Markets Strategy

Essential Asia: Conviction Tested

A macro strategist's view on Asian economies and markets

4 February 2015

Talking points

- Our conviction towards gradual CNY appreciation is being tested. We acknowledge the near term risks and revise our USD/CNY forecasts.
- Central banks are leaning toward more accommodative policy stances with the RBI and MAS adopting intermeeting cuts.
- We revise our USD/Asian FX forecasts higher after reassessing the FX environment post-SNB and RBA shocks and in view of potential revisions to G10 forecasts.

In this issue

Recent reports

- MAS Springs a Surprise, 28 January 2015
- China Economic Briefing, 20 January 2015
- China Economic Update, 15 January 2015
- AUD/USD Picked to Hit 0.75, 12 December 2014
- 2015 Outlook and Top Trades, 2 December 2014

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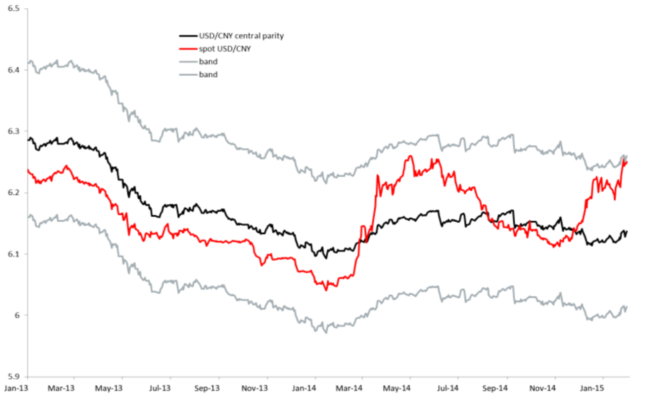
Trade recommendations

Entry Date	Recommendation	Opening level	Target	Stop
Jan-29	**Long USD/KRW 6M NDF**	1098.60	1180*	1030*
Jan-29	**Short GBP/USD**	1.51	1.42	1.545
Nov-10	**Short NZD/USD**	0.79	0.65	0.761

*Spot ref

Chart of the month – Spot CNY touched upper end of band



Source: NAB, CEIC, Bloomberg

Policy rates

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Korea	2.00	2.00	2.00	2.00	2.25
Thailand	2.00	2.00	2.00	2.25	2.50
Malaysia	3.25	3.50	3.50	3.75	3.75
India	8.00	7.75	7.50	7.50	7.25
Indonesia	7.75	8.00	8.00	8.00	8.00
China	5.60	5.20	5.20	5.20	5.20

Asian FX forecasts

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16		Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
USD/CNY	6.30	6.28	6.25	6.20	6.20	6.18	**AUD/CNY**	5.10	5.02	4.94	4.84	4.77	4.70
USD/IDR	12300	12400	12500	12800	12700	12600	**AUD/IDR**	9963	9920	9875	9984	9779	9576
USD/INR	62.3	62.4	62.5	62.8	63.0	62.8	**AUD/INR**	50.5	49.9	49.4	49.0	48.5	47.7
USD/KRW	1150	1160	1180	1200	1200	1190	**AUD/KRW**	932	928	932	936	924	904
USD/MYR	3.60	3.65	3.68	3.70	3.68	3.65	**AUD/MYR**	2.92	2.92	2.91	2.89	2.83	2.77
USD/PHP	45.5	46.0	46.5	46.5	46.0	46.0	**AUD/PHP**	36.9	36.8	36.7	36.3	35.4	35.0
USD/SGD	1.36	1.38	1.38	1.36	1.36	1.35	**AUD/SGD**	1.10	1.10	1.09	1.06	1.05	1.03
USD/THB	33.2	33.5	33.8	34.0	33.5	33.0	**AUD/THB**	26.89	26.80	26.70	26.52	25.80	25.08
USD/TWD	31.6	31.8	32.0	32.3	32.1	32.0	**AUD/TWD**	25.60	25.44	25.28	25.19	24.72	24.32

Conviction Tested – Bull, Bear or Goat?

Where's the floor for oil prices, **currency weakness and US Treasury yields? These are the million dollar questions at the start of 2015.**

Against our judgment, the slide in oil prices has not benefitted all Asian economies.

We re-initiate our long USD/KRW trade recommendation.

Where's the floor?

January has been an eventful month so far with several records being broken. Crude oil prices breached the US$50 mark and some estimates on the street were that the next key support is at US$36 or even US$30. Brent crude prices have fallen nearly 50% in 2014 and the confluence of surging US shale supply, slower demand from China and Europe and a strong USD were touted as the driving forces. While most will agree that even based on supply and demand dynamics, there are signs that the oil price declines look overdone, many feel that there is the risk of an "invisible bottom" and for the less pessimistic, that any rebound will be "shale -low". The impact on global economies is varied and petro-states will be hardest hit, both on the current account and growth fronts.

Meanwhile, 10Y US Treasury yield broke below 2.0% to around 1.64% as Fed rate hike expectations were pushed out further and yields looked increasingly attractive in the context of tumbling European yields. The bullish trend in USD vs Asian currencies is apparent and the MYR, SGD and IDR were the main losers, depreciating 367bp, 209bp and 189bp respectively. In addition the slide in CNY persisted, by another 81bp, after it ended 2014 around 248bp weaker, depreciating for the first time since the currency was de-pegged in 2005. Having said that, there are some who held up against USD strength, for instance INR, PHP, TWD and THB and these currencies may well do relatively better than the others in this year of the goat.

It's a cold spring **for the commodities complex**

In addition to the woes in the oil industry, copper slumped below $5400 a ton in mid-January, further reinforcing the signs of slowing global demand. Even though China has been building strategic oil reserves along the recent slide in lower oil prices, it is not likely to be a major copper buyer. In fact, the China-copper relation is an interesting one that entails some speculation that Chinese corporate borrowers have been using copper as collateral for loans. When some companies ran into debt servicing difficulties, these lenders are inclined to offload their copper collateral for cash, thereby driving prices lower.

A year of shaved growth

Broadly speaking, lower oil prices are expected to impact Asia's growth positively, bringing down import bills and inflation and providing a pseudo-buffer against future tightening of US Fed monetary policy. However, there are bigger opposing forces that rendered international agencies like the World Bank to lower global growth forecasts for 2015. Specifically, East Asia GDP growth is expected to moderate to 6.7% in 2015 from 6.9% in 2014. The World Bank estimated that China will grow at a slower pace of 7.1% from 7.4% last year. Even local authorities have been downsizing their own growth prospects. The Bank of Korea revised 2015 GDP lower to 3.4% from 3.9%. In Asia, India, Thailand and Indonesia are the exceptions, with higher growth forecasts of 6.4% (fiscal year), 6.5% and 5.2% respectively. These economies join the high income G3 countries on the growth recovery path.

Policy retaliation a key theme for 2015

The slew of policy surprises globally with RBA joining the "surprise party" on February 3 has visibly increased the risk of more policy retaliation in the region. In fact, Asia has already started the easing ball rolling with the Reserve Bank of India's unscheduled rate cut in January, along with the Bank of Korea and Bank Indonesia's no change decision. The RBI decided to cut 25bp off the repo and reverse repo rates intermeeting on 15 January, sending bond yields lower and INR higher. While Korea and Indonesia have held key policy rates unchanged, the downward revision in Korea CPI growth to 1.9% from 2.4%, driven primarily by lower oil prices, could pave the way for further growth supportive cuts ahead. On the heel of the RBI, the Monetary Authority of Singapore also surprised with an intermeeting move, reducing the slope of the NEER band. More details in the Singapore spotlight.

USD/Asia forecasts revised, re-enter long USD/KRW

We revised our USD/Asia forecasts higher, taking into account the various shock events (SNB, RBI, MAS, RBA). We think the CNY will be under depreciating pressure in the near term, manifested by the increase in urgency to control capital flows. We also reinitiated a long USD/KRW 6M NDF trade recommendation.

Chart 1: The race to deflation – Singapore is ahead

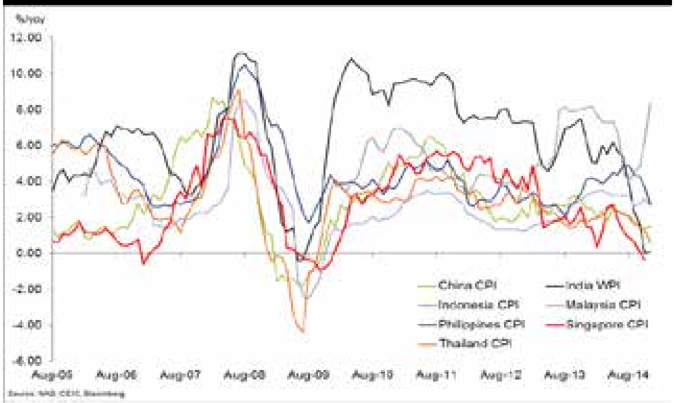
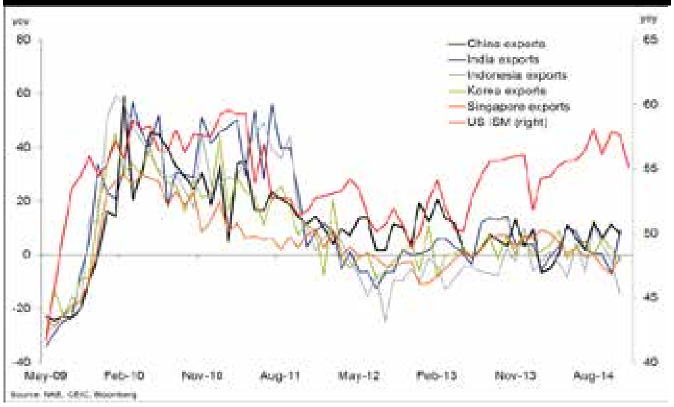


Chart 2: Dearth of signs of Asian exports recovery



China Spotlight – Bear in the year of Goat?

More analysts have switched to the CNY depreciation camp. Understandably, the arguments have been building and reinforced after the 2.4% depreciation in 2014.

An acceleration in fiscal spending further enhances the likelihood of more monetary easing and a stable CNY to complement.

We revised USD/CNY end 2015 forecast to 6.20 from 6.03.

Another "depreciating" year in the making?

Notwithstanding the better than expected 4Q and 2014 GDP performance at 7.3% and 7.4% respectively, there are increasing signs that the Chinese authorities are concerned about the pace of the growth slowdown in China. While an official growth target for 2015 has yet to be announced, the Chinese government is well aware of the headwinds from Europe and Japan as well as stresses in Russia and Greece in particular. One would also recall that China's reforms were stalled during the Lehman crisis and the European sovereign debt crisis. China's commitment to reform progress and financial market liberalisation have increased visibly over the last couple of years and given this is the last year of the 12th Five Year Plan makes it even more crucial to deliver results.

For more details on China's macro performance please refer to the report by Gerard Burg, *China Economic Briefing,* 20 January 2015.

CNY stability is policy preference and a challenge

2014 marked the first year the CNY depreciated on a year-on-year basis. It was mild, about 244bp for CNY and 257bp for CNH, and generally in line with the firmer USD trend and totally overshadowed by the JPY's massive 12% decline. It is increasingly easier to argue for a CNY depreciation trend on the back of slower growth prospects, capital outflows as well as disinflation encouraging a more accommodative monetary policy.

Undeniably, China is nearer to an accommodative monetary policy stance than before and we may see further easing in due course, either by cuts in interest rate or reserve requirement ratios. The main trigger for this shift in stance, in our view, was the announcement of the plan to accelerate 300 infrastructure projects worth CNY7tn. The projects were part of a broader CNY10tn plan announced in late 2014 and to be implemented through 2016, but it is clearly being accelerated this year, and for growth supportive reasons. The investment will be in seven industries including oil and gas pipelines, health, clean energy, transportation and mining.

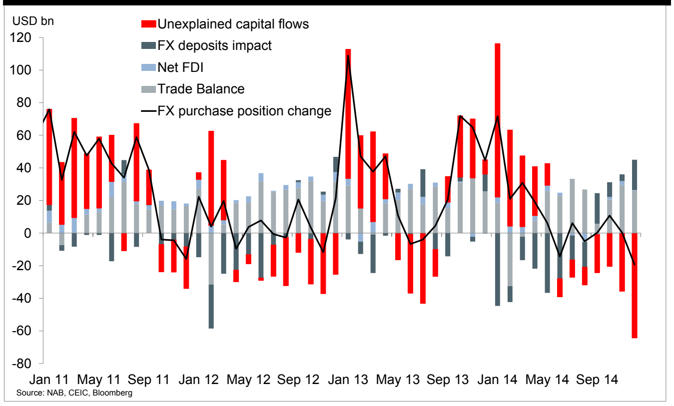
However, as much as it is a meaningful move, it is important to differentiate this from the CNY4tn stimulus implemented during the 2008 financial crisis, which was additional spending on top of the initial budget plan and clearly aimed at preventing a hard landing, representing a major shift in macroeconomic policy. In addition, the impact of this CNY7tn investment will have different implications for monetary policy. The projects will be funded by the central and local governments, state-owned firms, loans and the private sector and may not involve a big expansion of the monetary base. The CNY4tn pump priming efforts, on the other hand, was financed primarily by an expansion in money supply, which subsequently led to excess credit issues.

Understandably, slower growth prospects, fiscal easing and disinflation trends persisting in 2015 could push the buttons for monetary accommodativeness earlier, limiting the scope for FX appreciation. However, it is also important to assess current policy preferences. The USD/CNY central parity was fixed at 6.1190 on the last trading day of 2014, a mere 32bp weaker than the 6.0990 fix at the start of the year. If that is any indication of the PBoC's FX policy preference, we think it is to maintain CNY stability. Even though the CNY has strengthened over the course of 2014 on a real effective exchange rate basis, the Chinese authorities were careful not to engineer a significant CNY depreciation and risk initiating a currency war within the region, just to shore up export growth.

This policy preference of maintaining CNY stability will likely be sustained this year, as it shifts into higher gear with regards to the CNY internationalisation process. The PBoC recently disclosed that nearly a quarter of all cross-border payments in China last year were settled in CNY and that amounts to nearly CNY10tn. This will be an increasing trend, in line with the Chinese authorities' FX reforms objectives. China's progress toward currency internationalisation may well earn an official status in the IMF SDR currency basket this year. Hence, from a policy perspective, China definitely prefers a stable currency, especially as the global financial environment gets inherently

Chart 3: Depreciation expectations in the forward curves

Chart 4: Capital outflows have been persisting



more volatile. At the same time, China's current account prospects have also improved visibly with the persistent fall in crude oil prices, strengthening the scope of currency strength from this source. For the whole of 2014, China had a current account surplus of US$213.8bn and a US$96bn deficit on its capital and financial account. While concerns over CNY depreciation risks have been sparked by persistent capital outflows, these could be somewhat negated by further improvements in the current account surplus.

All factors considered and along with the FX forecasts revisions for the other major currency, we decided to revise our USD/CNY forecast higher to 6.20 for end 2015 from 6.03. This represents a mere 1.0% appreciation vs the USD and we believe to be reflective of the authorities' preference to maintain a stable currency.

Devaluation and a wider trading band?

In the interim though, we have pencilled in some CNY depreciation in Q1 to 6.30, depicting two way movements in USD/CNY through the course of the year. The latest revisions were partly in response to the RBA's surprise rate cut on February 3, which further stoked speculation of a currency war. The move might have prompted a PBoC source to disclose that the PBoC is preparing possible responses to greater volatility movement of capital flows by possibly guiding the central parity lower and widening the trading band.

These have been ongoing concerns, triggered by Swiss National Bank's surprise move on January 16th to remove the EUR/CHF floor and followed by the European Central Bank's more aggressive than expected QE. Risk of capital outflows were kept alive and exerted a very bid tone in USD/CNY and USD/CNH during the last week in January and persisted in February. Spot USD/CNY touched a high of 6.2604, last seen during May last year and testing the 2% threshold. USD/CNH spiked higher correspondingly to 6.2899 high and the onshore and offshore forward curves all shifted rightwards. 12M NDF outright climbed to 6.3870, pricing in a 2.0% depreciation.

Essentially, safe haven flows into USD assets have led to the exaggerated moves and not helping were comments from a PBoC official that EU QE will benefit China's export, increase deflationary pressure on RMB against the USD, and cause risk of capital outflow.

An increasingly internationalised currency

The PBoC disclosed that nearly a quarter of all cross-border payments in China last year were settled in CNY and this figure is huge at nearly CNY10tn. This rising trend underscores the CNY's growing dominance as an international currency. Such data was provided with the added objective of enhancing the scope of the CNY being included in the IMF SDR basket of currencies this year, an event which would be an important recognition of the CNY as an international reserve currency. In addition, its importance and weight within the SDR basket could surpass that of the JPY and GBP, given the sheer size of China's trade. China has also jumped in rank as the fifth most traded currency globally, from seventh place, according to SWIFT.

Credit growth to improve, but not excessively

China's banks extended CNY697.3bn in net new CNY loans in December, down from CNY852.7bn in November. This was weaker than many anticipated and reflected the usual seasonal pattern, with the amount of loans issued typically lowest at the end of the year. Nonetheless, in y/y terms lending growth was still relatively strong last month with growth in outstanding bank loans picking-up from 13.4% y/y to 13.6%. This suggest that the November rate cut, along with a reported loosening of loan quotas late last year, has supported bank lending.

This year, banks' total quota of new loans is expected to rise between 5% and 10% from last year's level to as much as CNY10.5 trillion, according to China International Capital Corporation, the government-backed investment bank. CICC said the loan quota for big banks is largely flat from last year but the quota for small- and medium-sized banks will see increases of 5% to 20%.

A domestic credit ratings agency estimated that local governments may issue CNY700bn worth of bonds this year to replace existing debt incurred by financing vehicles. This year, CNY1.4tn worth of local debt will be due, while the gap between debt maturing and funds raised by local governments may reach CNY1tn because provincial governments may not allocate funds raised from bond sales to financing vehicles in time.

Chart 5: Deeper slowdown in China's imports from Australia

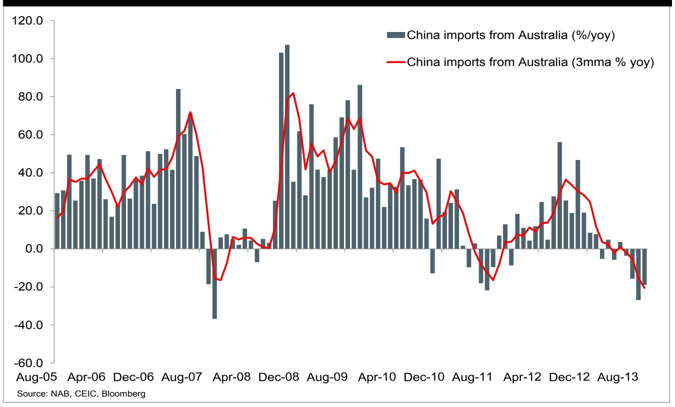
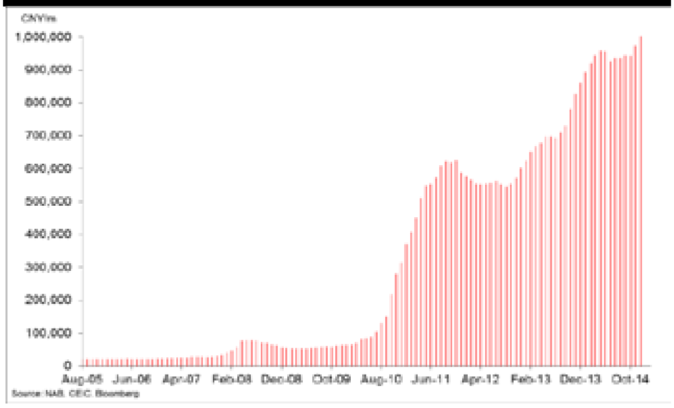


Chart 6: RMB deposits in HK recovering



Korea Spotlight – Growth and inflation revised lower

We recommend long USD/KRW 6M NDF, targeting 1180 on spot.

Overall, we still believe that the overall path of least resistance for the KRW in the medium term is for further weakness.

We also maintain the view that the widening gap between JPY and KRW is unsustainable and that KRW strength will be strongly resisted.

Bank of Korea in a pause

Bank of Korea kept the benchmark policy rate unchanged at 2% during its first policy meeting in January, but the highlight was the downward revision to their GDP forecast to 3.4% from 3.9%. At the same time, the inflation projection was also lowered to 1.9% from 2.4%. The BoK expects growth to be slow at 3.0% in 1H 2015 before recovering to 3.7% in the second half. The current account outlook has improved somewhat and the BoK is projecting a strong surplus of $94bn from $90bn in 2014. This shows that the central bank has taken into consideration the economic impact of lower oil prices and has assigned a heavier weight on headwinds from Europe, China and Japan over the growth recovery in the US.

The outlook for 2015 inflation has been revised downward as well, to 1.9% from 2.4%, and probably the biggest reflection of lower oil prices. The policy statement provided little guidance but left future policy direction open: The Committee will conduct monetary policy so as to maintain price stability over a medium-term horizon and pay attention to financial stability. It will closely monitor external risk factors such as international oil prices and shifts in major countries' monetary policies, as well as developments related to the spare capacity in the domestic economy and the trends of household debt and capital flows.

We recommend long USD/KRW 6M NDF

The confluence of lower USD/JPY and oil prices as well as extended short KRW positions triggered a retracement in USD/KRW in January. Consequently, FX Strategy was stopped out of the long USD/KRW 6M NDF position as spot breached 1080 level. Since our first trade recommendation on 2 December, spot USD/KRW has moved higher and peaked at the year's high at 1122.2 on 8 December. After that, the pair has bucked our expectations and lost its vigour. While the move lower has looked tentative at the start of this year, it finally broke the key support 1100 convincingly due to a few drivers. Specifically, the positive impact from oil prices on Korea's imports and inflation are increasingly evident.

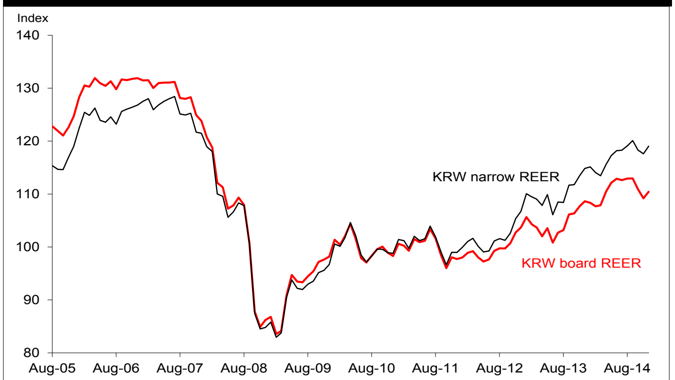
While lower USD/JPY below 118.0 could have contributed to the recent breather in USD/KRW, we doubt this is a strong motivation to build long KRW positions as at current level for the JPY/KRW cross (January low at 9.0656), we believe that the Korean authorities are not likely to feel comfortable.

Overall, we still believe that the overall path of least resistance for the KRW in the medium term is still for further weakness. Unless the JPY strengthens significantly vs the USD, we think that the USD's strength will eventually be the dominating factor. We also maintain the view that the widening gap between JPY and KRW is unsustainable and KRW strength will be strongly resisted.

The opportunity to re-enter this trade presented itself in late January. The RBI and MAS' surprise intermeeting easing of monetary policy may have some repercussions on the BoK's policy direction. Recent movements in the Korean debt market also suggest increasing expectations of a rate cut. The bias for further monetary accommodation is likely to translate into stronger preference for currency weakness, should the BoK hesitate to cut rates. Recent comments from the BoK have pointed out reluctance to lower rates hastily, as the benchmark rate is already at a record low at 2.0%. BoK officials have argued that with Korea expected to grow at 3.5% this year and inflation at 1-2%, the economy is not in deflation. Furthermore, inflation expectations have remained steady at around 2.6% for this year. In addition, lower oil prices are expected to benefit overall growth performance and cushion the overall economy from deflation. The BoK estimates that a 10% drop in oil prices will raise GDP by 0.1% point.

We decided to re-initiate the long USD/KRW trade recommendation on a couple of triggers that we think will start to push USD/KRW higher: (1) the recent surprise easing by several central banks (BoC, RBI, MAS) fuelling the scope of more regional currency weakness; and (2) the inability of USD/KRW to breach support at 1080 convincingly, and instead moving higher despite USD/JPY breaking below 118.0 level.

Chart 7: Widening divergence between narrow and broad REER measures



Source: NAB, CEIC, Bloomberg

Chart 8: Still room for KRW to catch up to JPY weakness

India Spotlight – Pre-empting the disinflation monster

India is enjoying great benefits from lower oil prices.

The INR is less fragile, supported by positive flows into the local debt market as well as preference for carry trade.

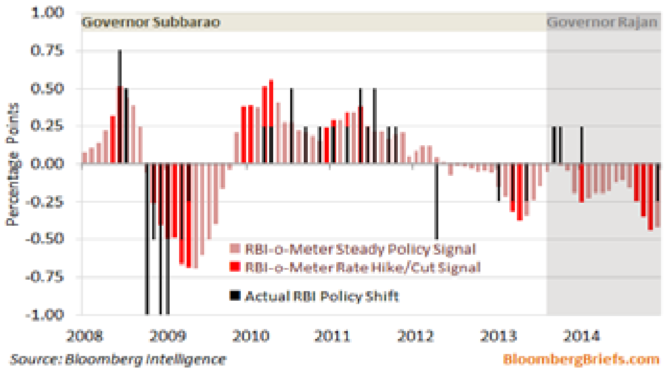
Surprise!

The Reserve Bank of India surprised markets by implementing an intermeeting rate cut in mid-January. The decisive move was a firm affirmation of easing policy cycle and probably more cuts ahead. The formal policy meeting was scheduled on 3 February. The repo and reverse repo rates were shaved by 25bp each to 7.75% and 6.75% respectively, while CRR left unchanged at 4.0%. In the accompanying statement to the surprise decision, the RBI noted that the fall in inflation over recent months has created scope for policy to loosen. Although the unwinding of favourable base effects pushed consumer price inflation up to 5.0% y/y in December, from 4.4% in November, that still left inflation well below the RBI's target of 8% for this month, and even below the 6% target for January 2016. The additional factor supportive of the RBI's move included the recent appreciation in the INR (about 1.9% vs the USD in January).

This is the beginning of more cuts ahead

RBI's fifth-monthly monetary policy statement also stated that once the monetary policy stance shifts, subsequent policy actions will be consistent with this stance. Key to further easing are data that confirm continuing disinflationary pressures. Also critical would be sustained high quality fiscal consolidation as well as steps to overcome supply constraints and assure availability of key inputs such as power, land, minerals and infrastructure. The latter is needed to ensure that potential output rises above the projected pick-up in growth in coming quarters so as to contain inflation.

Bloomberg Intelligence's RBI policy meter foreshadows another 75 basis points of rate cuts in 2015. If Prime Minister Modi's new government also announces a prudent budget plan for the next fiscal year starting on 1 April, especially addressing supply bottlenecks which are not factored into the meter, there could be a further 50 basis points of cuts in the pipeline before the end of 2016 — barring an abrupt reversal in oil prices or global risk appetite.



INR – looking good

The INR has been better cushioned against the global USD recovery. Lower crude oil prices will exert a positive impact on India's overall trade accounts. India imported 189 million tonnes of crude oil during the last fiscal year, at a cost of US$143bn and accounting for 32% of total imports. RBI Deputy Governor Patel estimated that India could save about US$50bn should oil prices stay at current levels. The most recent trade data showed oil imports over a 12-month sum fell to US$147bn in December from a recent peak of US$168bn in July, just before prices began to tumble. Meanwhile, concerns that the removal of gold import restrictions in November would cause the deficit to balloon have proven unfounded.

India's current account deficit was financed in large part by a rebound in portfolio inflows. FDI inflows have also held up well, with sectors such as telecoms and food processing benefitting the most. Finally, the RBI has continued to accumulate FX reserves. FX reserves have been rising by 10-15% y/y over the past few months, to US$320bn at the end of December

Foreign investors' risk appetite for INR assets appear have sustained in January, with month-to-date net purchases seen in equities worth $1.7bn and more in bonds ($3.1bn). The bond markets have performed reasonably well and with further rate cuts only partially priced in, we are confident of further declines in yields in coming months. The whole debt curve has shifted markedly lower over the past few months and buying interest remains concentrated in the long end, pushing the benchmark 10Y yield (7.70%) below the 2Y (7.75%).

Chart 9: INR shedding some underperformance

Chart 10: Flattening yield curve with the 2-10Y bond yield spreads converging

Singapore Spotlight – No safehaven bids for SGD

- **The MAS announced an intermeeting policy easing on 28 January, reducing the slope of the SGD NEER band.**
- **Singapore's growth profile is expected to be moderate, with positive uplift expected from the US recovery, but with headwinds from Europe and Japan.**
- **The SGD is vulnerable to external shocks, especially those related to the USD. The risk of another easing move in April will likely keep USD/SGD supported.**

Opened window for policy easing in April

The Monetary Authority of Singapore sprang a surprise on January 28 and announced an intermeeting policy move. The MAS maintained the policy of a modest and gradual appreciation of the S$NEER policy band, but reduced the slope of the band, with no change to its width and the level at which it is centred. (For more details, please refer to FX Comment: MAS springs a surprise, 28 January).

Opportune to unwind previous tightening moves

The MAS' intermeeting surprise came after the RBI delivered an intermeeting rate cut earlier this month, and we may see other Asian central banks joining the fray to a more growth supportive policy stance going ahead. The key rationale for Singapore is of course the deflationary trend, but we also think that the MAS is keen to signal that it is now ready to unwind some of the monetary tightening has been adopted over the past few years.

Looking at the policy shifts since the MAS resumed monetary tightening bias in April 2010 and ten policy meetings thus far (including April 2010), the MAS has implemented changes in five. It became clear the MAS was more focused on anchoring inflation and inflation expectations, while foregoing growth in the meantime. We think the MAS now finds it opportune to unwind some of the monetary tightening and adopt a more accommodative stance to support growth.

We are of the view from the language that the slope was probably reduced from 2% per annum to 1.5% per annum, with possibility that it is 1.0%. We need more data points going ahead to determine the new slope.

While the dovish signal and the probability of a re-centering move in April remains a risk, it is also noteworthy that the SGD is now trading near the lower limit of the band and USD/SGD upside may be limited from here. However, USD/SGD is likely to trade within a higher trading range of 1.32-1.40. Accordingly, we have revised our USD/SGD forecasts for the coming quarters higher.

Another window for monetary easing in April

Overall inflation and growth conditions are supportive of some monetary accommodativeness and there is scope for the MAS to ease further in April. Now that the accommodative stance has been kick-started, and it is likely that the MAS will balance some of the Fed tightening risk by retaining the current stance of gradual appreciation of the SGDNEER, below we explore some other probabilities or combinations of policy manoeuvres that the MAS can implement in April:

(1) Widen the trading band
(2) Re-centre the NEER
(3) Alter the slope of the NEER band
(4) Shift to zero appreciation path

Firstly, we will rule out #4, as the economic conditions do not warrant such a drastic move. That leaves the other three possibilities and they can be implemented independently or in combination. Should deflationary conditions worsen and volatility stays elevated, the MAS will likely re-centre the NEER and possibly widen the trading band at the same time. We will assign a 40% probability to such a move. Alternatively, the MAS may reduce the slope one more time, but that will bring it close to zero appreciation path and we assign a 20% probability to such a move.

SGD – (no longer) the CHF of Asia

The SNB's removal of the EUR/CHF floor and the ECB's QE have injected more volatility in Asian currency movements. Interestingly, the kneejerk reaction to the SNB move on 16 January was to sell USD/SGD as the SGD was once touted the "Swiss Franc of Asia". USD/SGD fell from 1.3350 to 1.3263 in response to the SNB shock. The pair has since traded higher and above 1.35 with the MAS' surprise move.

Chart 13: MAS' intermeeting move pushed SGD NEER lower

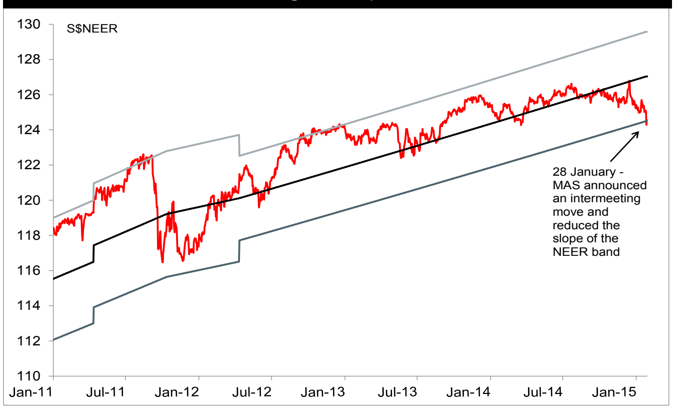
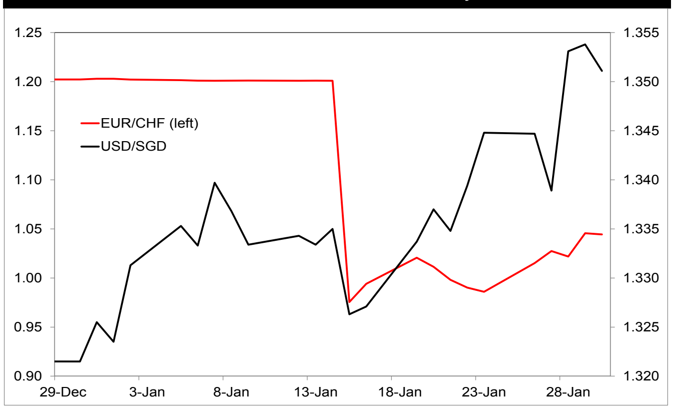


Chart 14: SGD was the CHF in Asia, briefly



Selected Indicators

Table 1: NAB Key FX Forecasts

		Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Australian Dollar	AUD/USD	0.81	0.80	0.79	0.78	0.77	0.76	0.75	0.75
New Zealand Dollar	NZD/USD	0.74	0.73	0.71	0.70	0.69	0.68	0.67	0.66
Japanese yen	USD/JPY	119	121	122	123	124	125	125	125
Euro	EUR/USD	1.13	1.12	1.10	1.08	1.07	1.07	1.08	1.08
British Pound	GBP/USD	1.50	1.47	1.45	1.43	1.42	1.41	1.41	1.41
Swiss Franc	USD/CHF	0.88	0.89	0.91	0.93	0.94	0.95	0.95	0.96
Canadian Dollar	USD/CAD	1.26	1.25	1.24	1.22	1.21	1.20	1.19	1.18
Chinese New Yuan	USD/CNY	6.30	6.28	6.25	6.20	6.20	6.18	6.15	6.15

Table 2: NAB Asia Macro Forecasts

Average annual growth in GDP (%)

	NAB Forecasts			
	2013	**2014**	**2015**	**2016**
Hong Kong	2.9	2.3	3.1	3.7
Indonesia	5.8	5.1	5.3	5.5
Singapore	3.8	3.2	3.4	4.4
Taiwan	2.1	3.6	4.1	4.5
Thailand	2.8	0.7	3.6	4.2
Malaysia	4.7	5.9	5.7	5.4
S Korea	3.0	3.5	3.9	4.6
Philippines	7.2	6.1	6.6	6.4
Total	**4.3**	**4.0**	**4.6**	**4.9**

Table 3: NAB Key Macro Forecasts

Global growth forecasts % in change year on year

	NAB Forecasts					
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
US	1.6	2.3	2.2	2.4	3.3	2.7
Euro-zone	1.6	-0.6	-0.4	0.8	1.2	1.4
Japan	-0.4	1.5	1.5	0.2	0.8	1.2
UK	1.7	0.7	1.7	2.7	2.7	2.6
Canada	2.5	1.7	2.0	2.4	2.3	2.1
China	9.3	7.8	7.7	7.4	7.1	6.9
India	7.7	4.8	4.7	5.3	6.5	6.8
Latin America	4.3	2.1	2.3	0.7	1.5	2.3
Emerging Asia	4.5	4.5	4.3	4.0	4.6	4.9
New Zealand	1.8	2.4	2.2	3.2	3.4	1.9
World	**4.3**	**3.3**	**3.2**	**3.1**	**3.4**	**3.6**
Advanced Economies	1.7	1.2	1.4	1.8	2.3	2.2
Emerging Economies	6.9	5.2	5.2	4.7	5.1	5.3
Major trading partners	4.6	4.2	4.5	4.4	4.7	4.7

Chart 1: Net foreign equity inflows into Asia month-to-date

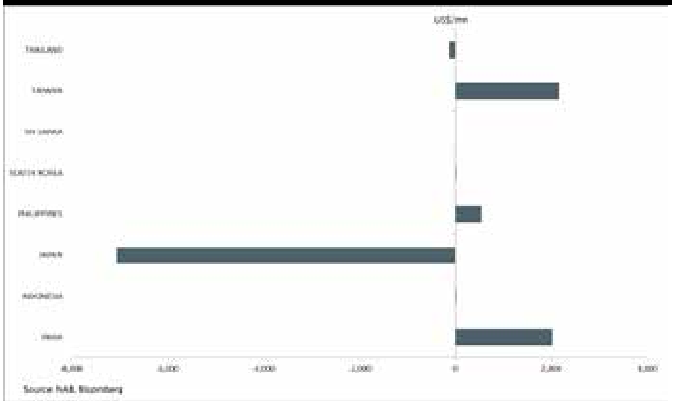
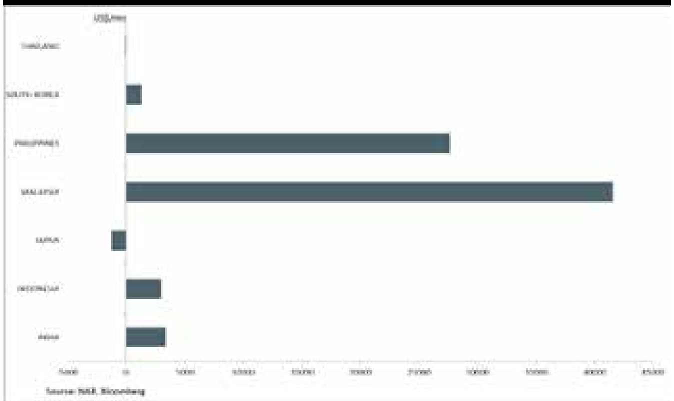


Chart 2: Net foreign bond inflows into Asia month-to-date



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