

Analysis of Key Drivers and Forecast for the Singapore Dollar

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Abstract. This paper analyzes the key drivers for the change of the Singapore dollar and makes predictions for its future trend. First, the author focuses on trade by discussing the GDP and current account of Singapore, mainly in terms of services. Second, the author focuses on inflation by discussing the current situation of inflation and Monetary Authority of Singapore's monetary policy. In the end, the author forecasts that the exchange rate of the SGD against the CNY is expected to fluctuate in the short-time and strengthen in the long-time.

Keywords: Exchange rate; SGD; Trade; Inflation; Forecast.

1. Introduction

Due to the turbulence of international political economy and the impact of COVID-19, countries around the world are facing major challenges on economic development, which specifically reflect in the trend of currencies. The previous literature mainly focused on the currency changes in major countries, such as America, China, Britain and so on, while the Singapore dollar only attracted little attention. It is important to note that as special one of the developed countries as well as an international financial center, Singapore will have a significant influence on the global financial market and economic situation due to its currency changes. Therefore, the study on the Singapore dollar is of great value.

It is clear from Figure.1 that the Singapore dollar generally continued experiencing weakness from January 2020 onward and the exchange rate of the Singapore dollar against the Chinese yuan slid toward 4.64 CNY/SGD, a five-year low, on November 30, 2021. Fortunately, in December 2021, the Singapore dollar began to rebound. And recently, the exchange rate has risen to approximately 4.70 yuan against the Singapore dollar, yet it still remains low by historic standards. In this paper, two key drivers of the currency changes in Singapore will be thoroughly discussed, including trade and inflation.

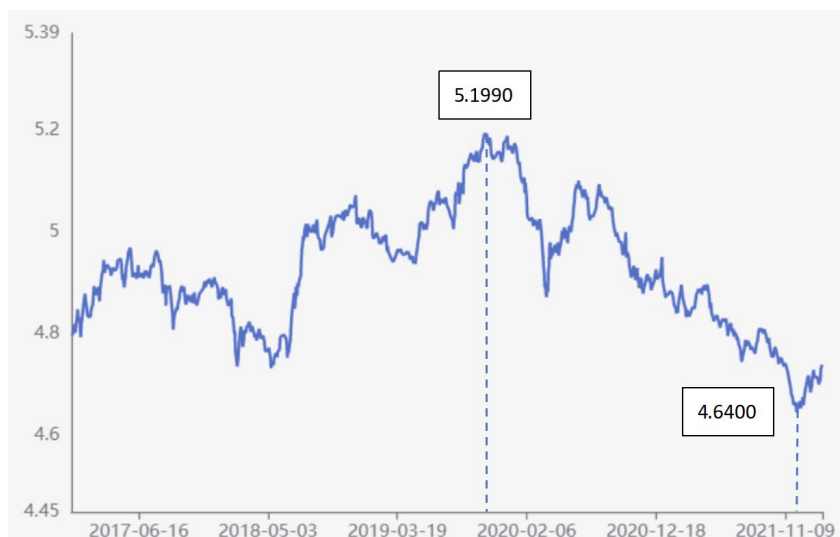


Figure 1. The Exchange Rate between the CNY and the SGD from 2017 to 2021

Under the influence of various economic and political factors, the Singapore dollar will be highly likely to show fluctuations in the future. Thus, it is meaningful to explore the key drivers of the Singapore dollar and then anticipate its movements. Furthermore, based on the analysis of important factors, this paper puts forward some thoughts and suggestions for the Singapore dollar along with

other related currencies, not only profiting to enrich the researches on currency drivers but also offering reference values for trend predication of currencies in other countries.

2. 2 Main Contents

Last two years, especially in 2020, as the corona-virus pandemic slammed consumption and trade, the global economy took a big hit and contracted sharply, so did Singapore's. According to official data from the World Bank, the Gross Domestic Product (GDP) in Singapore was worth 340 billion US dollars in 2020, shrinking by around 4.11 percent year-on-year. However, on the basis of Trading Economics global macro models and analysts expectations, the GDP of Singapore is expected to reach 390.00 USD Billion by the end of 2021, expanding 7.61 percent more than the previous year. In the long-term, the government forecasts annual growth to strengthen to 3%-5% in the following years and the Singaporean GDP is projected to trend around 425.00 USD Billion in 2022.

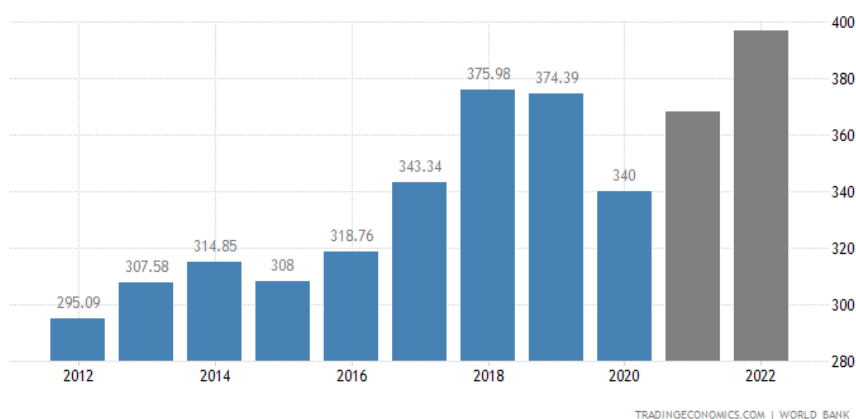


Figure 2. The GDP(USD Billion) in Singapore from 2012 to 2022



Figure 3. The Full Year GDP Growth in Singapore from 2012 to 2021

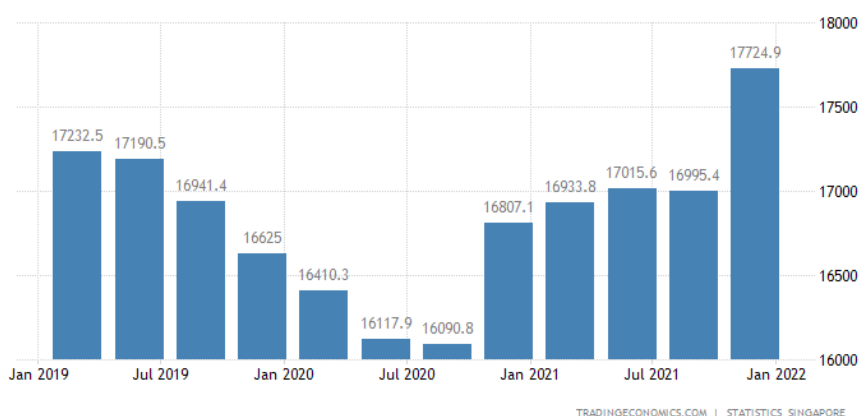


Figure 4. The GDP from Services(SGD million) in Singapore from 2019 to 2022

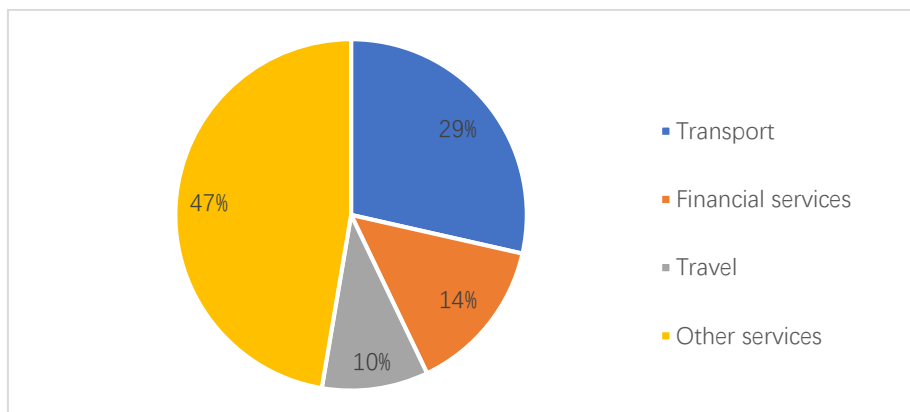


Figure 5. Proportion of Services Exports in 2019 in Singapore

Possessing ideal geographic location and economic environmental advantages, Singapore is an import-export zone, a financial centre and also a popular tourist destination. It is illustrated by the Balanced International Trade in Services EBOPS 2010 that transport, financial services and travel, accounting for approximately 29%, 14% and 10% of total services in 2019 respectively, are three major sectors in services of Singapore. Nevertheless, services in the international trade are extremely vulnerable on the world political and economic environment. Thus, among all industries in the Singapore economic system, the services were probably affected more seriously by the pandemic and suffered from more challenges than the majority of other industries. In addition, with the contraction of international trade, fewer Singapore dollars would circulate in the international currency market and the demand for the Singapore dollar would also decrease. The Singapore dollar was under the pressure of depreciation in 2020.

Figure 6. The Singapore Current Account(SGD Million) from 2019 to 2022

According to Statistics Singapore, the current account in Singapore surplus rose to SGD 25.72 billion in the fourth quarter of 2021 from SGD 17.57 billion in the same period of 2020, indicating that the foreign trade economy of Singapore started to recover generally in 2021. Moreover, it is expected that the current account will reach 18000.00 SGD Million by the end of the first quarter of 2022, based on Trading Economics global macro models and analysts expectations. And in the end of 2022, the Singapore Current Account is projected to trend around 24000.00 SGD Million. Therefore, it can be possibly conjectured that the foreign trade economy of Singapore will fluctuate slightly in the near future and then experience an upswing in the long term. Accordingly, the exchange rate of the Singapore dollar will also fluctuate marginally in the short term. And over a long period of time, a currency appreciation may be witnessed in the Singapore dollar with an increasing demand.

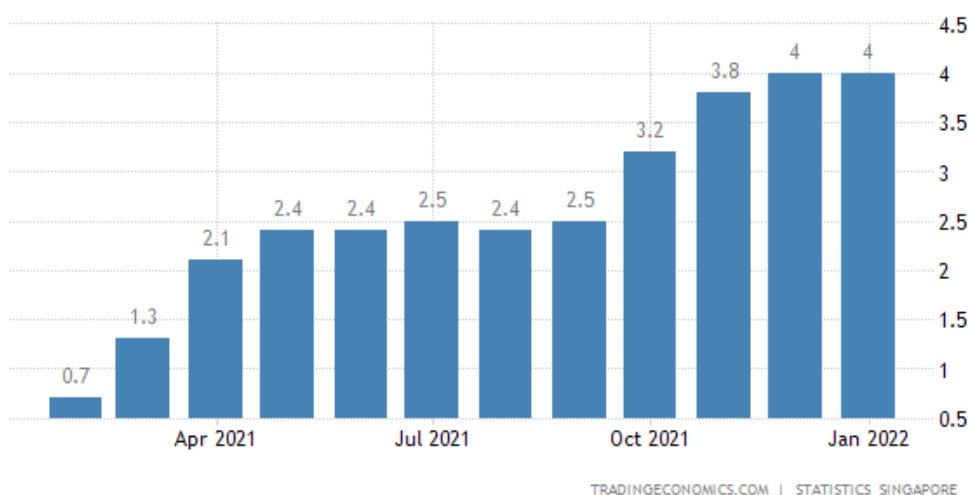


Figure 7. The Inflation Rate(%) in Singapore from 2021 to 2022

On the other hand, with the global economic recovery, growing demand and short supply led to inflation. And Singapore is vulnerable to the rise of costs involved in international energy and other goods. It is showed that Singapore's annual inflation rate remained 4.0% in January 2022, compared with the nearly nine-year high figure in December 2021. Furthermore, the CPI in Singapore went up 2.3% in 2021. And the core consumer prices gained 2.4% in January, the most since September 2012. These data indicate that the inflation in Singapore is accelerating now, which will bring rapid depreciation to the Singapore dollar. In the short run, currency devaluation is probably beneficial to enhance competitiveness and grab market share for the products and services of Singapore. However, in the long run, the devaluation is highly likely to adversely affect the currency stabilization and intrinsic value, going against the sustainable development of the Singapore dollar. So it is important for Singapore to counter imported inflation using currency appreciation as a tool.

In October last year, Monetary Authority of Singapore began to tighten monetary policy, which enabled the Singapore dollar Nominal effective exchange rate to appreciate a little and remained the fluctuation range and the central axis still unchanged. This measure led to a stronger Singapore dollar in December 2021. Additionally, it is said by economists that based on positive growth prospects and greater inflation risks, Monetary Authority of Singapore will further appreciate the Singapore dollar Nominal effective exchange rate in April 2022. Therefore, the Singapore dollar is looking forward to strengthening in the future.

3. Conclusion and Suggestions

The Singapore dollar is a significant part of the currencies in the world, affecting the world economic development and the global financial stability. Therefore, it has important realistic meanings to study the development of the Singapore dollar. This paper takes some key drivers of the Singapore dollar into deep analysis, and then makes predictions for the possible trend of development in the future. It is indicated that trade, inflation and monetary policy would have a direct impact on the tendency, development and value of the Singapore dollar. However, diverse factors might lead to different negative or positive influences on the currency. Taking into account all the drivers discussed above, we may reasonably make the prediction that the exchange rate of the Singapore dollar against Chinese yuan is expected to fluctuate in a small range in the short-time and then strengthen in the long-time.

The paper provides some meaningful inspirations for the stabilization and high-quality growth of the Singapore dollar. Because foreign trade would directly affect the exchange rate trend, it is important for Singapore to stabilize foreign trade and promote its high-quality development in an effort to keep the currency stable. And it is suggested that Singapore authorities probably should give

full play to its advantages in geography, economy, investment environment and so on to actively attract foreign capital and improve the value and quality of their products and services, promoting the foreign trade products to the world. Thus, the government could provide a great trading environment for the currency development. Moreover, products' price volatility would impact on the stabilization of Singapore dollar. In order to prevent the decline of the Singapore dollar's stabilization and competitiveness which is influenced by the price volatility and may further cause damage to Singapore's economic interest, authorities need to pay close attention to commodity price in international markets and adopt a series of measures to stabilize the cost and price of products. Additionally, it is possibly advisable for Singapore government to promote the Singapore dollar to go out with reasonable monetary policy and draw upon development practices of the main currency countries in the world. For example, authorities could strengthen the interactive relations between the Singapore dollar and other currencies, achieving mutual benefit and efficient cooperation on currency exchange and also enhancing the international status of the Singapore dollar.

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