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Singapore Update

MAS shifts policy band upward

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In response to inflation, the **Monetary Authority of Singapore** (MAS), in its April Monetary Policy Statement released yesterday, **moved to re-centre the exchange rate policy band** at the prevailing level of the S$ nominal effective exchange rate (NEER) with no change to the slope or width of the band. **This effectively allows for a stronger appreciation of the Singapore dollar to help combat inflation which is at a 26-year high**. The exchange rate is the central bank's key tool in maintaining price stability. Since 1981, the MAS has managed the Singapore dollar against an *undisclosed* trade-weighted basket of currencies. Monetary Policy statements (released in April and October) provide an update on the MAS' view on the economic environment and its take on the direction for the trade-weighted exchange rate.

Inflation has averaged 6.6% in annual terms over the past two months, and is likely to remain elevated in the first half of this year as high food and energy costs together with one-off factors such as the GST hike and a revision to the annual assessed value of public housing, fuel price pressures.

Markets reacted strongly to the news, with the Singapore dollar moving sharply upwards against the US dollar and is currently trading at a record level of USD/SGD1.3576. This is up 1.5% from USD/SGD1.377 prior to the announcement. **A further SGD appreciation is expected over the next few months** as the US dollar also remains under downward pressure**.**

Nevertheless, our outlook for the Singapore dollar is for a modest easing in the second half of the year as domestic inflation pressures moderate and as the US dollar consolidates. Inflation is forecast to ease to an average annual rate of 4.3% in H2 2008 from 6% in H1 2008 as the impact of the GST hike which took effect in July 2007 wears off. Also, commodity prices are expected to ease in response to a softening in global demand. World growth is forecast to moderate to 3.4% this year and ANZ's forecast for Singapore is for real GDP to slow to 4% - below its 15-year average of 6.6%.

Our forecast is for the Singapore dollar to peak at 1.33 against the US dollar by June 2008 before retreating slightly to 1.36 by end-2008. This still represents an appreciation of close to 6% against the US dollar since end-2007.

Singapore: macroeconomic and currency forecasts

	2006	2007	2008f	2009f
Real GDP growth (% ch)	7.9	7.7	4.0	5.0
Inflation (%, yr avg)	1.0	2.1	5.2	2.6
Fiscal Balance* (% GDP)	0.0	2.7	-0.3	0.1
Current account (% GDP)	27.5	25	24	22
International reserves (US$ bn)	136.2	162.5	175	185
Currency Forecasts (end-period)	**Jun 08**	**Sep 08**	**Dec 08**	**Mar 09**
USD/SGD+	1.33	1.34	1.36	1.37
AUD/SGD	1.25	1.23	1.22	1.19
JPY100/SGD	1.30	1.34	1.33	1.30
EUR/SGD	2.05	2.02	2.00	1.95
SGD/CNY	5.09	4.97	4.93	4.95

*: Fiscal year beginning April

Source: Economics@ANZ

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