

## FX Viewpoint

6 February 2020

### SGD NEER: Virus-stricken

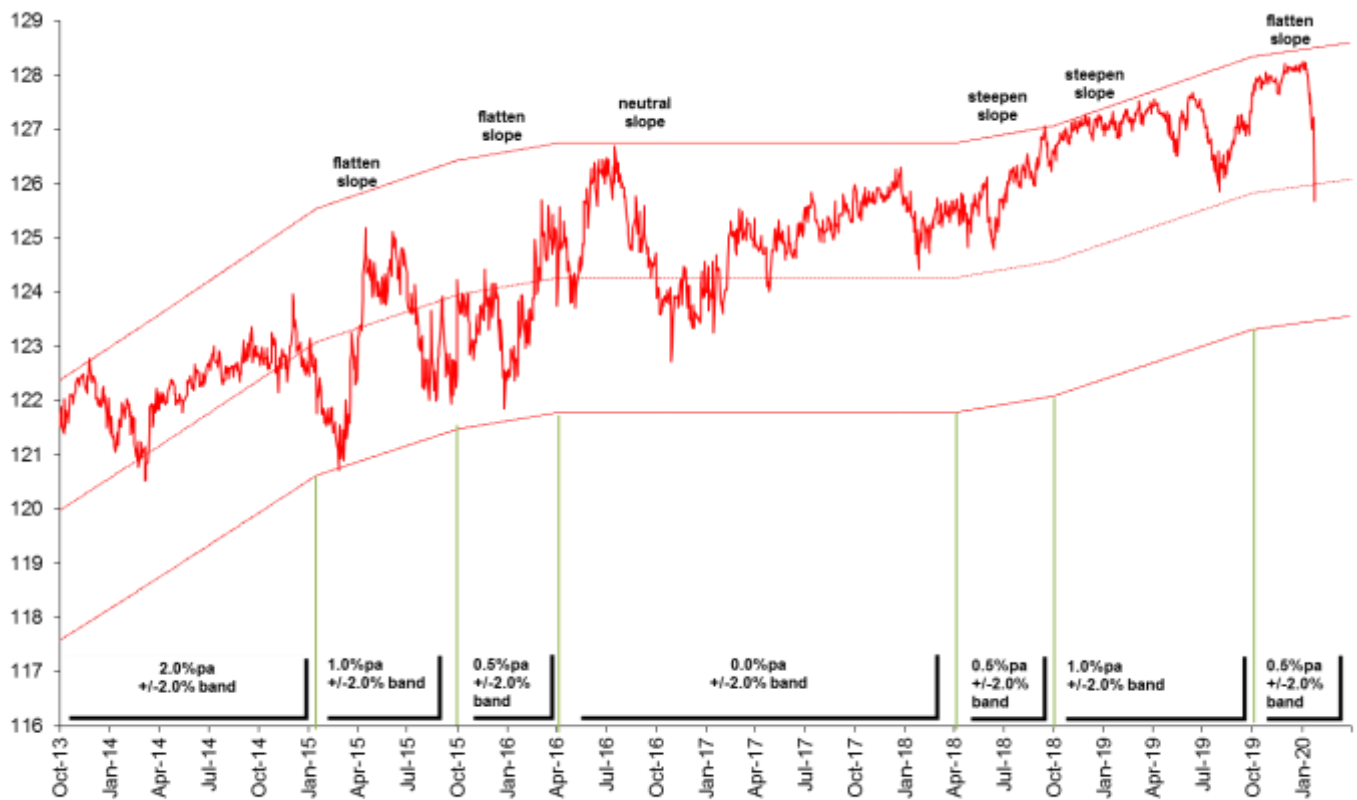
- On 5 February 2020, a media release by the Monetary Authority of Singapore (MAS) said that the “monetary policy stance remains unchanged”, although there is “sufficient room within the policy band to accommodate an easing of the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER / SGD NEER) in line with the weakening of economic conditions as a result of the outbreak of the 2019 novel coronavirus (2019-nCoV) in China and other countries, including Singapore.” The market response was sharp, with the USD-SGD spiking north of 1.3800, and the SGD NEER taken down to parity from an estimated +0.70% above parity.
- Initial interpretations of the media release stoked expectations of further policy easing measures in the upcoming April MPS. On closer inspection, we think it is premature to interpret the statement as such. **We prefer a more conservative interpretation, which is that the MAS may now be comfortable for the SGD NEER to hover at or just south of parity levels.**
- Early assessments of the impact of the coronavirus episode on the Singapore economy (see: [Potential dark clouds for the Singapore economy, 30 Jan 2020](#)) and specific industry sectors (see: [2019 Novel Coronavirus: Credit Impact, 04 Feb 2020](#)) suggest that the impact would be **less severe than the 2003 SARS episode**. From a pre-coronavirus baseline GDP growth forecast of 1.0 – 2.0% yoy, a full-blown, SARS-level, “severe” impact would suggest a downgrade to sub-0.50% yoy growth, while a “mild” scenario sees a growth downgrade to 0.50 – 1.00% yoy. Using these parameters as a (albeit less-than-perfect) guide we gauge the possible impact on the SGD NEER due to the coronavirus episode.
- The peak-to-trough move in the SGD NEER during the SARS episode is around 3.50%. Directly applying this “severe” scenario to the current situation, this suggests a trough in the SGD NEER at around -1.80% below parity (from +1.70% above parity pre-coronavirus). Our baseline view is that a move of this magnitude would be an overstatement, given that the coronavirus episode is likely better managed, and therefore less severe than SARS.
- A “mild” scenario postulated by our Singapore economists points to a discounted 2.50-3.00% move in the SGD NEER, suggesting a floor at -0.80% to -1.30% below parity. For now, we take the midpoint of that range at -1.00% below parity (currently estimated at 1.3949 for USD-SGD) as an initial floor in the SGD NEER.

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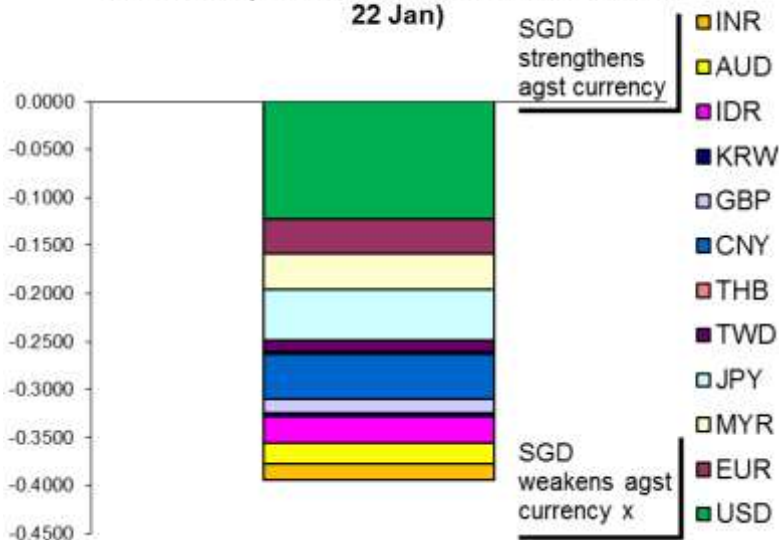
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**Contribution of SGD NEER component currencies (since coronavirus hit headlines on 22 Jan)**



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