

12 May 2026

Talking points

Macro Outlook and implications for Singapore Outlook

Asia FI Strategy & Economics
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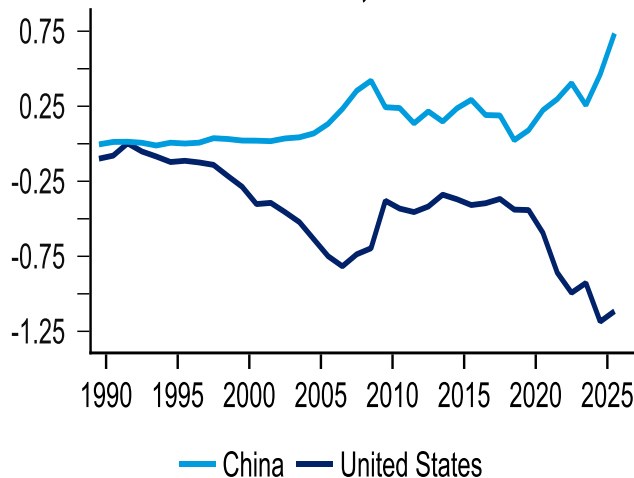
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Macro imbalances are alive & well: nominal, flow and stock terms

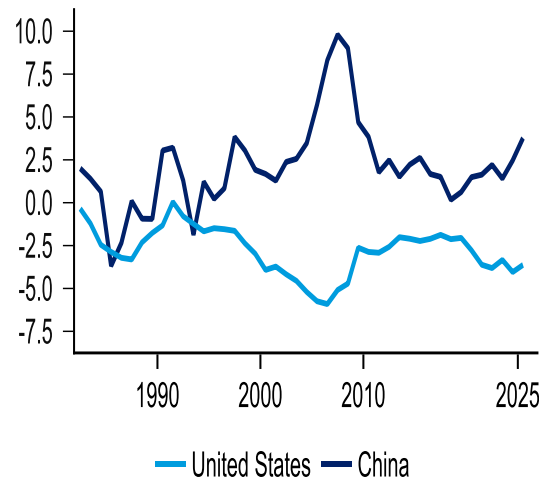
- In nominal USD terms, current account surplus in China is approaching USD1trn, while US is above USD1trn (chart 1)
- Scaled by their relative GDP's, China's reached 3.8% surplus in 2025 (highest since 2010), USA registered -3.6% - a stabilization of sorts (chart 2)
- However, the US Net International Investment Position is at record deficit of 88% of GDP (chart 3)

US & China Current Account, Net USDtrn



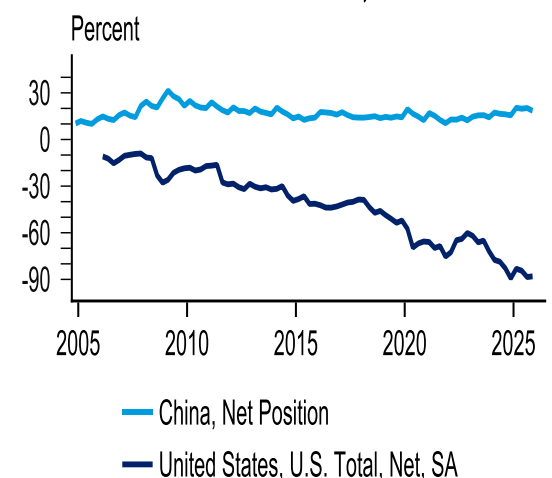
Source: BofA Global Research, Macrobond

US & China Current Account balance % of GDP



Source: BofA Global Research, Macrobond

International Investment Position, In % of GDP



Source: BofA Global Research, Macrobond

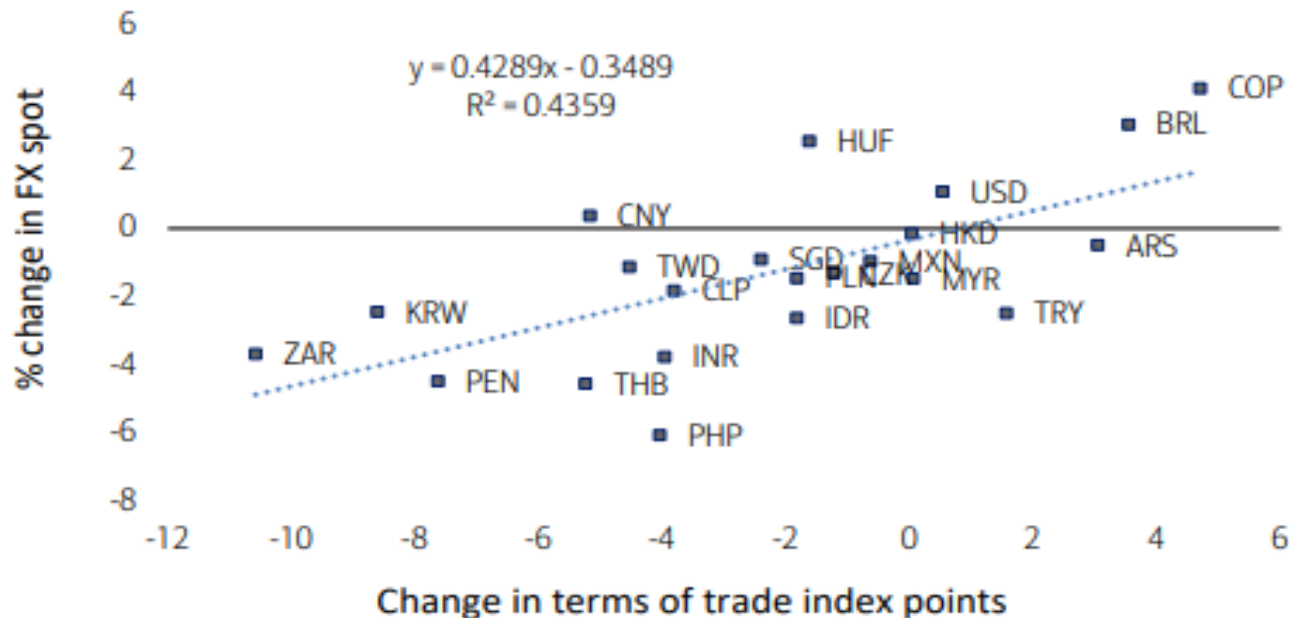


EM FX Loss Assessment – terms of trade key factor for Asia

- So far, EM currencies and Asian currencies are responding to the Iran conflict and attendant energy shock in rational ways
- Terms-of-trade is the meaningful driver and the outliers matter too. THB, INR and PHP trading weaker than the regression line on greater vulnerabilities
- SGD is behaving consistent with NEER monetary target

Exhibit 1: Terms of trade remain the dominant factor driving EM relative FX performance

PEN, THB, PHP and INR are below the regression line, suggesting more significant stress relative to peers



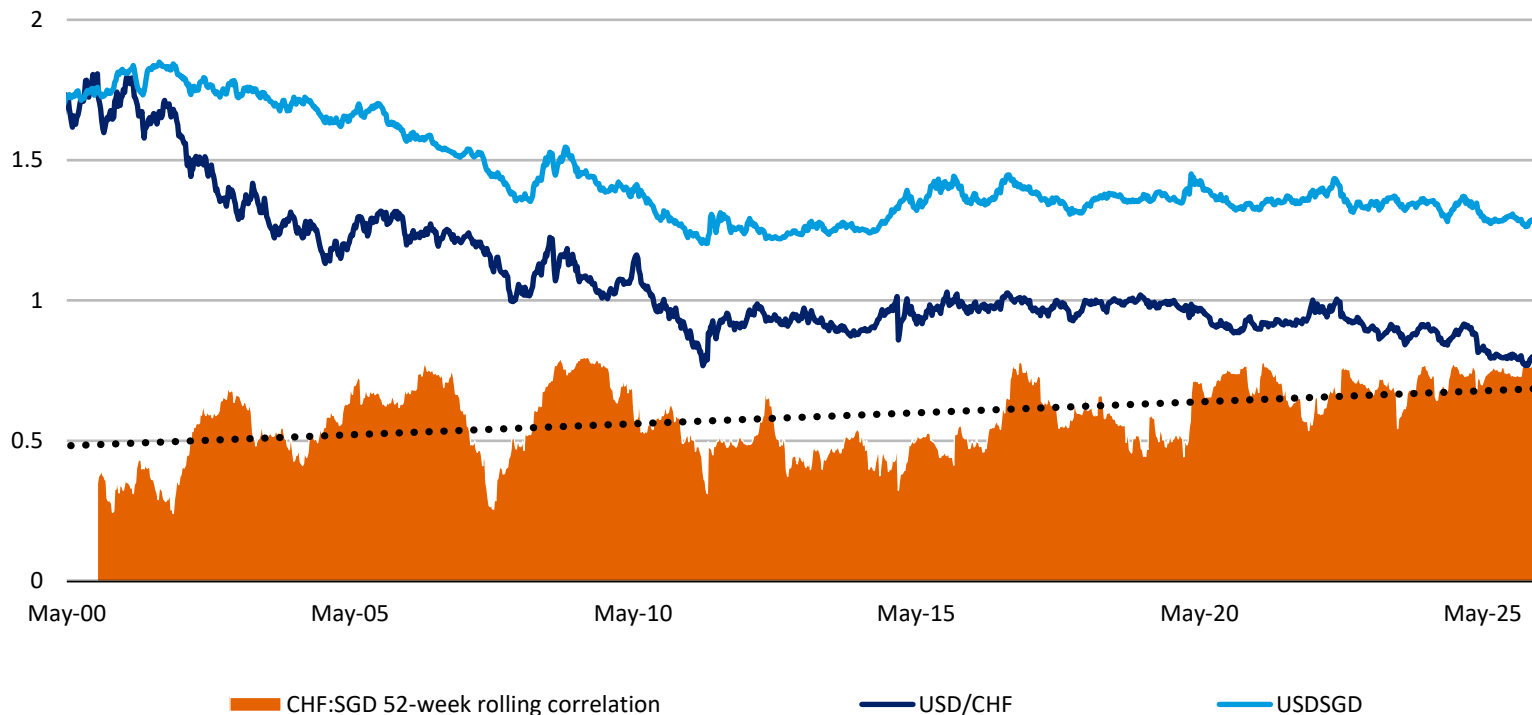
Source: BofA Global Research, Bloomberg

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The “Swissification” of SGD

- USD/SGD is showing increasing co-movement with USD/CHF not only in spot exchange rates, but also in speculative futures positioning
- Even in recent risk-off events option pricing shows increasingly less signs of SGD distress
- CHF and SGD are benefiting from institutional credibility and sound fiscal and current account positions



Source: BofA Global Research, Bloomberg

SG – S\$REER has strengthened noticeably and domestic liquidity conditions are tightening



Exhibit 1: S\$REER, based on BIS and IMF indices (3MMA, Dec 2010=100)

Over the past three months, S\$REER has strengthened more markedly...

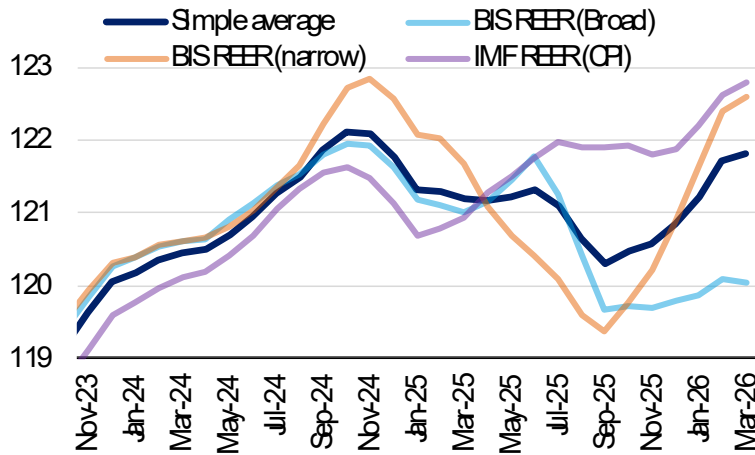
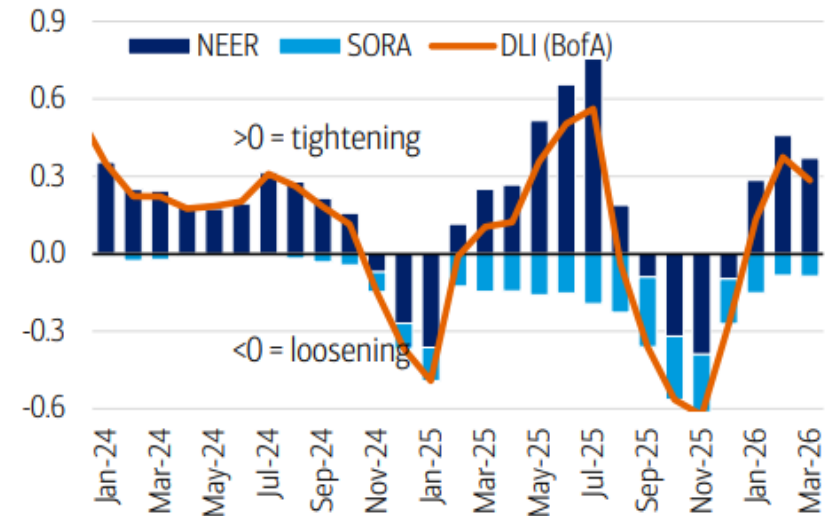


Exhibit 2: Domestic Liquidity Indicator (DLI) – based on MAS methodology (% change vs. three-months ago)

Liquidity conditions have tightened the past three months



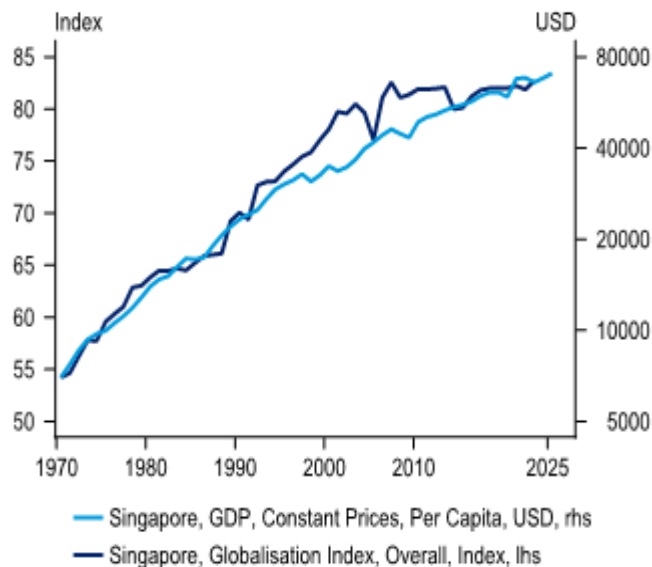


Globalization headwinds - challenge small open economies

- Small open economies are key beneficiaries of globalization and FDI inflows
- The headwinds to globalization will require new policy approaches for trade, investment, immigration and industrial policies
- Monetary, fiscal policy credibility and FX stability will provide strong anchors. This credibility should continue to be leveraged for investment

Exhibit 10: Singapore GDP/Capita vs Singapore Globalization index

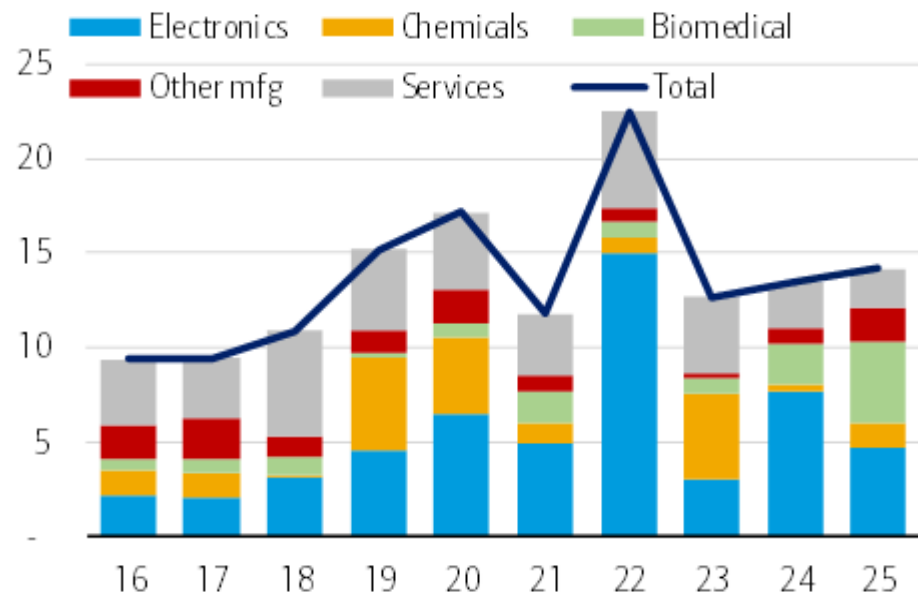
A flattening in Globalization presents a challenge to small open economies



Source: BofA Global Research, [KOE](#) Swiss Economic Institute, [Macrobond](#)

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Investment commitments, by sectors (\$\$bn)



Source: BofA Global Research, CEIC, Haver, Bloomberg

Appendix / additional charts

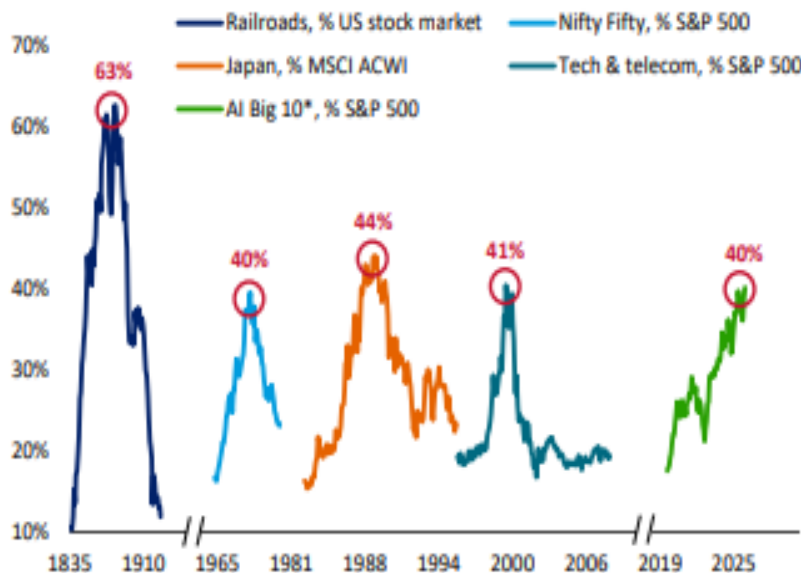




Bubble trouble or creative destruction

- Amid macro imbalances, global equity markets are surging
- The driver of the equity market rallies are narrow set of tech companies
- The challenge is the policy prescription choices: tighten monetary conditions, engage macro-prudential, deal with it later...

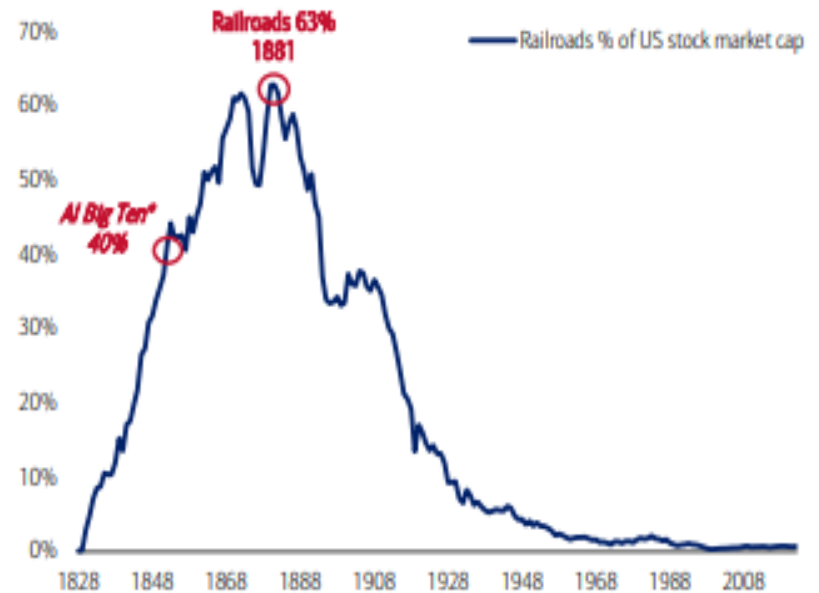
Chart 13: Peak concentration levels of major bubbles... >40%
Concentration in historic bubbles



Source: BofA Global Investment Strategy, Bloomberg. *AI Big Ten = Magnificent 7 + AVGO, MU, AMD

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Chart 14: Railroads = 63% of US stocks in 1881, 'AI 10' today = 40%
Railroads as % of US stock market cap



Source: BofA Global Investment Strategy, Bloomberg. *AI Big 10 = Magnificent 7, AVGO, MU, AMD
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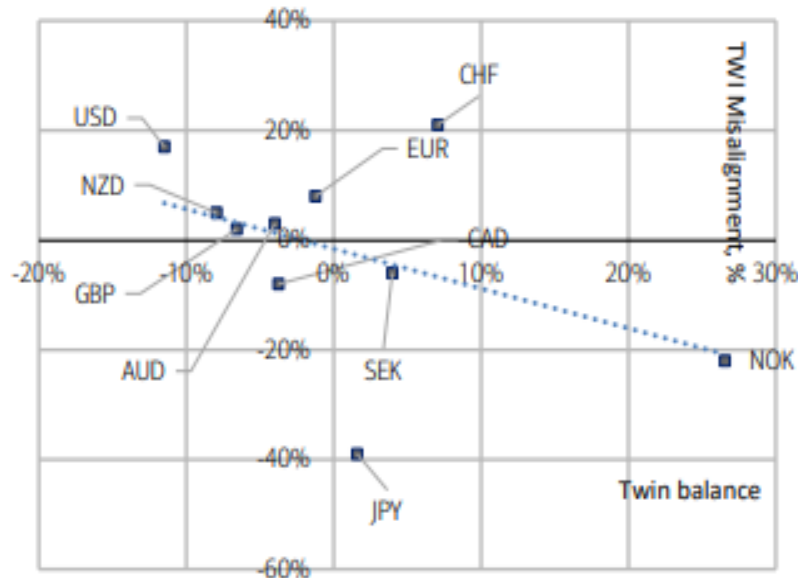


Currency valuations matter too

- USD appears close to 20% overvalued in REER terms according to our behavioral equilibrium model, but CHF is even more overvalued
- The implied bilateral misalignments can be even greater for USD/JPY

Exhibit 2: G10 Twin Balances vs REER misalignments

USD and NZD stand out as overvalued relative to twin balances

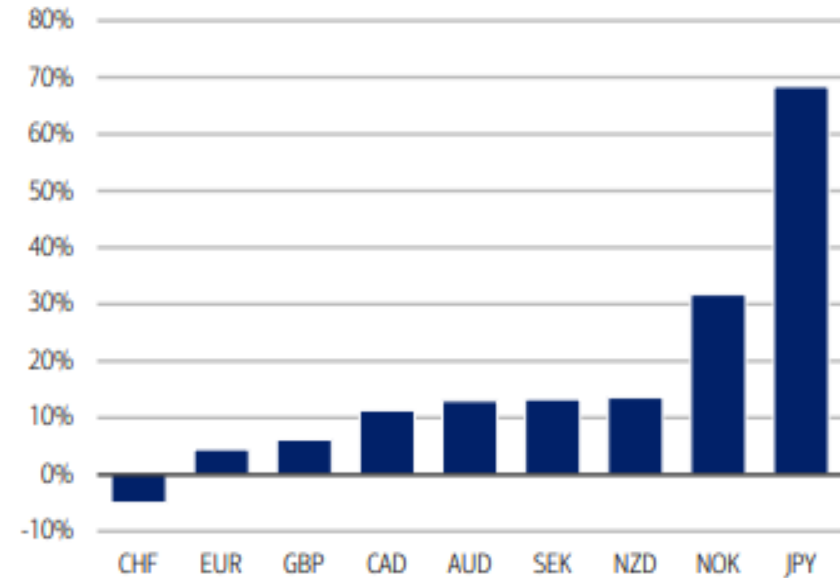


Source: BofA Global Research, Bloomberg

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Exhibit 3: USD misalignment versus G10

USD/JPY and USD/NOK the most overvalued pairs in G10



Source: BofA Global Research, Bloomberg

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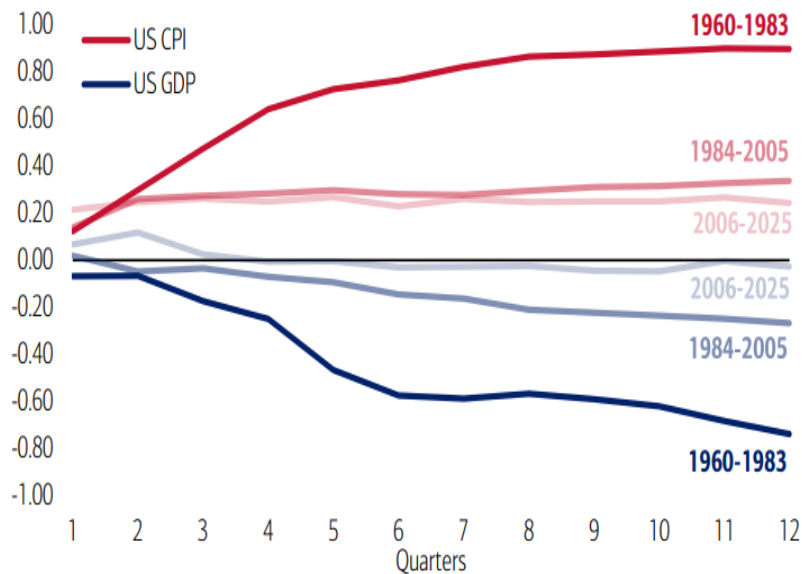


Global Energy Shock propagating in divergent ways

- The real challenge comes with divergent monetary responses, especially as the USD has become a net energy exporter in contrast to advanced industrialized economies

Exhibit 6: The sensitivity of the US to oil shocks has decreased over time

Cumulative IRFs for a 10% oil price shock in our VAR specification across sample periods (pp)

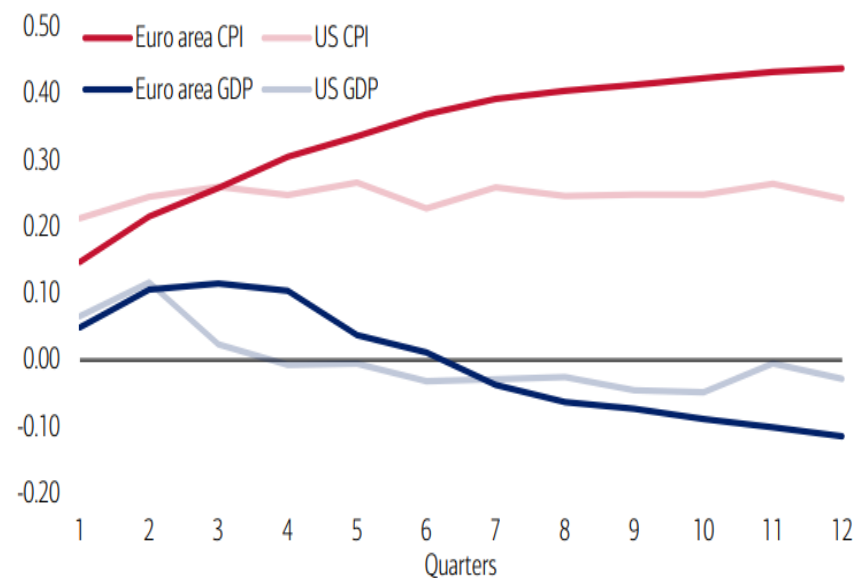


Source: BofA Global Research, Haver

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Exhibit 7: The Euro area is about twice as sensitive to oil shocks compared to the US

Cumulative IRFs for a 10% oil price shock in our VAR specification (pp)



Source: BofA Global Research, Haver

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