Citi Wealth

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# FX Focus: USDSGD – A More Dovish MAS May See An End To SGD's Outperformance

**FIGURE 1**: FX Forecasts

| Forecast (Feb 2025) | Spot | 0-3m | 6-12m | Long-term |
|---|---|---|---|---|
| USDSGD | 1.3310 | 1.3600 | 1.3400 | 1.3000 |

Source: Citi Wealth Investments as of February 2025.

Despite the downplaying of Singapore's lower January core CPI of just 0.8% year-on-year (versus 1.7% the prior month) on one-off factors, another less than 1% core CPI print in February could trigger a downward revision in the Monetary Authority of Singapore's (MAS) 2025 core inflation forecasts (likely to 0.5-1.5%). At the same time, any US tariffs levied on Singapore's exports would have the largest impact on growth prospects, with sector specific tariffs on pharmaceutical and/or semiconductor exports likely to constitute a significant downside risk versus the MAS's assumptions in the January Monetary Policy Statement (MPS). Therefore, any downward revisions to Singapore's output gap and inflation resulting from tariffs may allow the MAS to ease financial conditions further following the initial easing carried out in January.

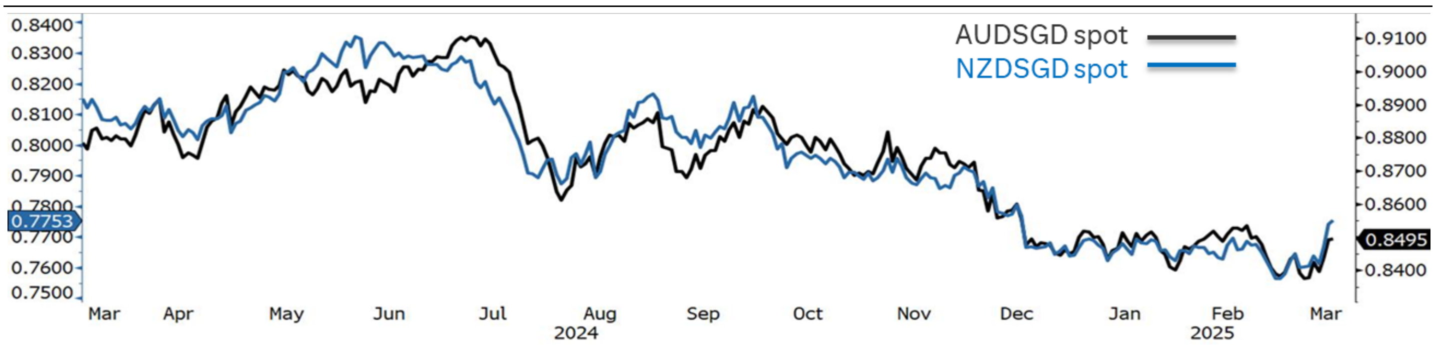
To be clear, Singapore does not expect to be a direct target of broad-based US tariffs. But increased downside risks have already likely manifested through greater uncertainty surrounding investment and consumption (global and domestic) and the wider cone of uncertainty surrounding tariffs has likely raised downside risks to Singapore's growth further via

1. An actual decline in trade.
2. Tighter financial conditions. Singapore is also exposed to lower exports to target countries of US tariffs and to an expanded US-China tech decoupling.

The MAS primarily manages Singapore's financial conditions via the currency (SGD nominal effective exchange rate - NEER) within a band. It can alter the slope of the band (up (tightening) or down (easing)). This represents the mildest form of policy shift. The MAS can also widen or narrow the band or outrightly re-center the band - a more aggressive policy shift. Current estimates suggest the MAS maintains a bandwidth on SGD NEER of +/-2% around the mid and a 1.5% appreciation in the slope of the band. Citi Economics think the MAS could ease by mid-year via a 50bps reduction in the slope of the SGD NEER band to 1% p.a. or could be more aggressive by completely flattening the slope to 0% (150bp slope reduction) or even outrightly re-center the band depending on the extent to which it downwardly revises Singapore's 2025 core inflation and growth forecasts once the US completes its America First review in early April and implements reciprocal tariffs world-wide.

The MAS may be biased towards further easing given that the SGD NEER has strengthened in recent weeks due to recent measures announced by the Singapore government to boost the domestic equity market that has exacerbated the tightening in financial conditions even as Singapore's outlook has deteriorated amidst tariff uncertainty. Such a move would likely weaken SGD against its peers. Nevertheless, in an environment of global trade uncertainty and elevated geopolitical instability, MAS's management of the SGD NEER to ensure less volatility than its peers makes SGD an attractive safe haven. This is unlikely to change. However, given the prospect of a sustainably more dovish MAS, it may be time to review SGD's outperformance against some of its peers (AUD and NZD) that now seems to be reversing.

**FIGURE 1**: AUDSGD spot and NZDSGD now appear to be bottoming




Source: Bloomberg, March 18, 2025.

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