Market Strategy

Essential Asia: Sell-offs and lift-offs

A macro strategist's view on Asian economies and markets

National Australia Bank

6 August 2015

Talking points

- China's stock-market woes and growth risks remain at the forefront of market worries, as Fed lift-off nears.
- We reaffirm that monetary policy easing and extra fiscal stimulus are the expected policy responses but with a slightly weaker RMB a likely complementary policy tool in coming months.
- We took profit on our long USD/KRW trade and entered USD/TWD NDF as our preferred USD/Asia long.
- We revise CNY, TWD, MYR forecasts to reflect a more bearish view on Asian currencies.

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

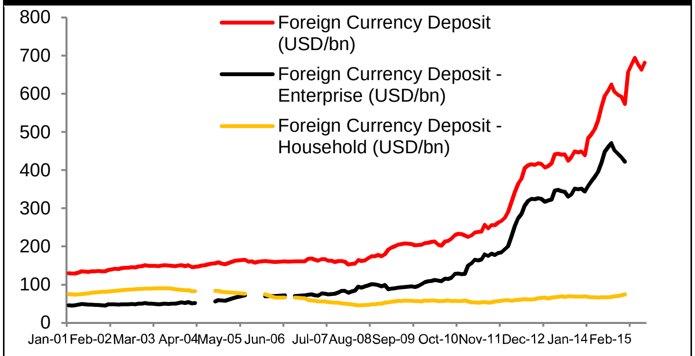
Trade recommendation

Entry Date	Recommendation	Opening level	Target	Stop
Jul-31	Long USD/TWD 6MNDF	31.54	32.5*	31.0*
Jul-29	Long AUD/NZD	1.092	1.14	1.0675
Jul-21	Short NZD/USD	0.6605	0.62	0.68
Jul-21	Short EUR/GBP	0.6998	0.67	0.7175**

*Spot ref ** revised stop

In this issue

Chart of the month – Increase in USD deposits in China



Source: NAB, CEIC, Bloomberg

Recent reports

- Close Long USD/KRW 6M NDF, 3 August 2015
- Enter Long USD/TWD 6M NDF, 31 July 2015
- Korea and Won Under Stress Tests, 23 July 2015
- China Economic Update, 7 July 2015

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

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	6.25	6.26	6.28	6.30	6.28	6.25	6.25
USD/IDR	13600	14000	14200	14500	14000	13800	13500	13000
USD/INR	64.3	64.5	65.0	64.8	64.5	64.0	64.0	64.0
USD/KRW	1150	1180	1180	1150	1150	1120	1100	1080
USD/MYR	3.90	3.95	4.00	4.10	4.00	3.95	3.95	3.90
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	35.2	35.3	35.5	35.6	35.8	35.8	35.5	35.0
USD/TWD	31.8	32.0	32.2	32.5	32.6	32.6	32.5	32.5

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
AUD/CNY	4.60	4.50	4.44	4.46	4.54	4.58	4.63	4.69
AUD/IDR	10064	10080	10082	10295	10080	10074	9990	9750
AUD/INR	47.6	46.4	46.2	46.0	46.4	46.7	47.4	48.0
AUD/KRW	851	850	838	817	828	818	814	810
AUD/MYR	2.89	2.84	2.84	2.91	2.88	2.88	2.92	2.93
AUD/PHP	33.7	33.0	32.7	32.9	33.5	34.2	34.6	34.9
AUD/SGD	1.01	0.99	0.98	0.99	1.00	1.01	1.01	1.01
AUD/THB	26.05	25.42	25.21	25.28	25.78	26.13	26.27	26.25
AUD/TWD	23.53	23.04	22.86	23.08	23.47	23.80	24.05	24.38

Sell-offs and Lift-offs

- **China's stock-market woes and growth risks stay at the forefront of market worries as Fed lift-off nears.**
- **We reaffirm that monetary policy easing and extra fiscal stimulus are the expected policy responses. Weaker FX may be used as a complementary policy tool in coming months.**
- **We took profit on our long USD/KRW trade and entered long USD/TWD NDF.**
- **We revise CNY, TWD, MYR forecasts to reflect a more bearish view on Asian currencies.**

Commodity currencies bore the brunt

From a global currencies movements perspective, commodity linked currencies bore the brunt of the selloff vs the USD in July. Amongst the emerging market currencies, leading the pack was the Colombian Peso (COP, -9.4%) Brazilian Real (BRL, -8.0%) Russian Rouble (RUB, -7.4%) Chilean Peso (CLP -5.2%) South Korean Won (KRW, -4.5%) and South African Rand (ZAR,-4.8). See Chart 1.

In Asia, the Korean won's weakness was trailed by the Thai baht, which fell 3.4% vs the USD and the Taiwanese dollar next at -2.4%. It is interesting to note that while China's stock-market woes and growth risks are the top concerns in July, the CNY and CNH weakened by merely 0.1% and 0.3% respectively.

EM flows have reduced, net outflows a key risk

Based on IIF data, while overall non-resident portfolio flows to EM are down in July, they still look to have been positive with the exception of Emerging Europe (Chart 2). However, the sell-off in Asia portfolios gained momentum in the last week of July. The IIF estimates that total outflows in the seven days since July 22 amounted to US$2.5bn, led by Korea (-US$700mn) and India (-US$515mn). Persistent outflows in coming months, on the back of the Fed commencing its tightening cycle, could trigger further Asian currency weakness. At the same time, it is hard to be optimistic about any near term reversal of oil and hard commodity price weakness with supply gluts still dominating price formation. As such, we'd expect commodity linked currencies to continue underperforming in a rising USD environment – something NAB FX Strategy continues to expect.

Malaysia – the MYR is in a precarious position

Malaysia's domestic political issues have resulted in significant selling pressure on MYR. It is hard to be optimistic on the outlook. Malaysia PM Najib undertook a major cabinet reshuffle in the last week of July, sacking his DPM, Education Minister, Rural and Regional Development Minister (one of the VP in UMNO) and also replaced the Attorney General. The AG is on the task force investigating the money trail claims against Najib. Then, he appointed four members of Parliament's Public Accounts Committee (PAC) to the new cabinet. PAC is one of the groups investigating 1MDB and the move stalled further investigations. The social temperature has since risen and mass rallies are being planned, further undermining the overall situation.

We maintain a bullish USD view

We recommended long USD/KRW 6M NDF in January, as one of our top trades to reflect our bullish USD view. The recommendation was premised on the KRW's unsustainable strength vs the JPY and also factoring in the risk of slower growth in China and a prolonged accommodative policy stance by the Bank of Korea. We entered the trade at 1115.0 (spot ref: 1107.9), targeting 1180 (spot) and with stop placed at 1080 (spot). The stop was later revised to 1130.

Since then, the BoK has cut rates twice and brought the benchmark 7-day repo rate to historical lows at 1.5% and the risk of another cut before the end of the year prevails. The BoK has also revised growth forecast downward three times and the last revision was triggered by the potential negative impact from MERS. We think there is further upside to USD/KRW and we revised our end 2015 forecast to 1180 last month. However, we will not chase the market at current levels and prefer to take profit on the trade for a 4.7% gain. We continue to express our long USD vs Asian currencies view via a long USD/TWD 6M NDF recommendation, published on July 31st.

Revisiting Asian FX forecasts

In light of recent developments in China, Malaysia and Taiwan and price actions in these currencies, we revisited our FX forecasts and brought our more USD bullish projections in 2016 forward. We now expect USD/CNY to end 2015 at 6.25, USD/TWD at 32.0 and USD/MYR at 3.95 from 6.22, 31.2 and 3.80 previously.

Chart 1: Commodity currencies took a beating in July

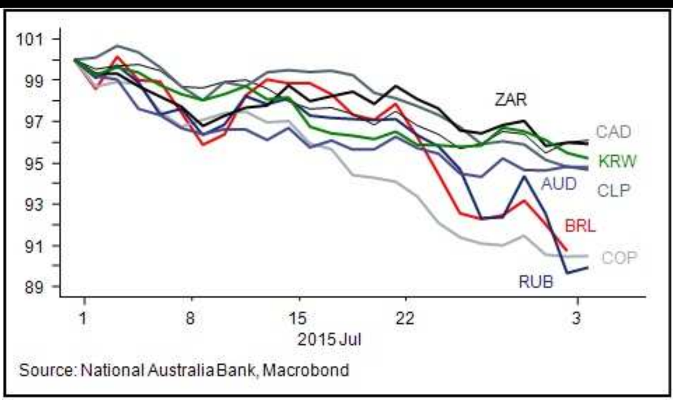
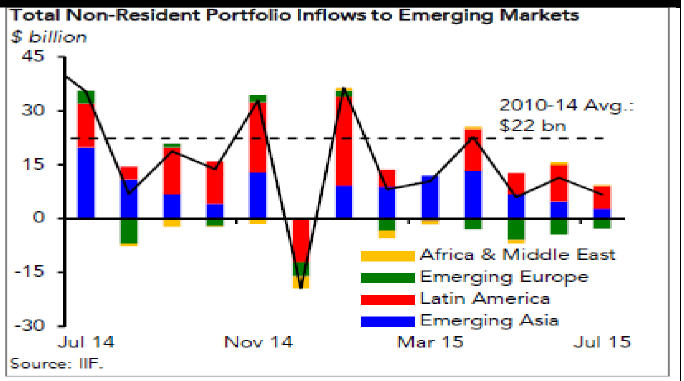


Chart 2: Net portfolio inflows into Asia shrank in July



Source: NAB, IIF

China Spotlight: Wall of Support

- **USD/CNH briefly shaken by band widening talk. Delay in implementation of IMF SDR basket change may add to firming bias in USD/CNY.**
- **Persistent downside risks to growth will raise expectations for more growth supportive measures.**
- **In light of the recent development, we revise end 2015 USD/CNY higher to 6.25 from 6.22.**

Delay in IMF SDR implementation could mean earlier USD/CNY strength

The IMF released a report on the review of the SDR valuation method and focussed the discussion on RMB inclusion. Overall, the method review report does not appear to have substantially altered the ultimate outcome of RMB entry into the SDR basket, but rather adelay in implementation. However, the PBoC is now in an even tighter spot in light of increasing pressure from the other ministries supporting a weaker RMB (suggested by various media 'source' reports). In coming weeks, the USD/CNY daily fix at 9:15am will be keenly watched for guidance on any potential PBoC shifts

A few assessments from the report are that:

1) Entry may still happen this year but implementation has visibly been pushed out to no earlier than Sep2016.

2) The IMF is "suggesting" China should drive more effort toward RMB being "freely usable" in countries other than greater China, meaning more RMB usage in the US and Europe will be advantageous. Currently, RMB turnover in London is around 0.7% of London's total and that is nearly US$35bn per day out of US$2.7tn. The RMB turnover in the US is still negligible relative to the total of US$1.1tn transacted there.

3) While the IMF largely adheres to a quantitative definition of "freely usable" it mentions as well that qualitative aspect should also be considered. At the same time, as long as there is flexibility or ease of exchange to another freely usable currency, that will also be taken into consideration.

Delay CNY band widening, allow weaker CNY

The near term policy compromise may be to push out band widening but allow a weaker CNY to materialise. Recent macro data has been a mixed bag but overall China still need growth supportive measures to ensure the 7% growth target is met.

The underlying forces have been supportive of higher USD/CNY - weaker growth prospects; stock-market losses, slowing export growth; strong CNY REER impeding export competitiveness; and cautious sentiment in anticipation of Fed rate hikes. Allowing a wider trading band will signify freer market movements and the path of least resistance currently will be for USD/CNY to move higher. However, USD/CNY has been "frozen" within 6.20-6.22 range since mid-March and China's FX reserves have been falling (US$-17.3bn mom) to US$3.694tn in June. While some of it may be attributed to revaluation effects (USD stronger, EUR weaker), it is reasonable to believe that the central bank has sold some USDs to counter capital outflows in order to keep the CNY stable. CNY forex positions accumulated by financial institutions fell CNY93.7bn in June, further evidence that the PBoC has intervened to resist CNY depreciation

The current trading band is +/-2% and we do not rule out a move to +/-3%. Timing wise, it is probably not imminent, and the IMF report may have pushed this out beyond this year. Also, some conditions need to be met before a wider trading band makes policy sense and these include the RMB entry into the SDR and a narrowing of the gap between spot USD/CNY and daily fixings to minimise outsized, knee-jerk movements.

USD/CNH has taken the lead on the band widening talk, rising to a high of 6.2243 in July and we think USD/CNY will be heading higher in coming weeks. Local corporates may already be ahead in positioning for this move, with the rising growth in USD or foreign currency deposits in recent months (chart 4) a clear reflection of their preference. IN light of the recent development, we decided to revise end 2015 USD/CNY forecast higher to 6.25, bringing forward Q1 2016 forecast and adjusting Q1 2016 slightly to 6.26.

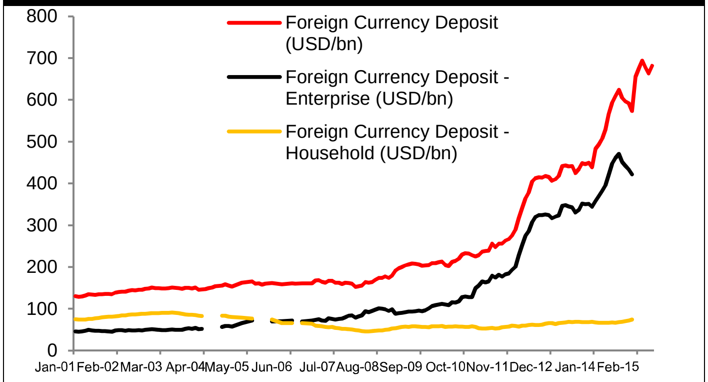
More supportive monetary policy measures beckon

The final Caixin PMI data diverged negatively from the flash data, coming in at 47.8 vs 48.2 for the preliminary data and worse than market consensus at 48.3. This casts another shadow at the official PMI data which came in at 50.0, also on a declining trend. All these point to an increasing need for more policy support. Note that the PBoC started cutting rates in November last year, when the China PMI was first threatening to break below the 50 expansion level, and again in January this year, when the (official) PMI fell to low of 49.8.

Chart 3: China's FX reserves belies FX intervention activities

Source: NAB, CEIC, Bloomberg

Chart 4: Corporates led the domestic flight to USDs



Source: NAB, CEIC, Bloomberg

USD/CNY also traded higher in January to bump against the key resistance at 6.22 before eventually breaking higher to a high of 6.2747 in February. We think that the justification for policy rate cuts and/or RRR cuts as well as allowing more CNY weakness has risen a notch. Recall that the last rate cut happened two weeks before the Q2 GDP release, highlighting the PBoC's policy preference to be more proactive than reactive. It is also easier now that the stock-market is no longer an unfolding train wreck.

Proactive fiscal policy

We echo the recent Bloomberg source report suggesting that China's leadership is preparing fresh fiscal spending to ensure that their 2015 growth target of 7% stays within reach. Ahead of the top leadership's annual gathering at the Beidaihe seaside resort east of Beijing, the Communist Party's Politburo pledged to make "pre-emptive" policy adjustments in the second half. Premier Li Keqiang highlighted one area targeted for spending will be a "severely outdated" underground pipe system in the nation's expanding megacities. The focus on infrastructure is evident, as China recently announced its plan to issue $160b new bonds to fund the sector.

A pseudo "bond connect" forming

China's bond market is now the third largest in the world at nearly CNY35tn, or about USD 5.8tn. The overall growth rate of China's debt market has been about 11% yoy for the last three years. However, total foreign holdings are about CNY635bn or merely 1.8% of total bonds outstanding. About 91% of foreign holders of Chinese government bonds are either foreign central banks or CNY clearing banks.

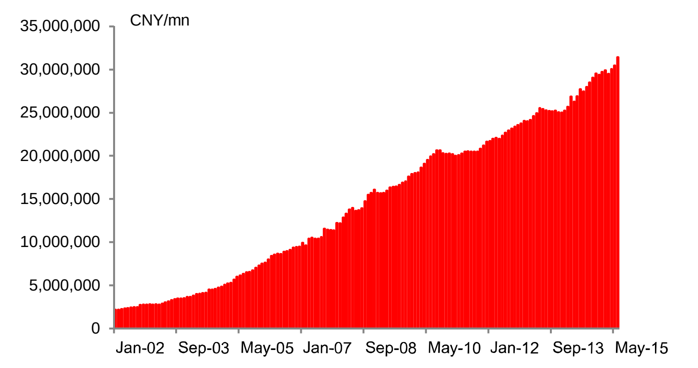
In July, the Chinese authorities further liberalised the domestic bond market. The PBoC announced that foreign central banks, international financial organisations, and sovereign wealth funds will no longer have to seek prior administrative approval to invest in the country's onshore interbank debt market. Under the new rules, which came into immediate effect, foreign institutions can now decide the scale of their investments at their own discretion. In addition, they will also be able to expand beyond just buying and selling bonds in the cash market to trading forward contracts, interest rate swaps, and bond repurchases.

This is an encouraging sign of followed through commitment toward capital account liberalisation, following an initiative earlier this year when China Government Securities Depository Trust and Clearing expressed interest to regulators and industry groups in HK in establishing a "bond connect scheme". Commercial banks are the biggest owners of local government bonds (Chart 6) and hence are well positioned to be active in the secondary market. The liberalisation could draw strong interests and may help to mitigate the upside pressure in bond yields in light of the heavy issuance schedule. 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.

There is, however, competition for foreign funds from overseas issuances of RMB bonds. The recent spike in CNY cross currency swap rates have made it more attractive for foreign issuers to approach overseas markets for RMB fund raising activities. A case in point is Formosa bonds or RMB denominated bonds issued in Taiwan. Gross issuance of Formosa bonds reached CNY15.5bn in the first five months of the year, fast approaching the CNY20.8bn booked in all of 2014.

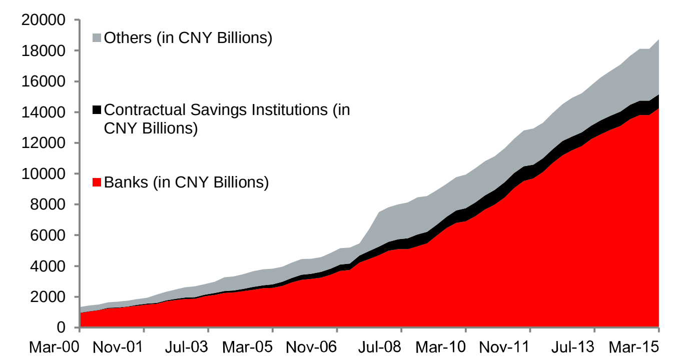
RMB deposits in Taiwan have steadily increased since the start of offshore yuan business two years ago, reaching CNY336bn yuan in May, up 16% yoy. However, unlike Hong Kong, Taiwan has yet to be granted any Renminbi Qualified Foreign Institutional Investor (RQFII) quota or stock-connect scheme that allows Taiwanese investors to invest in domestic Chinese bonds. That means Taiwanese investors who hold RMB have few investment options and invest mainly in Formosa bonds, which yield more than domestic Taiwanese bonds and offer potential foreign exchange gains.

Chart 5: RMB government and corporate bond market capitalization



Source: NAB, CEIC, Bloomberg

Chart 6: Commercial banks are the biggest government bond holders

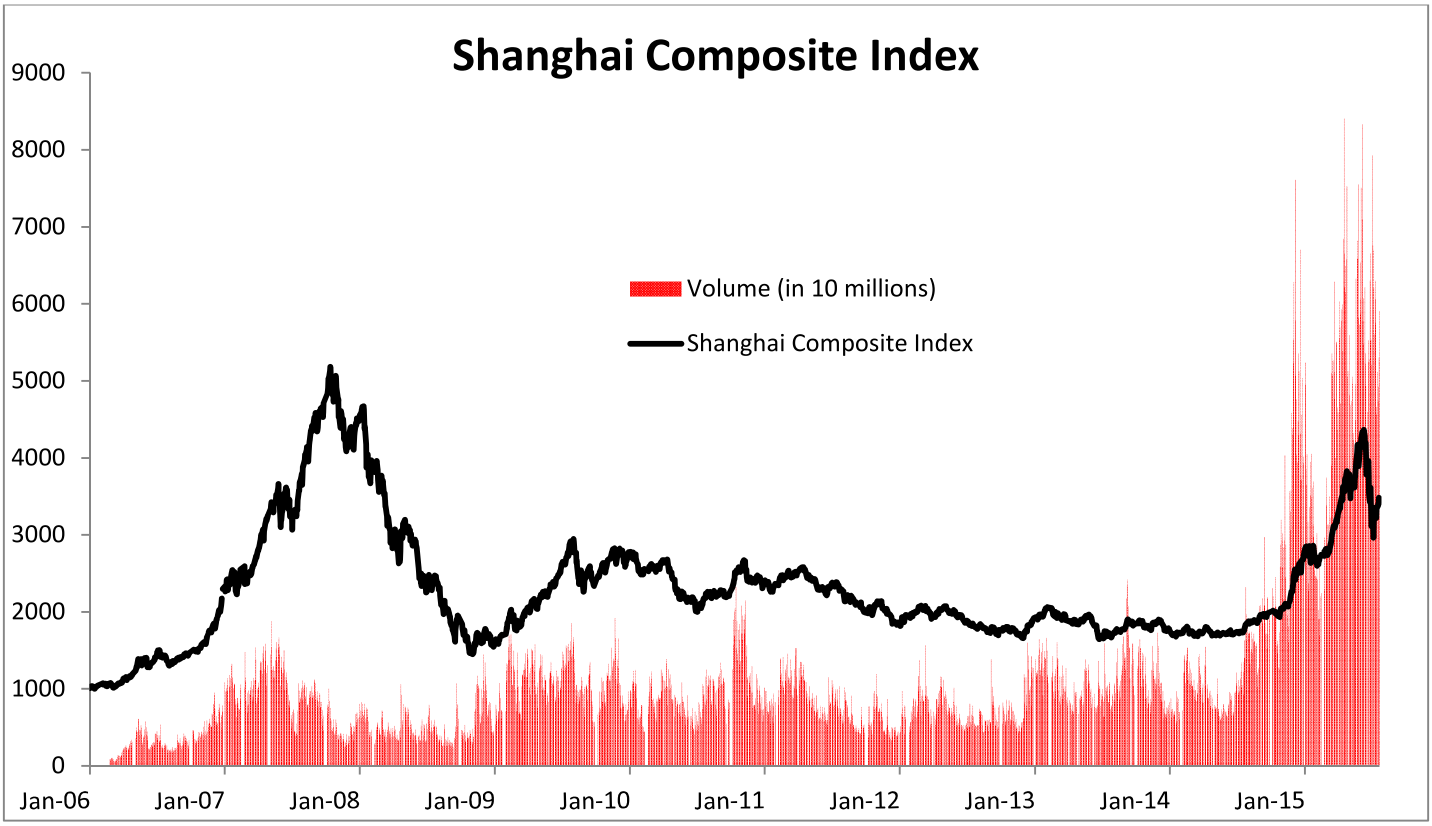


Source: NAB, Bloomberg, Asian bonds online

China's Stock Support Measures

Date	Measures	Shanghai Composite Index
Jun-24	State Council scrapped the longstanding requirement that caps lending by commercial banks at 75% of their deposits	4690.15
Jun-27	The PBoC cut lending rates by 25bp and shaved RRR for selected financial institutions	4192.87
Jun-29	China Securities Finance Corporatio (CSFC) says the risk associated with margin trading is controllable and the amount of forced liquidation for meeting margin calls is relatively small.	4053.03
Jun-29	The Chinese government said it will allow pension funds to invest in the stockmarket for the first time. The move could bring CNY1tn into the equity market.	4053.03
Jul-01	Chinese Securities Regulatory Commission (CSRC) moves to loosen rules on margin financing. China's two major bourses Shanghai and Shenzhen stock exchanges announced plans to cut transaction fees by 30% from August.	4053.7
Jul-03	CSRC and CSFC will increase its capital base from CNY24bn to CNY100bn	3686.92
Jul-04	21 of China's biggest securities firms pledged to jointly invest CNY120bn in shares of big state-owned companies	3686.92
Jul-04	28 Chinese companies indicated they will suspend IPOs in the near future.	3686.92
Jul-05	CSRC announced it will suspend IPOs in the near future	3686.92
Jul-07	More than 700 companies suspend trading on Shanghai and Shenzhen exchanges, accounting for one-third of all stocks listed in China.	3727.13
Jul-08	The PBoC said it is actively assisting CSFC to ensure it has ample liquidity through interbank lending, bond issuance and collateral finance. CSFC provided CNY260bn in credit lines to 21 brokerages.	3507.19
Jul-08	All listed SOEs promised not to sell their own companies' shares for at least six months.	3507.19
Jul-10	Number of listed companies that have halted trading stood at 1400, about half of all stocks listes in China	3877.8
Jul-12	Vice Minister of public security led a special team and uncovered evidences of market manipulators and short sellers.	3877.8
Aug-04	China Securities Journal reported that CSFC has injected CNY200bn since July into five newly launched mutual funds	3671.49

Source: Bloomberg, Finance Asia



Source: NAB, Bloomberg

India Spotlight: Weakness? What weakness?

- **The Indian rupee stands tall amongst the other regional currencies.**
- **Foreign investors getting increasingly selective is favourable for Indian assets**
- **Firmer oil prices is a smaller risk, but inflation risks from monsoon remains.**

INR stands tall in the region

The Indian rupee stands tall among the other regional currencies, with a modest 0.36% depreciation vs the USD thus far in Q3. This performance compares with the biggest losers like the KRW (-3.7%), THB (-3.3%) and TWD (-1.9%). This is not surprising, as the rupee is cushioned somewhat by the high carry as well as dearth of concerns regarding its economic prospects. Q1 GDP came in strong at 7.5% yoy and with FY14/15 growth at 7.3% yoy, India is proving to be the fastest growing economy in the world. The room for strong growth performance remains wide, and recent indicators continue to reflect a gradual recovery.

Foreign investors have been getting increasingly selective with regards to Asian assets and have shifted buying interests to Indian equities and to a lesser extent, Indian debt. Foreign investors net bought over US$900mn worth of Indian stocks and shares and US$5mn worth of Indian government bonds. Meanwhile, corporate earnings have been encouraging. Nine of the 13 Sensex firms, or 69%, that have reported earnings for the June quarter have matched or beaten estimates, compared with 40% in the March quarter. These trends persisting will help to mitigate the pressure from a recovering global USD trend.

Some shifts in risks

Consumer price inflation rose in June to 5.4% y/y, from 5.0% y/y in May. This was a bigger pick-up than expected but, importantly, headline inflation is still below the RBI's 6.0% target for January 2016. The increase in June was due to an acceleration in core and food inflation. It seems that fears over a weak monsoon pushing up food inflation has been overdone, in view of the minimum support price program that the government implemented. In addition, low global commodity prices are also helping. The pressure on core inflation is also expected to remain subdued as the latest industry surveys show that capacity utilisation is low. Finally, the RBI's rising credibility as an inflation-fighting institution has helped to anchor inflation expectations, which remained in single-digits in Q1.

Some of the stresses that the Indian financial markets faced in June appeared to have diminished in July. Bond yields have stabilised and the 10Y is hovering at around 7.8% after peaking at 7.892% in June. India's benchmark Sensex equity index has traded in a volatile manner but in general it has been one of the better performing EM stock markets in July. While valuations look stretched compared to other EMs, they aren't particularly high either in absolute terms or relative to India's past standards.

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.

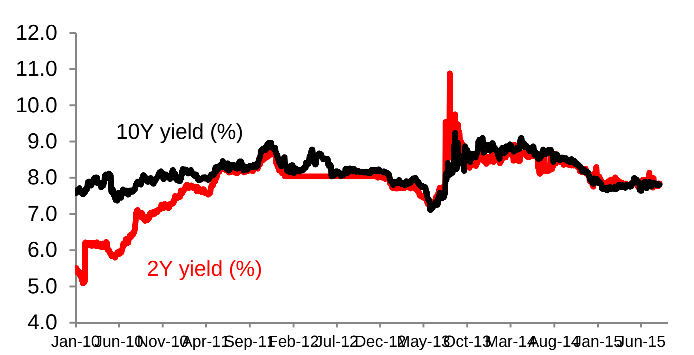
Policy easing remains the bias

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.

The move in June has paved the way for the RBI to take a pause in July, Market focus, however, has started to shift to a draft bill that would give the government control over monetary policy and the power to review the inflation target every three years. RBI Governor Rajan however assured that the government and the RBI have reached a broad consensus on what such a committee should look like.

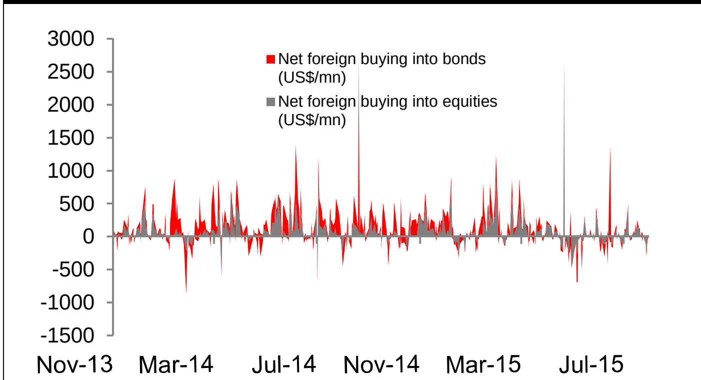
Going ahead, NAB Economics is forecasting the RBI to remain on hold for the remainder of 2015, maintaining the Repo rate at 7.25%. An additional rate cut cannot be ruled out, but will crucially depend on three factors. These include: the impact of the monsoon – and subsequent Government response – on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

Chart 9: Bond yields trading flat as rate cut expectations eased



Source: NAB, CEIC, Bloomberg

Chart 10: INR performance tied to portfolio flows



Source: NAB, CEIC, Bloomberg

Singapore Spotlight: Easing bias grows stronger

- **We think the base case is the MAS holds current policy stance in October. However, there is now greater probability of an easing move.**
- **In the meantime, USD/SGD is biased to move higher and S$NEER is expected to trade below the mid band in the run-up to October policy meeting.**

Macro indicators display downbeat trend

Anyone looking for some silver lining for Q3 growth indicators in Singapore would have been disappointed. On July 14, Q2 flash GDP came in much weaker than expected at 1.7% yoy vs 2.4% Bloomberg consensus and 2.8% for Q1, causing USD/SGD to spike from 1.3568 to peak at 1.3708 on July 20. After that, the retracement in USD/SGD proved shortlived, as June CPI and IP also undershot expectations (see table below).

Table 1: Macro indicators have disappointed yet again

	IP	CPI	PMI	NODX
Actual	-4.4%	-0.3%	50.4	4.7%
BBG consensus	**-0.4%**	**-0.3%**	50.2	2.0%
Previous	-1.7%	-0.4%	50.2	-0.3%

The MAS launched its annual report on July 21 and highlighted several areas on the macro outlook. Firstly, the MAS acknowledged that economic growth was weaker than expected but is not likely to deteriorate further. The MAS justified that global and regional economic recovery staying broadly intact, a resilient domestic non-tradable sectors and robust financial services are expected to prevent growth from weakening further. The three key external risks that MAS are monitoring include Greece, China and a Fed rate hike. On inflation, the MAS insisted that cost pressures persist and temporary factors are keeping inflation muted. The lack of recovery in inflation going forward could further complicate the October policy decision.

October policy decision more data dependant

We revisited the rationale for the MAS' policy decisions thus far this year. The MAS reduced the slope of the S$NEER policy band in an off-cycle policy move in late January, and then maintained the current policy stance in April. The MAS took into consideration a couple of factors carefully, including whether the decline in inflation will persist through 2015 and whether there was any downside to holding off a policy move. There were more compelling reasons front load the policy adjustment in January, consequently rendering it unnecessary to move in April. For the upcoming policy decision in October, growth indicators as well as price signals will be more closely scrutinised in coming months. At this point, the growth indicators are posing some risks to tilt the bias toward more easing.

An easing move could mean re-centering

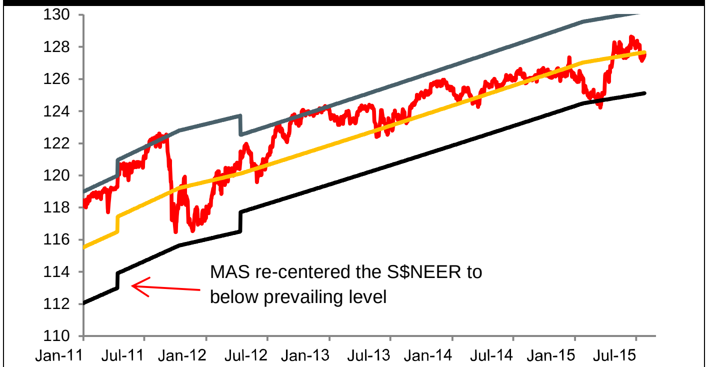
The MAS might be encouraged to ease further not just by worse growth and inflation data domestically, but if the US Fed delays its rate hike move in September. Further easing could come in the form of a re-centering move of the S$NEER index. This will entail fixing the new center for S$NEER at the prevailing level (or below), and that will be an outright easing move that brings the intervention threshold of the MAS lower.

The SGD NEER has stayed mostly below the mid-band since the 2Q flash GDP release and traded within -0.03 and -0.39% range within the band based on NAB estimates. Meanwhile, USD/SGD traded in a more volatile manner within 1.3459 and 1.3717 range in the month of July and the bias is skewed for further strength ahead, in line with a firmer USD trend.

An SG50 general election?

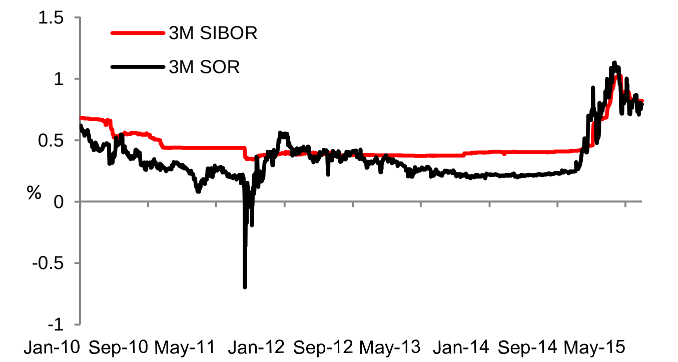
The whispers about a general elections taking place as soon as September (possibly on the 7th or 12th) this year have become louder. While not expected to have a significant impact on Singapore's financial markets, it is also probable that the political parties will prefer some stability to prevail in the meantime. During the last general elections in 2011 (polling day on May 7), USD/SGD continued on its downward path before bottoming near 1.20 level in August. SGD strength was partially aided by the MAS' recentering (higher) move in April 2011. There are mixed views domestically but the bias is skewed toward the PAP doing better than it did in 2011. The PAP won 60.14% of the votes in 2011, its lowest performance since independence in 1965.

Chart 12: S$NEER trades with a weak bias



Source: NAB, CEIC, Bloomberg

Chart 13: Singapore interbank rates looking supported



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	Jun-17
Australian Dollar	AUD/USD	0.78	0.74	0.72	0.71	0.71	0.72	0.73	0.74	0.75
New Zealand Dollar	NZD/USD	0.71	0.64	0.62	0.60	0.60	0.61	0.62	0.63	0.64
Japanese yen	USD/JPY	123	124	125	126	126	127	127	126	125
Euro	EUR/USD	1.08	1.07	1.05	1.03	1.03	1.04	1.06	1.07	1.08
British Pound	GBP/USD	1.50	1.53	1.52	1.51	1.51	1.53	1.54	1.53	1.54
Swiss Franc	USD/CHF	0.96	0.98	1.01	1.04	1.04	1.04	1.03	1.03	1.03
Canadian Dollar	USD/CAD	1.25	1.28	1.28	1.25	1.25	1.23	1.21	1.19	1.19
Chinese New Yuan	USD/CNY	6.20	6.22	6.25	6.26	6.28	6.30	6.28	6.25	6.25

Table 2: NAB Asia Macro Forecasts

Average annual growth in GDP (%)				
	2013	2014	2015	2016
Hong Kong	2.93	2.50	2.40	2.80
Indonesia	6	5	5	5
Singapore	3.8	2.9	3.1	4.1
Taiwan	2	4	4	4
Thailand	2.85	0.90	3.00	3.80
Malaysia	4.7	6.0	5.0	5.0
S Korea	2.97	3.30	2.50	2.90
Philippines	7.2	6.1	7.0	6.4
Total	4.3	4.0	3.9	4.1

Table 3: NAB Key Macro Forecasts

Country/region	2011	2012	2013	2014	2015	2016
			% change			
United States	1.6	2.3	2.2	2.4	2.4	2.7
Japan	-0.4	1.7	1.6	-0.1	0.9	1.2
Euro-zone	1.7	-0.7	-0.4	0.9	1.4	1.8
United Kingdom	1.6	0.7	1.7	2.8	2.2	2.4
Emerging Asia	4.4	4.6	4.2	4.0	3.9	4.1
Latin America	4.9	2.5	2.5	0.9	0.6	1.1
Canada	3.0	1.9	2.0	2.4	1.5	2.1
Australia	2.7	3.6	2.1	2.7	2.5	2.7
New Zealand	1.8	2.4	2.2	3.3	2.4	2.2
Africa	5.4	4.4	5.2	5.0	4.4	4.0
Eastern Europe	5.4	1.4	2.9	2.8	2.8	2.9
Middle East	3.9	4.8	2.4	2.7	2.6	2.7
Other advanced	3.3	2.0	2.2	2.9	2.8	2.6
World	4.37	3.52	3.34	3.32	3.16	3.34

Source all tables: National Australia Bank

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

Riki Polygenis
Head of Economics, Australia
+61 3 8697 9534

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

Important Notices

Disclaimer: This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("**NAB**"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Products are issued by NAB unless otherwise specified.

So far as laws and regulatory requirements permit, NAB, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (the "**NAB Group**") does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("**Information**") is accurate, reliable, complete or current. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. The Information is not intended to be relied upon and in all cases anyone proposing to use the Information should independently verify and check its accuracy, completeness, reliability and suitability obtain appropriate professional advice. The Information is not intended to create any legal or fiduciary relationship and nothing contained in this document will be considered an invitation to engage in business, a recommendation, guidance, invitation, inducement, proposal, advice or solicitation to provide investment, financial or banking services or an invitation to engage in business or invest, buy, sell or deal in any securities or other financial instruments.

The Information is subject to change without notice, but the NAB Group shall not be under any duty to update or correct it. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

The NAB Group takes various positions and/or roles in relation to financial products and services, and (subject to NAB policies) may hold a position or act as a price-maker in the financial instruments of any company or issuer discussed within this document, or act and receive fees as an underwriter, placement agent, adviser, broker or lender to such company or issuer. The NAB Group may transact, for its own account or for the account of any client(s), the securities of or other financial instruments relating to any company or issuer described in the Information, including in a manner that is inconsistent with or contrary to the Information.

Subject to any terms implied by law and which cannot be excluded, the NAB Group shall not be liable for any errors, omissions, defects or misrepresentations in the Information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the NAB Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

This document is intended for clients of the NAB Group only and may not be reproduced or distributed without the consent of NAB. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

For distribution by WealthHub Securities: Where you have received this document via the nabtrade service (nabtrade), it is distributed to you by WealthHub Securities Limited ABN 83 089 718 249 AFSL No. 230704 ("**WealthHub Securities**"). WealthHub Securities is a Participant of the Australia Securities Exchange and a wholly owned subsidiary of National Australia Bank Limited ABN 12 004 044 937 AFSL No. 230686 ("**NAB**"). NAB doesn't guarantee the obligations or performance its subsidiaries, or the products or services its subsidiaries offer. Any material provided to you by WealthHub Securities will contain factual information or general advice. This factual information or general advice does not take into account your particular objectives, financial situation and needs, and a statement of advice will not be provided. WealthHub Securities will not give you any legal, tax, financial or accounting advice or any advice or recommendation regarding the suitability or profitability about your transactions. Before you make a decision about whether to acquire a financial product, you should obtain and read the Product Disclosure Statement available at nabtrade.com.au and consider the appropriateness of the information having regard to your particular circumstances. You agree that you will not solely rely on the information provided by WealthHub Securities or elsewhere on nabtrade.com.au when making investment and/or financial decisions. WealthHub Securities does not provide personal advice to online retail clients. WealthHub Securities receives commission from dealing in securities and from its authorised representatives. Introducers of business may directly share in this commission. WealthHub Securities and its associates may hold shares in the companies that it distributes research/information on.

The value of investments and future returns may rise or fall and, at times, returns may be negative. Past performance is not a guarantee of future performance. Please note, this material has not been verified by WealthHub Securities. WealthHub Securities does not make any representation or warranty as to the timeliness, reliability, accuracy or completeness of the material, nor does it accept any responsibility arising in any way for errors in, or omissions from, that material.

United Kingdom: If this document is distributed in the United Kingdom, such distribution is by National Australia Bank Limited, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 800 Bourke Street, Docklands, Victoria, 3008. Incorporated with limited liability in the State of Victoria, Australia. Authorised and regulated by the Australian Prudential Regulation Authority. Authorised in the UK by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

Hong Kong: By accepting this document, you represent and warrant that you are a "**professional investor**" within the meaning of the definition of that term in Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). If you think you have received this document in error, please contact NAB at Level 27, One Pacific Place, 88 Queensway, Hong Kong Ph: +852 2826 8111

If this document is distributed in Hong Kong, such distribution is by National Australia Bank Limited, Hong Kong Branch, which is licensed by the Hong Kong Monetary Authority and registered (CE Number AAO169) under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) for Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. Its main business address is Level 27, One Pacific Place, 88 Queensway, Hong Kong.

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

Japan: National Australia Bank Ltd. has no licence of securities-related business in Japan. Therefore, this document is only for your information purpose and is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action.

Singapore: This document is distributed in Singapore to institutional investors (as defined under the Financial Advisers Regulations) only.

OR

People's Republic of China: In the PRC, the Materials are directed solely at persons who would be constituted as (i) Qualified Domestic Institutional Investors in accordance with the applicable PRC laws and regulations promulgated by China Banking Regulatory Commission, China Securities Regulatory Commission or China Insurance Regulatory Commission or (ii) other eligible investors in accordance with the applicable PRC laws and regulations.

Further, the information on the Materials does not constitute "marketing or production and business activities in the PRC" as defined in the Administrative Measures on the Registration of Production and Operation Activities of Foreign Enterprises in the PRC promulgated by the State Administration of Industry and Commerce.

This publication has been provided for general information only. NAB has no licence for foreign exchange, securities-related, derivative or other capital market products in China.