Market Strategy

# Essential Asia: Policy Bear Pa(w)se

A macro strategist's view on Asian economies and markets

**4 May 2015**

## Talking points

- The RBA, RBI and MAS have decided to take a pause in their latest monetary policy decisions.
- China and Thailand are the exceptions. China cut the RRR by 100bp and Thailand surprised with a 25bp rate cut.
- Risk appetite built up across emerging markets as investors switch from bonds to equities.
- US$ strength ahead could be more gradual and accordingly, we revise our Asian FX forecasts.

## In this issue



## Recent reports

- AUD Forecast Update, 23 April 2015
- China's economy at a glance, 15 April 2015
- India Monetary Policy Review, 13 April 2015
- China Economic Update, 2 April 2015

Please request a copy from
nab.global.markets.research@nab.com.au

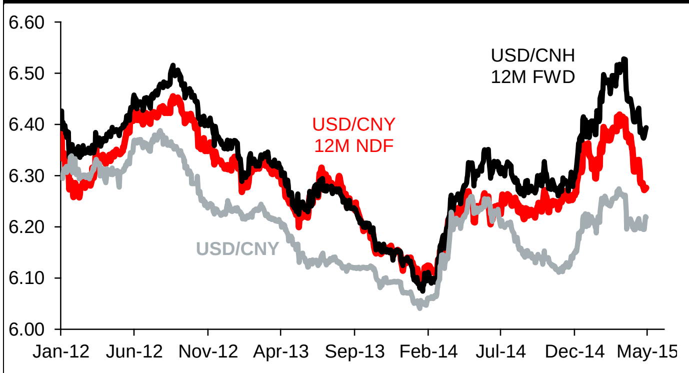

**Christy Tan**
Head of Markets Strategy/Research, Asia
+852 2822 5350
+852 5501 5565
christy.tan@nabasia.com


### Trade recommendation

| Entry Date | Recommendation | Opening level | Target | Stop |
|---|---|---|---|---|
| Apr-30 | Long USD/JPY | 119.0 | 125.0 | 116.5 |
| Apr-28 | Long EUR/GBP | 0.7160 | 0.7575 | 0.6975 |
| Jan-29 | Long USD/KRW 6MNDF | 1098.60 | 1180* | 1030* |

*Spotref

### Chart of the month – Reduced RMB depreciation expectations




Source:NAB, CEIC, Bloomberg

### Policy rates

| | Q4 2014 | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Korea | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 2.00 | 2.00 | 2.25 | 2.25 |
| Thailand | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 2.00 | 2.25 | 2.25 | 2.25 |
| Malaysia | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.50 | 3.75 | 3.75 | 3.75 |
| India | 8.00 | 7.50 | 7.25 | 7.25 | 7.25 | 7.00 | 7.00 | 7.00 | 7.00 |
| Indonesia | 7.75 | 7.50 | 7.25 | 7.25 | 7.25 | 7.50 | 7.50 | 7.50 | 7.50 |
| China | 5.60 | 5.35 | 5.10 | 5.10 | 5.10 | 5.10 | 5.10 | 5.10 | 5.10 |

### Asian FX forecasts

| | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 |
|---|---|---|---|---|---|---|
| USD/CNY | 6.20 | 6.25 | 6.20 | 6.20 | 6.18 | 6.15 |
| USD/IDR | 12800 | 12900 | 13000 | 12800 | 12600 | 12500 |
| USD/INR | 63.7 | 64.0 | 63.5 | 63.3 | 62.8 | 62.5 |
| USD/KRW | 1100 | 1130 | 1150 | 1150 | 1140 | 1120 |
| USD/MYR | 3.60 | 3.63 | 3.65 | 3.65 | 3.65 | 3.63 |
| USD/PHP | 44.5 | 44.8 | 45.0 | 45.5 | 45.5 | 45.8 |
| USD/SGD | 1.34 | 1.36 | 1.37 | 1.36 | 1.35 | 1.35 |
| USD/THB | 33.5 | 33.8 | 34.0 | 34.0 | 33.5 | 33.0 |
| USD/TWD | 30.7 | 30.8 | 30.9 | 31.0 | 31.2 | 31.6 |

| | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 |
|---|---|---|---|---|---|---|
| AUD/CNY | 4.84 | 4.75 | 4.59 | 4.53 | 4.51 | 4.61 |
| AUD/IDR | 9984 | 9804 | 9620 | 9344 | 9198 | 9375 |
| AUD/INR | 49.7 | 48.6 | 47.0 | 46.2 | 45.8 | 46.9 |
| AUD/KRW | 858 | 859 | 851 | 840 | 832 | 840 |
| AUD/MYR | 2.81 | 2.76 | 2.70 | 2.66 | 2.66 | 2.72 |
| AUD/PHP | 34.7 | 34.0 | 33.3 | 33.2 | 33.2 | 34.4 |
| AUD/SGD | 1.05 | 1.03 | 1.01 | 0.99 | 0.99 | 1.01 |
| AUD/THB | 26.13 | 25.69 | 25.16 | 24.82 | 24.46 | 24.75 |
| AUD/TWD | 23.95 | 23.41 | 22.87 | 22.63 | 22.78 | 23.70 |

# Policy Bear Pa(w)se

- **The RBA, RBI and MAS have decided to take a pause in their latest monetary policy decisions.**
- **China and Thailand are the exceptions. PBoC cut the RRR by 100bp and BoT surprised with a 25bp rate cut.**
- **Risk appetite built up across emerging markets as investors switch from bonds to equities.**
- **US$ strength ahead could be more gradual and accordingly, we revised our Asian FX forecasts.**

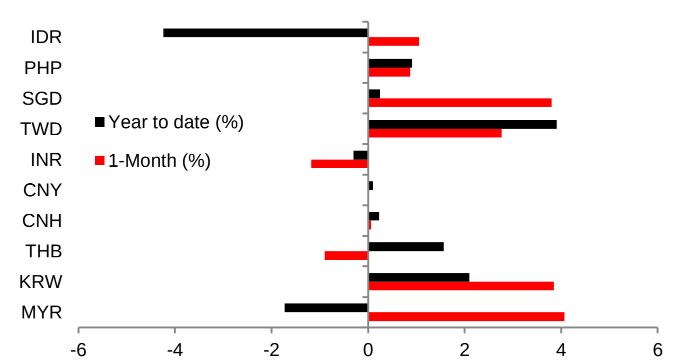
## Policy differentation widens in Asia, for now

The RBA, RBI and MAS all decided to pause in their latest monetary policy deliberations. The BoK is expected to behave similarly in mid-May, after 1Q GDP surprised slightly to the upside. Most in the market expect policymakers to still adopt a dovish and growth supportive stance in coming months, which will imply either one more rate cut, or in China's case more Reserve Requirement Ratio (RRR) cuts and preference for reduced currency strength. Bank of Thailand is the other regional central bank that delivered the second surprise cut successively in two months, underpinning expectations that Asia's policy differentiation could widen, albeit temporarily. At the same time, some Asian central banks may be more uncomfortable than others about currency performance. The BoK and RBI are expected to be relatively more "expressive" against excessive currencies movements.

Chart 1 depicts Asian FX performance vs USD month to date and year to date. There were some uncertainties with regards to the USD movements, as the USD index peaked in end March and fell to below 96.5 and then bottomed out to rise steadily until it bumped against the firm resistance of 100. It has since consolidated to trade within 97-99 range. Month-to-date, most Asian currencies have appreciated vs the USD, with the exception of the Indian rupee and the Thai baht.

Year-to-date, IDR, INR and MYR were weaker while the rest have strengthened vs the USD. The MYR and KRW were the top performers in April and in the MYR's case, it is still over 1.7% weaker year-to-date even after its recent recovery.

Chart 1: Asian FX performance vs USD

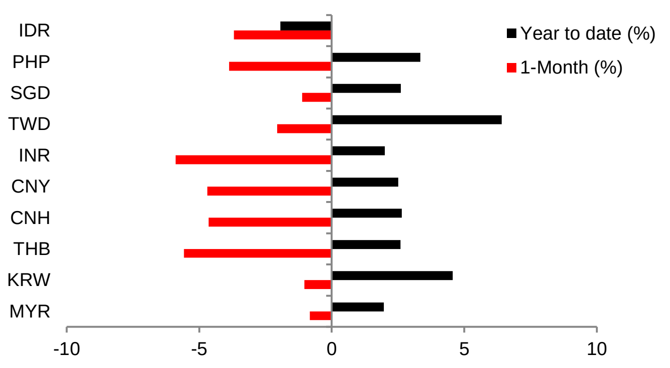



Source:NAB, CEIC, Bloomberg

The IDR was the other regional underperformer year-to-date but its recovery has been relatively modest. The differentiation in Asian FX performances will likely persist in coming weeks, barring a clear trend in USD index. Further out, we expect CNY and CNH price actions to be relatively stable, the TWD could continue to appreciate, while the sustainability of any recovery in SGD, MYR and KRW will be questionable.

The AUD has strengthened against all Asian currencies in April, and the strength gathered pace only in the last few days of April. With the shift in NAB's RBA rate cut call from May to August this year, our G10 strategy team has also revised AUD/USD forecasts higher accordingly. Q2 2015 AUD/USD forecast was raised to 0.78 from 0.75 with the upside risk for AUD/USD to test 0.80 not ruled out and has of course since materialised. Q32015 forecast was raised to 0.76 from 0.74 while end 2015 forecast was left unchanged at 0.74. For the forecast changes, please refer to Table 4 on page 8).

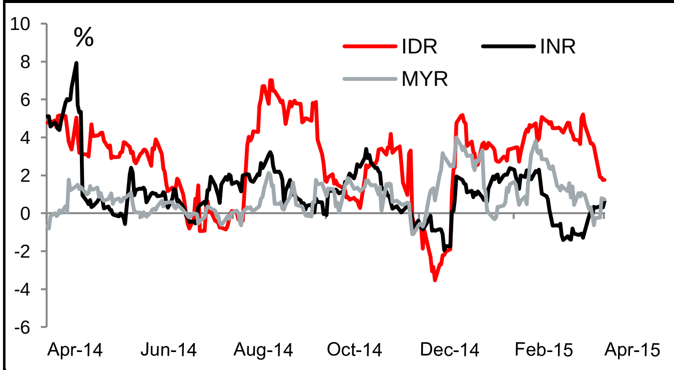
Chart 2: AUD depreciated vs Asian FX year to date




Source:NAB, CEIC, Bloomberg

We are increasingly cautious about the near term outlook for the Indian rupee. The chart below shows the 1M implied/historical vol spread several Asian currencies and while there is a returning stability in IDR, INR and MYR vol spreads have renewed their widening paths. USD/INR could be biased for further upside in the near term as capital flows appear to be reversing, although the medium term constructive fundamental outlook remains intact.

Chart 3: Renewed widening in 1M vol spreads in INR and MYR




Source:NAB, CEIC, Bloomberg

# China Spotlight: Mistaken QE identity

- **Capital account liberalization is making swift progress as a show of effort for IMF inclusion of RMB in the SDR basket.**
- **China is conveniently mistaken to be adopting QE as it cut RRR by 100bp and provided policy support for banks.**
- **RMB trend has shifted from depreciation to appreciation and we maintain our end 2015 USD/CNY forecast at 6.20.**

## Campaigning for entry into IMF SDR basket

The Chinese authorities have definitely stepped up its efforts at liberalising China's capital account. The announcements along these lines have been relentless in April. Several of these initiatives were along the line of liberalising FX movements within the free trade zones for transactions other than trade related ones, more through train stock programs (Shenzhen and Taiwan) and also interest rate reforms.

China opened three other free trade zones in Guangdong, Tianjin and Fujiang respectively after Shanghai FTZ's opening in late 2013. The three new FTZs will differentiate themselves in positioning and function but one of the key focuses will still be to conduct pilot tests in promoting RMB convertibility under the capital account.

An added development was that China will soon introduce daily liquidity for QFII investors. The change will allow QFII investors to move capital in and out of China on a daily basis instead of on a weekly basis as currently in practice. The move is to align QFII with RQFII's practice by allowing daily liquidity.

Somewhat related, five foreign fund and private equity managers are set to gain approvals to enter a pilot scheme, the Shanghai-based Qualified Domestic Limited Partner(QDLP) programme, aimed at lifting restrictions on the yuan and expanding the use of foreign reserves. The firms are expected to be granted FX quotas of $100 million and likely to start operations by June.

Elsewhere, a front page headline in the official China Securities Journal was a comment that China will loosen QFII & RQFII quota accompanied by further streamlining the Shanghai-Hong Kong stock connect and introduction of Shenzhen-Hong Kong stock connect later this year.

There are also plans for Shanghai-Taiwan stock connect, where Taiwanese investors will be allowed to invest in the mainland's stock market under the Renminbi-QFII program, Existing QFII approval will also be simplified to allow more Taiwanese companies to invest in China. The CSRC is studying plans to allow QFIIs to trade treasury futures.

As a precursor to interest rate liberalisation, China will introduce a bank deposit insurance scheme from 1 May. Deposits of up to half million yuan will be insured under the scheme, covering both yuan and foreign currency deposits, and the government retains the right to adjust the maximum limit of half million. China is also closer to removing the ceiling on deposit rates and this could come soon after the introduction of the deposit insurance scheme.

Media reported that PBOC is mulling allowing banks to borrow money from the central bank for a medium to longer term (beyond one year) with bonds issued by local government as collateral, to faciltae upcming heavy Local government refinancing needs as well as promoting imporved credit flow to the commercial sector. The reports have since been denied.

## Liquidity measures

As part of Chinese policy banks' reform, the PBOC injected US$32bn and US$30bn respectively into China Development Bank and Export and Import Bank of China (Eximbank). The injection involved a debt-equity swap, with no cash involvement. It provides them additional funding to support China's "One Belt and One Road" ambition in the next decade.

On 18 April, China announced a 100bp RRR cut, the second time this year. The RRR cut announcement was not a surprise in timing given it was on the heel of the GDP release. It was though a surprise in scale, with the 100bp cut estimated to release approximately CNY1.2-1.8tn worth of liquidity, based on estimates of total CNY deposits worth CNY124.89tn. This will be positive for bonds and stocks and translated into lower premiums across the CNY and CNH forward curve.

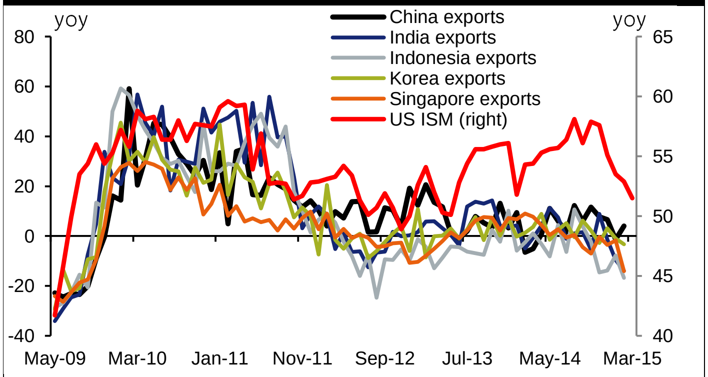
## Policy support measures prelude to weaker RMB?

China will allow regional authorities to convert some high yielding debt into municipal bonds in a bid to cut financing costs. Provincial authorities estimated they had some 16 trillion yuan ($2.6 trillion) in liabilities in a review earlier this

Chart 4: Sluggish Chinese demand


Source: NAB, CEIC, Bloomberg

Chart 5: Faltering demand for Asian exports




Source: NAB, CEIC, Bloomberg

year, citing a Ministry of Finance official. That's a 47 percent jump from 10.9 trillion yuan in June 2013. Expectations that the

PBoC will be buying up these bonds from the secondary market triggered pre-emptive heavy buying and lower bond yields. Whispers have also increased about other policy support including the Pledged Supplementary Lending program (PSL), where the PBoC will allow Chinese banks to swap local government bailout bonds for loans.

These announcements have also increased talk that China will be implementing QE. In our view, it is important to be clear about China's objectives for such policy support and not to be quick to jump to the QE conclusions. In the last edition of Essential Asia, we have ruled out the probability of China implementing a G3-style QE. The recent moves were aimed at addressing high funding costs as well as hefty interest payments that local governments are facing.

These policy easing moves would have been a prelude to a weaker CNY path, as a complementary policy tool for overall growth support. Even then,  Beijing has historically resisted the temptation to enter into competitive devaluation, most notably during the 1997-98 Asian financial crisis, according to Premier Li Keqiang. The PBoC echoed a similar view – "We don't want to see further devaluation of the Chinese currency because we can't rely on devaluing our currency to boost exports…. We don't want to see a scenario in which major economies trip over each other to devalue their currencies. That would lead to a currency war. And if China feels compelled to devalue the renminbi in this process we don't think this will be something good for the international financial system."

All opposing factors considered, the drive to ensure currency stability is an overwhelming priority right now in the run up to the IMF SDR formal discussion later this year. The risk premium in the RMB forward curve has eased significantly and we maintain our end 2015 USD/CNY forecast at 6.20.

### Corporates usage of the RMB on the rise

The renminbi is the second most-used currency for European and US carmakers such as Volkswagen, Daimler, Ford and General Motors, which have big markets in China. A private survey of 150 senior executives from multinational companies found that more than half of non-Chinese companies had used the renminbi for payments outside mainland China, mainly to benefit from lower transaction and funding costs. Nearly two-thirds of those surveyed who already used the renminbi said they expected the volume of cross-border transactions to more than double over the rest of the decade.

### All that glitters, is heading to China

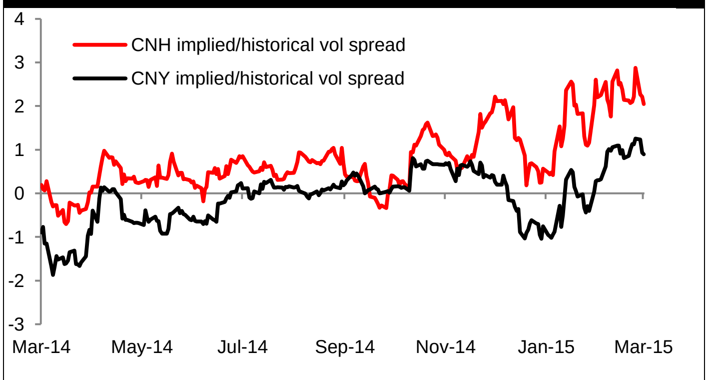
According to Bloomberg Intelligence, the PBoC may have tripled its gold holdings since it last updated them in April 2009, to 3,510 metric tons. These were based on trade data, domestic output and China Gold Association figures.
A stockpile that big would be second only to the 8,133.5 tons in the U.S.

China is the world's largest gold producer and ranked behind only India among top consumers last year, but the amount of metal its central bank last reported holding (in 2009) accounts for just 1% of foreign-exchange reserves, which have surged more than fivefold in a decade and are the biggest in the world.

The IMF estimates the dollar makes up 63% of world central bank holdings, while the euro, accounts for 22%. Data from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) show the U.S. currency was used for 43% of global payments in February.

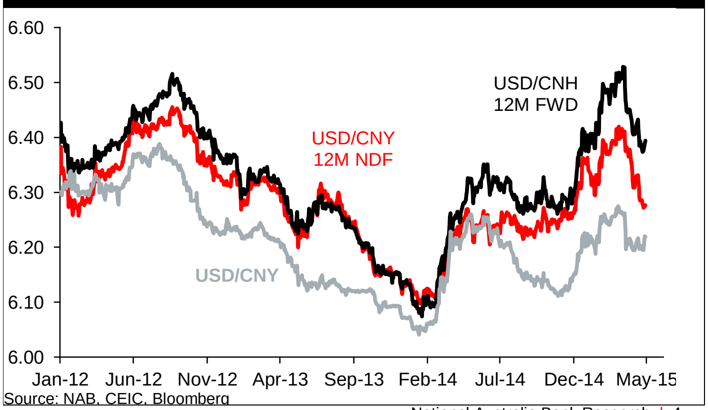
In a rare comment on gold, Yi Gang, the central bank's deputy governor, said in March 2013 that the country could only invest as much as 2% of its foreign-exchange holdings in gold because the market was too small. According to international experts, it is ideal for central banks to have 4-10% of assets in gold. If that is any good indication, there is plenty of expansion room for gold accumulation in China, as it steps up to having a more freely tradable currency.

Chart 6: CNY and CNH vol spreads at 1 year highs




Source:NAB, CEIC

Chart 7: Reduced depreciation expectations in CNY and CNH forward curves




Source: NAB, CEIC, Bloomberg

# Korea Spotlight: JPY/KRW breaches 9.00

- **BoK intervention risks have edged up with the JPY/KRW cross now at pre Asian financial crisis lows.**
- **Korea's ties with China have been enhanced and we expect stronger KRW/CNY links going forward.**
- **We stay long USD/KRW, but acknowledge that the peak in USD/KRW could be lower than previously envisaged. We revised USD/KRW end 2015 forecast to 1150 from 1200.**

## Rising growth tide raises the Won boat

Q1 2015 advance GDP came in at 2.4% yoy, just beating the market consenus for 2.3%, but still a moderation from last quarter's 2.7%. Together with the softer global USD environment and reduction in rate cut expectations, the more upbeat growth outlook helped the KRW to recover in April. However, we think that BoK intervention risks have climbed with the JPY/KRW cross testing the crucial 9.00 level. This level was last seen pre the 1998 Asian financial crisis!

Considering April has tended to be a weak month for KRW with the average monthly change for over the last ten years showing KRW weakening 2.2% vs the USD, the latest move in KRW looks atypical and probably reflective of the renewed risk appetite for Korean assets. Net foreign buying in Korean stocks and debt totalled about US$9bn in April. Further adding to the positive sentiment is the mildly upbeat comments from BoK about growth prospects.

Positioning has been less crowded heading into April and foreign investors' sentiment has started to shift in the later part of Q1 2015. According to BoK data, there was a substantial decline in domestic companies' forward transactions during Q1 2015. Total forward transactions fell to US$38.6bn from US$55.1bn in the previous quarter. The decrease was attributed to reductions in new orders received by shipbuilding and heavy industrial companies, as well as the fall in prices of crude oil prices and other commodities. There was also a reverse in NDF transactions, from net purchases of US$7.76bn in Q4 last year to net sales of US$2.79bn in Q1 2015.

Nonetheless, the sustainability of KRW strength remains questionable going forward, unless it's accompanied by JPY appreciation, as weak China growth prospects was mentioned as a key headwind for Korea's macro outlook.

## Stronger links with China, CNH/KRW matters too

The BoK appears visibly concerned over China's slowdown and its impact on Korea. Understandably as China is Korea's biggest export market, accounting for about 25% of overall exports in 2014. To make matters worse, import demand from China has fallen about 20% yoy in January-February 2015.

Also noteworthy is that since the establishment of the market for direct trade between the KRW and the CNY, KRW/CNY spot transactions have increased sharply -- to 12.2 billion yuan (about US$1.95bn) in March 2015, from 5.4 billion yuan (US$0.87bn) in December 2014.

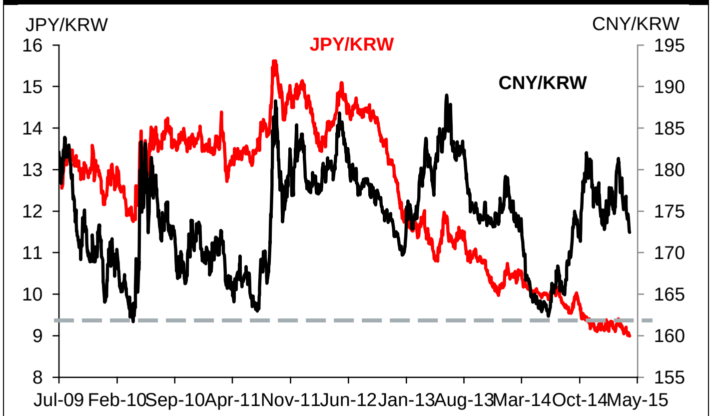
Besides, the Korean government is considering opening a won-yuan direct trading market in Shanghai as trade flows have been increasing. Some of the large businesses in Seoul started considering switching to the yuan. According to local media, Samsung Electronics also decided to actively use the won-yuan trading market in its transactions with China. It is worth monitoring the CNH/KRW cross and at current levels, the bias is for a break higher in CNH/KRW going forward.

The government expects that exporters can save on foreign currency exchange fees by around 10 percent through the direct market. It hopes to pull up the ratio of the settlement in yuan in total trade with China to 20 percent by boosting the won-yuan trading market.

## We are long USD/KRW 6M NDF (ouch!)

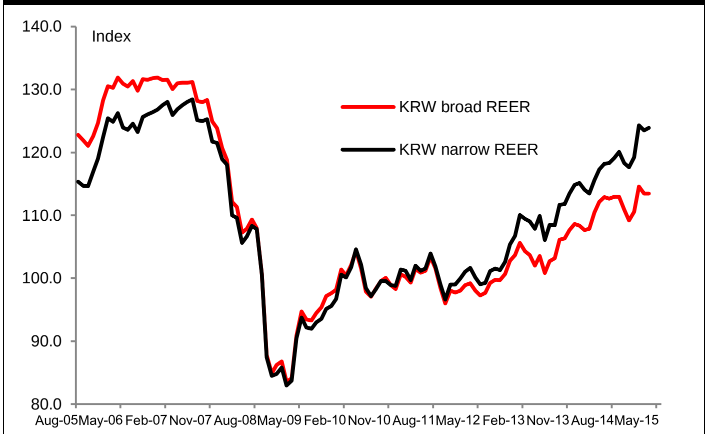
We maintain our long USD/KRW recommendation initiated on January 29 and targeting 1180 (spot). Recent price actions have moved against us, but barring further declines in USD/JPY toward 115, our stop at 1030 may still be safe. Nevertheless, we acknowledge that the peak in USD/KRW could be lower than previously envisaged. We revised USD/KRW end 2015 forecast to 1150 from 1200.

Chart 8: JPY/KRW cross breached the crucial level 9.00




Source: NAB, CEIC, Bloomberg

Chart 9: KRW strength looks rich relative to export prospects



# India Spotlight: Bullishness tempered

- **The strength in the Indian rupee has reversed in April, as positive sentiment was tempered by fresh concerns about INR valuation.**
- **Renewed concerns about India's fiscal situation and monsoon performance also weighed on the INR's performance.**
- **Our economics team expects one more rate cut, and then pause.**

## Rupee shed outperformer status

The rupee has given up all its gains this year and was the worst regional performer month-to-date, having lost 105bp vs the USD. One of the key triggers were comments from the RBI. "It's a good thing for us that the rupee depreciates a little as it's getting overvalued," says Ashima Goyal, a member of the Reserve Bank of India's advisory panel on monetary policy. INR "needs to weaken to 64 or maybe 65". The rupee's strength has begun to adversely impact the economy, as exports registered the biggest drop since 2009 in March with a 21.1% fall and capital inflows are starting to look excessive. The INR is overvalued by 13%, per 36-currency trade-based weights and 25% on the 6-currency basket as of March, according to RBI data. Goyal further added that India would see outflows and there'd be pressure on the rupee when the Fed starts raising rates.

Further rubbling salt into the rupee's wound was outflows related to Japanese pharmaceutical firm Daiichi's sale of all of its holdings in Sun Pharmaceutical on 21 April. Total deal csioze could be US$4bn and the talk of the town was that about UD$1bn worth of FX was traded within an hour on 23 April and average volume has increased to $400-500mn. A little background on what had transpired to eventually lead to the M&A : Daiichi bought generic-drug maker Ranbaxy Laboratories in 2008 for 488 billion yen, or $5 billion then. But after the Indian firm's multiple run-ins with regulators, Daiichi last year sold Ranbaxy to Sun Pharmaceutical, another Indian firm, in exchange for a small stake in Sun.

## Monsoon(er) or later

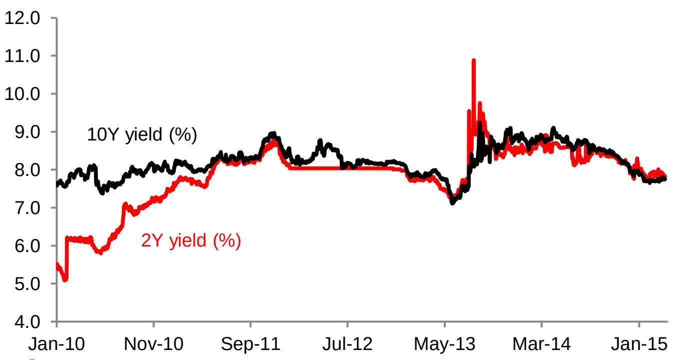
It seems that even the weather may rain down on India's parade. In its recent forecast, the Indian Meteorological Department (IMD) estimated that rainfall during this year's monsoon season (June to September) is likely to be below normal. It is forecasting rainfall at 93% of the long-run average. While this is only an early estimate and will possibly be revised in June, markets started pricing in a slower growth prospects.

The most obvious impact of a less than average rainfall would be on agriculture production which, on the revised GDP series, accounts for 18% of total economic output. The impact on inflation will be the second consideration. After the RBI's success in putting inflationary concerns at bay and enjoyed some leeway to cut rates, a weaker monsoon may stoke those inflation fears again. There are mitigating factors though, which may help India to tide over a smaller than forecast rainfall. Continued improvement in farming techniques have enhanced yield and lower global commodity prices may still help to keep inflation in check.

## Policy call for one more rate cut maintained

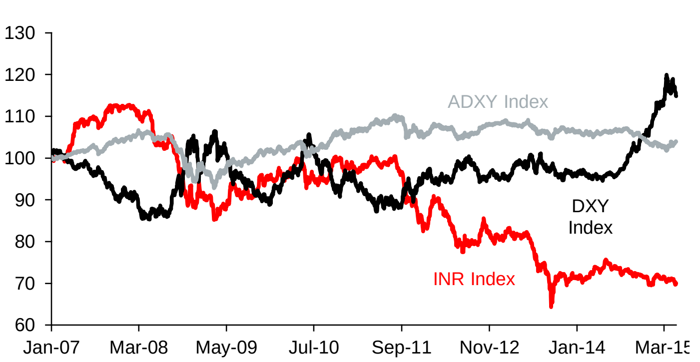
NAB Economics is forecasting one more rate cut (during the June quarter), which will ensure a Repo rate of 7.25% by the end of 2015. Further rate cuts are possible, but depend on: the outlook for food prices and the coming monsoon rains; progress on improving the supply side of the economy; potential external uncertainty (e.g. from expected rate hikes from the Fed). See **India Monetary Policy, April 2015**.

Chart 10: India's bond yield curve stays flat




Source: NAB, CEIC, Bloomberg

Chart 11: INR looks least fragile among the fragile five




Source: NAB, CEIC, Bloomberg

# Singapore Spotlight: Window to ease has closed

- **The MAS held off any shifts to its policy stance in April, surprising many including ourselves.**
- **The outlook for growth and inflation has improved modestly since the last surprise intermeeting move in January.**
- **USD/SGD traded to the lower end of our estimated 1.32-1.40 range and we believe the policy preference is to guide the SG$ to trade within the lower half of the band to protect the fragile recovery.**

## Window to ease has closed

At the 14 April policy meeting the MAS maintained its policy of modest and gradual appreciation of the S$NEER policy band, with no change to the slope and width of the band and the level at which it is centered. The MAS attributed the no-change decision to the stable macro and inflation environment since its intermeeting easing in January and that GDP is on track to grow 2-4% with no change in inflation outlook. The overall language in the monetary policy statement is modestly upbeat. The MAS is of the view that sustained, albeit uneven recovery in the global economy should provide a mild uplift to the external-oriented sectors in Singapore. Within manufacturing, the electronics cluster should benefit from the ongoing expansion in the global IT industry, although any gains will be capped by domestic supply-side constraints. An anticipated increase in oil prices during the latter half of the year will provide support to the oil-related manufacturing segments. The domestic-oriented sectors should continue to expand, especially those with firm underlying demand, such as healthcare and education. On balance, Singapore's GDP growth forecast for 2015 remains at 2-4%.

## Policy guidance for lower S$NEER

While the policy statement sounds modestly upbeat in terms of growth and inflation outlook, it is reasonable to say that the authorities are mindful of the firmer trend in SIBOR/SOR rates and that their policy preference is still for the SGD to trade in the lower half of the band to counter potential inflows and maintain a more growth supportive stance.

The MAS issued a press release on the same day as the MPC decision in an attempt by the MAS to assert that it did not intervene strongly – the MAS said that certain market commentaries suggesting that MAS had been intervening heavily to support Singapore's currency were incorrect. MAS said these reports had erroneously cited the fall in Singapore's official foreign reserves (OFR) and MAS' FX swaps since mid-2014 as an indication of heavy intervention by MAS to support the Singapore Dollar Nominal Effective Exchange Rate (S$NEER).

The decline in the US Dollar value of the OFR in the nine months through end-March 2015 was due to currency translation effects arising from the broad-based appreciation of the USD against the other major currencies in the OFR.

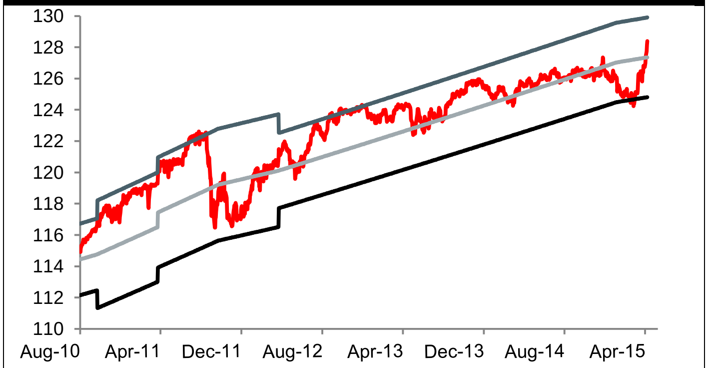
The stock of FX swaps declined as MAS has relied more on MAS bills in its money market operations, and most of the proceeds from the maturing swaps were transferred to the Government for management by GIC over a longer investment horizon. Hence this is a transfer of assets, not a reduction in Singapore's overall reserves.

## Benign growth and inflation outlook

After the upside surprise in 1Q GDP growth (2.1% yoy vs 1.7% consensus forecast) the MAS released its macroeconomic review. For the rest of the year, a firmer recovery in the G3 will provide some support for the external-oriented sectors. However, the extent of this uplift may be capped by other global developments, including the slowdown in China, corporate realignments in the IT industry and lingering weakness in the oil-related transport engineering sector. Meanwhile, the domestic-oriented industries will be bolstered by firm demand and temporary respite from the deferment in foreign worker levy hikes. All in, the Singapore economy is poised for moderate growth of 2-4% for 2015.

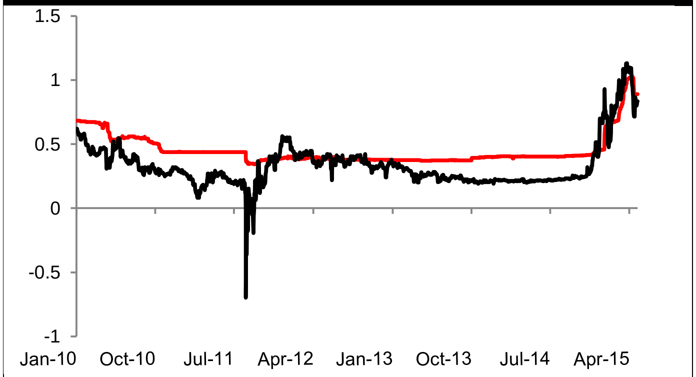
Inflation should ease further in Q2-Q3 2015 as the plunge in global oil prices filters through more significantly to domestic prices. For the whole year, MAS core inflation is expected to average 0.5-1.5% in 2015, compared to 1.9% in 2014, while CPI All-items inflation could fall to -0.5-0.5% in 2015, from 1.0% in 2014. Further out, the labour market is expected to remain tight and underlying cost pressures could mount and pass through more significantly to consumer prices, especially if the economic conditions become more supportive. Along with some pickup in global oil prices and the dissipation of the effects of budgetary measures. inflation is expected to rise going into 2016.

Chart 12: S$NEER recovered strongly above the mid-band




Source: NAB, CEIC, Bloomberg

Chart 13: Singapore interbank rates have eased off highs




Source: NAB, CEIC, Bloomberg

# Selected Indicators

## Table 1: NAB Key FX Forecasts

| | | Jun-15 | Sep-15 | Dec-15 | Mar-16 |
|---|---|---|---|---|---|
| Australian Dollar | AUD/USD | 0.78 | 0.76 | 0.74 | 0.73 |
| New Zealand Dollar | NZD/USD | 0.74 | 0.72 | 0.70 | 0.69 |
| Japanese yen | USD/JPY | 123 | 124 | 125 | 126 |
| Euro | EUR/USD | 1.03 | 1.02 | 1.00 | 1.00 |
| British Pound | GBP/USD | 1.41 | 1.38 | 1.33 | 1.33 |
| Swiss Franc | USD/CHF | 1.01 | 1.02 | 1.05 | 1.06 |
| Canadian Dollar | USD/CAD | 1.25 | 1.24 | 1.22 | 1.21 |
| Chinese New Yuan | USD/CNY | 6.28 | 6.25 | 6.20 | 6.20 |

## 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 | 2.7 | 2.7 |
| **Euro-zone** | 1.6 | -0.6 | -0.4 | 0.9 | 1.4 | 1.8 |
| **Japan** | -0.4 | 1.5 | 1.5 | -0.1 | 0.8 | 1.3 |
| **UK** | 1.7 | 0.7 | 1.7 | 2.8 | 2.6 | 2.3 |
| **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 | 6.3 | 7.2 | 7.7 | 7.9 |
| **Latin America** | 4.3 | 2.1 | 2.3 | 0.9 | 1.2 | 1.6 |
| **Emerging Asia** | 4.5 | 4.5 | 4.3 | 4.0 | 4.6 | 4.9 |
| **New Zealand** | 1.8 | 2.4 | 2.2 | 3.3 | 2.9 | 1.8 |
| **World** | **4.3** | **3.3** | **3.2** | **3.3** | **3.4** | **3.5** |
| Advanced Economies | 1.7 | 1.2 | 1.4 | 2.9 | 3.0 | 3.0 |
| 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 |

## Table 4: NAB FX Forecasts Revisions

| | | Jun-15 | Sep-15 | Dec-15 |
|---|---|---|---|---|
| **AUD/USD** | **New** | 0.78 | 0.76 | 0.74 |
| | Old | 0.75 | 0.74 | 0.74 |
| **USD/CNY** | **New** | 6.20 | 6.25 | 6.20 |
| | Old | 6.28 | 6.25 | 6.20 |
| **USD/KRW** | **New** | 1100 | 1130 | 1150 |
| | Old | 1160 | 1180 | 1200 |
| **USD/INR** | **New** | 63.7 | 64.0 | 63.5 |
| | Old | 62.4 | 62.5 | 62.8 |
| **USD/SGD** | **New** | 1.34 | 1.36 | 1.37 |
| | Old | 1.38 | 1.38 | 1.36 |

## Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

## Australia

### Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

### FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

### Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

### Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 2 9237 1076

### Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

## New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymberly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

## Asia

Christy Tan
Head of Markets Strategy/Research, Asia
+852 2822 5350

### Distribution

Kevin Tsang
Marketing Manager, Asia
+852 2822 5388

## UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 1588

Derek Allassani
Research Production Manager
+44 207 710 1532

## Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

James Glenn
Senior Economist – Australia
+61 3 9208 8129

Vyanne Lai
Economist – Australia
+61 3 8634 0198

Phin Ziebell
Economist – Agribusiness
+61 475 940 662

Amy Li
Economist – Australia
+61 3 8634 1563

Dean Pearson
Head of Industry Analysis
+61 3 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+61 3 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+61 3 8634 3837

Karla Bulauan
Economist – Industry Analysis
+61 3 8641 4028

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+61 3 9208 5049

Gerard Burg
Senior Economist – Asia
+61 3 8634 2788

John Sharma
Economist – Sovereign Risk
+61 3 8634 4514

Jacqui Brand
Personal Assistant
+61 3 8634 2181