Citi Wealth

Asia Pacific *Regional Publication*

Jaideep Tiwari
Head, Global Foreign Exchange Investment Strategy

25 September, 2025

FX Focus: Will the SGD strengthen further?

The Singapore dollar (SGD) is the 2nd best performer within Asia EM FX YTD and at the current 1.2760 vs USD, appears to be heading towards the highs last seen against USD in mid-2014 at just under 1.2400...if the Monetary Authority of Singapore (MAS) allows it.

- The gains in SGD currently are occuring against a very different domestic and external backdrop to 2014. Back in 2014, Singapore's economy grew at a moderate pace, supported by a cyclical uplift in major economies while core inflation rose as firms passed accumulated cost increases on to consumer prices against the backdrop of a tight labor market and strong domestic demand.

- Singapore is now experiencing a divergence between its growth and inflation outlook, with growth remaining resilient due to manufacturing strength and household consumption amid a tight labor market. Core inflation is undershooting historical averages from lower export prices as exporters absorb some US tariffs. In 2014, MAS projected Singapore's economy to expand 2–4% and core inflation to average 2–3%. In 2025, MAS's forecast for 2025 – 26 GDP growth is 1.9 - 2.4% and a core inflation range of between 0.5 -1.5%.

- The external backdrop is also significantly different. Back in 2014, the recovery in jobs supported consumer spending in the US and the euro area emerged from two consecutive years of economic contraction. In Asia, a mild turnaround in the global IT industry buttressed growth even as domestic demand in the ASEAN economies softened and China's GDP growth slowed amid its ongoing structural reforms. Fast forward to today, while the euro area and Asia look to be in a recovery phase, the US appears to be heading towards a sharper slowdown as the labor market weakens.

- Policy wise, the Federal Reserve (Fed) targets the cash rate as its primary monetary policy tool whereas the MAS maintains the primacy of its FX-centered monetary policy regime via a framework centered on managing the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) within a band, adjusting its slope (rate of appreciation), width, and center level to ensure medium-term price stability.

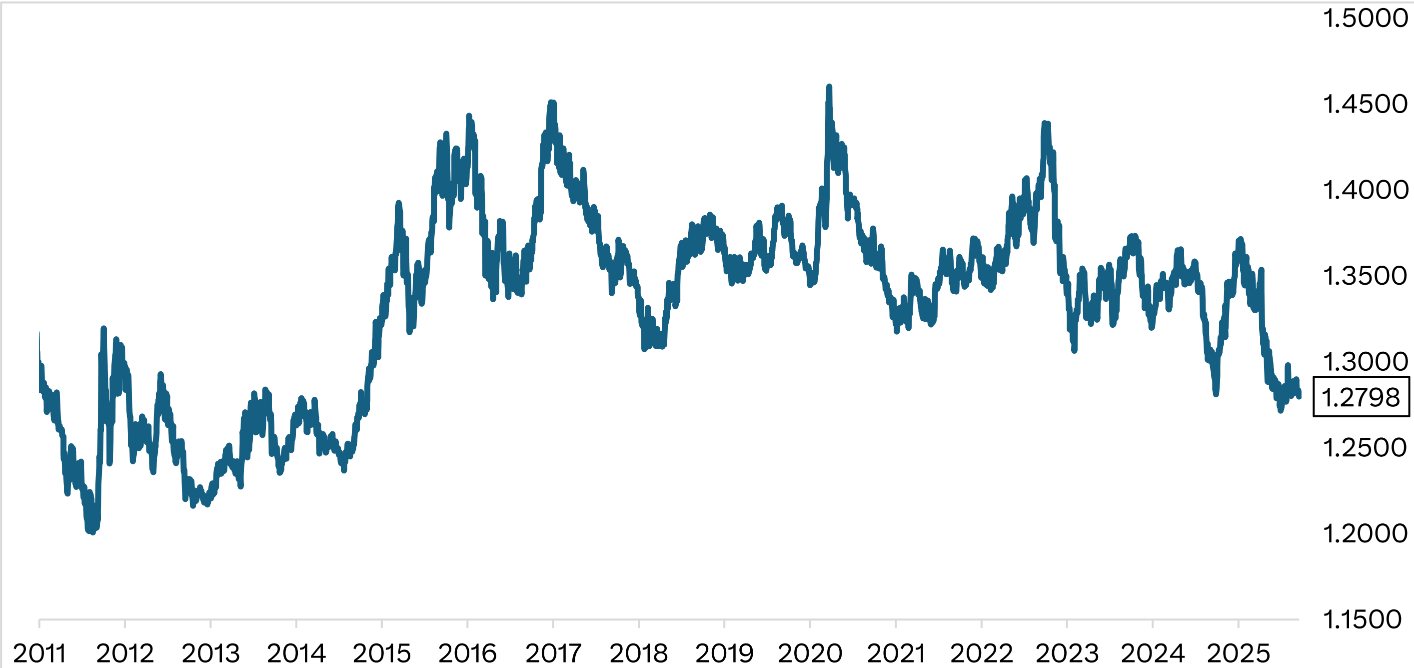
- Back in 2014, the Fed kept policy neutral, while the MAS maintained a mild tightening bias through a gradual appreciation of the S$NEER band, which lasted until the end of 2015. This difference led to SGD strengthening against USD with the spot hitting a record low of just slightly under 1.2400. Currently, markets are focused on policy loosening, with expectations firm for multiple rate cuts by the end of this year and continuing into 2026. The MAS looks towards a gentler easing of financial conditions than the Fed by adjusting the 12-month appreciation slope of the S$NEER towards zero in October or later in 2026. This difference in stance is once again leading to a similar outcome in USDSGD spot. On both occasions, the MAS's relatively more "hawkish" stance has contributed to a strengthening of SGD versus USD.

- Adding to SGD's strong support is its perceived "safe haven" status amid heightened external uncertainties around global trade and tariff wars. With official FX reserves at ~70% of GDP and a current account surplus standing at 17.5% of GDP, Singapore's external accounts are one of the most, if not the most, robust among its peers. This, in turn, makes Singapore more attractive for capital inflows, especially from USD, which seems to have lost its traditional safe haven appeal.

- The MAS has tried to cap further gains in S$NEER (with little success) by adding more domestic liquidity into its local banking system to keep market interest rates lower than most of its peers. We believe it is conscious of Singapore's vulnerability to a global trade war given its large open economy and potential spillovers to domestic activity.

- A stronger SGD does not help, and should USDSGD approach the 1.25-26 level, the central bank may feel compelled to adopt a more aggressive easing stance to contain SGD strength. But the SGD is unlikely to weaken significantly in this current environment of heightened trade tensions, even if further gains are successfully capped by MAS action. Its "safe haven" status is likely to invite more capital inflows unless there is a significant hit to Singapore's two key exports – chipmakers and pharmaceuticals - via sharply higher sectoral tariffs.

FIGURE 2: USDSGD spot is approaching lows not seen since 2014 when MAS tightened policy to combat domestic inflationary pressures



Source: Bloomberg, September 16, 2025. **Past performance is no guarantee of future results.** Real results may vary.

If you need additional support with the accessibility of this material, please contact your Citi team or email us at accessibility.support@citi.com for assistance.

DISCLOSURES