

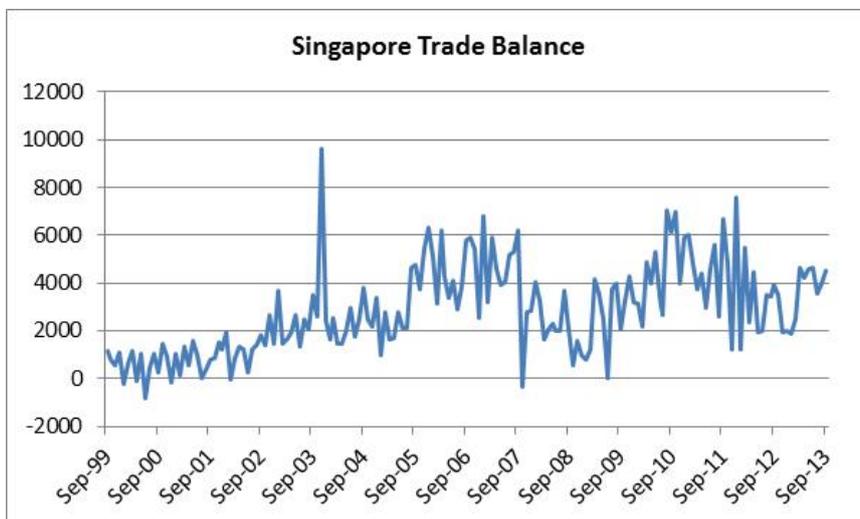
SHORTING THE SINGAPORE DOLLAR



Unlike many Asian currencies, the Singapore dollar (SGD) has had a fairly consistent appreciative bias, and as can be seen below, it has appreciated significantly against the US dollar since 2002.

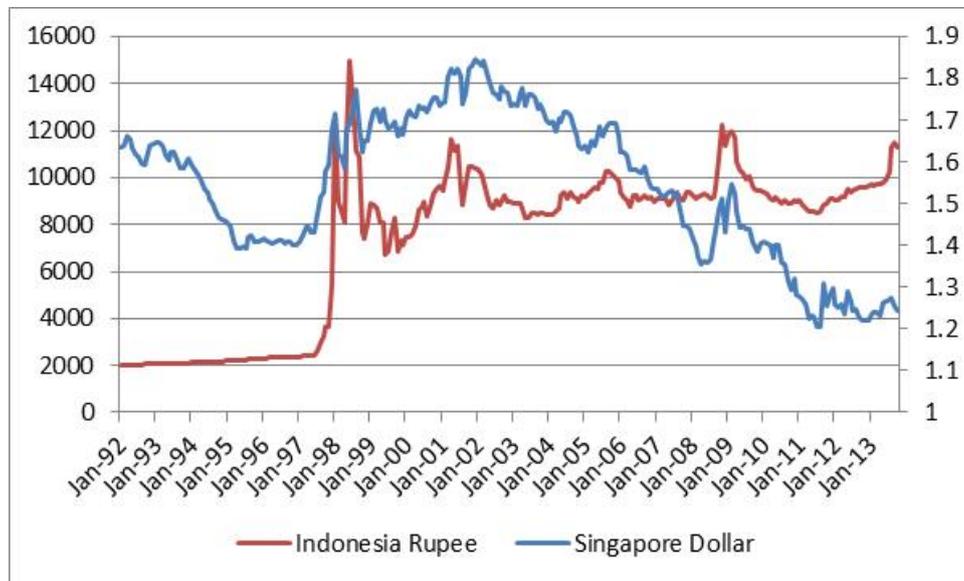


This appreciation bias has been supported by a strong trade balance, seen below.



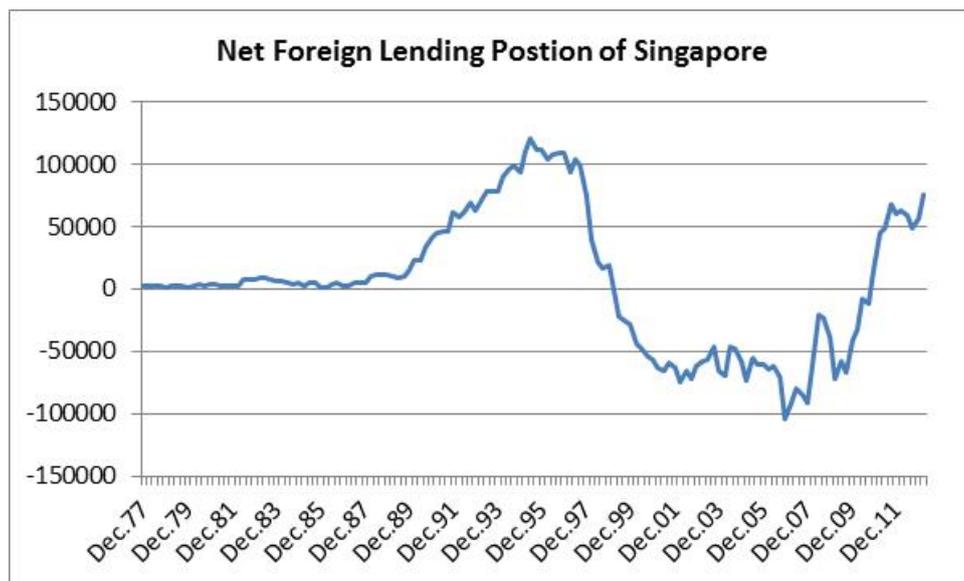
However, apart from the still strong trade and current account balances, there are increasing signs that the Singapore Dollar could depreciate in the near future.

Historically, short term movements in the SGD have been highly correlated with its giant neighbour, Indonesia, as can be seen in the following graph.



Weakness in the Indonesian Rupee (IDR) in 1997, 2001 and in 2008 also saw weakness in the SGD, but the recent sell off this year in the IDR has so far not caused a move in the SGD.

Recent BIS data, which notes the external position of banks in various countries, has picked up that Singapore banks are short of USD, as they were in early 90s before the last sustained devaluation in the SGD.



Source: BIS (www.bis.org)

Finally there are increasing signs of Singapore is becoming overheated. Singapore severely regulates the cost of car ownership through high levels of tariffs and also forcing potential car owners to bid for a licence at auction. For those of

you unfamiliar with the cost of car ownership in Singapore, I direct you to the website – www.onemotoring.com.sg . The website quotes a price for a Toyota Camry 2.0 with licence as SGD166,988 (USD 134,667 or EUR 99,397) while an Audi Q5 2.0 costs SGD 277,550 (USD 223,326 or EUR 165,080).

Intriguingly, while the taxes tend to be fixed, the auction system almost gives a real time reading of the bullishness of Singaporean residents. Following is the cost of a licence for a car over 1600 cc (standardised for a slight change in the auction system in 1999).



Source: Singapore Land Transport Authority

What I find so compelling about shorting the Singapore dollar is that overnight interest rates are close to zero. Hence carry costs of shorting are also close to zero. People long of SGD seem to be taking on return free risk in my mind. Thus the risk reward of shorting SGD looks excellent to me.

INFORMATION

Issue Date: November 2013
 Source: Bloomberg, unless otherwise stated
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