

UOB Investment Insights

FX Insights

8 November 2021

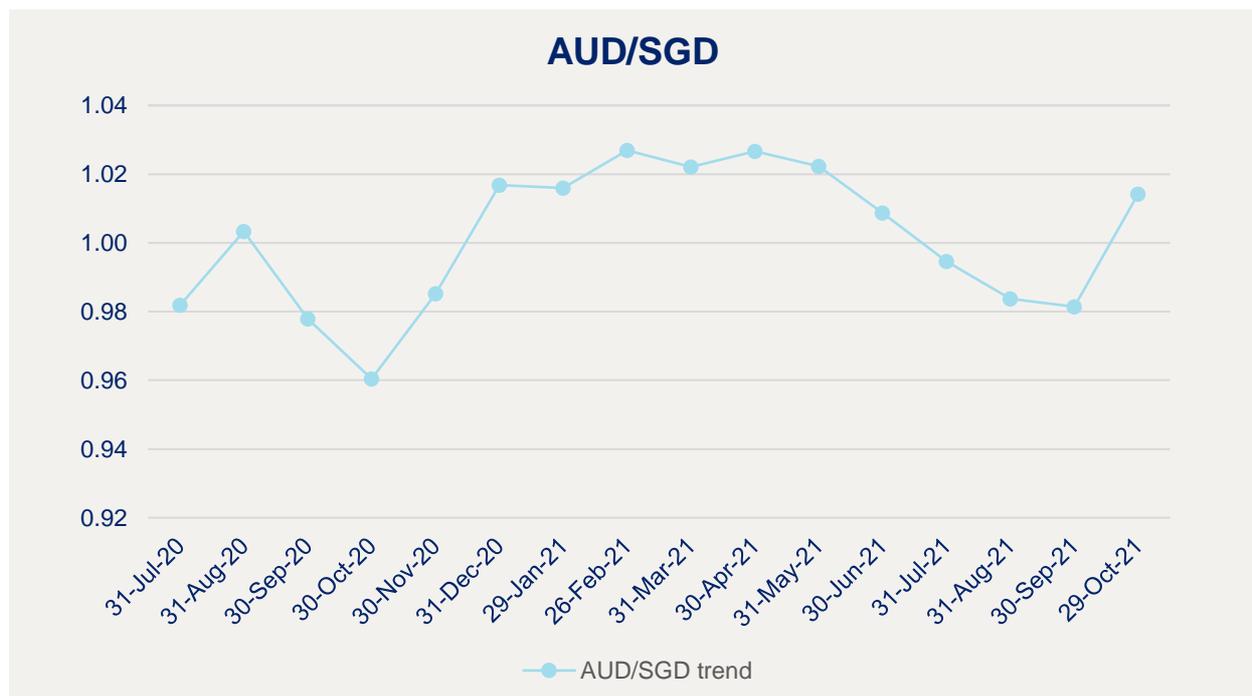
Maintain Cautious View On AUD/SGD

- AUD has rebounded strongly in October 2021
- The Reserve Bank of Australia has also dialed back some of its monetary stimulus
- Outlook on Australia economy remains uncertain and AUD/SGD is likely to remain below parity

The Australian Dollar (AUD) rebounded strongly in October, buoyed by strong risk sentiment and a recovery in commodity prices, particularly, that of iron ore. Sentiment on the AUD also received a further boost after Sydney and Melbourne exited their COVID-19 lockdowns in October as vaccination rates picked up. Against the Singapore Dollar (SGD), the AUD jumped 3.3% in the month to 1.0140, recording the biggest monthly gain this year.

The Reserve Bank of Australia (RBA) took the first step in dialing back some of its monetary stimulus in its latest meeting on 2 November 2021. In response to the improving economy and the earlier-than-expected progress towards the inflation target, the central bank scrapped the yield target of the 3-year Australia Government Bond, which was previously set at 0.10%.

That said, the outlook on the Australian economy and the AUD remains uncertain. The evolving COVID-19 outbreak in the country and across the world remains unpredictable, and a slowing Chinese economy may reduce demand for Australia's commodity exports. Furthermore, the RBA is also holding off interest rate hike until a sustained rise in inflation and wage growth. Overall, we are keeping a cautious view on AUD/SGD and will expect the currency pair at 0.99 by end-2021 and 0.97 by end-2022.



Source: Bloomberg. Data as at 29 October 2021.



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