

# Why Fed rate hike matters for Singapore

The US Federal Reserve has finally raised interest rates from near-zero levels, the first increase in almost a decade. **Chia Yan Min** looks at what the rate hike means for consumers and businesses in Singapore.

## HIGHER U.S. INTEREST RATES LEAD TO...

### 1 Higher costs of borrowing in Singapore

- Interest rates in Singapore closely track US rates. Local interest rates have already been inching upwards in anticipation of the Fed rate hike, and are expected to continue rising. This means borrowers will have to pay higher interest on their loans, including mortgages.



- On the flip side, savers will get higher interest on their bank deposits.



- The three-month swap offer rate, a benchmark for commercial loans and some home loans, has almost tripled over the past year. It is a similar story with the three-month Singapore interbank offered rate, which is used extensively to price home loans.



### 2 Stronger US dollar

- The greenback has risen broadly as a rate hike is seen as a plus for the US currency. The US dollar has appreciated about 1.15 per cent against the Singapore dollar since last week in anticipation of the rate hike, and analysts expect it to strengthen further. One US dollar can now buy about \$1.41, with some analysts expecting this to reach \$1.44 by March next year.

- This will make holidays to the US more expensive.



- Online shopping from US-based websites will also become pricier.



- Singaporeans studying in the US will have to fork out more in school fees.



- Exporters will benefit as shipments from Singapore will become relatively cheaper in US dollar terms. Firms that sell products priced in US dollars also benefit.

