

## Singapore: 1Q GDP Revised Upwards But Europe's Sovereign Debt Problems Could Impact On Growth

- Singapore's 1Q GDP was markedly higher compared to the advance estimates, growing 15.5% y/y and 38.6% q/q saar (adv est: +13.1% y/y, +32.1% q/q saar), higher than our own (UOB:13.8y/y, 33.1% q/q saar) and consensus estimates (13.7% y/y, 33.4% q/q saar). The growth was broad-based, coming from both manufacturing as well as the services sector. The second half of the year looks uncertain for the manufacturing sector. The process of inventory rebuilding might not be sustained, while the end-demand in Europe might falter on continued sovereign debt problems.
- Right now, the focus is on developments in Europe's sovereign debt risk, and how this could affect Singapore's growth prospects. Based on our calculations of output and price effect of the crisis in Europe, the output effect is more significant than the price effect. We estimated that a 1% drop in EU's GDP could also see exports to EU decrease by 2.8%, while a 1% fall in EUR/SGD would see exports to EU 1.6% lower. The hit in exports is also not just confined to Europe. Exports to America and Asia could be adversely impacted as well, if they import intermediate goods from Singapore, with end-demand in Europe. Notwithstanding the potential risks, we are still keeping our full year forecast of 7.5%.
- On the back of developments in Europe, we are revising our USD/SGD forecast to around 1.42 from our original forecast of 1.36 at the end of 2Q. USD/SGD could then move lower to around 1.38 by year end.

Singapore's 1Q GDP was markedly higher compared to the advance estimates, growing 15.5% y/y and 38.6% q/q saar (adv est: +13.1% y/y, +32.1% q/q saar), higher than our own (UOB:13.8y/y, 33.1% q/q saar) and consensus estimates (13.7% y/y, 33.4% q/q saar). The growth was broad-based, coming from both manufacturing as well as the services sector. The manufacturing sector was exceptionally strong, expanding 32.9% y/y and 157.6% q/q on continued growth in electronics and biomedical output, given the very robust NODX growth of 23.2% y/y, for the 1Q. However, the second half of the year looks uncertain for the manufacturing sector. The process of inventory rebuilding might not be sustained, while the end-demand in Europe might falter on continued sovereign debt problems. Final demand in US should improve, albeit at an incremental pace. April's NODX was still strong, growing at 26.1% y/y, heralding a good start for 2Q. But we could start to see headline growth rates coming down as the favourable base effect dissipates, leading to lower headline figures. In terms of the overall service sector, tourist arrivals to the 2 IRs should give it a lift. This is especially so as the IRs continue their phased opening of various attractions, which should continue to draw more tourists for the remainder of the year. The month of Feb (when RWS opened) saw a huge jump in tourist arrivals, up 24.2% y/y compared with 17.7% in Jan. We are still keeping our full year forecast of 7.5%, as downside risks are more apparent now, with the problems in the Eurozone. MTI is maintaining its projection for 2010 GDP at 7.0-9.0%, while highlighting the intensification of risks in Europe as well as concerns over excessive asset price inflation in emerging Asia.

## EU Crisis Impact on Singapore

Right now, the focus is on developments in Europe's sovereign debt risk, and how this could affect Singapore's growth prospects. Based on our calculations of output and price effect of the crisis in Europe, the output effects of the European crisis is more significant than the price effect. We estimated that a 1% drop in EU's GDP could also see exports to EU decrease by 2.8% ceteris paribus, while a 1% fall in EUR/SGD would lead to exports to EU falling 1.6% lower, ceteris paribus. Even though Europe accounts for about 10.4% of Singapore's total exports in 2009, compared to about 71.2% for Asia, and 11.2% for US, the hit in exports might be more far-reaching. Exports to America and Asia could be adversely impacted as well, if they import intermediate goods from Singapore, with end-demand in Europe, and thus should not be underestimated. Notwithstanding the potential risks, we are still keeping our full year forecast of 7.5% for 2010.

Output Effect More Significant Than Price Effect		
	Price effect- Assuming 1% ↓ in EUR/SGD	Output effect- Assuming 1% ↓ in EU GDP
Singapore's Exports to EU	1.6% ↓	2.8% ↓
Source: UOB Estimates		

% of Singapore's Total Exports (2009)	
America	11.24
Asia	71.15
Europe	10.40
Oceania	5.36
Africa	1.93
Source: CEIC	

% of Total European Exports in EU 16 Countries	
Netherlands	17.71
Germany	14.78
France	12.67
Belgium	8.73
Ireland	4.13
Malta	2.15
Greece	1.89
Italy	1.55
Cyprus	1.13
Spain	1.05
Austria	0.33
Finland	0.69
Portugal	0.22
Luxembourg	0.19
Source: CEIC	

## Revision to USD/SGD Forecast

With the developments in the EU, we are relooking our USD/SGD forecast. The EUR currently makes up about 13.7% of our SGD TWI, and with fundamental adjustments in the EUR, coupled with lower risk appetite, the EUR is slated to drop lower, to around 1.20 at the end of this quarter and then to 1.18 at the end of the year. We see the USD/SGD going up to around 1.42 from our original forecast of 1.36. USD/SGD could then move

lower to around 1.38 by year end. We think Asian economies should still move higher against the USD by year end as the economic fundamentals in this region further give rise to inflows here. This morning, even with the better-than-expected GDP data, the markets were largely unmoved. The SGD TWI has since moved lower to around 1.4% above the midpoint after the release of GDP data, compared to 1.7% before the data. We think the TWI should be headed lower, hovering at around 1.0-1.5% above the midpoint in the coming months. The unfolding developments in Europe will continue to dictate the movement of SGD for the coming quarters, until problems there subside and the focus is retrained on Asia.

New USD/SGD Forecast			
UOB Forecast	2Q10	3Q10	4Q10
USD/SGD	1.42	1.40	1.38

1Q 2010 GDP Slightly Higher Compared to Advance Estimates											
	1Q10	1Q09	2Q09	3Q09	4Q09	2009	1Q10	1Q09	2Q09	3Q09	4Q09
	y/y% change						q/q saar %				
Real GDP	15.5	-8.9	-1.7	1.8	3.8	-1.3	38.6	-7.1	16.2	11.5	-2.8
<b>Sectoral Breakdown</b>											
Goods-Producing Industries	28.6	-17.7	1.7	7.7	3.5	-1.5	121.6	-7.7	32.3	20.8	-21.2
Manufacturing	32.9	-23.8	-0.4	7.6	2.2	-4.1	157.6	-8.4	35.3	25.6	-29.0
Construction	13.7	25.5	18.1	11.7	11.5	16.2	16.3	-1.4	27.8	3.8	16.4
Services-Producing Industries	10.9	-4.9	-3.4	-1.1	3.7	-1.4	15.8	-6.9	8.6	8.2	6.6
Wholesale/Retail Trade	17.7	-14.3	-11.8	-7.5	1.5	-8.2	57.5	-19.4	3.0	12.5	14.2
Transport & Storage	7.6	-10.5	-10.1	-7.2	0.1	-7.0	-3.2	-25.3	3.4	10.3	17.7
Hotels/Restaurants	6.7	-4.0	-4.3	0.2	2.0	-1.5	12.2	-14.3	-2.1	10.5	11.3
Information & Communications	2.9	1.8	1.3	-0.1	1.6	1.2	0.8	-7.2	5.2	3.4	5.5
Financial Services	18.1	-7.6	0.7	3.5	8.5	1.3	3.5	22.5	28.4	4.4	-8.2
Business Services	6.1	6.2	4.0	3.7	4.2	4.5	10.3	-5.4	5.7	8.1	5.2
Source: MTI											

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