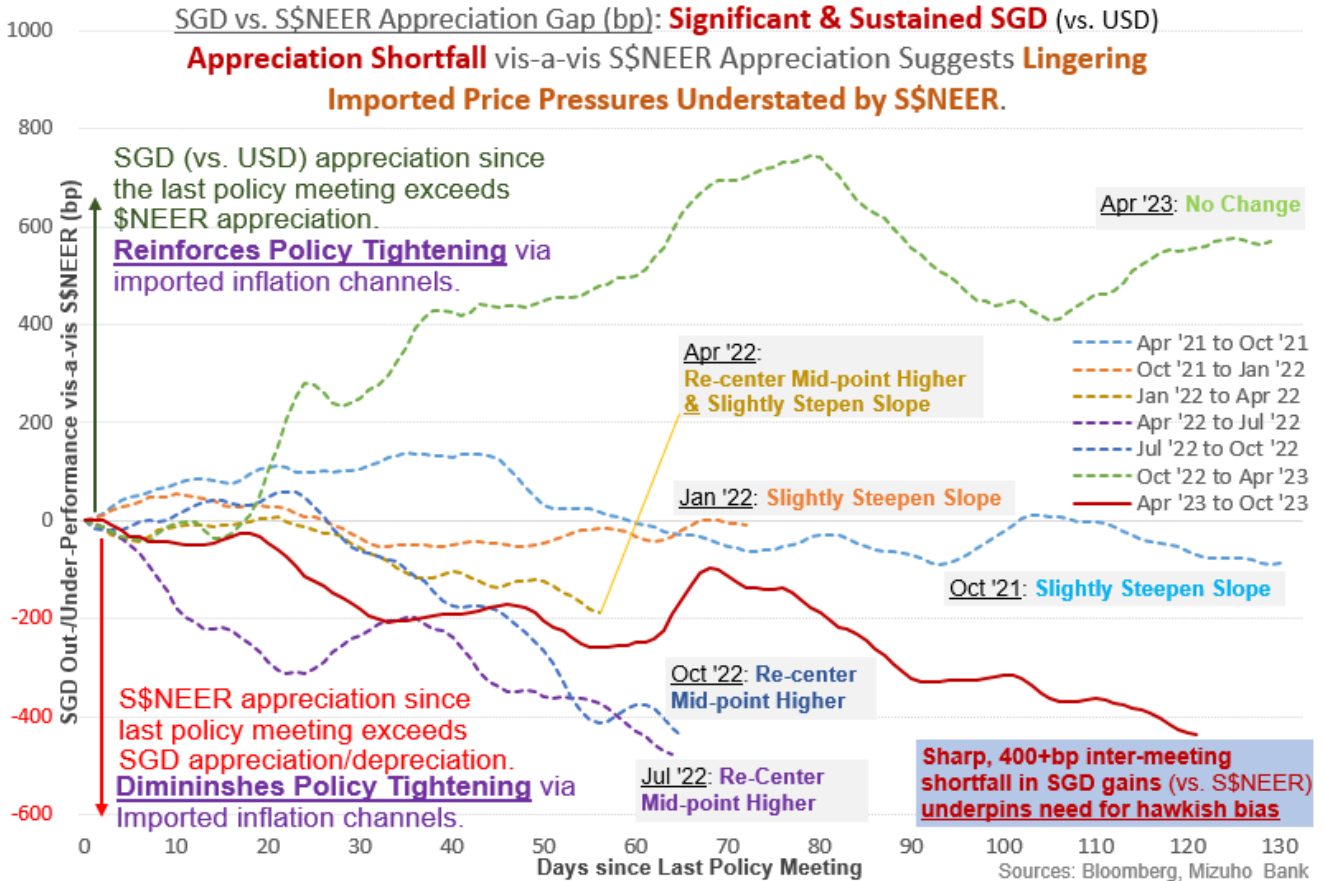


MAS: Currency of a Hawkish Hold



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

- *Disproportionately large USD-based invoicing* (Table overleaf) **flag the risk** that **during episodes of exceptional inter-meeting USD strength**, the (imported) **inflation dampening capabilities** of S\$NEER policy settings' may be **temporarily overstated**. More often than not proportional to the degree of SGD (vs. USD) underperformance vis-à-vis corresponding S\$NEER gains.
- **Extreme SGD under-performance vis-à-vis S\$NEER** not just prevailing, but entrenching, **since the last MAS policy meeting in April** this year (see Chart), **arguably underscore the "currency" of a slightly more hawkish (hold) bias** by the MAS than the delicate balance of opposing macro-economic risks would otherwise have suggested.
- To be sure, *even in the absence of the current outburst of USD strength*, our **base case would have converged on the MAS staying the course on a hawkish hold**; as it navigates the cross-currents from **stubborn inflation** on one hand and **downside growth risks** on the other.
- **Underpinning the case for policy to remain restrictive is "sticky" core inflation** from a **conspiracy of resurgent global energy**, elevated **food** and impending hike in **water** prices. Especially as resultant **cost shocks collide with robust services demand**, *accentuating second-round inflation risks*.

- *But policy (tightening) restraint is admittedly counselled by **persistent downside risks to growth amid prolonged exports headwinds**. Particularly as the *manufacturing sector has been pummelled into an extended contraction four quarters running*; with the overall economy **only just averting a technical recession** (thanks to robust services).*
- What's more, the **threat of abrupt, adverse growth shocks** are **amplified by mounting tail risks** of recession and/or financial shocks. Which in turn could be precipitated by policy miscalculations entailed in the *tyranny of exceptionally high (Fed-led) global rates juxtaposed against* global cost- and/or demand-side *fragilities from heightened geo-political risks*.
- Nonetheless, the **bar** to relax policy restriction **to pre-emptively insure against mounting downside risks to growth remains high**; *as anchoring inflation expectations remains as the policy priority*.
- Crucially, **as sweeping USD strength inevitably translates into significantly higher imported inflation**. Specifically, as the **overwhelming and disproportional dominance of USD-invoicing exposes inflation vulnerabilities from exceptional USD strength**; which is invariably **not sufficiently addressed by corresponding strength in the trade-weighted S\$NEER**.
- The upshot is that *while exceptional USD strength* that is highlighted in a >400bp SGD undershoot (vs. S\$NEER) *is not a standalone factor for the MAS to retain a hawkish bias despite mounting growth risks*, it certainly **underscores the default hawkish bias a priori** (vis-à-vis growth risks).
- Above all, the *exchange rate focus of policy dictates the reality of inflation threat flaring on resurgent USD* conspiring with food and energy cost shocks simply cannot be ignored.

	Share of Import Transactions by Value (%)	Share of Import Transactions by Count (%)
USD	72.9	36.4
SGD	12.5	32.3
EUR	6.8	11.3
JPY	3.2	4.8
RMB	0.9	6.0
CHF	0.8	0.5
GBP	0.8	3.5
MYR	0.5	1.8
AUD	0.5	1.7
HKD	0.3	0.3

Source: EPG, MAS estimates

Note: The ranking is done based on the shares by value and would be slightly different based on shares by count.

Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd