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Global Markets Research

Research Alert

Singapore: Expect SGD Resilience with Recovery

Singapore upgraded 2021 forecast to 6-7% (from 4-6%) after revising up 2Q GDP

Economic recovery and inflationary pressures can increase expectations of MAS tightening in 2022

Implication: We forecast slightly lower USD/SGD over next 18 months, as SGD resilience emerges

Summary & Implications

Singapore's 2Q GDP was revised upward to 14.7% y/y (-1.8% q/q), from initial estimates of 14.3% (-2%). This was on the back of upgrades to services and construction sectors, as they were better able to operate in June 2021, compared to a year ago. **Our overall outlook remains relatively unchanged, compared to pre-GDP release**.

Compared to 1Q, most sectors registered negative growth, partly due to the Heightened Alert restrictions. **Finance and insurance** (1.7% q/q) and **accommodation** (2.4%) were the main exceptions.

With value-added of sectors remaining around 5 to 30% below pre-pandemic levels, the **potential rebound in economic activity levels should support GDP growth in the coming quarters**. We forecast a 5.1% y/y growth in 2H-2021, after a 7.7% expansion in 1H.

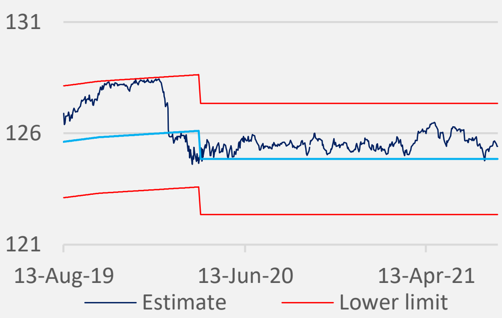
The outlook ahead remains relatively divergent. In its economic assessment, the Ministry of Trade and Industry noted some improving outlooks in the US, but deteriorating ones in China and Southeast Asia. Inflationary pressures have been above expectations, but Covid-19 continues to put out a wide range of possible scenarios ahead.

Meanwhile, MTI also viewed that aviation and tourism related sectors are projected to recover more slowly than previously expected. This is despite some improving outlook in other sectors (e.g. consumer-facing sectors).

Implications: We expect an elevated USD/SGD to come off over the next 18 months. From current 1-month ranges of 1.35-1.37, we forecast a downward move to 1.35 by end-2021 and 1.33 by June 2022. While underlying inflation is still relatively benign, it is expected to pick up by end-2022. Hence, **the Monetary Authority of Singapore may look to tighten monetary policy in April 2022**, shifting exchange rate policy to a modest and gradual appreciation of the Singapore Dollar Nominal Effective Exchange Rate (SGD NEER). However, expected Fed tapering and rate hike will likely limit the downsides for USD/SGD.

Our sector level outlook can be found in the publication: Looking Towards Endemic Phase (5 August).

Figure 1: SGD NEER estimate



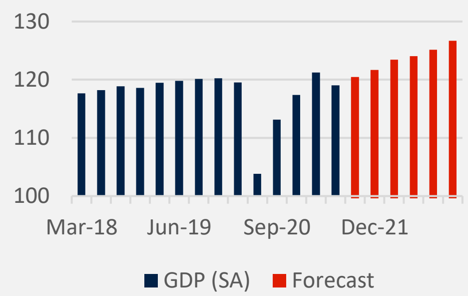
Source: Bloomberg, HL Bank

Figure 2: Key forecasts

	2021F	2022F
GDP	6.3%	3.5%
Inflation (avg)	1.7%	0.9%
Core CPI (avg)	0.8%	1.0%
3m SIBOR	0.45%	0.50%
USD/SGD	1.35	1.34

Source: HL Bank

Figure 3: Singapore real GDP level, forecasted (SGD bn)



Source: CEIC, HL Bank

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