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Singapore Allows More Currency Gains as Growth Accelerates (2)
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(Updates with comment from economist in fourth paragraph.)

By Shamim Adam

April 14 (Bloomberg) -- Singapore's economy grew more than twice the pace economists estimated in the first quarter and the central bank said it would allow further gains in the currency in the third tightening of monetary policy in a year.

The Singapore dollar jumped to a record after a trade ministry report showed gross domestic product rose at an annual rate of 23.5 percent last quarter from the previous three months.

That's up from 3.9 percent in the fourth quarter, and compares with the 11.4 percent median estimate in a Bloomberg News survey of 14 economists. The central bank said separately it will allow the Singapore dollar to appreciate more.

The island's dollar has climbed 10 percent over the past year, the best performer in Asia outside Japan, as policy makers used the currency as their main tool to fight inflation.

Earnings at Singapore companies including lender DBS Group Holdings Ltd. and property developer City Developments Ltd. have surged after the economy's expansion boosted demand for loans and spurred home prices to a record.

"We were taken aback by the strength of the economy in the first quarter," said Chua Hak Bin, a Singapore-based economist at Bank of America Merrill Lynch. "Still, the central bank's tightening is less aggressive than in the past" and will result in a more modest appreciation in the currency than the past two decisions, reflecting the uncertainties in the global economy, he said.

Currency Jumps

The Singapore dollar jumped to S$1.2496 a dollar after the central bank's semi-annual policy statement. It traded at S$1.2505 as of 8:59 a.m. local time.

The Monetary Authority of Singapore revalued the currency in April 2010 and said in October it would steepen and widen the trading band while seeking a modest and gradual appreciation.

The central bank guides the Singapore dollar against a basket of currencies within an undisclosed band.

"Economic activity is likely to be sustained at a high level for the rest of the year, even as the underlying growth momentum moderates," the central bank said. Today's policy "adjustment takes into account the tighter policy stance adopted in April and October last year, which will continue to have a restraining effect on the economy and prices," it said.

The central bank will re-center the currency's band upwards, while keeping it below the prevailing level of the nominal effective exchange rate, it said today. There will be no change to the slope or width of the band, it said.

Commodity Prices

Global central banks are raising interest rates, removing excess cash from their financial systems or allowing their currencies to appreciate as rising oil and commodity prices fuel inflation.

"They have a good feel on the strength of the economy that could feed into the inflation scenario," said Saktiandi Supaat, head of foreign-exchange research in Singapore at Malayan Banking Bhd. "There's still upside room for the Singapore dollar but this time, they made known their intent to restrain any excessive move."

Half of the 20 analysts surveyed by Bloomberg predicted the central bank would re-center the band in which the dollar is allowed to trade. Four forecast faster gains in the currency to be achieved through a steepening of the band, while the remaining six foresaw no change from the stance adopted at the last policy meeting. The next review is in October.

Policy Tool

Unlike most central banks that use interest rates to control inflation, Singapore conducts monetary policy through its exchange rate, adjusting the pace of appreciation or depreciation against an undisclosed band of currencies. A steeper slope allows faster appreciation over time, while lifting the band's midpoint amounts to a one-off revaluation.

Singapore's consumer prices gained 5 percent or more in the first two months of 2011. The central bank said today inflation may moderate to about 3 percent by the fourth quarter and is expected to reach the upper end of its 3 percent-to-4 percent forecast range this year.

Economic growth this year may be at the upper end of the government's 4 percent-to-6 percent forecast range, the central bank said. GDP increased 8.5 percent in the first quarter from a year earlier, compared with the median estimate for a 5.8 percent gain in the Bloomberg News survey.

Elections Due

The government is distributing cash to its citizens and giving out utility rebates to limit the effect of inflation ahead of general elections that must be held by February 2012.

Prime Minister Lee Hsien Loong's ruling People's Action Party has unveiled new candidates to compete in the upcoming polls.

Policy makers introduced more measures in January to curb property speculation after private home prices and transactions reached records. Attempts to rein in prices had started in 2009.

Singapore, located at the southern end of the 600-mile (965-kilometer) Malacca Strait, has remained vulnerable to fluctuations in overseas demand for manufactured goods even after the government boosted financial services and tourism.

Non-oil shipments may increase 8 percent to 10 percent in 2011, after growing 22.8 percent last year, according to government predictions.

Manufacturing, which accounts for about a quarter of the economy, rose 13.9 percent from a year earlier last quarter, after gaining 25.5 percent in the three months through December.

Tourists are arriving in Singapore in record numbers, benefiting companies from Singapore Airlines Ltd. to hotel operator Shangri-La Asia Ltd., as the island plays host to more conventions and exhibitions. The city state’s two casinos run by Genting Singapore Plc and Las Vegas Sands Corp. are also luring gamblers from around the region.

The island’s services industry grew 7.2 percent last quarter from a year earlier, after climbing 8.8 percent in the previous three months. The construction industry grew 2.6 percent, compared with a 2 percent decline in the fourth quarter.

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