

Singapore Avoids The Sling

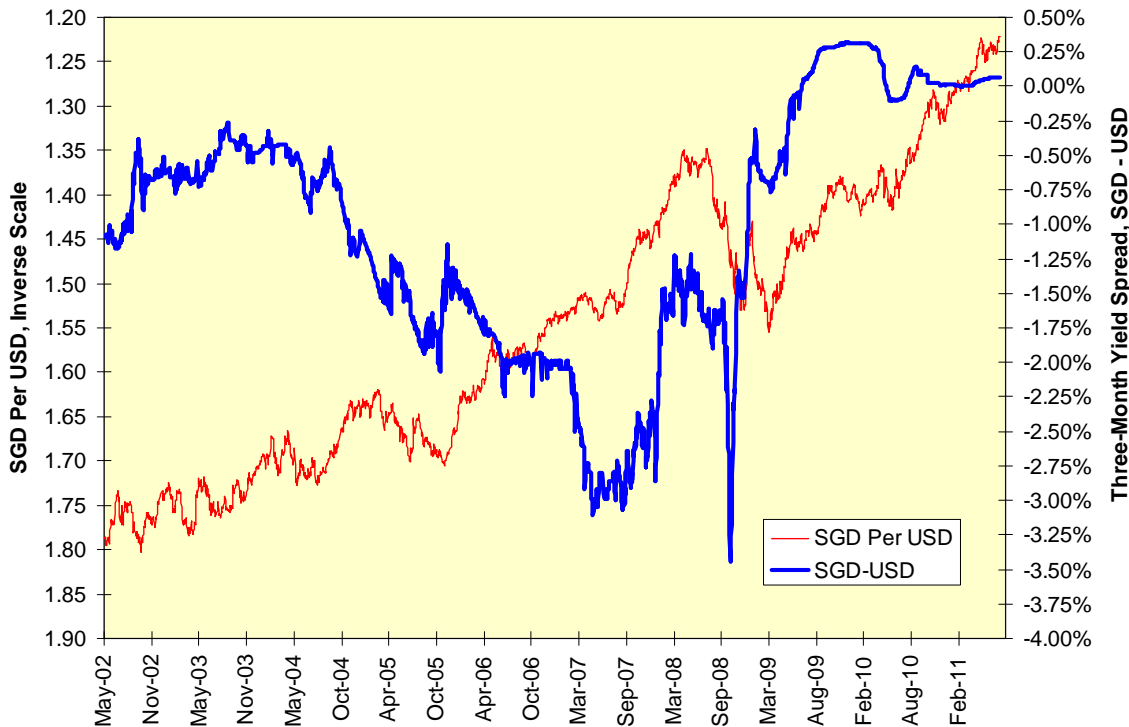
The missus loves old movies, the moldier the better. Back in the day when few Americans traveled unless a troop ship was involved, it was easy to convert some back-lot into an exotic setting. Casablanca famously fit the bill, Hope, Crosby and Lamour took a number of road trips, and anything involving Singapore was grandfathered into acceptability.

Today the city-state – and let’s hope the Asian city-states have a better future than the Greek city-states have had judging from the Athenian rock-throwing Olympics – is amongst the leaders of the global economy and its currency, the Singapore dollar, has been doing a tap-dance on the U.S. dollar’s chest. Well, not literally; that would be too exotic.

A “Strait” Spread

As Singapore is separated from the Malay Peninsula and Sumatra by the Johor and Malacca Straits, respectively, it likes to use “Straits” in describing things, such as the Straits Times index. We can cast off this jacket and look simply to the straight interest rate spread between three-month swap rates in the U.S. and Singapore to get a feel for where the Singapore dollar (SGD) is heading.

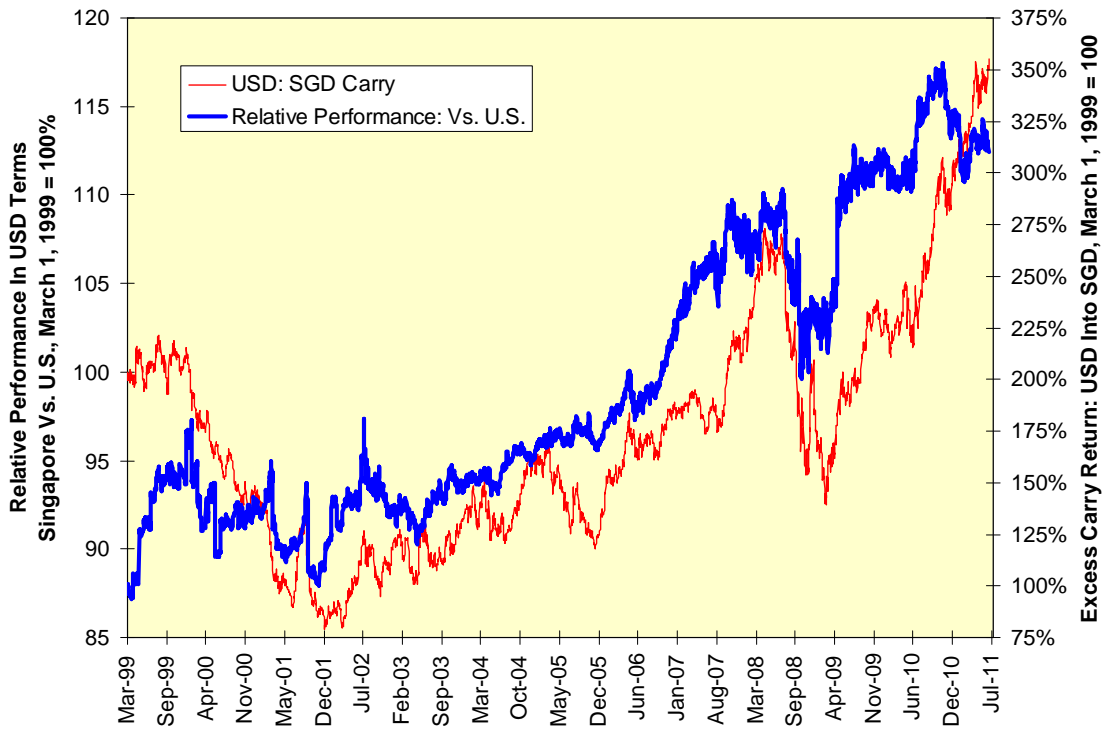
SGD Has Converged To Short-Term Rate Spread To USD



The U.S. has made this easy; by driving our short-term rates to zero and leaving them there on the off-chance something good might happen, we have allowed the Singapore Monetary Authority (Citizen Cane; see if you get the double reference here) to set the interest rate spread and by default the SGD rate. Some people will miss Bernanke when he has gone to that great printing-press in the sky.

What has this done for the Singapore equity market? The relative performance of Singapore to the U.S. in USD terms has in turn devolved into a variation on the excess carry return earned from borrowing USD and lending SGD. Actually, you would have done a little better in doing the carry trade in bank deposits using than in a stock ETF such as the iShares Singapore index fund (EWS). The excess carry return for 2011 to-date has been 5.09% as opposed to 1.50% for the ETF and it has the advantage of being exotic. That counts.

USD Carry Into SGD Matches Relative Stock Performance



Singapore has demonstrated a society committed to free market principles and accepting of a no-nonsense political system we might regard as authoritarian can do very well for itself in this world. It is an economy based on brainpower, some port facilities, oil refining, electronic manufacture and not much else. They do not go in for vast public debts, self-counterfeiting, wars entered into with poorly articulated reasons or bailouts. Not that any country capable of tying its own shoelaces would ever do such things.

Singapore long has been a go-it-alone culture willing to separate from Malaysia. We used to call that rugged individualism. Now we can call it a role model.