

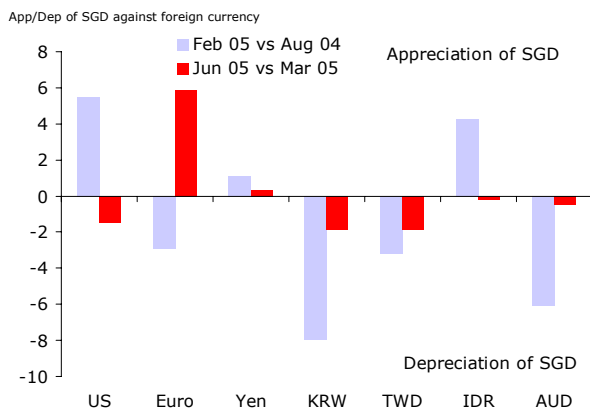
Singapore Dollar

SGD forecast to ease

- The Singapore economy is forecast to slow significantly to 3¾% in 2005 from 8.4% in 2004.
- We expect the Singapore dollar to ease against the US dollar from S\$1.67/USD currently to S\$1.69/USD by end-2005 and S\$1.72/USD by end-2006. The Singapore dollar is forecast to strengthen against the Australian dollar to around S\$1.12/AUD at end-2005 and remain steady at this level in 2006.
- Greater pressure to maintain export competitiveness against regional currencies, a benign inflation environment and a strong US dollar outlook support our view.

Since 1981, the Monetary Authority of Singapore (MAS) has managed the Singapore dollar against an undisclosed trade-weighted basket of currencies. As Singapore is a very small, open economy, the exchange rate is the central bank's key tool in maintaining price stability. Historically supported by sizeable current account surpluses and efforts to restrain inflation, the Singapore dollar maintained a relatively strong position, in trade-weighted terms, except for periods when the economy had been under pressure. Monetary Policy statements released by the MAS provide an update on the MAS' view on the economic environment and its take on the policy for the trade-weighted exchange rate. In its April 2005 review, the MAS confirmed its policy of a "modest and gradual appreciation" of the Singapore dollar nominal effective exchange rate, a position it has maintained since its April 2004 statement.

SGD against selected foreign currencies



Source: Datastream

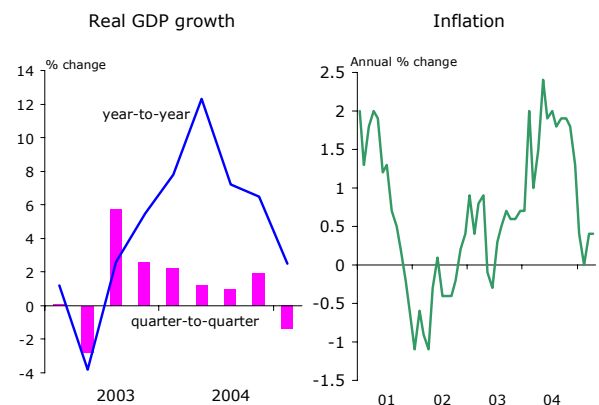
On a bilateral exchange rate basis, the Singapore dollar strengthened against the US dollar towards late 2004 and early 2005 supported by a strong economic rebound with real GDP growing by 8.4%

in 2004, the fastest expansion since 2000, and speculative flows into Asia amidst heightened speculation of a Renminbi revaluation. The Singapore dollar strengthened from S\$1.71/USD at end-August 2004 to S\$1.62/USD at end-February 2005. The currency has since lost some ground against the US dollar reflecting, in part, a combination of USD strength and a surprise first quarter weakness in economic activity. The currency is currently trading at around S\$1.67/USD.

Domestic political stability and prudent fiscal and monetary management continue to underpin economic growth and investment. Nevertheless, greater competitive pressures for trade and investment in the region and the maintenance of regional security underscore the much tougher environment the economy is operating in.

After the sharp deceleration in the first quarter, we have revised our real GDP growth forecast downwards significantly to 3¾% from 4½% projected at the start of the year. Accompanying economic weakness in many regional competitor markets such as South Korea and Taiwan has increased pressure to maintain export competitiveness.

Economy softens



Sources: Datastream, ANZ Bank

Inflation has been benign, averaging 0.3% in the first four months of this year compared with 1.3% for 2004 as a whole. The upside risks to inflation through the direct and indirect impact of high oil prices is expected to subside with the prospect of lower oil prices in the second half of this year. ANZ forecasts the WTI will end the year at around US\$40/bbl vs recent highs above US\$50/bbl. This leaves scope for a further weakening of the

exchange rate without unduly undermining the inflation environment.

On the flip side, we have forecast a stronger US dollar against most currencies, supported by the Fed's tighter monetary policy stance and relatively favourable economic performance compared with sluggish growth in Europe and Japan. Since mid-2004, the Fed Funds rate has been lifted nine times to 3.25% and ANZ has forecast a rate of 4.25% by the end of 2005.

Overall, we expect the Singapore dollar to weaken marginally against the US dollar in the second half of 2005, ending the year at around S\$1.69/USD. A further softening is expected in 2006 with the Singapore dollar forecast at S\$1.72/USD reflecting the need to maintain export competitiveness against regional currencies and a strong US dollar profile. The Singapore dollar is expected to strengthen against the Australian dollar to around S\$1.12/AUD at end-2005 and remain steady at this level in 2006. The cross rate mainly reflects a marked weakening in the Australian currency in the second half of 2005. We are forecasting the Australian dollar to ease to US\$0.66/AUD by end 2005 and US\$0.65/AUD by end 2006.

Forecast table

	2004	2005f	2006f
Real GDP growth (%)	8.4	3¾	5¼
Inflation (yr av, %)	1.7	0.5	0.5
Exchange rate (eop)			
SGD per USD	1.63	1.69	1.72
SGD per AUD	1.27	1.12	1.12
Interest rate (3-month interbank, % pa)	1.4	2.2	2.3

Sources: Asia Pacific Consensus Forecasts, ANZ Bank

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Research can also be viewed on our website:
<http://www.anz.com/go/economics>

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