

# Asia FI & FX Strategy Watch

## Singapore – Shifting bullish view to rates

### SGD NEER range of 0-1% above mid

With MAS striking a more dovish outlook in the policy meeting today, SGD NEER risk-reward has turned less bullish. Carry is still positive due to 1.5% slope, as per our estimate, but downside risks to growth are increasing which may increase volatility for NEER as well. With MAS paying more attention to global financial conditions, SGD NEER may also react more to global risk-off events.

As per our model, SGD NEER has been traded in a narrow range around 1% above mid since the last policy meeting in Oct'22. Any corrections from this level have been quickly bought while upside has been capped by MAS intervention, visible in large FX spot accumulation in Feb-Mar (See Exhibit 1). This has led the market to doubt if SGD NEER may be close to the top of the band. However, MAS' description of SGD NEER trading within the 'upper-half of the policy band' instead of 'near the top of the band' is consistent with our model estimate of around 1% above the mid ahead of the policy meeting.

We expect SGD NEER to stay range-bound at 0-1% above mid of the band, with more attractive risk-reward to buy on dips below 0.5% above the mid. MAS intervention today to avoid a sharper correction also gives us an indication that MAS wants to avoid easing financial conditions prematurely, which may also support this range.

### More bullish for rates

As MAS tightened over the last year, front-end rates also moved sharply higher with almost 0.8-0.9 beta to US rates, higher than historical beta of 0.6x. Consequently, 1y swaps still trade just in line with basket rates, implying 1.5% discount compared to levels implied by uncovered interest-rate parity. Higher front-end rates and FX implied yield have aided MAS efforts to tighten financial conditions and appreciate SGD NEER over the last year. If MAS sees less need to tighten financial conditions, including through liquidity operations, it will allow room for rates to move lower.

Thus, we see rates as a better expression to price downside risks to the policy outlook ahead compared to FX. Nevertheless, MAS liquidity operations would still be important to watch as indication of MAS' bias for rates and whether SORA fixing can move lower from current levels.

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### Glossary:

MAS: Monetary Authority of Singapore

NEER: Nominal effective exchange rate

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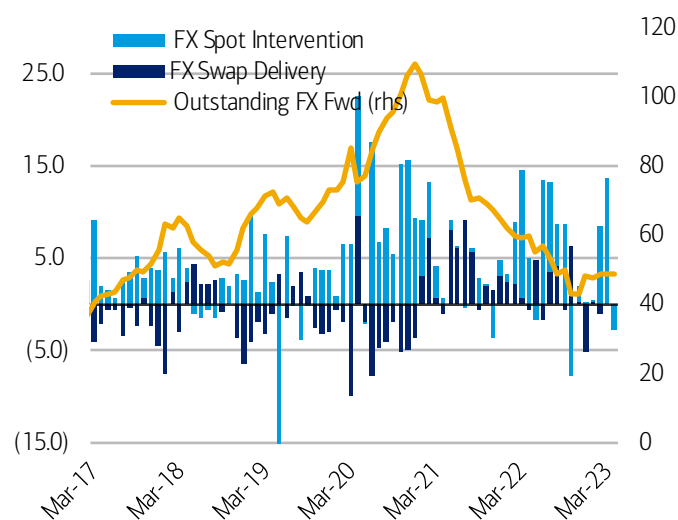
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**Exhibit 1: MAS intervention picked-up in Feb-Mar**

FX spot intervention and FX forward deliver (lhs, USD Bn) and outstanding forward book (rhs, USD Bn)

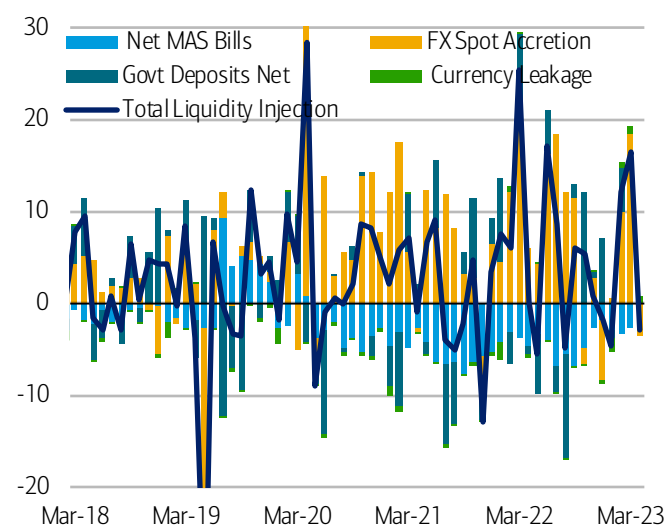


Source: BofA Global Research, Bloomberg

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**Exhibit 2: Drivers of liquidity show net injection during Feb-Mar**

Liquidity injection via FX and absorption through MAS bills and other outflows (SGD Bn)



Source: BofA Global Research, Bloomberg

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