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Singapore Unexpectedly Revalues Currency on Growth (Update4)
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(Updates prices in fifth paragraph.)

By Patricia Lui

April 14 (Bloomberg) -- Singapore unexpectedly revalued its currency, triggering the biggest gain in a year, after the government raised forecasts for economic growth and inflation.

The Monetary Authority of Singapore said it will seek a “modest and gradual appreciation” in the local dollar and shift to a stronger range for currency fluctuations, the first such combined move in its 39-year history. The trade ministry said the $182 billion economy will expand as much as 9 percent in 2010, compared with a previous outlook of 6.5 percent, after the fastest growth since at least 1975 in the first quarter.

Currencies across Asia rallied as investors bet governments will switch to fighting inflation from stimulating growth, after oil, copper and aluminum prices jumped more than 60 percent in the past year. The decision adds to signs that China, which will probably report its quickest expansion in three years tomorrow, is preparing to end the yuan’s 21-month-old peg to the dollar.

“Singapore’s move might reflect policy makers’ belief that China is possibly close to moving on the yuan,” said Brian Jackson, an emerging-markets strategist at Royal Bank of Canada in Hong Kong. “It’s part of the broader trend across Asia that policy makers are moving toward a tighter stance as inflation is driven by stronger commodities prices.”

Withdraw Stimulus

Singapore’s dollar rose as much as 1.2 percent to S$1.3754 against the greenback, the strongest level since August 2008, according to data compiled by Bloomberg. It last traded at S$1.3763 as of 2:20 p.m. local time from S$1.3923 late in New York yesterday.

The central bank for the nation of 4.8 million people guides the local dollar within an undisclosed band against a basket of currencies. It has climbed 2 percent this year, compared with a gain of 7 percent in the ringgit, 4.6 percent in India’s rupee and 4.2 percent for Indonesia’s rupiah.

MAS, which uses the exchange rate rather than interest rates to conduct monetary policy, joins regional central banks in withdrawing monetary stimulus this year. China has twice ordered banks to raise the share of their assets held in reserve. India increased interest rates last month for the first time in almost two years. Australia’s central bank has boosted borrowing costs in five out of the past six meetings.

“This opens up the rest of Asia to allow further appreciation of their currencies, with the Korean won, Malaysian ringgit, Indian rupee and Taiwan dollar to lead the charge,” said Bernard Yeung, Hong Kong-based head of currency trading for Asia at National Australia Bank Ltd.

MAS Statement

The MAS will “re-center the exchange-rate policy band at the prevailing level of the Singapore nominal effective exchange rate” and “shift the policy band from that of zero appreciation to one of modest and gradual appreciation,”
according to a statement issued today following a semi-annual currency review. There will be no change to the width of the band.

“Some of the double-barrel tightening may have been to pre-empt a renminbi appreciation,” Tim Condon, chief Asia economist in Singapore at ING Groep NV, the biggest Dutch financial-services company, wrote in a research report, referring to a denomination of the yuan.

ING recently revised its target for the Singapore dollar to appreciate to S$1.35 in three months on the basis a yuan revaluation would trigger a one-off appreciation of near 3 percent in the Southeast Asian nation’s dollar. Royal Bank of Canada stuck with a prediction for the currency to advance to
S$1.36 by year-end.

‘Hawkish Stance’

Penn Nee Chow, an economist at United Overseas Bank Ltd., Singapore’s second-largest lender by market value, was the only one of 13 economists who predicted today’s central bank move in a Bloomberg News survey. Five forecast the MAS would tighten by seeking a gradual appreciation in the currency over six months, while the rest expected no change.

“It was a quite hawkish stance from the MAS,” said Chow. “According to our model, it looks to be a 0.6 percent appreciation of the Singapore dollar’s trade-weighted index.”

Singapore’s economy expanded an annualized 32.1 percent in the first quarter from the previous three months, after shrinking 2.8 percent in the October-to-December period, the trade ministry said today in its preliminary estimate. That was faster than the 18.4 percent median estimate of economists in a separate Bloomberg survey.

“We’ve just seen the realization that Singapore is a great place to do business,” said Donald Gimbel, senior managing director at New York-based Carret Asset Management LLC, in an interview with Bloomberg Television. “We will gradually be adding to our position” in Singapore stocks, favoring companies that are doing a lot of business in China, he said.

‘Behind the Curve’

Economists surveyed by Bloomberg estimated gross domestic product in China, the world’s fastest-growing major economy, increased 11.7 percent in the first quarter from a year earlier, compared with growth of 10.7 percent in the prior three months.
That would be the fastest pace since the period ended June 2007.

The benchmark Straits Times Index advanced to a 22-month high, up as much as 1.1 percent to 3,004.45. DBS Group Holdings Ltd., Southeast Asia’s biggest lender, climbed as much as 4.2 percent. Neptune Orient Lines Ltd., owner of Southeast Asia’s largest container line, surged as much as 7.7 percent.

The government revised its inflation target for this year to between 2.5 percent and 3.5 percent, compared with an earlier projection of 2 percent to 3 percent. Consumer prices rose 1 percent in February from a year earlier, the fastest pace since March 2009, official data show.

"Singapore's GDP release represents the start of a series of strong Asian first-quarter numbers which will emphasize that central banks across the region have fallen significantly behind the curve," said Robert Prior-Wandesforde, an economist at HSBC Holdings Plc in Singapore.

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