UOB Investment Insights

FX Insights

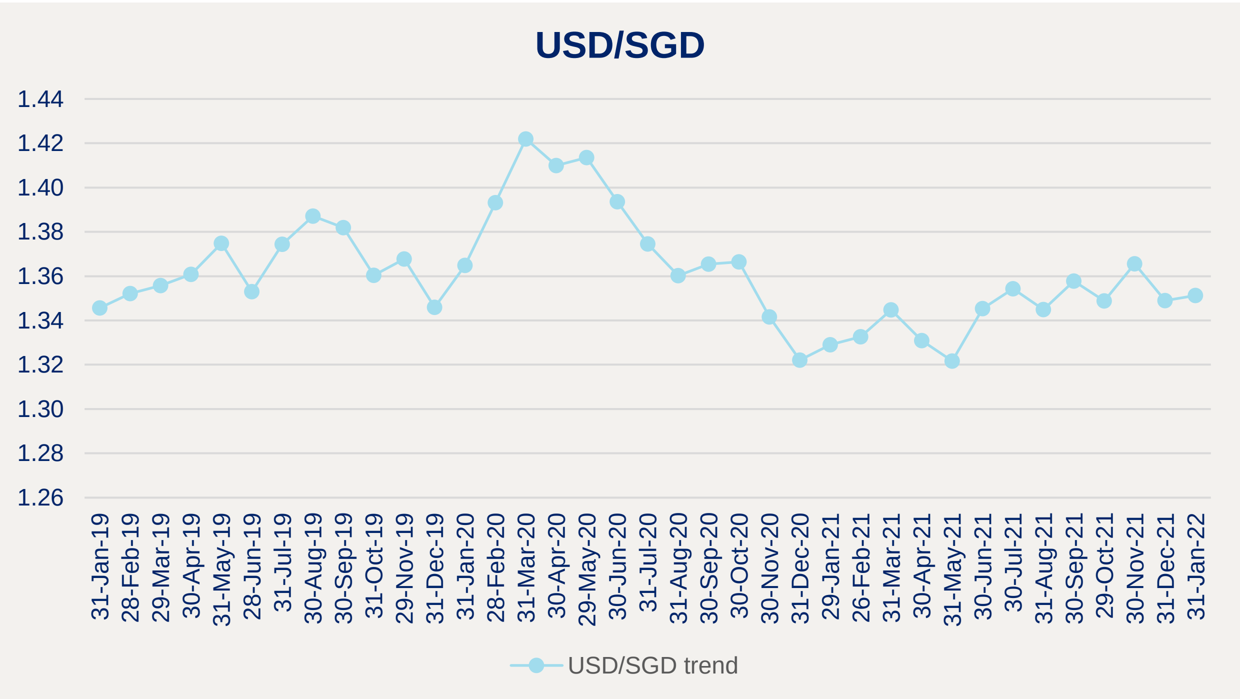
14 February 2022

A Resilient Singapore Dollar

- SGD has a strong start to 2022 after surprise MAS move
- USD expected to strengthen against SGD as Fed begins aggressive rate hike cycle in March
- Overall, we expect USD/SGD at 1.37 by end-2022

The Singapore dollar (SGD) has held up well against a strengthening US dollar (USD). Year to date, the SGD has gained about 0.4% against the USD at 1.3440 while most of its other Asian peers have slipped. The resilience of the local dollar is partly due to the surprise off-cycle tightening by the Monetary Authority of Singapore (MAS) in late January. In order to combat rising inflation, the MAS has increased the rate of appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) to an estimated 1% per annum from 0.5% previously. We expect a further increase to 1.5% at the next scheduled policy meeting in April.

That said, the backdrop remains that of a stronger USD as the US Federal Reserve (Fed) is on the cusp of an aggressive rate hike cycle. We expect the Fed to hike 150 basis points (bps) this year, starting with a lift-off in March. While tightening from the MAS will help buffer against some of the depreciation pressures on the SGD, USD/SGD is likely to trade higher. Overall, we expect the currency pair to end 2022 at the 1.37 level.



Source: Bloomberg. Data as at 31 January 2022.

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