

Little wiggle room for Singdollar in 2020

DESPITE two rounds of monetary easing in April and October, the Singapore dollar is ending 2019 at a level close to where it began, with little wiggle room even into the new year.

While analysts are mixed on how it will move against the US dollar (USD) in 2020, the Singdollar (SGD) is expected to trade within a narrow range, with looser Monetary Authority of Singapore (MAS) policy on the cards for next April if growth remains muted.

Reflecting how the economy deteriorated worse than foreseen over the year, watchers initially thought that the central bank would tighten the Singdollar's pace of appreciation, as it had done in 2018 after a six-year hiatus. Now, the debate is over whether the MAS will shift from slight reductions of the rate of appreciation, to a more aggressive zero-slope freeze next year.

The analysts believe that the Singdollar has – with atypical strength – remained in the top half of the nominal effective exchange rate (NEER) policy band in which it can move, which Standard Chartered said “may limit the extent of SGD appreciation amid broad USD weakness”.

Rohit Garg, Asia currency and rates strategist at BofA Securities, also remarked that the Singdollar's gains were fuelled by capital inflows on its reputation as a safe-haven currency, especially amid an exodus from the unrest-hit Hong Kong market.

The Singdollar started the year at 1.3622 to the USD, and has weakened by just 0.4 per cent to 1.3563 by mid-day on Dec 23. Taking its cue from US-China trade ties, it touched a high of 1.3459 against the USD on Jan 31 during negotiations, but slumped to 1.3933 on Sept 3 as tariffs kicked in.

Peter Chia, a senior currency strategist at United Overseas Bank, noted that the Singdollar's movements have tracked the yuan “in line with the wax and wane of trade developments” – for example, weakening against the greenback when US-China tensions spiked in May and August.

While emerging market currencies are poised for a rebound in 2020, Mr Garg said that he expects the Singdollar to underperform them as the MAS is likely to ease policy again in April, especially as the growth and inflation outlook “does not warrant such strength in SGD”.

All told, the Singapore dollar ought to stick within the range of 1.35 to 1.40 that it has held since mid-2018, DBS analysts said in a report, although it could weaken further in a worst-case scenario, if the trade and manufacturing slowdown spills into domestic demand and services.

BY ANNABETH LEOW



We forecast USD-SGD at 1.35 for end-2019 and 1.34 for end-2020 to reflect the positive development on US-China trade wars and a likely move lower in broad USD. We expect a sluggish (rather than swift) down-move in USD-SGD in the coming quarters.

– Jonathan Koh, Asia economist, Standard Chartered