Mizuho Chart Speak: MAS & SGD

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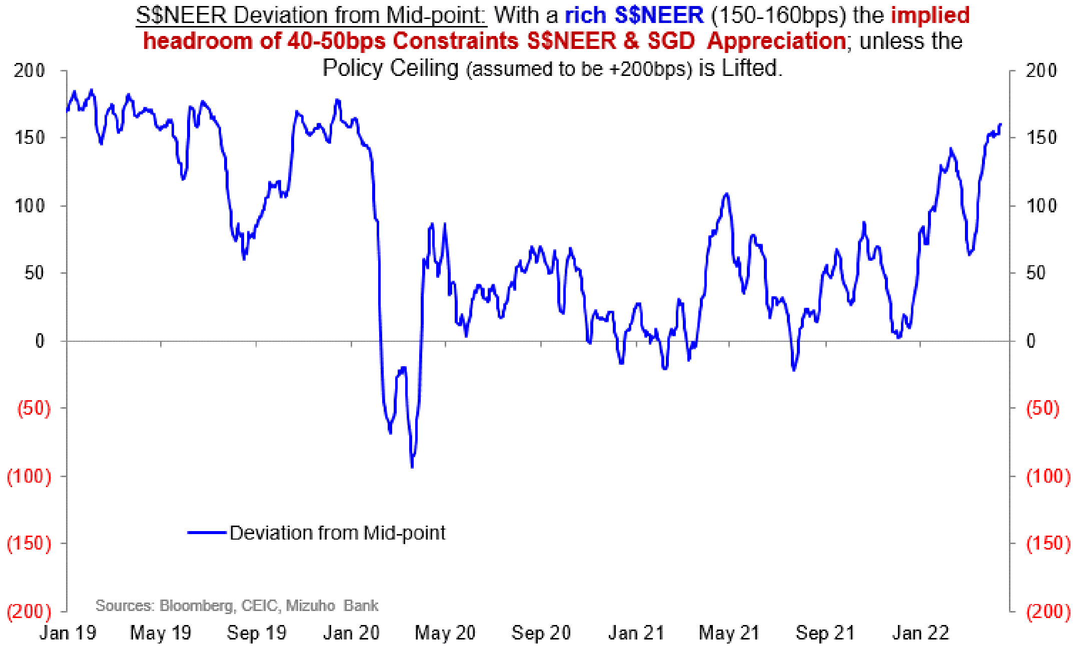
MIZUHO

Why MAS Hawks Need Not Inspire Unqualified SGD Bulls



"… love means nothing if it does not mean loving some more than others" **– George Orwell**

In a Nutshell: The **consensus** for **unambiguous tightening** at the April (14th) MAS meeting **should not be erroneously be conflated with unqualified SGD appreciation**. Fact is, the *type of tightening,* on which there is a greater dispersion of opinions, will *determine the scope for immediate policy-induced SGD appreciation* response. Not all tightening moves are created equal. And in a nod to George Orwell's less widely cited wisdom, **SGD bulls must necessarily *love some tightening more than others***.

At the risk of oversimplifying, **bullish SGD response from hawkish MAS tightening** is poised to be **most pronounced from** *re-centring the S$NEER mid-point higher* "**step appreciation**. Our S$NEER model suggests *potentially 150-160bps of upside; although likely to be tempered to 70-120bps* by caution about testing limits alongside the likelihood of *"step appreciation" calibration* ("*higher but below the prevailing S$NEER*"). In contrast, **SGD appreciation** from **another round of "slightly" increased S$NEER slope** is likely to be **significantly subdued** (measured 20-40bps); if at all perceptible.

This **"step-slope" disparity is amplified by a richly valued S$NEER** that has **left little headroom for S$NEER and SGD appreciation from just the slope increment** (that does not instantaneously) lift the S$NEER policy band ceiling.

Unreservedly Hawkish MAS: Ahead of the scheduled, bi-annual **MAS meeting on 14th April**, the **overwhelming consensus is distinctly converging around appreciable** (no pun intended) **tightening** response from the MAS. As explained recently (*Mizuho Flash - MAS Watch: Double-Barelled Move,* 6th Apr 2022), this derives from prospects for prolonged price shocks exacerbated by the Ukraine war colliding with signs of a hot jobs market; thereby accentuating wage-price spirals risks

But Not Unqualified SGD Bulls: ***But*** it would be **misguided to presume unqualified bullish SGD response** (derived from S$NEER gains) as an **emphatically hawkish MAS need not correspond to a distinctly bullish MAS**. The upshot is that **not all of MAS' tightening moves are created equal**. Correspondingly, **SGD bulls love some forms of MAS tightening more than other**.

The Slope-Step Disparity: At the risk of oversimplifying, **bullish SGD response from hawkish MAS tightening** is poised to be **most pronounced from** *re-centring the S$NEER mid-point higher,* which is also telling **known as** a "**step appreciation**. Whereas, **SGD appreciation** may be **significantly subdued** (if at all perceptible) **if tightening is limited to another round of "slightly" increased S$NEER slope**.

This **"slope-step" disparity in potential SGD appreciation, as a by-product of MAS tightening,** is further **accentuated by** a "**rich" S$NEER**; which by our estimate is **comfortably at the top quartile of the S$NEER trading bands**.

Constraints of "Rich" S$NEER: Point being, **a richly valued S$NEER** (150-160bps above the mid-point by our estimates; See Charts), **seriously cramps S$NEER**, and corresponding **SGD**, **upside**; insofar that **SGD bulls may only cautiously test** the **policy band upper limit** (of an estimated 40-50bps; See Chart).

That being the case, **re-centring of $NEER mid-point higher** is the **most effective way to establish an instantaneous lift in S$NEER policy headroom** ***for SGD bulls to exploit.*** In contrast, S$NEER slope steepening lacks immediate headroom (given it a linear and gradual increase in S$NEER band parameters). And the attendant scope for immediate policy-induced S$NEER and SGD upside are severely limited by existing (pre-MAS) policy ceiling.

Deductions & Devilish Details: All said, **S$NEER mid-point re-centring is the key catalyst to unleash SGD bulls** following the MAS. In contrast, a steeper S$NEER slope (whether "slightly" or not) in isolation may only induce shallow, if not negligible, attempts at SGD strength (of measured 20-40bps).

Our S$NEER model suggests that **S$NEER re-centring could unleash as much as 150-160bps of instantaneous S$NEER and SGD upside** (assuming relative S$NEER position restored), although *caution* about testing the band *may in reality dampen SGD appreciation to the ballpark of 70-120bps.*

Especially if **our calculated bet on the MAS calibrating the re-centring** with a "*higher but below the prevailing S$NEER*" (instead of the more conventional "re-centring to the prevailing S$NEER levels") guidance plays out. Admittedly, such a calibration is **exceptional**, **but not without precedent**. The *MAS resorted to this "higher but below prevailing" calibration in April 2011,* when heightened global uncertainty called for fine-tuning. The **current circumstances**, we argue **warrant such finesse**.

Wrong "Bandwidth"?: Admittedly, in our analysis we have omitted the **policy bandwidth** tool. But this is a deliberate curation based on likelihood and appropriateness or policy outcomes. While in theory **widening** the policy bands will create immediate headroom for S$NEER and SGD appreciation (tightening), the **consequent symmetric lowering of S$NEER floor confuses the policy message**. Point being, wider bands are agnostic (neither tightening nor loosening) and are only meant to ride out volatility (in rare occasions). Whereas **widening the bands at this juncture risks loss of policy traction**; which is *diametrically opposed to the MAS' objectives of reining in wage-price spirals.*