Market Strategy

Essential Asia: Head(winds) or Tail(risks)

A macro strategist's view on Asian economies and markets

3 July 2015

Talking points

- Greece risks, China stockmarket fallout and MERS situation in Korea have been added to the list of economic risks for Asia.
- Policy easing and extra fiscal stimulus are expected policy responses, rendering weaker FX a complementary policy tool in coming months.
- We made downward revisions to Asian FX forecasts for H2 2015.

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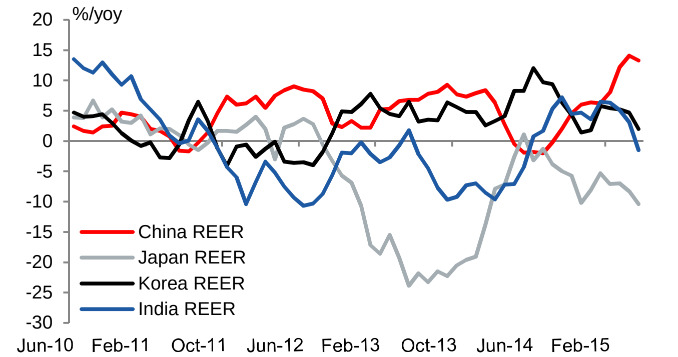
Trade recommendation

Entry Date	Recommendation	Opening level	Target	Stop
Jan-29	Long USD/KRW 6MNDF	1098.60	1180*	1030**

*Spot ref **New target and stop

In this issue

Chart of the month – CNY looks strong on REER basis



Source: NAB, CEIC, Bloomberg

Recent reports

- AUD & RMB Internationalisation, 29 June 2015
- India GDP & Monetary Policy report, 15 June 2015
- China Economic Update, 15 June 2015

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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	1.50	1.25	1.25	1.25	1.50	1.50	1.75
Thailand	2.00	1.75	1.50	1.50	1.50	1.75	2.00	2.00	2.00
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	7.50	7.50	7.50	7.75	7.75	7.75	7.75
China	5.60	5.35	4.85	4.60	4.60	4.60	4.60	4.60	4.85

Asian FX Forecasts

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
USD/CNY	6.22	6.22	6.25	6.28	6.30	6.28	6.25	6.25
USD/IDR	13600	14000	14200	14500	14000	13800	13500	13000
USD/INR	64.1	64.3	64.5	65.0	64.8	64.5	64.0	64.0
USD/KRW	1150	1180	1180	1150	1150	1120	1100	1080
USD/MYR	3.80	3.80	3.78	3.75	3.75	3.75	3.73	3.70
USD/PHP	45.5	45.8	46.0	46.3	46.5	46.8	46.8	46.5
USD/SGD	1.37	1.38	1.38	1.39	1.39	1.38	1.36	1.35
USD/THB	34.0	34.5	34.8	35.0	35.3	35.5	35.5	35.0
USD/TWD	31.1	31.2	31.5	32.0	32.3	32.5	32.5	32.5

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
AUD/CNY	4.73	4.60	4.56	4.58	4.73	4.71	4.75	4.81
AUD/IDR	10336	10360	10366	10585	10500	10350	10260	10010
AUD/INR	48.7	47.6	47.1	47.5	48.6	48.4	48.6	49.3
AUD/KRW	874	873	861	840	863	840	836	832
AUD/MYR	2.89	2.81	2.76	2.74	2.81	2.81	2.83	2.85
AUD/PHP	34.6	33.9	33.6	33.8	34.9	35.1	35.6	35.8
AUD/SGD	1.04	1.02	1.01	1.01	1.04	1.04	1.03	1.04
AUD/THB	25.84	25.53	25.40	25.55	26.48	26.63	26.98	26.95
AUD/TWD	23.64	23.09	23.00	23.36	24.23	24.38	24.70	25.03

Head(winds) or tail(risks)

- **It's a summer of unpredictable weather for the financial markets. Greece risks, China stockmarket fallout and MERS situation in Korea have been added to the list of economic risks for Asia.**
- **For Asian financial markets, policy easing and extra fiscal stimulus are the expected policy responses, rendering weaker FX a complementary policy tool in coming months, until clearer skies.**
- **As we enter the second half of the year, we reviewed our Asian FX forecasts and made upward revisions in key USD/Asian FX outlook.**

Headwinds and tail risks in Asia

Table 1: Headwind and tail risks in Asia

	China	Korea	India	Indonesia	Malaysia
Headwinds	Equities markets	MERS	Monsoon	FX depreciation	FX depreciation
	India	**Singapore**			
Tail risks	Oil prices	Deeper deflation			

Apart from the external risks sourced from the Greece crisis and potential Fed hikes before the end of the year, selected Asian economies have their own unique headwinds to growth. Some are less pronounced issues for the financial markets or are already documented or somewhat factored in, hence classified as tail risks.

Asian FX forecasts reviewed

With the first half of the year over, a review of the initial outlook for the second half is due. While we continue to be plagued by bounded rationality, there is sufficient new information to increase our conviction to push a higher USD profile vs Asian currencies for the second half of 2015.
The confluence of external factors and the corresponding questions (in parentheses) like the Greece crisis (now Greece who's next?), China equities markets fallout (bear trend ahead) and Fed hike (risk of Fed behind the curve on any delay in hikes?) may drive volatility higher and risk appetite lower.

For Asian financial markets, policy easing and extra fiscal stimulus are the expected policy responses, rendering narrower interest rate differentials and weaker FX as a complementary policy tool in coming months. We prefer to err on the side of caution and are calling for more defensive strategies in hedging Asian FX exposure or maintaining long USD positions.

A key change in USD/CNY view

USD/CNY has been trading within a 6.1818 and 6.2779 range thus far this year. It has recently stabilised around the 6.20 level and a narrower trading range of 6.19-6.22. There has been consistent progress on capital account liberalisation and moves to pave the way for eventual RMB internationalisation, and undoubtedly the Chinese authorities' have raised their commitment to get the RMB included in the IMF SDR basket this year.

Given this, we believe that the RMB will trade in a more market determined manner than in the first half of the year. While we have, over the past ten months, been calling for CNY appreciation on the back of a current account oriented currency, the recent stability or pegged like price movements have warranted a bigger rethink and reassessment.
The balance of risks is that the CNY will trade more like a capital account currency, as the capital markets get more and more liberalised.

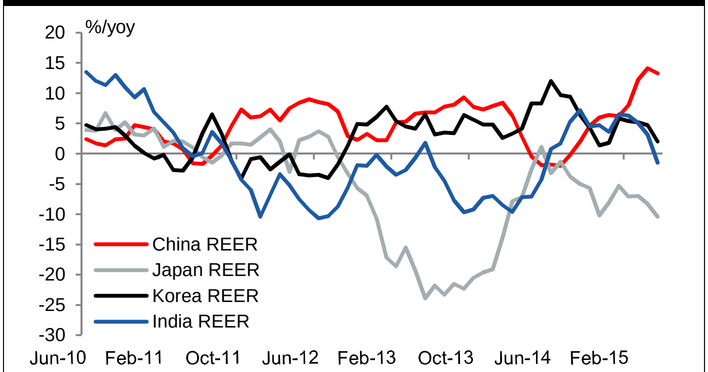
That will bring about greater two way risk than before and with the slower growth risks and US Fed hikes in the backdrop, a mild depreciation can no longer be totally ruled out. We reflect this by being a contrarian and turning to the CNY depreciation camp, instilling a modest upward path in USD/CNY toward 6.22 for end 2015, from 6.20 previously. We elaborate on the additional factors of consideration in the China spotlight section. Please see table below for the revised and previous FX forecasts for key economies.

Table 2: New vs old forecasts for key Asian FX

		Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
USD/CNY	**New**	6.22	6.22	6.25	6.28	6.30	6.28
	Old	6.25	6.22	6.20	6.18	6.15	6.15
USD/KRW	**New**	1150	1180	1180	1150	1150	1120
	Old	1130	1150	1150	1140	1120	1120
USD/INR	**New**	64.1	64.3	64.5	65.0	64.8	64.5
	Old	64.0	63.5	63.3	62.8	62.5	62.0
USD/SGD	**New**	1.37	1.38	1.38	1.39	1.39	1.38
	Old	1.36	1.37	1.36	1.35	1.35	1.34

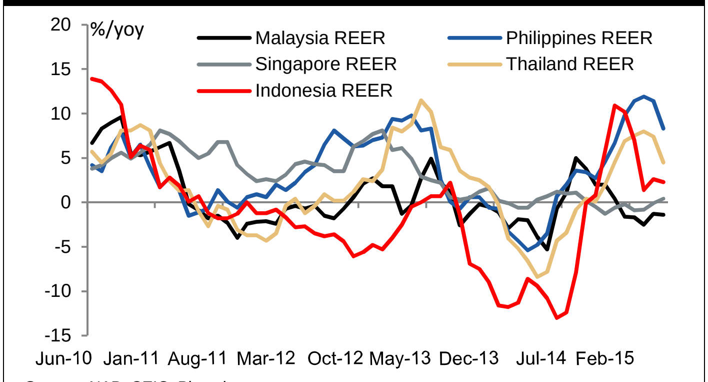
Source: National Australia Bank

Chart 1: CNY has strengthened on REER basis



Source: NAB, CEIC, Bloomberg

Chart 2: while other Asian REERs have weakened



Source: NAB, CEIC, Bloomberg

China Spotlight: We are now contrarian

- **Market stays in anticipation mode for three key events.**
- **USD/CNY to shed its "USD peg" as it becomes more market determined and further CNY weakness may beckon. We revise end 2015 USD/CNY forecast to 6.22 from 6.20.**

Lying in wait, ready to pounce

Market participants are kept in anticipation mode pertaining to three key events. These are mainly A-share inclusion into the MSCI, RMB inclusion into the IMF SDR basket and Shenzhen-HK Stock Connect. These are high probability events for the next 6-12 months and the eventual occurrence could alter China's financial markets landscape in a structural manner. In the meantime, the Chinese authorities are ensuring that with all the moving parts at present, the USD/CNY is anchored to stability. Spot USD/CNY is expected to pivot around 6.20, near the 50-day MA, which has stabilised around 6.2040 since the start of June.

There are various guesstimates as to how much flows and liquidity will enter or leave China when these events happen but it is an almost certain that FX trading volumes will increase over the coming years. An increase in transactional volume for trade of goods and services or current account will bring about an increase in FX exposure and likely more hedging activities. An increase in capital account transactions will bring about volatility in interest rates and consequently, deepening and widening of the debt market. The inclusion of RMB into the SDR basket could also lead to increase in CNY purchases by sovereign entities and central banks.

As it is, the CNY has maintained its rank as the fifth most traded currency globally according to Society for Worldwide Interbank Financial Telecommunications (SWIFT). The CNY's market share was 2.18% in May, and some 1,081 financial institutions used CNY for payments with China and Hong Kong in May, representing 35% of total transactions between these two economies (see AUD & RMB Internationalisation, 29 June 2015).

Shanghai FTZ is the curtain raiser

Reforms in Shanghai Free Trade Zone (FTZ) along the current and capital accounts provide a preview into what lies ahead nationwide. Recently the municipal government announced that companies in the FTZ will have better access to customs services from 1 August and that procedures to facilitate customs clearance will be streamlined and simplified, reducing the time to move a product from port to store shelves by 80%.

On the capital account, the potential moves within the zone include:

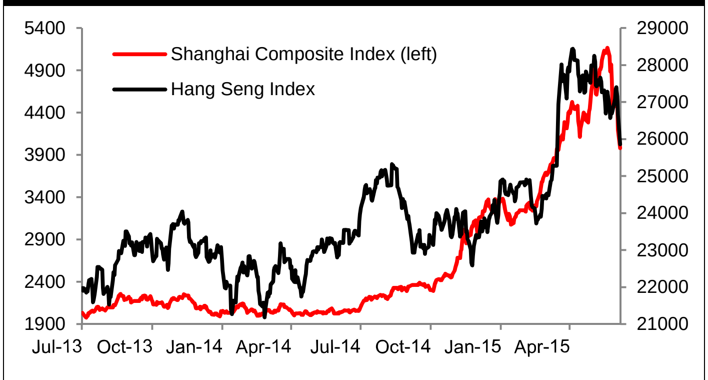
- Rules on QDII2 among 49 items that will open up the financial sector and promote innovation.
- Removal of the $50,000 cap on forex purchases for overseas direct investment with trade settlement accounts in the Shanghai free-trade zone. Commercial banks are testing the business of overseas investment with the accounts.
- China Securities Regulatory Commission is preparing for the launch of an international financial assets trading platform.
- Pilot program to allow banks to issue certificates of deposit to foreign financial institutions inside the Shanghai Free Trade Zone. Five banks to kickstart this are big state-owned lenders Industrial and Commercial Bank of China, China Construction Bank and Bank of China, as well as Shanghai Pudong Development Bank and Shanghai Huarui Bank.
- Technical preparation for yuan convertibility under the capital account. The Shanghai Free Trade Zone has established a mechanism to manage foreign debt, currency mismatch and short-term capital flows, as well as an around-the-clock monitoring system for cross-border money flows.
- Allow privately-owned e-commerce companies to help build a cross-border business platform.

Local governments on borrowing spree

In the past month, local governments have issued more than CNY600bn worth of municipal bonds, surpassing total issuance in 2014. Consequently, money market rates have been nudging higher. This is also partly due to funds locked up for IPOs and quarter end tax payments, as well as the competition from the regional government bond sales. The 7-day repo rate rose 100bp in June and to 2.93% on 26 June, the highest since 9 April.

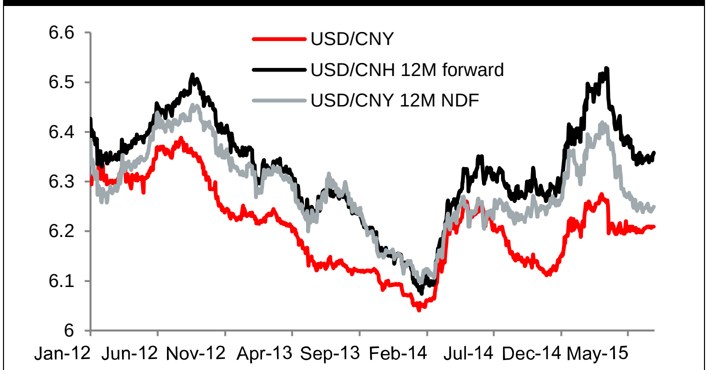
The increased demand for cash contributed to the Ministry of Finance failing to meet targets at two sovereign debt sales last

Chart 3: China equities markets – what goes up…



Source: NAB, CEIC, Bloomberg

Chart 4: Wider differential in CNH forward vs spot USD/CNY



Source: NAB, CEIC, Bloomberg

week. The first was on 24 June, when it sold CNY25.16bn of two-year notes, less than the planned CNY26bn. Two days later, the ministry issued CNY10.14bn of 273-day bills, short of the planned CNY15bn.

Bond yields are expected to stay supported going ahead as local governments are looking to issue about CNY2.8tn worth of debt this year to swap existing high-cost borrowings and raise funds for new projects.

Ready, Get Set, Ease!

In a much anticipated move, although recent development in the interbank market has rendered somewhat mixed views on the timing and type of easing, the PBOC cut its benchmark lending rate to a record low of 4.85% and lowered the reserve-requirement ratios for selected financial institutions that have sizeable lending to the rural and micro loan sector. The RRR cut is expected to release over CNY400bn worth of liquidity into the system. This is also the first rate cut and RRR cut combination since 2009. The move could be reasonably seen as an attempt to smooth market sentiment and ease the negative shock from the stock market performance during end June and as recent local-government bond sales drained liquidity.

Rate cut and policy easing expectations will likely be sustained in coming months. The PBoC's easing came two weeks before the GDP Q2 release on 15 July, and the market deems that the PBoC could have waited a few weeks before easing. So this is quite certain to be a pre-emptive move to soften the potential economic impact triggered by the stockmarket plunge. However, it will be unrealistic to expect future easing moves via rate cuts and RRR cuts to be as aggressive as in Q2 (two rate cuts in two months) as the government will not want to encourage further stockmarket and property speculation. We expect one more rate cut before end 2015 and potentially some RRR cuts ahead. This is additional easing than we have previously expected.

CNY forecasts revised – we are now contrarian

There have been new additions to key FX drivers and a few factors have also become clearer, providing a stronger conviction for an upward revision to our USD/CNY forecasts. These are namely:

Additional economic risks from the stockmarket plunge. At the time of writing, Shanghai Composite Index was down 21% and its year to date performance has fallen to just registering 25% gains. The outstanding margin trading balance fell to CNY1.39tn from the historical peak at CNY1.49tn on 18 June. This is yet to be priced in and it is evident that the rise in financial sector activities have supported 2015 growth. So in the event that the stockmarket rout sustains, investors may start downgrading China's growth forecasts soon.

The second additional factor is with regards to policy easing. As mentioned earlier, there are now more rate cuts than previously forecast. Also, we expect a stronger but asymmetrical relationship between China's interest rate directions and FX as both gets more market determined, ie. lower rates to guide CNY lower but not necessarily the reverse. Hence in an easing environment, policy preference for a weaker CNY may get stronger.

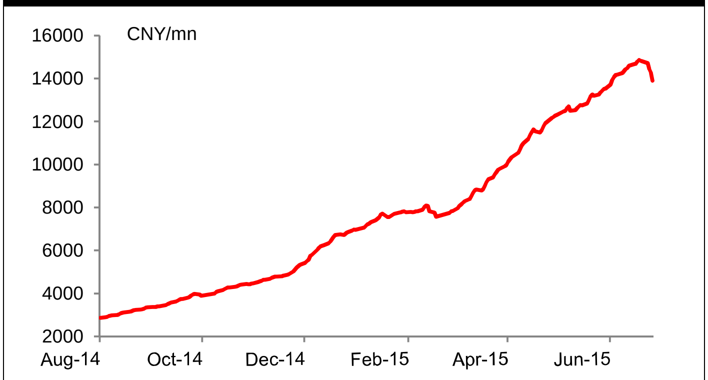
Thirdly, partial or limited inclusion of the CNY into the IMF SDR basket instead of full inclusion, may reduce the argument for significant reserve allocation into the CNY next year. On top of that, a more certain view that Asian FX will react to Fed policy hikes as regional central banks have been cutting rates (compared to previously when policy rates in Asia were expected to be on hold in anticipation of Fed hikes) will also be a relative drag factor for the CNY.

The speeding up of QDII2 provisions (along with QFII quota expansion) and a pilot for full FX convertibility tests in Shanghai suggests the avenue for capital outflows are as wide, if not wider than the path for inflows.

The CNH forward market is pricing in 6.29 in 6 months' time, and 6.36 in 12 months. While a part of this is, of course, the interest rate differential but we know that is narrowing, and there are expectations of weaker CNY embedded in the forward curve.

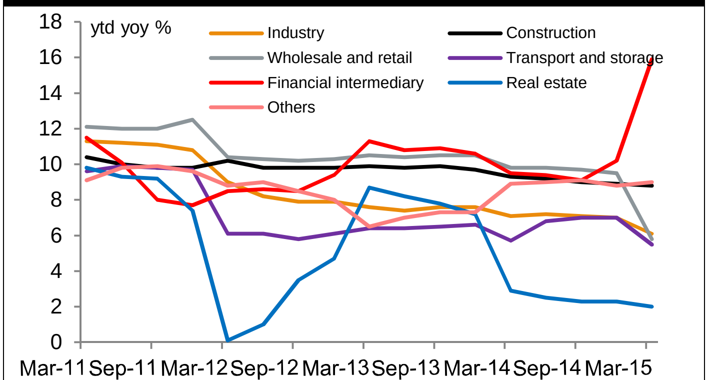
Arguably, a more market oriented and capital account driven CNY may mean upside risks to USD/CNY in an environment of regional FX weakness enhancing the impetus for China to weaken its FX to regain some of the lost export competitiveness. We expect the preference to hedge against a weaker CNY to gain further traction, keeping the forward curve supported. The PBoC's policy preference to guide lending rates lower may also make the CNY carry "cheaper". Accordingly, we revised our USD/CNY for end 2015 to 6.22 vs 6.20 previously and further upward path toward 6.30 in 2016.

Chart 5: Margin trading falling off the cliff



Source: NAB, CEIC, Bloomberg

Chart 6: Downside risk to growth from financials sector in China



Source: NAB, CEIC, Bloomberg

Korea Spotlight: MERS complications

- **We revised USD/KRW forecast higher to reflect added risks from MERS and Greece uncertainties.**
- **Overall bias is for moderate KRW weakness ahead, with the risk of an overshoot on the weak side.**

MERS risks mitigated, but impact to be felt

Economic risks surrounding the Middle East Respiratory Syndrome (MERS) situation in Korea continues to resonate within the financial markets. At the time of writing, there were some signs that the situation was contained or had at least stopped worsening – total cases was 182 with 32 deaths as of 28 June, with no new cases for two days of 27 and 28 June.

An added comfort stems from local daily reports about extra fiscal stimulus to offset the economic impact in H2, possibly KRW10-15tn in size. The last additional budget launched by the Finance Ministry was in 2013, and was worth 17 trillion won. Overall risks may have been mitigated but the adverse impact on tourism may still show up in the third quarter. The additional uncertainties are unwelcome in the face of potential Fed rate hikes; and any supplementary budget may also lead to more bond issuance than initially planned. Bond yields, especially the mid to the long end of the curve may be more supported in coming weeks.

Headwinds – seasonal over cyclical

Korea's current account profile typically suggests better KRW prospects in the second half of the year, than in the first. A caveat though, is the peak in outbound tourism season in July and August that tends to lead to services deficit within the current account. That has traditionally led to seasonal weakness in the KRW, especially in August, where it depreciated against the USD in 7 out of 9 years. Furthermore, the KRW could be a victim of its own "success", as its strength thus far this year vs EUR (+6%), JPY (+1.6%), THB (+0.8%), MYR (+5.7%), AUD (+3.9%) may encourage more outbound travel in the next two months than previously.

Domestically, the MERS situation hovers like dark clouds in summer. Consumer confidence has dived to 99 in June from 105 in May. This was the lowest since 2012. Consumer confidence dipped briefly in 2014 due to the Sewol ferry incident but still stayed above 100 for the most part of last year. Finance Minister Choi issued some bearish comments recently, "Even after the MERS outbreak calms down, there could be a negative impact on the entire economy… We can't say the MERS situation has completely come to an end unless the economy revives".

USD/KRW revised upwards

We envisage greater pressure for KRW selling in the next two months. The latest Greece concerns have rattled global financial markets and USD/KRW broke above 1120 in a more convincing manner. We prefer to err on the cautious side and (repeated use of prefer) pencil in more KRW weakness in Q3 and Q4, moving our forecasts to 1150 and 1180 respectively.

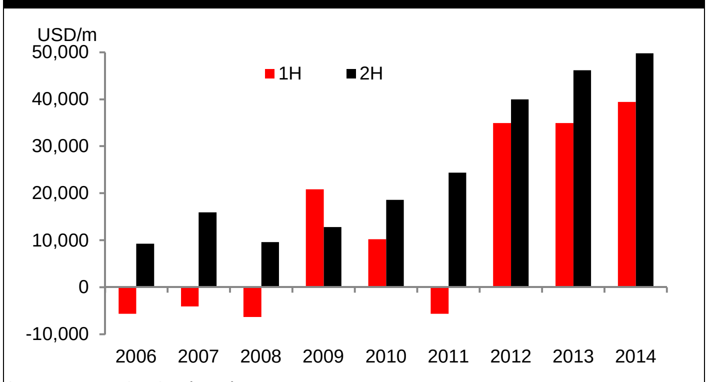
We hold on to our long USD/KRW 6M NDF trade recommendation, which will expire in early August.

Tail risks – extended loose policy

Slower growth prospects may have the Bank of Korea keep policy rate at historical low levels for longer than initially planned. As it is, the BoK may miss this year's inflation target of 2.5-3.5% and may lower the range for next year. The government has shaved its GDP forecast lower to 3.1% from 3.8% and according to a recent Bloomberg survey, the policy rate is seen to be held unchanged at 1.5% until the first rate hike in Q3 2016. The market is generally expecting the growth performance disappointment in H1 this year to persist in H2, though there isa lingering hope of some improvement in export growth on the back of a strengthening global economy.

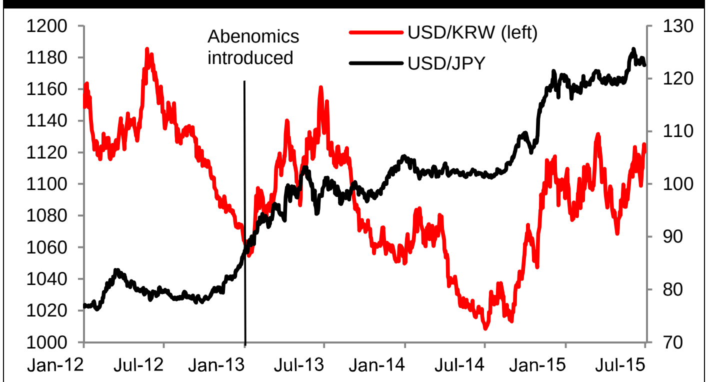
The surprise rate cut in June, which brought the policy rate to a historical low of 1.5%, was premised on several emerging risks, primarily triggered by the MERS outbreak. The BoK noted that the trend decline in exports has accelerated and that consumption, which had been showing a recovery, appears to have contracted since the outbreak of Middle East Respiratory Syndrome (MERS). The Committee judges that the downside risks to the domestic growth path forecast in April have expanded as a consequence. While the BoK will likely keep the policy rate unchanged in the upcoming July decision, our economists are now calling for another rate cut in Q3.

Chart 7: Stronger current account performance in H2 in Korea



Source: NAB, CEIC, Bloomberg

Chart 8: Bias for narrower 10-2s spread ahead



Source: NAB, CEIC, Bloomberg

India Spotlight: Leaking roof during monsoon

- **We review our USD/INR forecasts and nudged the pair higher.**
- **Prospect of weaker monsoon and the loss of risk appetite for Asian assets could partially offset the upbeat sentiment for India's strong growth prospects.**
- **The other risk ahead, is firmer oil prices.**

Weaker days ahead

While India is relatively better positioned to weather the risks from Greece and forthcoming Fed hikes, it will not be immune to the chills along the spine of the Asian financial markets. The Indian equity markets have started to experience the loss of risk appetite, as foreigners net sold nearly US$760mn worth of shares in June. Bond yields have also succumbed to a further selloff, with the 10yr tenor rising 25bp in June. In addition, the RBI rejected some bids at the recent auction as they were deemed too high and not reflective of market prices.

The risk from the monsoon has also persisted, as the delay in its arrival in June, rain deficits (below 90% of the long term average) and the prospect of El Nino, have led to local meteorological stations to warn about July's rainfall as well. All these will undoubtedly raise the prospect of some administrative support from the government.

On 17 July, the government announced a small rise in guaranteed prices for crops produced during the monsoon season, with the aim to anchor food prices. The Minimum Support Price (MSP) is a form of price control that is used by the Indian government to both protect local farmers from price volatility, and to build up central stocks of crop that can be distributed during times of weak production. A lower MSP limits the prices that farmers are guaranteed for a certain crop. It remains to be seen if these measures can help to defuse the 0.5% to 1.0% point downside risks to GDP from this sector.

Taking all this into account, and the other uncertainties within the financial markets globally, we prefer to err on the side of caution and revise our USD/INR forecasts higher to 64.1 and 64.3 for end Q3 and Q4 2015 respectively.

Fundamentally sound

NAB's India economist, John Sharma, expects 2015 GDP to rise 7.8% and further strengthen toward 8.0% in 2016 (see India GDP & Monetary Policy report on 15 June). He expects limited stimulus from net exports and that domestic demand will need to be the main driver of growth.

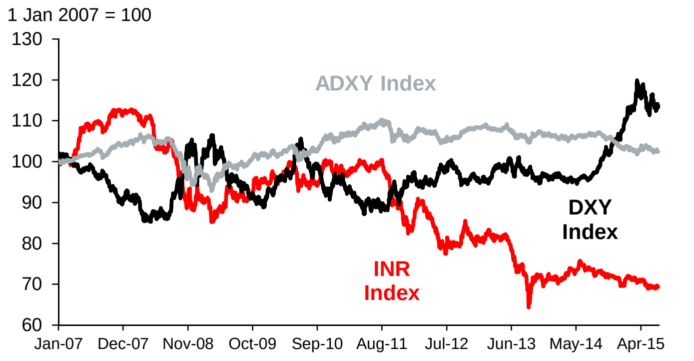
Policy easing remains the bias

The RBI has taken the opportunity of an open easing window to cut policy rate by 25bp in early June. The moves entails cutting the Repo (policy) rate by 25bp to 7.25%, the Reverse Repo and Marginal Standing facility were also cut by 25bp to 6.25% and 8.25% respectively.

However, the cash reserve ratio (proportion of funds the scheduled banks hold with the RBI) at 4% was maintained. The RBI also committed to continue to provide liquidity through overnight repos at 0.25% of bankwise Net Demand and Time Liabilities; 0.75% to be provided for under 14-day and longer term repos. Bank credit growth has been dismal and the situation persisting will likely support further easing moves.

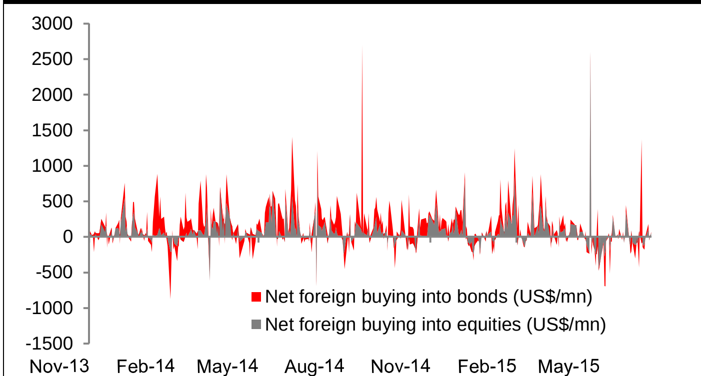
However, given possible upside inflationary risks, NAB Economics is forecasting the RBI to remain on hold for the remainder of 2015, maintaining the Repo rate at 7.25%. An additional rate cut cannot be ruled out, but will crucially depend on three factors. These include: the impact of the monsoon – and subsequent Government response – on food prices (which account for close to 50% of the CPI basket); and volatility in crude oil prices; external volatility, stemming from an expected Fed rate hike, and the attendant impacts on emerging markets.

Chart 9: INR relatively buffered from USD strength



Source: NAB, CEIC, Bloomberg

Chart 10: Risks of portfolio outflows on external concerns in India



Source: NAB, CEIC, Bloomberg

Singapore Spotlight: Policy compromise

- **Deflationary pressure and persistent negative growth threats may pose some policy risks for the MAS, as the US Fed starts to hike later this year.**
- **Growth indicators are still quite shaky, supportive of an accommodative policy stance.**
- **The SGD will be one of the most sensitive to Fed hikes, and we moved our USD/SGD forecast higher to 1.38 for end 2015 from 1.37 previously.**

Market shaved GDP and inflation outlook lower

A recent economic survey of professional forecasters, conducted by the MAS, saw overall GDP growth for 2015 shaved marginally lower to 2.7% from 2.8%. The already subdued inflation outlook was reduced further to 0.0% from 0.1%.

There are reasons to believe that the inflation environment will remain flat. First, global oil prices are likely to be much lower for the whole of 2015, compared to the US$93 average recorded last year. Second, although underlying cost pressures, stemming from the tight labour market, remain the pass-through to consumer prices is expected to be tempered in the near term by the moderate economic growth environment. At the same time, the suite of budgetary measures (accompanying Singapore's 50 years of independence celebrations) will help to alleviate some of the price pressures faced by consumers. Recall that for 2015, the government provided income tax rebates of 50% or up to SG$1000, removed national examination fees, provided transport subsidy to the lower income group and rebates for service and conservancy charges for public housing owners, amongst other things. The MAS estimated that core Inflation and CPI-All Items inflation will average 0.5–1.5% and -0.5 and 0.5% respectively.

Interestingly, the survey of professional forecasters had the end 2015 USD/SGD forecast brought lower to 1.38 from 1.40 during the March survey, presumably as participants were early in estimating the timing of the first Fed hike and have now adjusted their expectations.

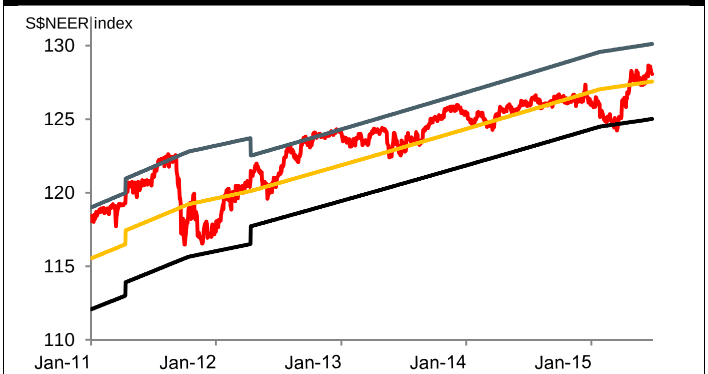
Policy compromise in the interim

We expect the MAS may hold the current policy stance of modest and gradual appreciation of the S$NEER policy band steady in October. At this juncture, external risks from Greece, and any China stockmarket fallout may be the overwhelming factors to keep policy accommodative in the near term, even if the Fed hikes in September. Developments on the external front over the next couple of months will warrant closer attention and pave the way for the eventual decision in October.

The SGD NEER has stayed mostly above the mid-band since the April policy meeting and traded within -0.12-0.88% range within the band based on NAB estimates. Meanwhile, USD/SGD traded in a more volatile manner within 1.3286 and 1.3633 range in the month of June. Sentiment has been a low of 1.3164 in mid-May. We expect the USD's firmer trend and the current policy preference for a weaker S$NEER to underpin the bias toward a firmer USD/SGD ahead.

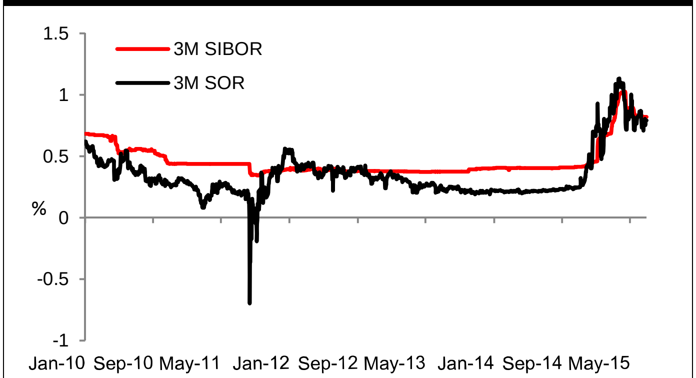
Fundamental support for a stronger SG$NEER remains elusive, judging from recent macro indicators like non-oil domestic exports (-0.2% yoy in May vs +2.2% in April) and the sustained contraction in industrial production, albeit smaller, in May (-2.3% yoy vs -9.1%). May PMI surprised on the upside though and rose above expansion line to 50.2 but more data is needed for more confirmation of a sustainable trend. Q2 advance GDP data, due around the second week of July, will be keenly watched and should it disappoint, it may fuel expectations of MAS preferences to keep a growth supportive bias, meaning a policy preference to guide the S$NEER lower – or certainly limit additional strength.

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



Source: NAB, CEIC, Bloomberg

Chart 13: Singapore interbank rates looking supported



Source: NAB, CEIC, Bloomberg, MAS

Selected Indicators

Table 1: NAB Key FX Forecasts

		Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Australian Dollar	AUD/USD	0.76	0.74	0.73	0.73	0.75	0.75	0.76	0.77
New Zealand Dollar	NZD/USD	0.69	0.68	0.67	0.66	0.66	0.66	0.66	0.66
Japanese yen	USD/JPY	124	125	126	126	127	127	126	125
Euro	EUR/USD	1.05	1.03	1.02	1.03	1.04	1.06	1.05	1.06
British Pound	GBP/USD	1.46	1.45	1.44	1.43	1.44	1.45	1.45	1.45
Swiss Franc	USD/CHF	0.99	1.02	1.04	1.03	1.01	0.98	1.00	1.00
Canadian Dollar	USD/CAD	1.24	1.22	1.21	1.20	1.19	1.18	1.17	1.17
Chinese New Yuan	USD/CNY	6.22	6.22	6.25	6.28	6.30	6.28	6.25	6.25

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

Source all tables: National Australia Bank

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