

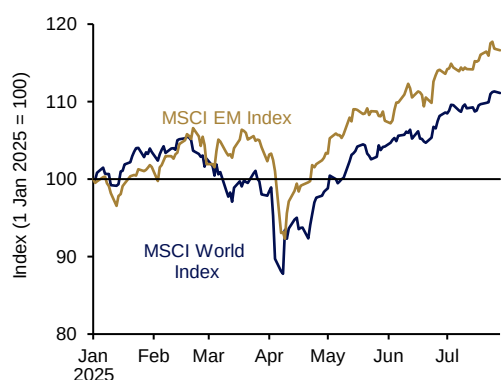
1 Financial Conditions

1.1 Global Developments¹

Risk sentiments in financial markets have been resilient despite renewed trade policy uncertainty

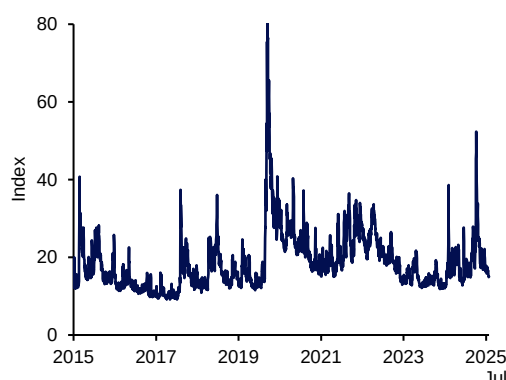
Global financial conditions have eased since the last *Review* as asset prices strengthened and interest rates declined. The MSCI World and EM Indices have risen by 12% and 13%, respectively since 1 May (**Chart 1.1**), while the VIX, a measure of implied volatility in the US equity market, has also moderated significantly, from a peak of 52 points in April to 15 points as of 28 July (**Chart 1.2**). Global monetary policy has generally remained on an easing path, as reflected for example in the 2-year bond yield movements (**Chart 1.3**). While the US Federal Reserve has been on hold since December 2024, financial markets expect further rate cuts of approximately 100bps in the next 12 months. Similarly, the European Central Bank is also expected to further lower its deposit facility rate. Meanwhile, short-term interest rates in Japan and China have remained stable.

Chart 1.1: Global Equity Indices



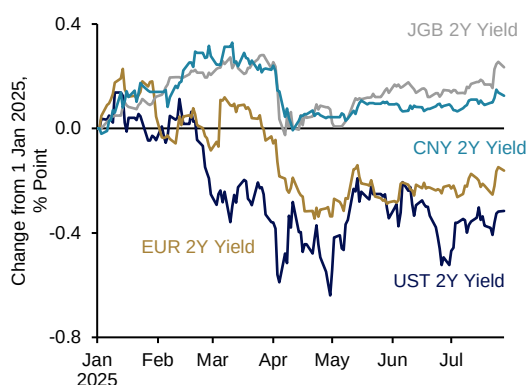
Source: Bloomberg

Chart 1.2: VIX Index



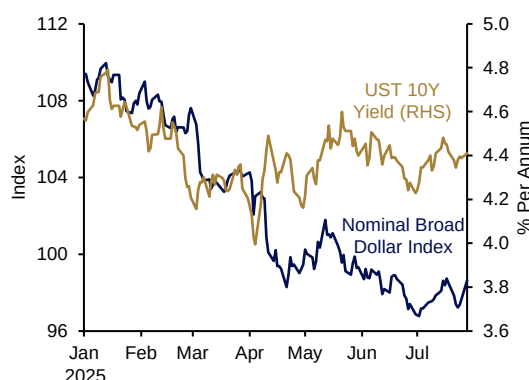
Source: Bloomberg

Chart 1.3: Change in Global Yields



Source: Bloomberg

Chart 1.4: Dollar Index and US Treasury Yield



Source: Bloomberg

¹ The commentary in this section is based on data that is available up to 28 July, unless otherwise stated.

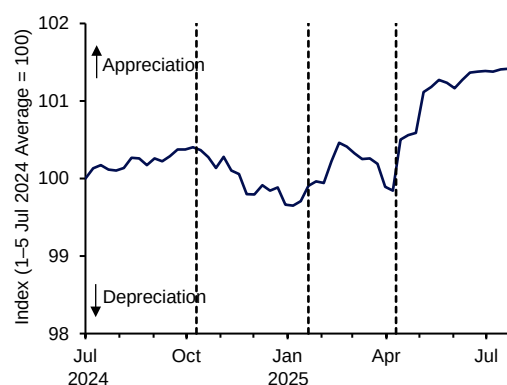
The US Dollar has continued on its depreciating trend. Since the second half of May, the Nominal Broad US Dollar Index has fallen by another 2%, bringing the year-to-date decline to 10% (**Chart 1.4**). This is despite US interest rates—as well as their differentials with the rest of the developed world—remaining elevated over the same period.²

1.2 Domestic Developments

The S\$NEER has appreciated within the policy band since April

The trade-weighted S\$ has strengthened amid US\$ weakness and the ongoing global monetary easing cycle. The S\$ appreciated in April and early May against the backdrop of broad-based US\$ weakness but has since remained on a stable trajectory, in line with the appreciating policy band (**Chart 1.5**). Since the last *Review*, in addition to the US\$, the S\$ has appreciated against several other major currencies, including the Japanese yen and Chinese RMB. At the same time, the domestic currency has depreciated against the Malaysian ringgit, Indonesian rupiah, Euro and the Australian dollar (A\$) (**Chart 1.6**).

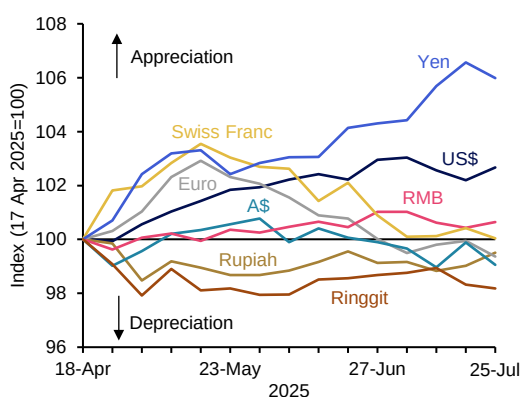
Chart 1.5: S\$NEER, Weekly Average



Source: EPG, MAS estimates

Note: Vertical dashed lines indicate the last three releases of the MPS. Data displayed are up to 25 July.

Chart 1.6: Bilateral Exchange Rates

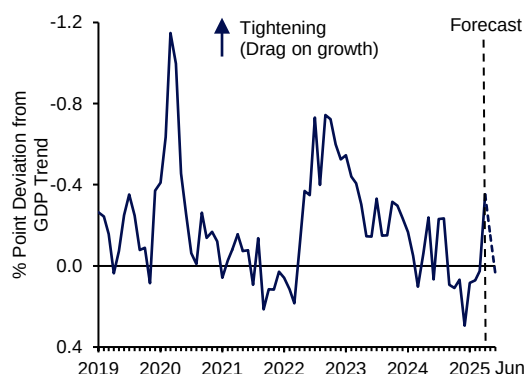


Source: EPG, MAS estimates

Domestic financial conditions tightened briefly in April but have since eased

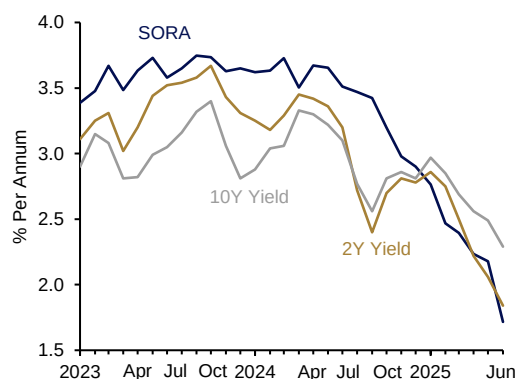
Singapore's financial conditions briefly tightened to a mildly restrictive level in April, but have since loosened (Chart 1.7**).** Equity markets rebounded from the sharp correction in April, while domestic interest rates and yields continued to fall over the second quarter across multiple tenors (**Chart 1.8**). Lending to both consumers and businesses also continued to expand, while money supply, as measured by M2, rose by 7.3% y-o-y in May (**Chart 1.9**).

² Recent research by the BIS suggests that foreign investor hedging activity has likely been a factor contributing to the US dollar weakness over the past few months. For more details, see "US dollar's slide in April 2025: the role of FX hedging" in the *Bank for International Settlements Bulletin No. 105*.

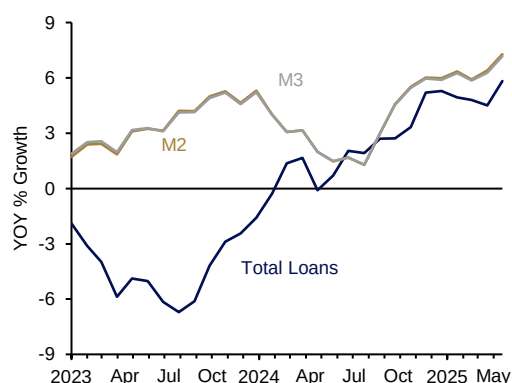
Chart 1.7: Domestic Financial Conditions Index (FCI)

Source: EPG, MAS estimates

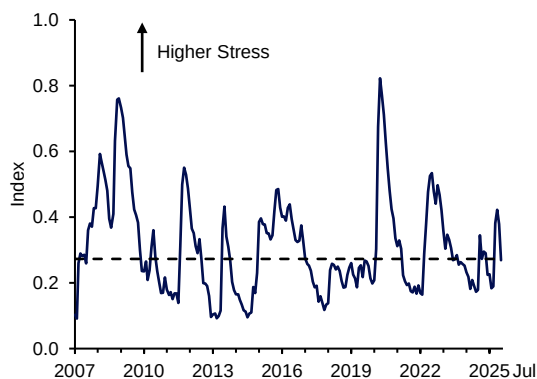
Note: The Apr–Jun 2025 FCI values are nowcasted using the latest available component data. The FCI methodology has been further enhanced since the Apr 2025 Macroeconomic Review.

Chart 1.8: S\$ SORA and S\$ Government Bond Yields

Source: MAS

Chart 1.9: Total Loans and Monetary Aggregates

Source: MAS

Chart 1.10: Financial Stress Index (FSI)

Source: EPG, MAS estimates

Note: The FSI is normalised to [0,1], with 1 indicating historic high levels of stress. Its median level is indicated by the dotted line.

Looking ahead, geopolitical risks and global trade policy shocks will continue to influence financial conditions in Singapore. While Singapore's FSI has moderated from its peak in April, it remains at its historical median, reflecting lingering volatility in the currency and equity markets (**Chart 1.10**). Similarly, even though global equity market volatility has come down since April, forward expectations of VIX remain somewhat elevated. The manner in which trade-related policy uncertainties resolve over the coming months will play an important role in dictating the path towards the further normalisation of financial conditions.