

Top-10 investment strategies for 2019:

#2 Looking for USDSGD to hit 1.40

Group Research

10 January 2019

Philip Wee

FX Strategist



Please direct distribution queries to

Violet Lee +65 68785281 violetleeyh@db.com

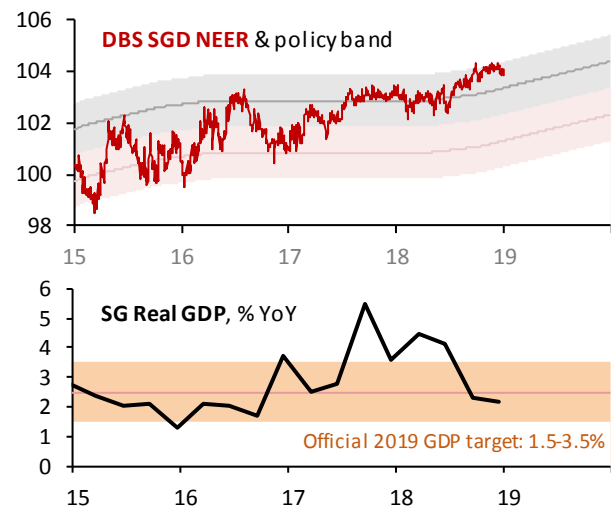
[Link to #1 Bet on more rate hikes by the Fed](#)

- *Idea #2 out of 10: We see the Singapore dollar depreciating against the USD to 1.40 this year*
- *In line with Singapore's weaker growth performance and outlook for 2019, we see the SGD nominal effective exchange rate (NEER) retreating from the ceiling towards the centre of its policy band*
- *We see more currency depreciation in Singapore's major trading partners, especially the large economies, on slowing growth*
- *We also believe that US recession fears are overblown and the Fed delivering two more rate hikes in 2Q-3Q19 will keep the USD strong*

In the FX space, we see an economic rationale for a trade-weighted depreciation in the Singapore dollar i.e. for the SGD nominal effective exchange rate to retreat from the ceiling towards the centre of its policy band. Unlike 2018, full-year growth this year is likely to come in near the mid-point rather than the strongest quartile of its (start of the year) official 1.5-3.5% forecast.

The Singapore economy faces more downside than upside risks this year. Real GDP growth has already decelerated from 4.3% YoY in 1H18 to 2.2% in 2H18, as

DBS SGD NEER has room to ease off from the ceiling of its appreciating policy band



optimism for an electronics-led export recovery gave way to US-China trade war worries. Growth has disappointed for the world's major economies – Eurozone, Japan and China. It was also troubling that upside risks to the outlook have been considered as easing of downside risks, namely those pertaining to a hawkish Fed outlook and US-China trade tensions. This coupled with Apple's earnings warning have lowered the odds for a repeat of the 2017 tech-led cyclical upturn.

Our forecast for USD/SGD to trade above 1.40 this year is based on our expectation for more currency depreciation in Singapore's trading partners. We see the euro weaker below 1.10 on a rise in anti-establishment political sentiment adding to worries that inflation is now following growth lower in the Eurozone. Any easing in US-China trade tensions, while welcome, will not be a panacea to China's slowdown challenges. Our forecast for the Chinese yuan to depreciate past 7 is based on more policy easing measures to cushion China's economy. Believing that US recession fears are overblown, we see two more US rate hikes lifting the Fed Funds Rate to 3% by end-3Q19. Hence, interest rate differentials, both in nominal and real terms, will continue to widen in the favour of the US dollar.

Group Research

Economics & Strategy Team

Taimur Baig, Ph.D.

Chief Economist - G3 & Asia

+65 6878-9548 taimurbaig@dbs.com**Nathan Chow**

Strategist - China & Hong Kong

+852 3668-5693 nathanchow@dbs.com**Masyita Crystallin, Ph.D.**

Economist – Indonesia & Philippines

+ 62 21 2988-4003 masyita@dbs.com**Joanne Goh**

Regional equity strategist

+65 6878-5233 joannegohsc@dbs.com**Neel Gopalakrishnan**

Credit strategist

+65 6878-2072 neelg@dbs.com**Eugene Leow**

Rates Strategist - G3 & Asia

+65 6878-2842 eugeneleow@dbs.com**Chris Leung**

Economist - China & Hong Kong

+852 3668-5694 chrisleung@dbs.com**Ma Tieying, CFA**

Economist - Japan, South Korea & Taiwan

+65 6878-2408 matieying@dbs.com**Radhika Rao**

Economist - Eurozone & India

+65 6878-5282 radhikarao@dbs.com**Irvin Seah**

Economist - Singapore, Malaysia, & Vietnam

+65 6878-6727 irvinseah@dbs.com**Duncan Tan**

Rates/FX Strategist - ASEAN

+65 6878-2140 duncantan@dbs.com**Samuel Tse**

Economist - China & Hong Kong

+852 3668-5695 samueltse@dbs.com**Philip Wee**

FX Strategist - G3 & Asia

+65 6878-4033 philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

Disclaimer:

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.
PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000.
Company Registration No. 09.03.1.64.96422.