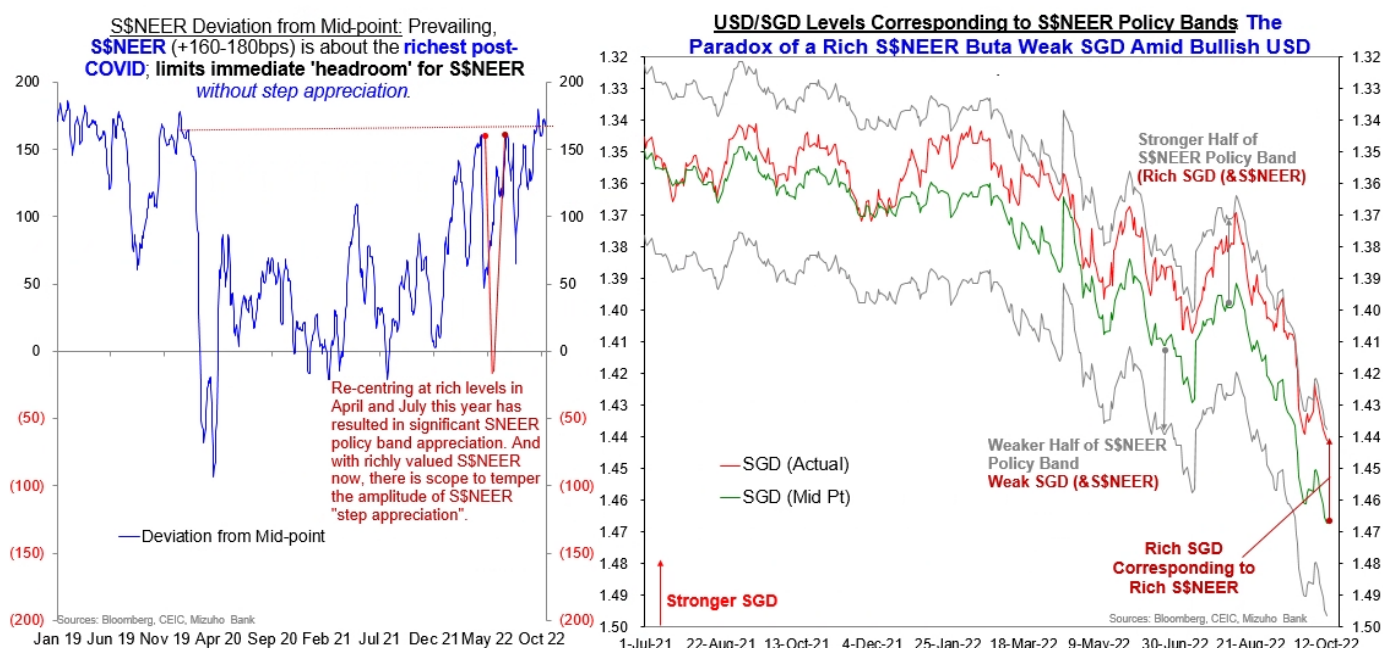
To be sure, it is hard to tell as there is **no binding one-to-one relationship** between S\$NEER and SGD levels. Fact is, S\$NEER parameters tweaks (using policy MAS levers) are first diluted by S\$NEER “free play” within the (presumed) +/-2% policy bands and crucially, determined by relative exchange rate shifts of S\$NEER currency basket. Hence, a brutal bullish USD trend, inciting exceptional volatility in Major currencies (JPY, GBP, EUR) and CNY, render S\$NEER to SGD extrapolation even more tenuous.

(Proximate) S\$NEER Response ...

Nevertheless, **unpacking expected, and proximate, S\$NEER response to MAS policy cues, decomposed into the “re-centring mid-point” and “slope increment”** components, are **useful starting points to gauge drivers and dispersion of extrapolated SGD outcomes.**

Mid-Point Re-centring Higher: Arguably the **most distinct S\$NEER response, up-front,** is from **re-centring S\$NEER policy band mid-point (higher).** Assuming *re-centring to “prevailing S\$NEER levels”*, our estimate of an extremely rich “prevailing” S\$NEER *suggests mid-point jumping 160-180bp.*

Slope Increment: In contrast, a steeper slope **does not imminently strengthen S\$NEER policy parameters,** but does so gradually. Admittedly, the *hawkish signal has ostensibly triggered modest S\$NEER lift reflex (10-25bp).* That said, *further upside in an extremely rich S\$NEER is limited, absent ‘step appreciation’.*



... & Conditional SGD Outcomes

Regardless, barring major dovish surprises (in accompanying cues/rhetoric), **50-150bp pick-up in S\$NEER squares with “double-barrelled” tightening; consistent with S\$NEER policy countering exceptional USD strength thus far.** In turn, *transposition of S\$NEER elevation into SGD (vs. USD) appreciation will be conditional on, and limited by, sweeping USD strength and specific weakness in S\$NEER trade basket currencies.* Nevertheless, a **corresponding, albeit more subdued, 20-100bp of SGD appreciation (vis-à-vis USD)** is likely. *So long as it is not overtly hampered by policy restraint or potential reversal;* comprising less hawkish or impending policy pivot signals alluding to gathering global headwinds.

Counter-Intuitive SGD Slippage Risks

While SGD appreciation expectations is the instinct, **counter-intuitive SGD slippage on a hawkish MAS trigger is not inconceivable.** Two main channels for this to transpire. One, is a **brutally bullish USD driven by risk aversion (amid BoE and Fed/US CPI triggers)** that *overrides S\$NEER jump, dragging corresponding SGD (vs. USD) bands lower regardless.* The other is via **hawkish shortfall in the policy.** Watering down to just one policy lever and/or be a less aggressive iteration. Most notably if re-centring is calibrated to be *“higher, but below prevailing S\$NEER levels”*; as was the case in April 2011. If USD assault/policy shortfall are large enough **SGD gains may fizzle quickly or perhaps even more than reverse.**

*Please see Mizuho Insights – MAS Watch: Doubling Down on “Double-Barrelled”, 5th Oct 2022)

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