

UOB Investment Insights

FX Insights

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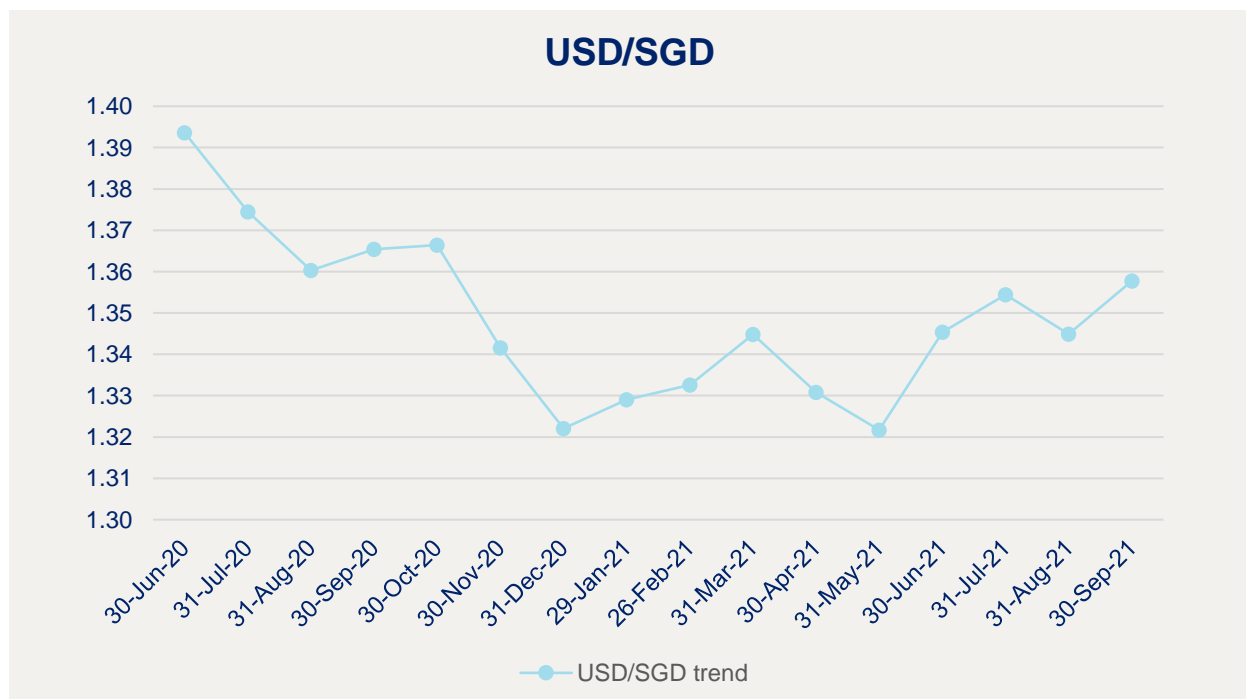
Fed's Steady Progress In Policy Normalisation Strengthens The USD

- US Federal Reserve is likely to announce tapering in November 2021
- Delta variant remains key risk but unlikely to derail Fed's plans
- USD/SGD will still likely to trade higher

The US dollar (USD) continued to inch higher in September as the US Federal Reserve (Fed) made steady progress towards unwinding its massive monetary stimulus. The recently concluded September FOMC has firmed up the stage for the Fed to announce a reduction in its asset purchases – also known as tapering – in November. We now expect a gradual tapering of asset purchases to zero by July 2022, followed by the first-rate hike since the onset of the pandemic in December 2022.

The persistent spread of the COVID-19 Delta variant remains a key risk to US economic and monetary policy outlook. However, it appears that the Fed is not overly concerned of the Delta variant derailing its tightening plans.

Despite a surge in virus infections in Singapore, the Singapore dollar (SGD) remains largely stable in a 1.34 – 1.37 range against the USD across Q3 2021. Similarly, the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) has been hovering around its mid-point in the same period. In the upcoming meeting in October, we expect the Monetary Authority of Singapore (MAS) to keep its monetary policy setting unchanged. Taking cues from a broad USD recovery, we continue to expect a higher USD/SGD, with point forecasts updated at 1.36 in Q4 2021, 1.37 in Q1 2022, 1.38 in Q2 2022 and 1.39 in Q3 2022.



Source: Bloomberg. Data as at 30 September 2021.



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