FX Monthly Report

January 2023

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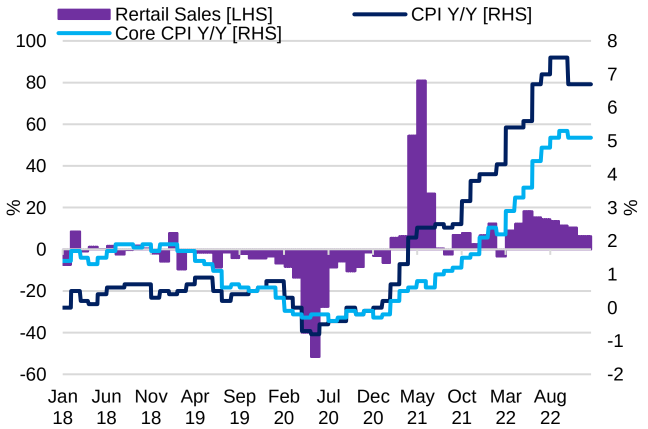
Singapore Focus

SGD has benefitted from the change of sentiment in the USD in Q4, gaining 8%. Singapore growth started to slow in H2 2022, along with the rest of the global economy. Growth stands at 2.2% Y/Y, and this will continue to moderate in the coming months as higher prices weigh on consumer activity. The tightening of financial conditions across the globe will drag on liquidity, and economic activity. Especially with central banks set to continue to tightening policy, the Fed will hike rates in February. However, the terminal rate currently stands at 4.9% and with rates currently at 4.3%, momentum has shifted away from the dollar. Real yields dominated markets last year and prompted USD strength, but as spot rates approach the terminal rate, and the Fed have become more dovish, the USD has weakened. We do expect that a more hawkish Fed due to stubbornly high core CPI may prompt the Fed to raise the terminal rate towards 5.3%, prompting a rally in the USD against SGD. We do not expect rate cuts this year, but the MAS only meet a few times a year, and rate cuts in October could reduce the competitiveness of Singapore. The correlation between CNH and SGD has edged lower in recent weeks, the 90-day correlation stands at 0.7628, this is statistically significant. As a result, we expect further gains in SGD against the dollar as CNH strengthens. The risk to that is the Fed raising their terminal rate and have a hawkish tilt following their February meeting.

Singapore CPI Y/Y vs Core CPI Y/Y vs Retail Sales Y/Y

Inflation has been steady, but expectations are declining, and retail sales are falling.

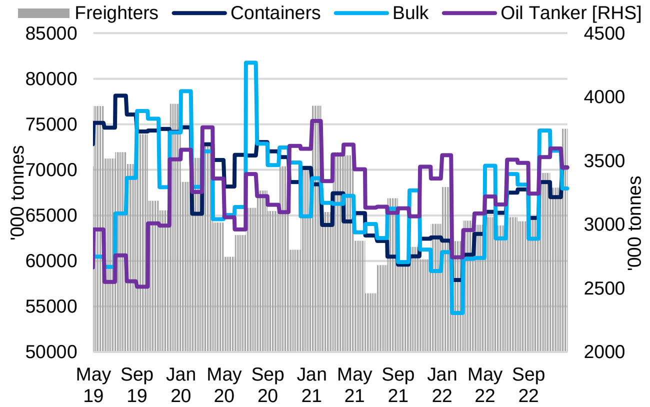


Source: Monetary Authority of Singapore

Freight rates have been declining in recent months, suggesting declining global trade. Consumer demand across the globe has suffered due to high prices and slow economic growth. Weaker growth will cap global trade, and freight rates will continue to suffer. Data from the Maritime Port Authority of Singapore suggests that shipping tonnage of bulk Carriers arriving increased in Q4 to 72,099,000 tonnes for the month of November. October data was the high at 74,320,208 tonnes but the recent high remains at 81,755,349 tonnes in July 2020 as China came out of COVID the first time. We could see a similar number of carriers if Chinese growth returns strongly. Port congestion in Singapore, and Shanghai can be seen as proxy for higher demand and economic activity in China and Asia. Freighters also saw an increase arrival, as have tankers. Shanghai shipping index data shows a drastic slowdown in bulk and the coal index have declined as the economy approaches Chinese New Year. As we expect the Chinese economy to ease credit restrictions and promote growth this should give rise to closely tied currencies and economies. Non-oil domestic exports are falling on a year-on-year basis, down 14.6% in November, down from 6.10% the previous month. Month on month data also shows weakness, down 9.2% M/M, down from 4.2% in October. The trend continues to show weakness, and we expect the export market to struggle as Europe and the U.S growth slows. Contra to this, the Asian economy will start to grow as China re-opens. This should give rise to stronger GDP for Vietnam, Singapore, Indonesia, and other key trade partners.

Singapore Shipping Tonnage Arrivals

Arrivals at the Port have actually started to increase, despite the trend of slowing economic growth.

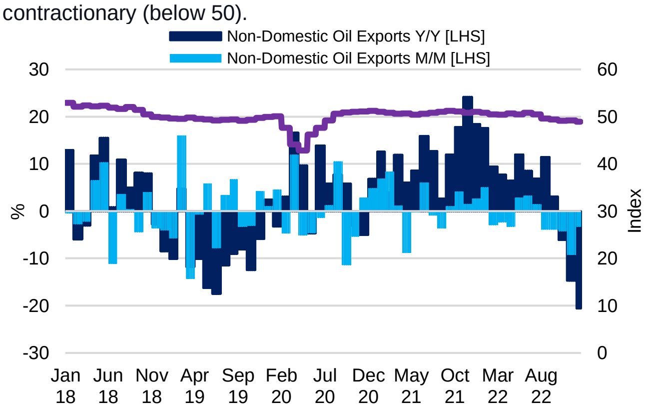


Source: Maritime and Port Authority of Singapore

Industrial production in Singapore continues to weaken, at 3.2% Y/Y in December, down 1.2% from the month before. Electronic sector index was negative in November at 49.2, the purchasing managers index is also contractionary. The S&P Global PMI is also contractionary at 49.2 down from 56.2 the previous month. We estimate this trend will continue in the coming months, as higher prices limit consumer spending. Retail sales growth is starting to slow, with November data at -3.7% M/M, and 6.2% Y/Y, down from 10.3% Y/Y. The slower growth is forecast in the short term; however, a tight labour market should give rise to wages, supporting sales in the medium term. The lower commodity prices should give softness to CPI and imported inflation in the coming months, as tighter monetary policy takes hold as well. Unlike European countries, Singapore electricity are low with wholesale prices at 8am at $127.590/MWh, wholesale prices at 7pm reach $189.47/MWh on the same day on December 29th, 2022.

Non-Domestic Oil Exports Y/Y vs Non-Domestic Exports M/M vs Electronic Index

Non-domestic oil exports are falling, and the electronics index is contractionary (below 50).

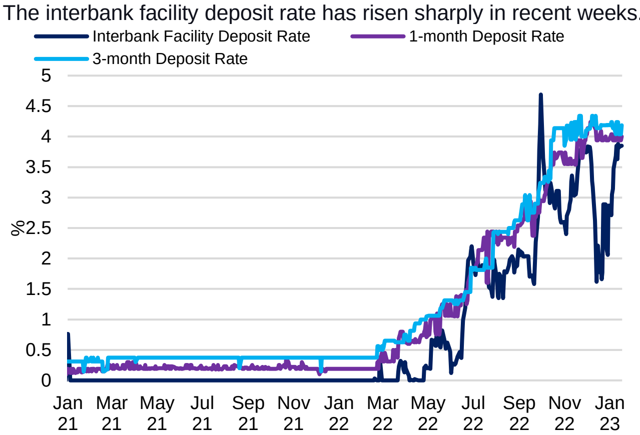


Source: Singapore Institute of Purchasing and Materials Management, Enterprise Singapore.

The labour market continues to tighten, the most up to date employment numbers from the Singapore Ministry of Manpower suggests a total of 3.845m in Q3 2022. The IMF suggest that 3.54m as of December 2022, this shows a decline from the Singapore Ministry of Power number, however the number from the IMF has been consistently below in recent years. The participation rate for residents above 15yrs old was 67.5%, up from 2019 by 2.3%. Professionals, managers, executives, and technicians made up 64% of all employed residents 2022. The employment rate continued to decline and stood at 2.6% for PMETs and was 4.4% non-PMETs. We expect the labour market to continue to tighten in the near term despite the slowing economy. Real median income improved to 2.1% to 2022, up from 0.9% in 2021, but as inflation is higher than previous years real income was lower than 2014-2019 at 4.4% p.a.

Singapore Interbank Facility Deposit Rate vs 1-month Deposit Rate vs 3-month Deposit

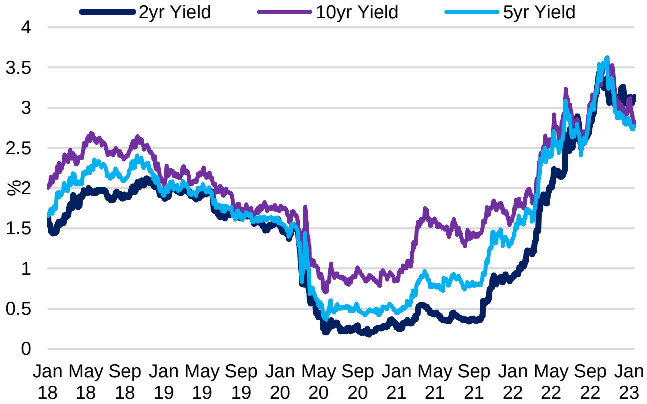
The interbank facility deposit rate has risen sharply in recent weeks.



Source: Monetary Policy of Singapore

Singapore Yield Curve

The 5yr yield has fallen sharply, and while the 2yr has held its value, the 10yr yield has started to decline.



Source: Monetary Policy of Singapore

Currency View

The Monetary Authority of Singapore have increased interest rates, and now the fixed deposit rate is edging higher, above 4% if you bank with OCBC. Banks in Singapore have highlighted an increase in fixed deposit transactions as interest rates rise. This highlights the decline in consumer spending, as people hold cash, as inflation slows we expect to see more individuals look to hold money in deposits. Inflation expectations for the year ahead dropped to 3.8%, from 4.6% in September, according to the Singapore Index of Inflation Expectations. The MAS believe inflation will average 5.5% 6.5% in 2023, above the interest rate yield for deposits.

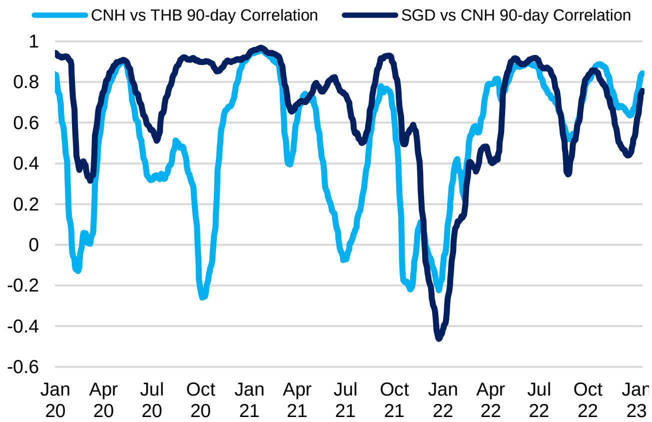
The average overnight rate for Singapore has surged higher in the first few weeks of 2023, reaching 3.8002% as of January 16th, up from 2.5293% on December 30th, 2022. The yield curve is inverted with the 2yr at 3.10%, 5yr at 2.75% and 10yr at 2.80%. Lower inflation, and growth expectations will likely see downside to yields, especially as the MAS only amend policy in April, July, and October. The housing market is starting to see significant downside, new private home sales falling to a 14yr low. New apartments privately owned fell to 170 units, down from 259 units the previous month. Seasonality suggests that December data is usually weak, and once we see a resumption of supply, sales are expected to pick up. Rents are forecast to climb between 13-16% in 2023, this will be inflationary, but house prices are also forecast to rise this year by 5-8%. The higher lending rates could hit sales, however unemployment remains low and with new residential projects coming online in 2023, demand will remain robust.

The correlation between CNH and SGD has edged lower in recent weeks, the 90-day correlation stands at 0.7628, this is statistically significant. Exposure to China and key trading partners is a strong trade in 2023, and if the US can avoid a hard landing, we think unlikely, trade through Singapore will benefit. We expect Singapore to benefit from expats and organisations leaving Hong Kong, this boosts the long-term growth prospects.

We expect USDSGD to remain on trend in the coming months, and favour selling USDSGD rallies. Spot trades at 1.3219 at the time of writing, any rally back towards 1.3400 we favour entering the market, or trading a knock-in at this level is a favourable options trade. 1 month realised vol has been above implied since the start of November, but both are declining and stand at 5.114 (realised) vs 5.63 (implied) as of January 16th, compared to 8.45 vs 8.76, respectively.

90-day Correlation SGD vs CNH and CNH vs THB

Both correlations are statistically significant, and there is a positive correlation between the currency pairs. This should give rise to the pairs as China re-opens.



Source: Sucden Financial

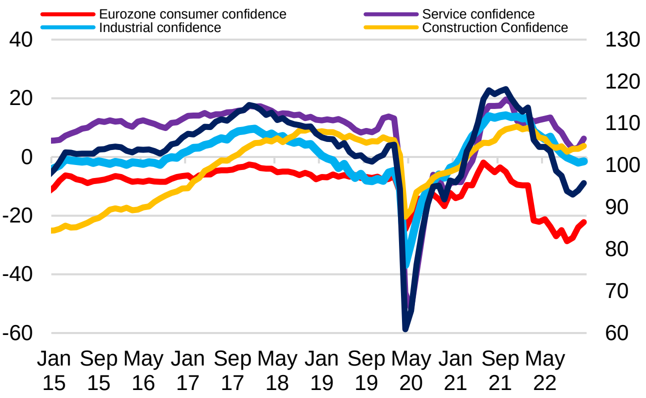
Desk Comments

Euro

EUR momentum continues into Q1 reaching a high of 1.0887. Whilst broad USD weakness is the main driver, EUR has benefited from natural gas prices falling to 1-year lows and a mild winter helping to evade an energy crisis. Euro area inflation is back to single digits and policy makers are now considering a slower pace of hikes. 50bp is priced in for February followed by smaller 25bp hikes. The rate is expected to peak by the end of Q3 at 3.25%

European Sentiment

European sentiment has nosedived in the last few months and remains low.



Source: European Commission

We remain neutral on the EUR in the near term. The market is very much data driven and we await to see how the economy adjusts to the recent tightening. Further ahead we expect EUR to weaken as we expect the reopening of China to fuel demand in oil and gas. In addition, with a recession looming the demand for USD funding in FX swaps is likely to increase. Dependent on the level of financial stress the recession triggers will vastly affect the demand for USD.

USD

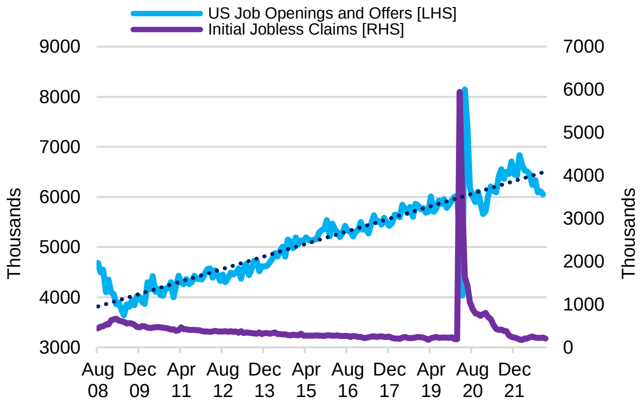
The USD index is down over 11% from its peak in sept retracing 50% of its move from Jan21 -SEP22, as inflation figures continue to fall with PPI having its largest monthly drop since April 2020. However, price pressures remain high; getting inflation down to these levels was the easy part but taking inflation down to levels Fed are comfortable with will take time and will be a bumpy ride.

This coupled with labour markets remaining resilient, we don't believe the Fed will stop raising rates, the magnitude will certainly decrease, and we expect the FED to raise rates in line with dot plot projections and remaining on the tighter side through 2023. Currently the market is pricing in a pivot lower than what's projected by the dot plots and therefore we believe given our expectation there could be a dollar rebound but not as high as the peak reached back in September.

Furthermore, more weak date in coming months could spark harder recession fears as we have seen in recent session with retail sales figures, leading to investors flocking to the safe haven of the USD, especially given the attractive yields on offer.

US Michigan Sentiment Indicators

Sentiment is falling to multi-year lows, and inflation expectations are on the rise once again.



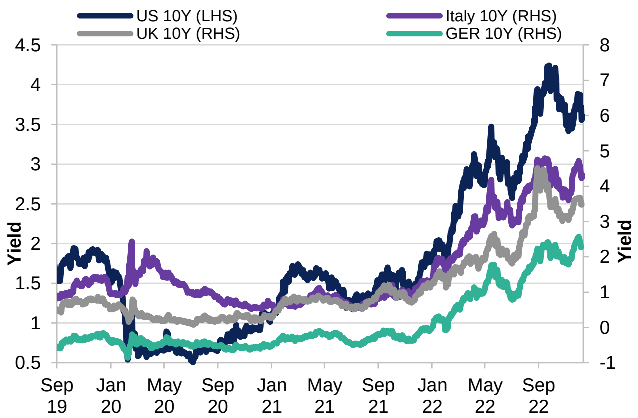
Source: Bureau of Labour Statistics, Department of Labour

GBP

BOE governor has signalled the UK economy is past the worst of a cost-of-living crisis. Evident by two months of declining CPI figures. There are still a further 75bp priced into the market, with the end of the tightening cycle expected towards the end of the summer. The inflation pressure easing is mainly due to a fall in energy prices. The BOE now switches its concerns to the labour market. Wage growth has been edging higher. November was at 6.4% and with further industrial strikes looming, we expect the figure to rise further.

US, UK, Italian, Germany, 10yr Yields

Yields remain elevated as tightening cycle from most developed nations' central banks continue.



Source: Bloomberg

We have a slight GBP bias in the near term. Consumer sentiment has strengthened after hitting record lows last year and retailers have reported strong sales figure over Christmas. GDP also surprised to the upside last month seeing the economy avoid a recession. We see room for GBP to rise further towards 1.2650.

Technical Analysis

GBPUSD

GBPUSD has formed an ascending wedge with a breakout of the formation indicating next move. A break above 1.2450 area which has held 3 times now could lead to further correction up to 1.2759 (61.8% fib)/ white down trend. Resistance thereafter is at 1.30 psychological level and 1.3328 (76.4% fib. On the downside, a break below blue trend line opens the doors to a correction to support @ 1.1842 and then 1.1645(38.2% fib level).

EURUSD

EURUSD has seen a significant bounce since end of Q4 with the cross retracing nearly 50% of the move from June 21-sep22. On the upside, a close above the 50% fib retracement could see EURUSD climb up towards 200week MA / 1.1272 (61.8% fib). Next resistance level beyond there comes in at 1.15. On the downside, a weekly close below 1.0767 could see the market pull back towards 1.05 support level, with a break below signalling a pull back towards the white trend line

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