Market Strategy

Essential Asia: On the Rebound

A macro strategist's view on Asian economies and markets

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Talking points

- Soft domestic macro performances compounded by the rebound in USD restrained regional FX appreciation.
- China and RBA cut rates further, extending their accommodative policy stances, while Korea kept rates unchanged.
- It is not yet time for reflation trades

In this issue

Recent reports

- Greece crisis scenario for EUR and AUD, 20 May 2015
- China's economy at a glance, 15 April 2015
- AUD Forecast Update, 23 April 2015

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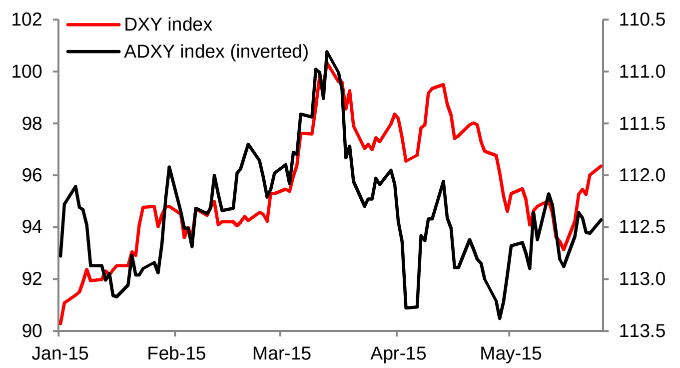
Trade recommendation

Entry Date	Recommendation	Opening level	Target	Stop
May-12	Short GBP/USD	1.5685	1.5025	1.5925
Apr-30	Long USD/JPY	119.0	126.8**	121.75**
Jan-29	Long USD/KRW 6MNDF	1098.60	1180*	1030*

*Spotref **New target and stop

Chart of the month – Tracking USD's rebound



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	1.50	1.50	1.50	1.75	2.00	2.00	2.00
Malaysia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.50	3.75
India	8.00	8.00	8.00	7.50	7.25	7.25	7.25	7.00	7.00
Indonesia	7.50	7.50	7.75	7.50	7.25	7.25	7.25	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

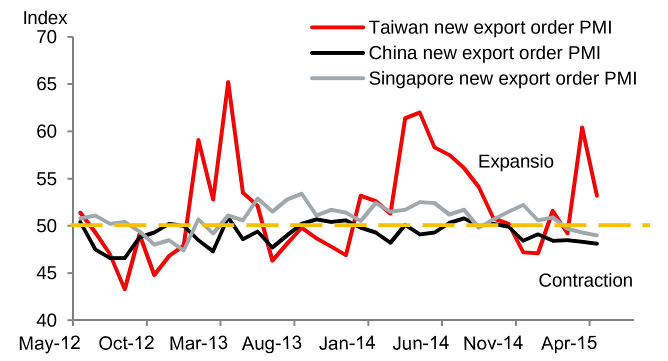
USD on the rebound

- **Soft domestic macro performances restrained regional FX appreciation; Asian FX has now started to weaken once more, amid the USD's recovery**
- **China and RBA cut rates further, widening the accommodative policy stance, while Korea kept policy rate unchanged.**
- **It is not yet time for reflation trades.**

Fundamental support for Asian FX remains elusive

The fundamental support for Asian FX appreciation remained lacking in Q2, as reflected in macro indicators like export data and the corresponding PMI sub-series. Both China and Singapore's new export order PMIs remained below the expansion line, while Taiwan's has recently deteriorated quite sharply (Chart 1). It is probably safe to say that the overall environment is not yet conducive for reflation trades. The currencies that may be closely tied to economic revival, like the KRW, may not gain much favour in coming months, especially given fresh JPY weakness.

Chart 1: PMIs across Asia continue to disappoint



Source: NAB, CEIC, Bloomberg

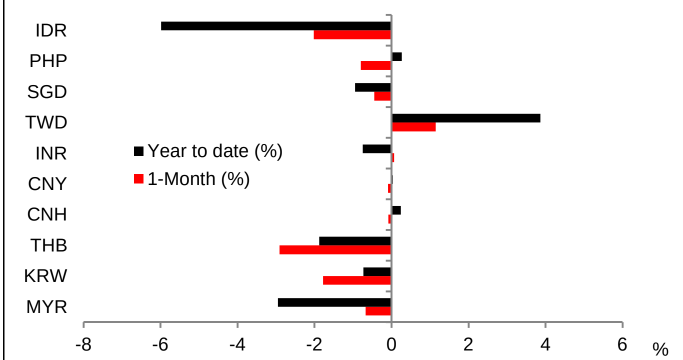
Domestic negatives weigh more on IDR, MYR, THB

Chart 2 depicts Asian FX performance vs USD month to date and year to date. The USD index (DXY) bottomed out in mid-May, and has since risen by just under 4%. In the past month, most Asian currencies have depreciated vs the USD, with the exception of the Taiwan dollar and the Indian rupee. Year-to-date, IDR, MYR and THB have been the underperformers in the region with persistent domestic negative influences weighing down these currencies.

In Thailand's case, the THB's renewed weakness may be welcomed by the authorities, as a follow through after the surprise rate cut last April, voted through by the MPC on a 5-2 vote. The BoT revised its growth forecast lower to 3.7% from 3.9% a few hours before the MPC decision, and after that followed through with an announcement it is easing restrictions on fund outflows as part of its 2015-17 master plan. The measures include raising limits for foreign-exchange deposits at local banks and limits on overseas property investments. Thailand will also allow local investors to invest directly overseas and non-residents will be able to borrow more baht from local banks. The central bank is using a "strong dose of medicine" because exports may contract, hurting private investment and consumption, which can't be offset by a rebound in tourism and government spending, Assistant Governor Mathee Supapongse suggests.

In Indonesia, the "Jokowi premium" appears to have waned and foreigners are exiting. Month to date, foreigners sold a net US$230mn worth of shares, even though the Jakarta composite index staged quite a strong recovery in May. However, ratings agency S&P's upgrade of Indonesia's sovereign ratings outlook to positive may bode well for Indonesian assets in coming weeks. S&P said it could raise Indonesia's rating within a year. It is currently BB+, so a ratings upgrade will bring the sovereign back to investment grade. Note though that S&P has the lowest ratings on Indonesia among the other ratings agencies, Moody's has Indonesia at Baa3 and Fitch at BBB-, so already investment grade.

Chart 2: Asian FX performance vs USD as of 28 May 2015

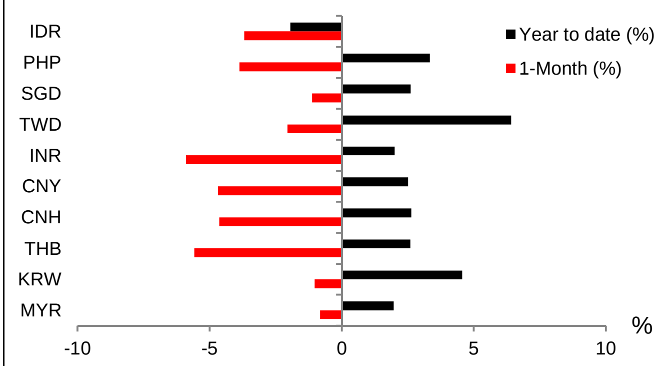


Source: NAB, CEIC, Bloomberg

AUD strength vs Asian FX may not last

The AUD has strengthened against all Asian currencies in the past month, most evident against the INR, THB, CNY and CNH. Our G10 FX strategists continue to highlight the risks to the stable AUD, especially in light of external uncertainties including Greece situation, upcoming US data, as well as the recent decline in iron ore prices and weak China PMI (Refer to our *Global FX Strategist*, 25 May)

Chart 3: Asian FX performance vs. AUD as of 28 May 2015



Source:NAB, CEIC, Bloomberg

China Spotlight: It's a Cool Summer

- **Growth is cooling down, equities are hotting up while onshore and offshore bonds are also getting market attention.**
- **China cut another 25bp in May and Q2 macro indicators are supportive of more growth supportive moves.**
- **RMB keeping steady amid capital outflows.**

Growth Cools Further

Recent macro indicators suggest that Q2 growth prospects are less than stellar. The HSBC manufacturing PMI staged a modest recovery in May, coming in at 49.1, but lower than expected. This reflects the fact monetary easing efforts (three rate cuts since last November and RRR reductions) have yet to translate into a better credit environment for manufacturing activities. However, there are some signs that prices are recovering and deflationary risks could be ebbing, as price indices rose to a 9-month high, probably underpinned by the recent recovery in global commodity prices.

The latest PMI data was accompanied by softer housing prices, as well as disappointing export and import growth performances. There is increasing evidence that Q2 growth may reflect a "bottoming" phase, but not yet "bottomed out". New home prices fell yoy in April in 69 out of 70 cities tracked by China's statistics bureau, compared with 70 cities in March. Most of the major cities saw month-on-month rises, but the base effects still rendered year-on-year declines (Chart 4). Any tentative signs of firming real estate sales have yet to pass through to stronger demand for land. Data from the China Real Estate Information Corporation show land sales volume in China's top 30 cities was down close to 50% y/y in April. The concern is that even if home sales pick up developers will focus on shifting inventory rather than starting new projects.

Equities market sizzles and fizzles

The Shanghai Composite Index maintained its bullish momentum for most of May (Chart 5) but after gaining 36% in the last three months, lost some vigour as we write, crashing 6.5% on May 28. IPO fundraising was up 55% from a year earlier in the first four months of the year. As a gauge of how sizzling China's equities market is (and how unsustainable): Reuters listed the 11 top performers in their first 10 trading days of the 93 stocks that listed in 2015 on the Shanghai and Shenzhen stock exchanges. On average, these companies rose 211% in the first ten days and 558% year to date. Local media reported that outstanding stock-market margin trading exceeded CNY2 trillion for the first time on 20 May, after passing CNY1 trillion in mid-December. The recent hefty increase came mainly from existing stock investors and more SME-board and Nasdaq-style ChiNext-listed stocks are being purchased.

The Trillion Dollar Question

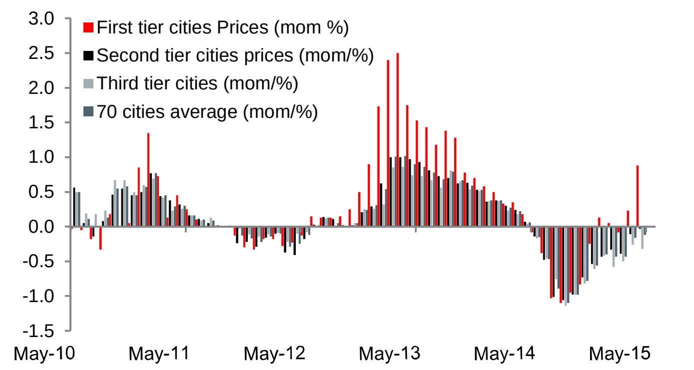
The Chinese authorities have been stepping up capital markets reforms. These included interest rate liberalisation and the market is hopeful of eventual deposit rate liberalisation. Industry players gearing up for the change indicated that full interest rate liberalisation could happen as early as July, as that will coincide with the second anniversary of loan rates liberalisation in 2013. The PBOC raised the maximum that banks may set their deposit rates relative to the official benchmark. The 10 May ceiling increased to 1.5 times - from 1.3 times in February and 1.2% last November – was the biggest since the PBOC began reforming deposit rates in 2012. Interestingly, banks did not raise rates hastily this time to attract deposits, unlike in the past, perhaps as the relaxing of loan-to-deposit ratio requirements had eased pressure on them. China's biggest seven banks kept their one-year deposit rates around 1.1 times the official benchmark, secondary banks around 1.2 times and smaller banks around 1.4 times.

In accompaniment, a slew of announcements aimed at easing local governments' debt burdens and loosening the grip on securities markets were announced recently. The underlying objectives are to avoid defaults and pave the way for regional governments to start spending again. The root of the problem is China's US$3 trillion pile of local government debt, mostly raised at high rates through off balance sheet "local government financing vehicles" (LGFVs). To rein in this borrowing, Beijing has banned local governments from raising funds through LGFVs but freed them to issue on balance sheet municipal debt in a strategy dubbed "closing the back door, opening the front door." But the size of the municipal bond market was a mere CNY400 billion yuan in 2014, raising valid concerns that it is too small to do the job.

The Trillion Dollar Answer

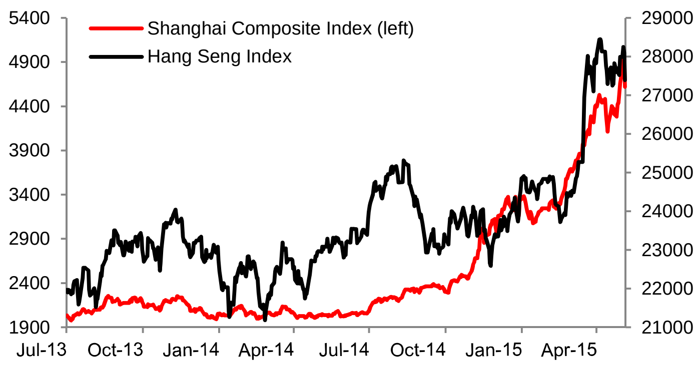
It did not take too long for the Chinese government to realise that it has placed itself between a rock and a hard place.

Chart 4: Property prices still in a sluggish trend



Source: NAB, CEIC, Bloomberg

Chart 5: Shanghai equities markets sizzle and fizzle



Source: NAB, CEIC, Bloomberg

If it wants to minimise its fiscal risks going ahead, amid an economic slowdown, it needs to start with regional governments. Local government spending is projected to rise 10.2% and account for a significant portion of this year's overall 10.6% increase in government spending. However, without the previous avenue for fund raising, other than the municipal bond market, and faced with slowing revenue from land sales, which reportedly account for a big portion of their budgets, regional governments are at risk of facing funding shortfalls and high debt burdens.

Supporting the regional governments also means supporting the municipal bond market. Municipal yields have been unattractive, averaging just 3.4% for a five-year bond, or a mere 10bp above Chinese sovereign debt, making it hard to entice banks or funds to buy them. Previous official attempts to drum up support for municipal bonds, including allowing China's $194 billion social security fund to buy more of them, appear to have had limited impact.

It became a joint effort to address these issues. The PBoC started to push short term money market rates lower so that these bonds look like a more attractive alternative. The 7-day repo rate peaked at 4.99% this year and started to trend lower in line with the RRR and rate cuts initially. This gauge of market liquidity fell to 4% by the end of March. Since then, the pace of decline picked up and by end April it was already at 2.45%. The downtrend persisted and it even dipped below 2.0% in May, and now trades around the lowest level since late 2010. There are side effects to such a move though. The cuts in repo rates added liquidity and whet risk appetite, fuelling further rallies in China's equities markets.

Municipal bonds can now also be used as collateral for loans fromhe central bank via its Standing Lending Facility (SLF), Medium-term Lending Facility (MLF) and its Pledged Supplementary Lending programs, which provide funding for up to three years. All these created a conducive environment leading to the successful issuance by Jiangsu province, who sold China's first municipal bonds of the year at yields close to that of the sovereign. The eastern province issued five-year securities at 3.12% and seven-year paper at 3.41% on 18 May. That compares with predictions of 3.17% and 3.5%, respectively, in a prior Bloomberg survey. However, there may be more to the success than met the eye. Newswires reported that local banks were "coerced" into buying these bonds and Jiangsu mandated the lead underwriter to buy at least 15% and others to buy minimum amounts ranging from 0.2% to 5.0%. The pricing for Jiangsu municipal bonds also has a lower cap of 15% above US Treasuries vs 30% for local government bonds and 20% for MoF papers.

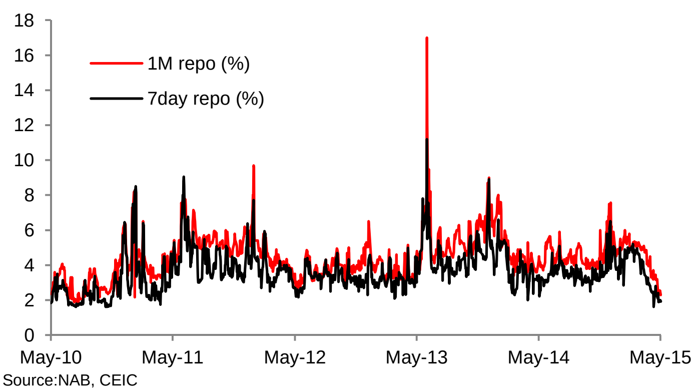
Dim Sum Bond market is stirred, not shaken

Elsewhere, Hong Kong's sluggish primary market for Dim Sum bonds has received a boost from China's Ministry of Finance. MoF completed the sale of CNY14 billion ($2.26 billion) in bonds. The ministry has tapped Hong Kong's market seven straight years. In the latest sale, the CNY12 billion institutional tranche drew subscriptions for CNY36.3 billion. The other CNY2 billion was allocated to six central banks and regional monetary authorities, whose order books reached CNY3.66 billion. Gross issuance of offshore yuan bonds in the first four months of this year was a meagre CNY151 billion yuan, down 46% yoy. In fact, up to 18 May, there were more maturities than issuances. Understandably, many issuers have switched to China's domestic market or global dollar bonds, given cheaper funding costs than in the dim sum market. Bonds from Asian companies, largely Chinese, are dominating the new dollar-issue market this year, accounting for almost 60% of emerging corporate bond sales. As of the end of April, they had raised $70 billion. Going ahead, the market may not return to its former glory, but new issues are coming.

CNY in protective gear

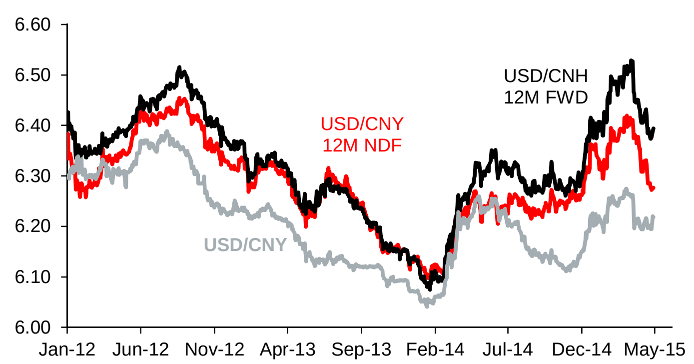
Amidst all this, the CNY stays steady and outright CNY NDF and CNH forwards continued to slide lower. (Chart 7). The drive for CNY to be included in the IMF SDR basket is what provides the underlying commitment to keep the CNY fairly stable, despite the upswing in the USD. That was also the premise of our end 2015 USD/CNY forecast at 6.20. Pertaining the CNY's potential entry into the IMF SDR basket, the prospect for a positive outcome appeared to have been enhanced a notch, after the IMF concluded in its latest Article IV assessment on China that the CNY is no longer undervalued. This is an important shift in view, given that it was only in April this year that the G20 communique concluded that "While China's exchange rate intervention has declined, a number of factors indicate that the RMB exchange rate remains significantly undervalued. China should build on the recent reduction in intervention and durably curb its activities in the foreign exchange market, including at times when there is market pressure for appreciation."

Chart 6: Repo rate has been guided to multi-year lows



Source:NAB, CEIC

Chart 7: Further declines in outright CNY and CNH forwards



Source: NAB, CEIC, Bloomberg

Korea Spotlight: The end of the cycle?

- **Bank of Korea left policy unchanged in May, despite easing moves by the RBA and PBoC.**
- **USD/KRW trades mostly within 1080-1100 range in May; it is likely to remain supportive in the month ahead**

BoK held key policy rate unchanged

The Bank of Korea held its key policy rate unchanged in May, despite rate cuts from the RBA and PBoC. The latest monetary policy statement contained largely similar comments to the prior month. It appears that the BoK is keeping its future policy path open and allowing past rate cuts to work their way through the real economy. Thus: "Looking ahead, while supporting the recovery of economic growth, the Committee will conduct monetary policy so as to maintain price stability over a medium-term horizon and pay attention to financial stability. In this process 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."

During the press conference, the Governor signalled the BoK's reluctance to ease further unless economic conditions take a turn for the worse, espousing concerns over household debt. BoK Governor Lee also mentioned that the central bank needs to see the effect of past rate cuts and that the government may introduce fiscal measures to support the economy. These comments should keep expectations of further rate cuts in check.

The BoK's macroeconomic update suggested an economy showing a moderate recovery centring on domestic demand, with external demand remaining sluggish. Domestic demand activities, including both consumption and investment, improved in the first quarter relative to Q4 2014, though on a monthly basis they did decline in March, owing mainly to base effects. Exports remained sluggish, influenced by the lack of pick up in the global economic recovery and by the loss of competitiveness from the weakening of some major currencies.

In the coming months the Korean economy is expected to gradually improve, albeit at a moderate pace, thanks mainly to the effects of the accommodative policies undertaken to date. Delays in economic recoveries in advanced countries, such as the US, and a rebound in international oil prices do however present downside risks. Consumer price inflation is expected to remain low, owing mainly to continued downward pressures on the demand side and the ongoing effects of low oil prices. The current account is forecast to remain in healthy surplus.

Flatter yield curve led by the long end?

Along with the remarkable recovery in US Treasury yields, with the 10Y rising from around 1.90% to 2.2% since late April and led by the explosive moves in German 10 year bonds, Korean bond yields have accordingly risen. Any further decline in shorter end yields has also been arrested by the BoK's May policy inaction.

However, the 2-10s yield spread has widened, partly as the longer end is relatively more sensitive to the movements in US Treasury yields, while the short end may still partially factor in the prospect of more monetary easing (Chart 9). After all, the last policy decision was not reached unanimously, with one policy member voted for a cut. Going ahead, we expect the 2-10s spread will narrow from the current levels.

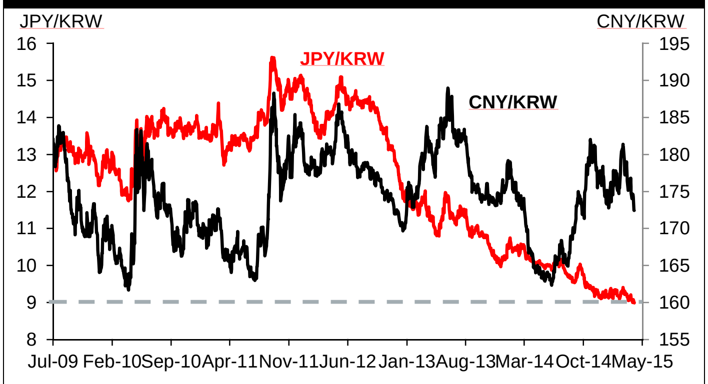
Note that the spread between 10Y Korean government bond yield and 10Y US Treasuries currently stands around 24.8bp, having widened from around 9bp in early March, but still narrower than the 1Y median of 39.7bp.

We maintain long USD/KRW recommendation

USD/KRW has traded mostly within 1080-1100 range in May, but there may be more conviction about a firmer USD/KRW trend in coming weeks with USD/JPY trading above 123. In fact, our G10 strategy team is looking for USD/JPY to head up to 125 in H2, which could see the USD/KRW break above 1100 over the last few trading sessions in May be sustained.

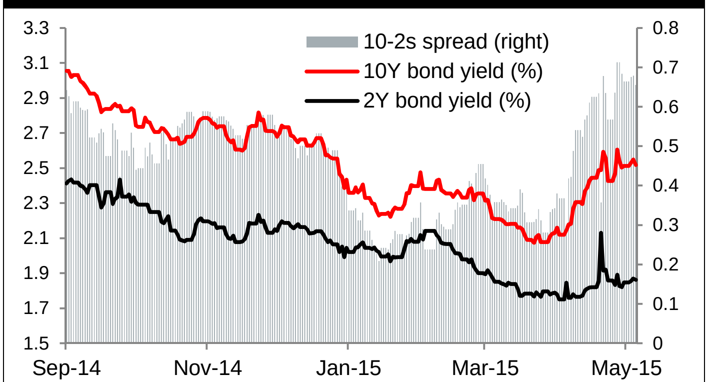
We maintain our long USD/KRW trade recommendation and see upside risks to our end 2Q USD/KRW forecast at 1100.

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



Source: NAB, CEIC, Bloomberg

Chart 9: Bias for narrower 10-2s spread ahead



Source: NAB, CEIC, Bloomberg

India Spotlight: Rangebound for now

- **INR better positioned to weather USD strength, fundamentallysupported by rising FX reserves.**
- **Reduced vulnerabilities from the current account will also help anchor sentiment.**
- **The risk ahead, is firmer oil prices.**

USD/INR failed to sustain push above 64.0

The rupee has lost another 63bp against the USD month-to-date, but unlike in April, is no longer the region's worst performer. There has been some returning stability in May with USD/INR failing to sustain the break above 64.0.

Having said that, with technical indicators showing the pair still firmly above its multi-moving averages (50-day, 100-day and 200-day), the pair may still track a firmer USD trend ahead, albeit lagging it.

All eyes are now on the RBI policy meeting on 2 June, and before that, 1Q GDP may provide some mitigating force against calls for further easing. The RBI last cut its repo rate by 25bp to 7.5% on 4 March.

All said, the INR is better positioned to weather USD strength. We are in fact marginally more bullish than the market in projecting USD/INR to end 2015 at 63.5. while Bloomberg consensus is pointing to 63.8. We rationalise our view from a fundamental perspective, with the visible reduction in current account deficits over the past few years, as well as the build-up in FX reserves accordingly reducing the rupee's vulnerabilities. FX reserves have surged in recent weeks, to an all-time record high of US$329bn at the start of May, up overt $40bn on a year ago and equivalent to ten months of import cover.

The latest balance of payments data show India's current account deficit running at 1.4% of GDP in the four quarters to December 2014. Subsequent monthly trade data have been volatile but, on the whole, they point to the current account deficit remaining in check and at a manageable level. The most recent trade numbers showed that the deficit narrowed in April to US$11bn, from US$11.8bn in March, although the narrowing was much sharper in seasonally-adjusted terms. This was in large part due to a fall in gold imports, which had been boosted by temporary factors, namely the Hindu festival of Akshaya Tritiya.
But one area of concern is the weakness of exports, which have contracted by over 15% y/y over the past few months. This leaves the government's targets of raising exports to US$900bn by 2020, a doubling from current levels, looking increasingly unrealistic.

India's current account deficit is being financed in large part by portfolio inflows, while FDI inflows have remained relatively stable.

Risks from oil prices

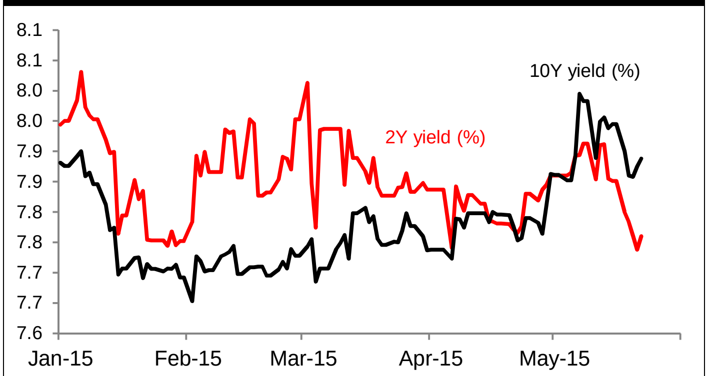
While there have been outflows from the local equity and debt markets, the risk to the currency are mitigated by the relatively high carry of the INR thus far. However, the worry is the recovery in oil prices will stoke concerns over India's trade balance and also inflationary pressure. In that event, it may limit the scope for the RBI to ease policy further, arguably leading to more outflows from the local debt and equities markets that could eventually overwhelm the protection from the carry and pressure INR lower. Having cut interest rates twice this year by a cumulative 50bp, the RBI kept the repo rate on hold at 7.50% in its most recent policy meeting in April. The RBI continues to voice its concerns regarding the sluggish pace of credit growth, which has fallen to its lowest rate since 2004. This, combined with below-target inflation and subdued growth, suggests the RBI is still leaning toward a more accommodative monetary policy stance. The RBI meets on 2 June, with a current (strong) consensus the repo rate will be cut to 7.25%. NAB economics also expects a cut.

Bond yields have edged up in recent weeks, partly in line with the general rise in EM bond yields, and probably in part on shifts in inflation expectations on the back of firmer oil prices. The rise in the 10Y yield has been significant, trading back above 2Y. Bond yield spreads have previously been negative for most of this year due to heavy buying in the long end.

Policy call for one more rate cut maintained

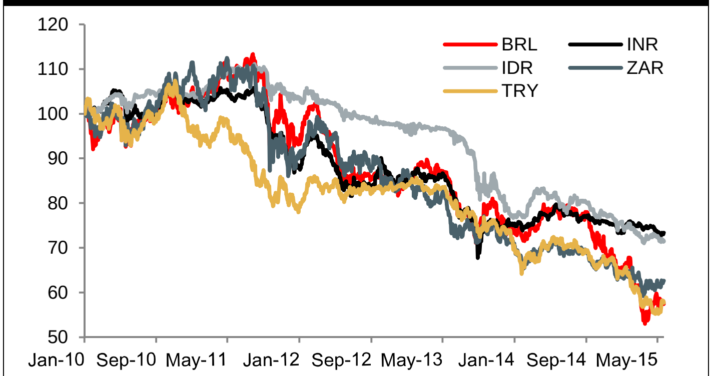
Beyond the rate cut we, and the market, expects in June, further rate cuts are possible, but this depends on:
the outlook for food prices and the coming monsoon rains;
progress on improving the supply side of the economy; and
potential external uncertainty (e.g. from expected rate hikes from the Fed). See *India Monetary Policy, April 2015.*

Chart 10: 10Y bond yield rose above 2Y yield



Source: NAB, CEIC, Bloomberg

Chart 11: INR looks least fragile among the fragile five



Source: NAB, CEIC, Bloomberg

Singapore Spotlight: Downside risks prevail

- **With risks lurking, SG$NEER strength should not be sustained.**
- **While the MAS may not alter its formal policy stance in the October meeting, it may maintain a more accommodative bias.**

SG$NEER recovery looks tentative

The SGD NEER has recovered strongly since the April policy meeting, recently hovering above the mid-band. Meanwhile, USD/SGD has fallen from the peak of 1.3749 in mid-April to a low of 1.3164 in mid-May. USD/SGD is currently pivoting between the 50-day and 100-day moving averages of 1.3472 and 1.3501 range.

The risks are two-way ahead but the USD's firmer trend and room for the S$NEER to ease some of its recent strength skews the bias toward a firmer USD/SGD ahead.

Fundamental support for a stronger SG$NEER are currently lacking, judging from recent macro indicators like the PMI (49.4A vs 49.6P), non-oil domestic exports (2.2%A yoy vs 18.5%P) and the further (sharp) fall in industrial production in April (-5.5% on the month and -8.7% yoy, down from -5.5% in March). April CPI also surprised on the downside and contracted 0.5% yoy vs -0.3% yoy in March. One may draw some comfort from the Q1 GDP estimate of 2.6% yoy (revised up on 26 May from 2.1%) that puts Singapore growth on track for the full year MAS forecast of 2-4%. However, should 2Q data disappoint, expectations of MAS preferences to keep a growth supportive bias are likely to be renewed, meaning a policy preference to guide the S$NEER lower – or certainly limit additional strength.

NAB S$NEER tracks MAS S$NEER closely

We updated our cross check of NAB S$NEER index estimates with the MAS' official S$NEER. While we track S$NEER movements on a daily basis, the MAS releases weekly data with January 1999 as the base. The MAS does not release any other information pertaining to the S$NEER, including the weights or the gradient.

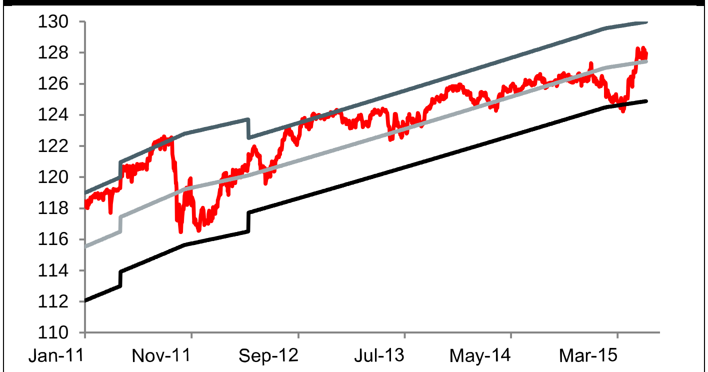
We tabulated the weekly index from our daily estimates and rebase it and the two indexes track each other closely (Chart 13) .

More reality checks from IMF Article IV assessment

In its latest assessment, the IMF expressed the view that the Singapore economy continues to perform well but activity has been impacted by the slow global recovery, the transitory effects of the shift to a growth model that relies less on new inflows of foreign workers, and the turning of credit and housing cycles. The IMF continued to highlight the small open economy's sensitivity to external risks and volatility. At the same time, the IMF is modestly upbeat that the recovery in domestic demand will be broad based, including the gradual recovery in external demand, the expansionary budget, a less restrictive monetary policy stance, and lower energy prices. These factors are expected to offset the drag from the continued moderate downward trend in real estate prices and rising interest rates. Headline and core inflation are expected to average 0 and 1 percent in 2015, respectively, before both rising to 1.7 percent in 2016 on gradually recovering energy and commodity prices.

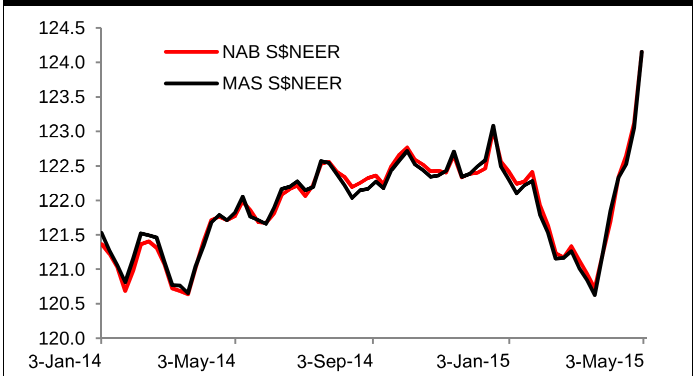
The IMF is also supportive of a more accommodative policy stance going ahead in light of the prevailing downside risks, even though it expresses the view that the MAS's current monetary policy setting is appropriate. In its words, "A lower nominal effective exchange rate (NEER) appreciation bias than maintained during the past two years is warranted.".

Chart 12: S$NEER hovered above the mid-band



Source: NAB, CEIC, Bloomberg

Chart 13: NAB S$NEER closely tracks MAS S$NEER



Source: NAB, CEIC, Bloomberg, MAS

Selected Indicators

Table 1: NAB Key FX Forecasts

		Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Australian Dollar	AUD/USD	0.78	0.76	0.74	0.73	0.73	0.75	0.75	0.76
New Zealand Dollar	NZD/USD	0.74	0.72	0.70	0.69	0.68	0.67	0.66	0.66
Japanese yen	USD/JPY	123	124	125	126	126	127	127	126
Euro	EUR/USD	1.08	1.05	1.03	1.02	1.03	1.04	1.06	1.05
British Pound	GBP/USD	1.50	1.46	1.45	1.44	1.43	1.44	1.45	1.45
Swiss Franc	USD/CHF	0.96	0.99	1.02	1.04	1.03	1.01	0.98	1.00
Canadian Dollar	USD/CAD	1.25	1.24	1.22	1.21	1.20	1.19	1.18	1.17
Chinese New Yuan	USD/CNY	6.20	6.25	6.20	6.20	6.18	6.15	6.15	6.13

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

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