

Mizuho Brief: MAS Watch

Economics & Macro Strategy | Asia ex-Japan

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MIZUHO

Patience

“Patience you must have my young Padawan.”

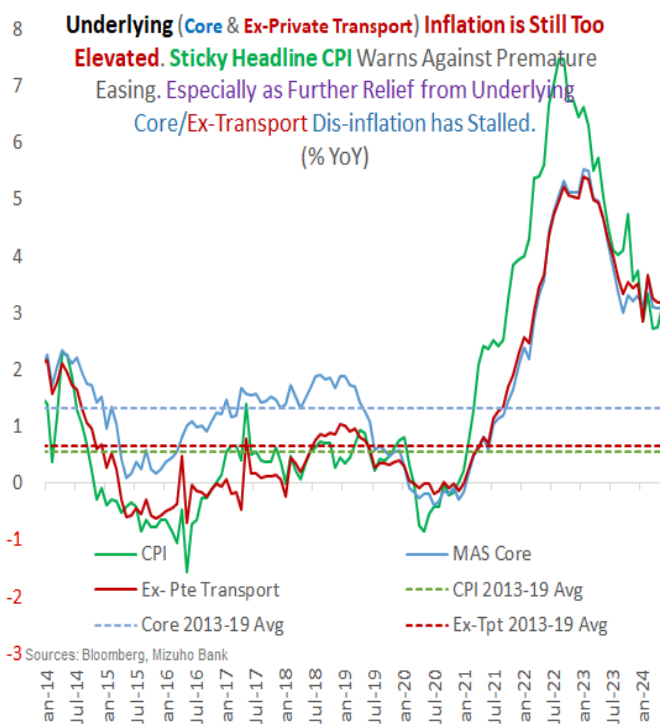
– Master Yoda, Star Wars

Resisting Dovish Concessions

- Expect that the **MAS** will maintain the **status quo** at its quarterly meet this week (26th July).
- But this is an **active hold that resists overt dovish concessions; as stalling dis-inflation counsels patience despite uncertainties.**
- Instead, the **MAS is likely to adopt a neutral stance** qualified by growing two-way risks that reveal policy tensions beneath.
- Nonetheless, **any tilt that manages to surface, despite the intent for a balanced signal, is likely to err on the hawkish side.**

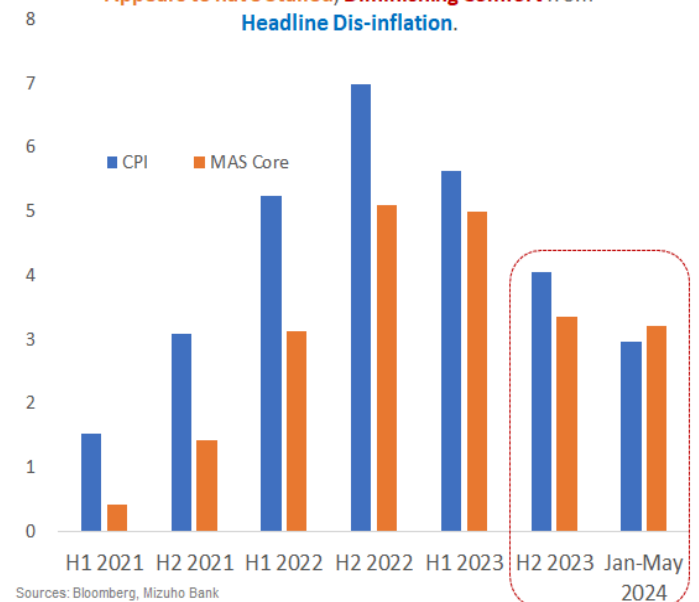
Assessing Stalling Dis-inflation

- This **residual restraint reflects lingering concerns of “last mile” inflation stickiness, which continues to override downside risks to growth amid a bumpy recovery.**



- In particular, despite the path of dis-inflation dulling elevated inflation risks, the *pace* of disinflation is *not yet sufficiently comforting* for the MAS to unequivocally shift gears.
- Notably, despite decelerating sharply from ~5% in H1 2023, **core dis-inflation is ostensibly stalling in 2024, bumping around 3.0-3.5%.**

Average 6M Inflation (% YoY): MAS Core Dis-inflation Appears to have Stalled, Diminishing Comfort from Headline Dis-inflation.



- This **diminishes any comfort from more pronounced headline dis-inflation.**
- In any case, ~3% core inflation is nowhere in the vicinity of MAS’ comfort with signalling scope for pipeline easing.
- The upshot is that **scope for MAS to dial-back policy restraint is stalled** so long as underlying dis-inflation appears to be stalling.

But Not Dismissing Downside Risks

- That said, the **MAS is not succumbing to inflation tunnel vision at the exclusion of downside risks to the economy.**
- For one, **adverse stagflation-type shocks** remain a threat from hard-to-quantify, but even

harder-to-dismiss, **on-going Middle Eastern and Russia-Ukraine conflicts**.

- No less troubling too is **mounting US-China trade/geo-political antagonism, exacerbated by Trump 2.0 uncertainties**, which threatens to stymie global demand recovery.
- Point being, despite nascent merchandise goods trade recovery led by semiconductor/chips, uncertainties are elevated, with persistent threats of headwinds.

Policy: Sweet Spot or Tight Rope

- Against such intense tensions for policy, **a hold comes across as the policy sweet spot** for the time being.
- Specifically, as the current policy restraint helps to dampen and temper inflation, but without imposing further strains on economic growth.
- What's more, MAS' **FX-based monetary policy, unlike interest rate policy, has a more dynamic adjustment mechanism that mitigates the need for over-calibration**.
- Nonetheless, the **unprecedented, front-loaded tightening** (entailing three rounds each of S\$NEER step appreciation* and slope increments**) also makes for **a policy tight rope**.
- This *could set the MAS up for decreasing, if not suspending, S\$NEER appreciation bias* if growth momentum stutters or falters suddenly.

* Effectively an aggressive tightening move that immediately appreciate the trade-weighted SGD (S\$NEER).

**Incremental, but sustained, S\$NEER appreciation baked into the S\$NEER policy bands.

Rich S\$NEER & Stretched SGD Outperformance?

- As a result of **forward-looking policy risks** being **tilted to less**, not more, S\$NEER appreciation bias, **SGD out-performance may be stretched**.

- **Especially given a "rich" S\$NEER** that is close to the top-end of the presumed policy bands.



- Consequently, the **bar is exceptionally high for trade-weighted SGD outperformance** in the absence of active policy tightening.
- This is because, with a rich S\$NEER, further trade-weighted SGD pick-up is mostly limited to a linear~2% per annum appreciation bias, which is ~40bp per week.
- **Whereas sudden downside risks to growth may inflict S\$NEER correction (lower) within the trading bands, without any policy intervention**.
- So, at the very last, there is **little scope for further SGD out-performance on account of MAS**.
- In fact, with unrelenting CNY pressures, and heavy CNY weightage in the S\$NEER basket, **relative SGD performance is tilted to the downside**.
- **Broad USD trends though wash out trade-basket/CNY and S\$NEER effects for now though**.

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