

UOB Investment Insights

FX Insights

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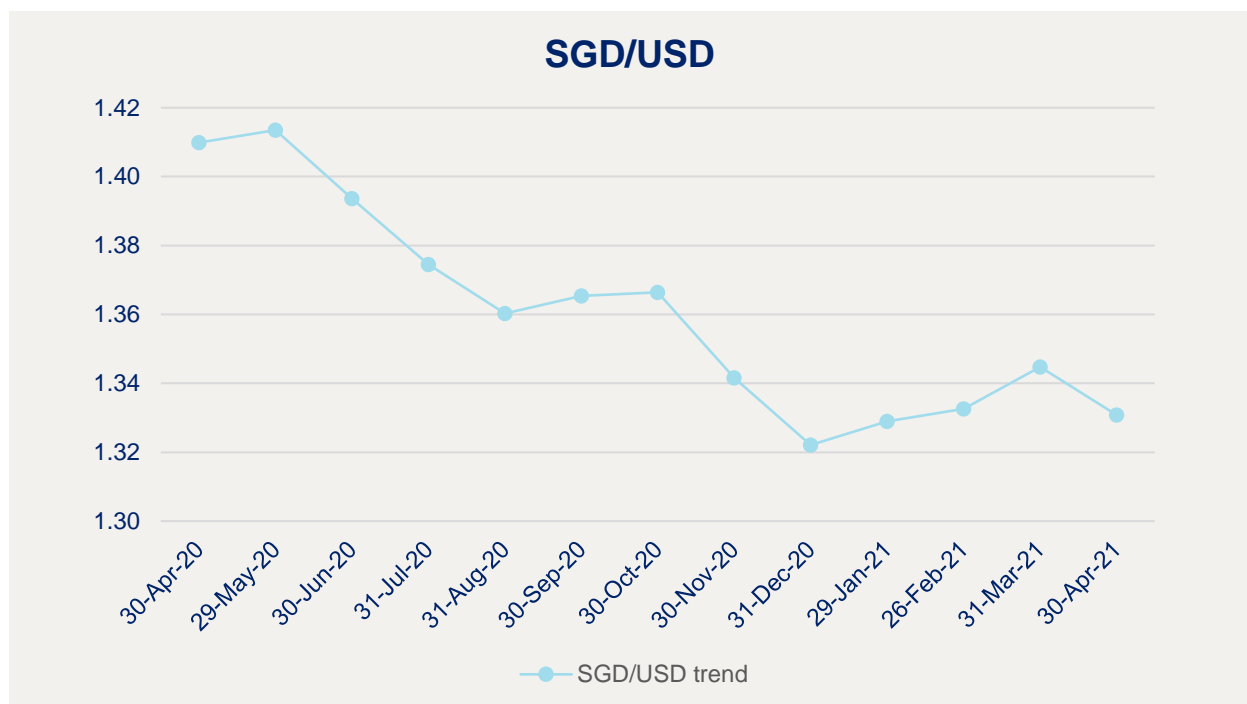
SGD expected to stay resilient in the coming months

- SGD weakness in the first quarter of 2021 appears to be short-lived
- A positive domestic outlook anchors SGD sentiment in the near-term
- We expect the SGD to strengthen towards 1.32 against the USD by end-2021

The Singapore Dollar (SGD) has held up well despite a resurgent US Dollar (USD) in the months of February and March 2021, on the back of rising US bond yields. The SGD weakened from 1.32 to 1.35 against the USD during the same period. However, this comes across as a modest correction if we consider the SGD's steep appreciation from its 1.46 level against the USD in March 2020.

In the recent bi-annual monetary policy meeting in April 2021, the Monetary Authority of Singapore (MAS) upgraded its core inflation forecast to a range of 0% to 1.0% for 2021. An improving domestic growth outlook, propelled by Singapore's effective control of the COVID-19 outbreak – coupled with receding US bond yields – has allowed the SGD to recoup most of its losses. This has led to the SGD trading at around 1.33 against the USD as at 5 May 2021.

With the easing off of US bond yields, most Asian currencies including the SGD are expected to recover in for the rest of 2021, and this is further underpinned by the global reflation trade. As such, we reiterate our current forecast of SGD strength towards 1.30 by end-2021 just as the Renminbi (CNY) stabilises towards 6.40 against the USD.



Source: Bloomberg. Data as at 30 April 2021.



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