Market Strategy

Essential Asia: The World is Made in China

A macro strategist's view on Asian economies and markets

National Australia Bank

4 September 2015

Talking points

- China has shaken the global financial markets with its FX policy shifts.
- Views have gone to the extremes of warning that China will lead the next global financial crisis. This is a view we do not subscribe to.
- Focus may eventually return to the US Fed's potential Quantitative Tightening (QT) journey ahead.

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Trade recommendation

Entry Date	Recommendation	Opening level	Target	Stop
31 Jul	Long USD/TWD 6MNDF	31.54	32.5*	31.0**
21 Jul	Short NZD/USD	0.6605	0.62	0.68

*Spot ref ** revised stop

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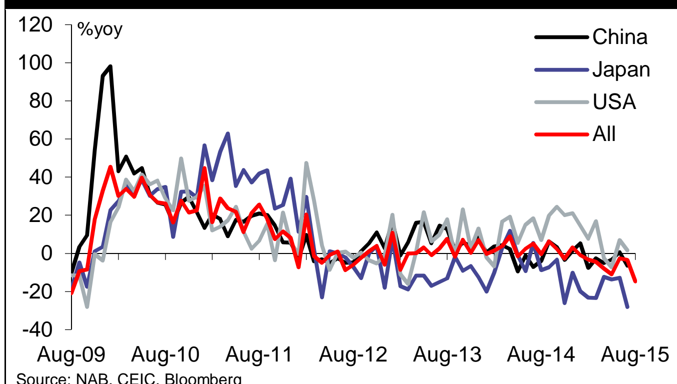
Chart of the month – Increase in USD deposits in China



Source: NAB, CEIC, Bloomberg

Recent reports

- New Asian FX Forecasts, 14 August 2015
- CNY Under Managed Depreciation, 12 August 2015
- PBoC Side-Swipes Global FX Markets, 11 August 2015
- Korea and Won Under Stress Tests, 23 July 2015

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Policy Rates

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	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	1.25	1.25	1.50	1.75	2.00
Malaysia	3.25	3.25	3.25	3.25	3.50	3.75	4.00	4.25	4.50
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	7.75	8.00	8.00	8.00	8.00
China	5.60	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35

Asian FX Forecasts

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
USD/CNY	6.50	6.55	6.60	6.62	6.65	6.70	6.68	6.65
USD/IDR	13800	14000	14200	14500	14600	14500	14300	14000
USD/INR	65.0	65.5	65.5	65.0	64.5	64.3	64.0	64.0
USD/KRW	1190	1200	1220	1250	1250	1250	1200	1200
USD/MYR	4.10	4.15	4.20	4.20	4.15	4.10	4.00	4.00
USD/PHP	46.3	46.5	46.8	46.8	47.0	46.8	46.8	46.5
USD/SGD	1.41	1.42	1.43	1.44	1.45	1.45	1.44	1.43
USD/THB	35.3	35.6	35.8	36.0	36.2	36.2	36.0	35.8
USD/TWD	32.8	33.0	33.3	33.5	33.5	33.5	33.0	32.8

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
AUD/CNY	4.68	4.59	4.49	4.57	4.66	4.69	4.74	4.79
AUD/IDR	9936	9800	9656	10005	10220	10150	10153	10080
AUD/INR	46.8	45.9	44.5	44.9	45.2	45.0	45.4	46.1
AUD/KRW	857	840	830	863	875	875	852	864
AUD/MYR	2.95	2.91	2.86	2.90	2.91	2.87	2.84	2.88
AUD/PHP	33.3	32.6	31.8	32.3	32.9	32.8	33.2	33.5
AUD/SGD	1.02	0.99	0.97	0.99	1.02	1.02	1.02	1.03
AUD/THB	25.42	24.92	24.34	24.84	25.34	25.34	25.56	25.78
AUD/TWD	23.62	23.10	22.64	23.12	23.45	23.45	23.43	23.62

The World is Made in China

- **China has shaken the global financial markets with its FX policy shifts.**
- **Views have gone to the extremes of warning that China will lead the next global financial crisis. This is a view we do not subscribe to.**
- **Focus may eventually return to the US Fed's potential Quantitative Tightening (QT) journey ahead.**

11 August – CNY devalued on PBoC's FX policy shift

A quick recap of the eventful August, starting with the PBoC delivering a surprise on 11 August, by fixing the USD/CNY central parity nearly 2% higher (please refer to: *PBoC side-swiped global FX markets*, 11 August and *CNY under managed depreciation,* 12 August). That move set global financial markets into a whirlwind. The USD index initially fell by a lesser extent, around 1.0% right after the PBoC move, recovered more than half of what was lost within a week, and then crashed another 3.8% before bottoming out and rebounding 2.5%. Overall, the USD index remains 1.7% weaker than where it was pre-August 11 CNY devaluation. Accordingly, we have revised our USD/Asian FX forecasts (see *A new normal – new Asian FX forecasts*, 14 August).

Emerging Asian FX bore the brunt of the CNY devaluation, reflected in the 2.4% decline in ADXY since 11 August. In the three days that the PBoC allowed "step devaluations", KRW, MYR and TWD were the most impacted. It is interesting to note that the FX selloff snowballed further and month-to-date, the CNY has "stabilised" somewhat with only a 2.8% fall, but the losses in the EM space were outsized with COP leading the way (-9%), followed by the MYR (-8.8%) and RUB (-8.2%). On 19 August, the Vietnamese Dong was devalued by 1% and the trading band widened to 3% each side and the Kazakhstan Tenge was devalued by over 30% after switching to a free float regime the day before.

The rout was not confined to the FX markets, but also spread to the equities and bond markets. The MSCI EM index has declined 8.4% since 10 August, a follow through in the softening trend that began in April this year, primarily driven by Fed rate hike expectations. Based on IIF Tracker estimates, there was US$4.5bn worth of net portfolio outflows from emerging markets portfolios in August. Emerging debt inflows have fallen, albeit these were overshadowed by the outflows from the equity markets. According to the IIF, the jump in risk aversion contributed to the heaviest equity outflows this month since the taper tantrum of -US$8.7bn. Available data suggest that bond flows weakened less dramatically to US$4.2bn from US$6.2bn in July. On a regional basis, EM Asia saw the sharpest retrenchment in over two years and EM Europe experienced a seventh consecutive month of outflows.

China pushes Fed off September hike?

With more than US$5tn wiped off the value of global shares in August on the back of China, investors are duly worried about whether the global financial markets can weather a US Fed hike at this point. Consequently, many have made it their full time job to eyeball the Chinese equity markets. Bearish sentiment gathered more steam whenever international media reports made "the Chinese government stepping away from the stockmarket" the main headlines.

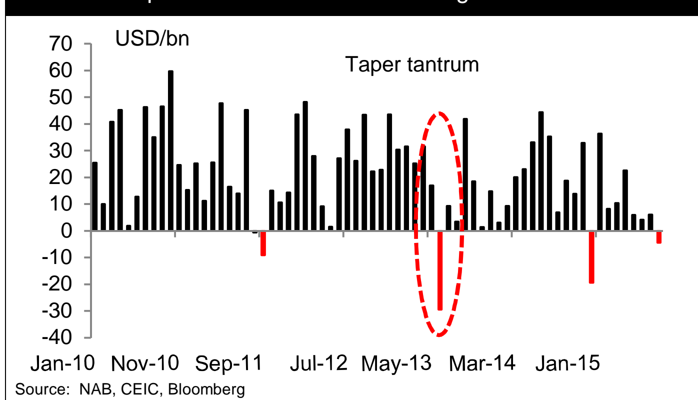
If anything, the Chinese authorities may not be directly supporting the equities market, but will continue to impose measures that are aimed at stabilising the stockmarkets. In fact, the government also acknowledged that it has resumed large scale stock buying recently, aimed at providing a "positive market environment" ahead of the big military parade on 3 September.

We do not subscribe to the view that China will trigger the next global financial crisis. The FX policy shift is small relative to China's REER appreciation over the past 18 years and liquidity conditions have improved vastly compared with past crisis periods. We believe that focus will eventually shift back to the Fed's quantitative tightening and the liquidity withdrawal impact.

What did we say?

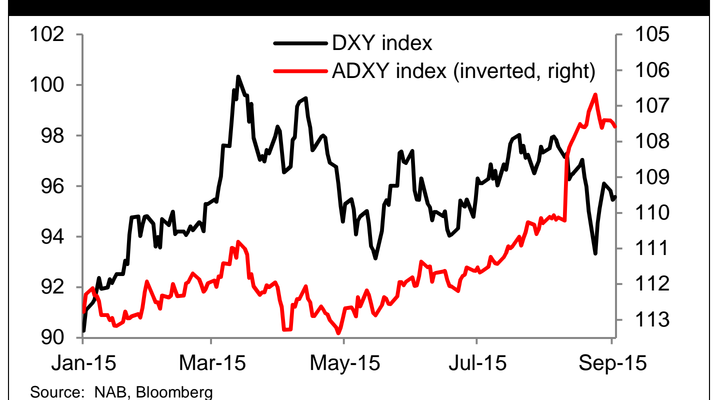
We assessed on 25 August morning that the "made in China" financial markets panic will continue to reverberate within Asia. Focus remains on the daily fix.The vicious cycle of weaker Shanghai equities and weaker CNY leading to further risk off within Asia will persist until the "China" loop breaks, perhaps by way of a massive RRR cut or interest rate cut, paving the way for higher walls of support in equities and liquidity. For Asia, those fx with higher stresses in the rates markets may be more at risk and vulnerable in September, depending on Fed risk event. The PBoC cut rates and RRR the same evening, but it looks like more is needed.

Chart 1: EM portfolio flows reversed in August



Source: NAB, CEIC, Bloomberg

Chart 2: Asian currencies bore the brunt of CNY deval led selloff



Source: NAB, Bloomberg

China Spotlight: Redback wakes greenback bulls

- **China's FX policy shift on 11 August triggered a risk off tsunami in global financial markets.**
- **Growth data further affirms slowdown risks, but the small CNY devaluation will have limited impact in shoring up growth.**
- **China's "QE" is now on a head-on collision path with the US Fed's QT.**
- **Our economists expect one more rate cut before the end of this year and more RRR cuts in the offing.**

CNY devaluation not a panacea for China's growth woes

August PMI came in within expectations at 49.7, but it affirms that manufacturing is officially in contraction mode. As if that is not dire enough, the last time the reading was worse than this was three years ago. Also worth a mention is the Caixin Services PMI, which fell to 51.5 from 53.8. The stockmarket crash is likely a strong contributor to the significant drop in services PMI and further consolidation is probable.

The FX policy shift to devalue the CNY is expected to have limited impact in shoring up overall growth prospects this year. The magnitude is simply too small in relation to how much the CNY has strengthened on a REER basis. While the PBoC has complemented the monetary easing by imposing another 25bp rate cut and RRR cut on 25 August, it is still an open question whether all these easing moves will be effective in lowering lending rates and supporting credit. Thus far, the trickle down effect has been dismal.

Growth risks remain skewed to the downside. The Tianjin port blasts on 12 August added another element of risks to overall growth, with insurance claims on damages potentially exceeding US$1.5bn. In addition, disrupted activities at the port, the tenth largest by global measures, and the largest man made, has yet to be assessed. While most of the port has remained in operation, damage to warehousing and factory facilities has been severe. In addition, road closures have interrupted the usual flow of goods to and from the port and surrounding area. The disruption is likely to spread along supply chains.

Capital outflows risks an added weight on redback

Capital outflows have been a burning issue this year and a greater concern for the past few months on signs of acceleration. Latest data in July showed a huge spike in unexplained capital flows (see chart) and the PBoC's balance sheet showed a CNY308bn decline in CNY positions to CNY26.4tn. Capital outflows risks will continue to cloud sentiment and diminish expectations of a meaningful CNY rebound in the near term.

A more eventful September ?

Risk aversion is expected to follow through, with the VIX staying elevated above 26.0, its highest since October last year, after spiking to above 50. Based on the latest observations on the ground (in China), we consolidated three key views shared by Ministry of Commerce, the PBoC and also some academics. The three main points are:

1) The CNY will continue to depreciate in the foreseeable future, potentially to 6.8.
2) The political motivation for the FX policy shift is to maintain its global economic status and also prevent it from being overtaken.
3) At the same time, entry into the SDR will be a symbolic event of adding to China's global voice, but may not mean much in itself.

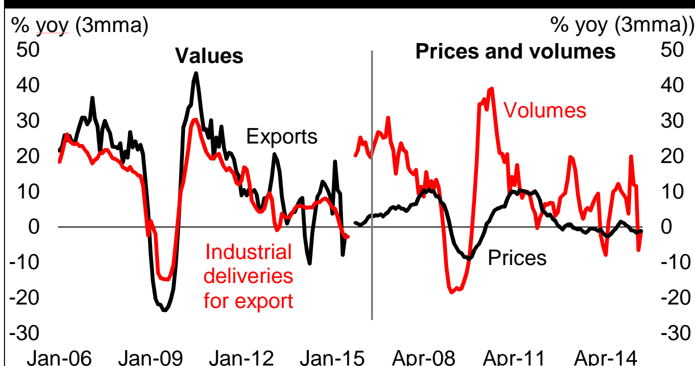
Justification and triggers

According to our economists, the deterioration in China's competitiveness through the last five years is evident in its relative export prices. The price of Chinese goods imported into the US has not fallen by anything like the extent of goods brought in from its East Asian competitors.

The prices of Chinese goods landed in Japan have risen far more than competing products from other Asian countries. This highlights the clear loss of Chinese price competitiveness in key global markets – due in a large part to the Yuan's soft peg to the US dollar (which has strengthened in recent years) and recent US dollar appreciation.

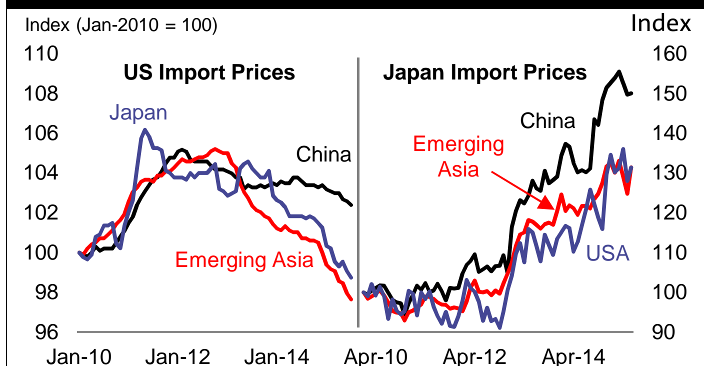
This erosion of Chinese competitiveness along with sluggish world trade has resulted in a weak Chinese export growth performance in recent years. Goods exports are trending lower, reflecting weakness in both volumes and prices.

Chart 3: China's exports performance have been downbeat



Source: NAB Economics, CEIC,

Chart 4: CNY strength leading to loss of price competitveness



Source: NAB Economics, CEIC

All these combined were more than sufficient justification to reform FX to be more external-sector growth supportive. Then there was also the the IMF report titled “Review of the method of the valuation of the SDR” as a trigger for the timing of the move in August.

The IMF Article IV Consultation on China further urged FX reforms via rule-based changes, with special mention of the central parity. The IMF suggested pointedly that a transition to a more flexible FX regime could be through a more flexible central parity (as in Russia), or by widening the band and limiting interventions to the edge of the band (as in Poland).

“Managed Depreciation” to stay thematic

China’s “QE” is now on a head-on collision path with the US Fed’s QT, so the Chinese authorities are cognizant of external risks and are on their guards. The authorities’ short term objective is to close the gap between the central parity rate and the market rate. While the Chinese authorities were probably referring to onshore CNY trading, it is CNH that is more reflective of market sentiment. Hence that has probably triggered the central bank to intervene not only in the onshore CNY market, but it has also sold USD/CNH outside Asian hours.

The medium term objective is to allow the market to play a bigger role in setting the exchange rate ‘‘to facilitate the balancing of international payments.” If this is the case, it suggests that future PBoC management of FX movements will be more oriented toward capital account flows as well. That could also mean allowing CNY appreciation should inflows return in a meaningful way.

Hence, we would expect "managed depreciation" to be the theme as the PBoC "will monitor the market condition closely, stabilizing the market expectation and ensuring the improvement of the formation mechanism of the RMB central parity in an orderly manner.’’

As mentioned earlier, the PBoC has been sighted intervening in the onshore CNY, and has extended its activities to the CNH and the onshore swap market. As a consequence of its intervention in the spot market, onshore CNY liquidity has tightened significantly and onshore rates have spiked higher and stayed elevated, especially in the short end. To ensure sufficient liquidity in the interim before the RRR cut takes effect, the PBoC cut RRR and also injected CNY340bn cash via Short Term Liquidity Operations (SLO) and also extended CNY110bn via the Medium term Lending Facility (MLF).

More easing ahead

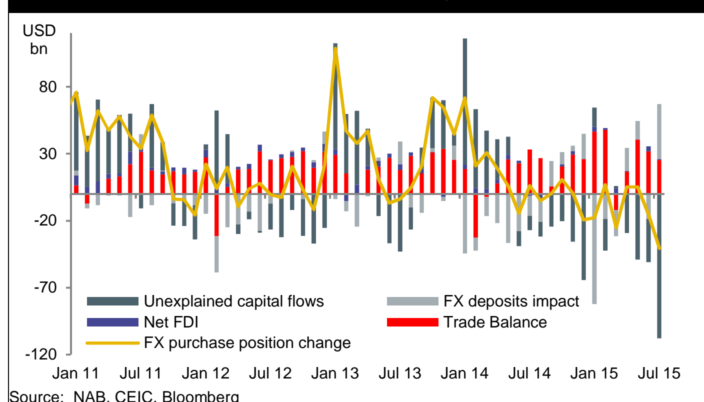
In light of the ongoing weakness in the industrial sector, and uncertainty in non-equity related service sector growth, our economists believe that another rate cut is likely in Q4. We tend to agree that after that, the heavy economic lifting is likely to come from fiscal policy and FX movements. Comments from a Chinese official sums up the policy bias when he said that a major appreciation in the CNY is unlikely in the next two years.

Win, lose or hedge

That the CNY will no longer be a one-way bet has been reinforced since 11 August. Hedging risks will now move visibly higher, and in a structurally meaningful way. Dealogic data shows Chinese companies had about US$368bn in dollar-denominated debt outstanding as of 12 August. Bloomberg data estimated that companies face more than US$17bn in extra costs on overseas liabilities. Understandably, local corporates were actively rebalancing their debt ratio by buying USD/CNY onshore to repay some USD debt. A common trait of FX assets "undermatching" FX liabilities will also make hedging a more urgent issue. To make matters worse, hedging costs are much higher now (see chart 6 on onshore swap points).

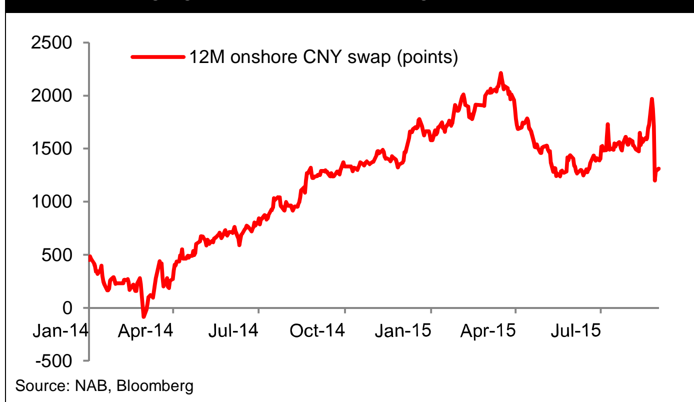
The PBoC further raised the challenge a notch higher on 1 September, as it issued a new regulation requiring onshore banks to hold 20% USD reserves on short USD/CNY forward positions. The regulation is slated to take effect on 15 October and the PBoC will be holding monthly reviews. The regulations will effectively deter banks from holding short USD positions and encourage wide bid-offer spread. Clients who want to buy USD/CNY outright on the forward curve will face significantly higher prices and may eventually move to offshore curves. This may and should lead to higher CNH forward curves, but investors will also be mindful that the PBoC has recently intervened in the USD/CNH market. There is some talk amongst dealers that the underlying motivation is to remove the risk of CNY devaluation bets in the onshore forward curves. However, such bets are quite subdued right now looking at 1Y CNY fwd points at around 1000pts and outright about 6.47, implying about 1.5% depreciation. Another alternative for corporates to hedge their FX exposure is to issue more RMB bonds.

Chart 5: Capital outflows worsened in July



Source: NAB, CEIC, Bloomberg

Chart 6: Hedging costs have spiked higher



Source: NAB, Bloomberg

Korea Spotlight: China's twin and proxy

- **In light of the emerging risks from China and the CNY, we revised USD/KRW forecasts upward to 1200 for end 2015 from 1180 previously.**
- **Downside risk to growth from MERS may have diminished, but China's slower growth prospects add another element of threat.**
- **The KRW may succumb to further weakness on proxy bets against China**

Korea moved from MERS to China

There have been some glimpses of hope for a modest economic recovery after the end of the MERS outbreak. For instance, department store sales returned to positive growth territory in July after slumping in June. Both consumer confidence and business sentiment edged up in August. To bolster consumer spending, the government has announced plans to cut consumption taxes on items such as cars and large electronic goods for the rest of the year.

However, rising growth risks in China may hurdle any meaningful recovery ahead. The latest slew of macro data have affirmed the fears, as they showed the lingering impact from MERS, and perhaps the first impact from China's stockmarket crash and CNY devaluation. Both August exports and import growth registered deeper than expected yoy contractions of 14.7% and 18.3% respectively. Exports account for about half of Korea's GDP and more than 30% of Korea's exports go to China. In addition, Q2 short term external debt has risen to $121.2bn from $112.8bn in Q1. This continues to be a concern for the BoK and a deterrent to easing monetary policy too much. The policy dilemma will remain, exerting pressure for a weaker KRW.

The KRW is highly sensitive to CNY movements

The KRW has fallen 7.2% year-to-date, and the bulk of it (5.5%) has happened over the last three months, co-inciding with the onslaught from China's stockmarket crash. Understandably, the KRW has been one of the regional currencies that is highly sensitive to CNY movements. When the 11 August CNY devaluation was announced, the KRW lost 1.3% in a single day, slightly less than the SGD, which fell 1.4%.

Going forward, the transmission mechanism via the usual trade and also investment channels will likely play out and exert more pressure on the KRW to weaken further. China's CNY devaluation move is also an acknowledgment of a dimmer growth prospects and accordingly, a dimmer outlook for Asian exports in the medium term. This may in turn sustain market expectation of competitive devaluations or some sort of competitive easing in the region. Most Asian economies are also expected to prolong their accommodative monetary policy stances in view of downside risks to growth as well as minimal inflationary pressure.

In a unanimous decision, the Bank of Korea kept its policy rate unchanged at a record low of 1.5% at its August meeting. Low inflation has given the BoK room to keep monetary policy loose. Headline consumer price inflation came in at 0.7% y/y in July, unchanged from the month before and well below the 1.3% average recorded in 2014 and the BoK's target of 2.5-3.5%. Meanwhile, earlier fears about the strength of the won against the yen have faded, with the won now trading at its weakest level against the yen year to-date.

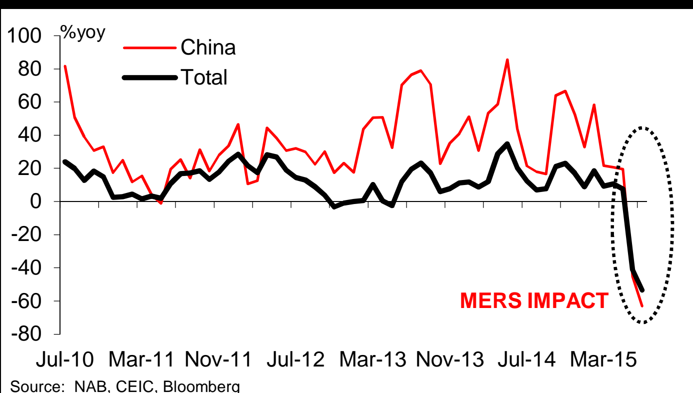
The Bank's statement notes that the global economy should sustain its modest recovery, although uncertainty has increased due to timing of US monetary policy changes and Chinese Yuan devaluation. Exports have remained weak, however domestic economic conditions have improved following the MERS outbreak – with consumption and sentiment better. Expect a trend recovery going forward, but greater uncertainty around the domestic economy. Inflation remains low, and the Bank anticipates further depreciation of the Won.

GDP was already revised lower due to MERS, but we may see further revisions due to the impact of the CNY policy shift. While MERS was over sooner than expected, risk around China and Japan encourages our economists to keep rate their forecast rate track unchanged.

KRW as a proxy to CNY devaluation bets?

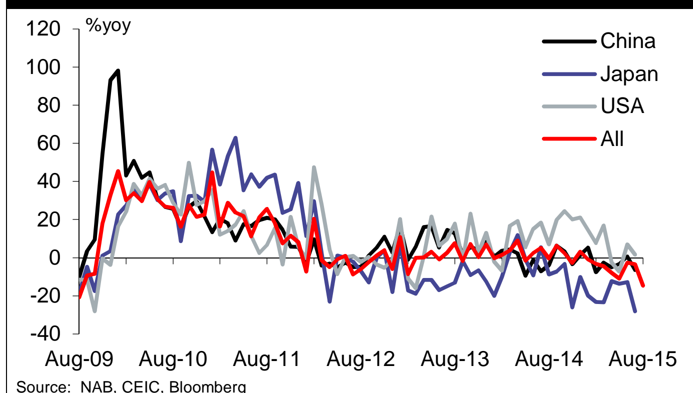
The latest PBoC regulations requiring onshore banks to maintain a 20% USD reserves on short USD/CNY forward positions may deter heavy bets on CNY devaluation risks ahead in the near term. The KRW's less regulated environment may then encourage investors to go long USD/KRW as a proxy play for weaker CNY bets.

Chart 7: Lingering MERS impact showing in tourism data



Source: NAB, CEIC, Bloomberg

Chart 8: Korea's exports to main destinations on the decline



Source: NAB, CEIC, Bloomberg

India Spotlight: Catching up with the region

- **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.**

Q2 GDP disappointed

Q2 GDP disappointed with 7.0% yoy growth vs market expectations of 7.4%, and a slowdown from the 7.5% rise in the previous quarter. Latest trade data also showed a wider than expected trade deficit of US$12.8bn vs US$10.8bn in June. While the recent macro data highlights downside risks to official growth forecast of 8.1% for fiscal 2016, there is also the risks of revisions ahead given that this is a new computation method. In other words, the GDP data in its own may not be a major driver for RBI policy outlook, but China risks as well as easing inflationary pressure and weak trade performance may have bigger bearings for another easing move. In the event that the US Fed holds off hiking rates in September, it may provide the RBI the window to ease before year end.

INR succumbs to global panic

The Indian rupee went from a regional outperformer to the top four worst performing Asian currencies in August. The INR fell 3.1% vs the USD, slightly lesser than the Indonesian rupiah, which fell 3.2%. However, year-to-date, the INR's decline (-5.1%) showed its relative resilience to a firmer USD trend as well as China's growth risks. Comparatively, the other Asian currencies like the SGD, KRW, THB all fell more, between 6-8%. The IDR and MYR were the "abandoned" ones with 12% and 16.6% depreciation.

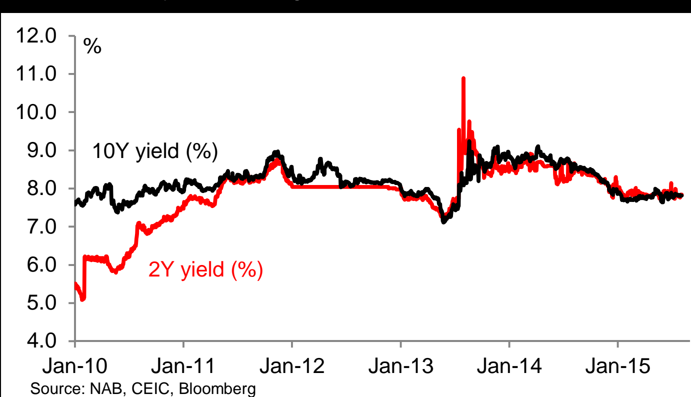
Admittedly, the recent decline in the INR has picked up pace, partly due to foreigners exiting from Indian equities and debt markets. August net sales of Indian shares totalled US$2.5bn, coupled with US$116mn worth of net sales in Indian bonds. This was a shift from July when foreign investors were getting increasingly selective with regards to Asian assets and hadshifted buying interests to Indian equities and to a lesser extent, Indian debt. Foreign investors on net bought over US$900mn worth of Indian stocks and shares and US$5mn worth of Indian government bonds last month (see chart 10).

It appears that while China may have stoked the global risk-off sentiment, there is also some emerging fear about the US Fed's QT and the double whammy these event risks may exert on Indian assets. Hence, limited growth risks and sensitivity toward CNY movements notwithstanding, the INR may still succumb to further weakness, in light of unwinding of carry trades across emerging markets.

Arising questions about RBI credibility

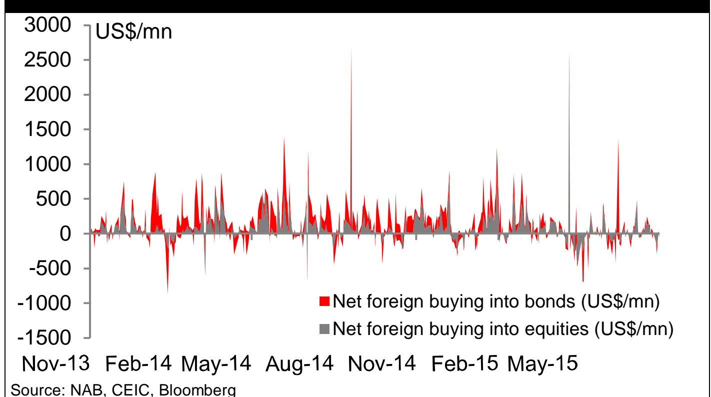
The Finance Ministry has recently raised its voice with regards to its preference for further monetary easing. This may lead to foreign investors' concerns about the RBI's independence, a risk that is not welcomed nor necessary at this juncture. Members of the Finance Ministry have been lobbying for further interest rate cuts following the drop in inflation in July. The Finance Ministry also recently proposed the make-up of the voting monetary policy committee, which could undermine the RBI's control. The proposal suggests a seven member MPC, with three appointed by the RBI and the remainder by the government. It remains to be seen whether the draft will be adopted but any perceived erosion of independence could lead to a recovery in inflation expectations prematurely and may eventually put the inflation target at risk.

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 in October

- **Macro outlook for H2 is less upbeat and risk of a technical recession has risen visibly.**
- **With risks from China persisting, another monetary loosening move by the MAS in October looks more probable.**
- **We expect any uptick in S$NEER above the mid-band to be temporary and brief, with the bias skewed towards a recentering of the S$NEER (lower).**
- **Should growth data indicate a technical recession in Q3, the MAS may then reduce the slope of the S$NEER band to zero.**
- **A band widening of the S$NEER cannot be totally ruled out too.**

Macro indicators display downbeat trend

Singapore's Q2 final GDP contracted 4.0% qoq on an annualised basis, while better than the advanced estimate of a 4.6% drop, this was still a sharp turnaround from growth of 4.1% in Q1. In yoy terms, the economy expanded by 1.8% in Q2.

The breakdown by industry showed that the overall growth performance was dragged lower by the manufacturing sector. It shrank by an annualised 18.3% qoq, with the Ministry of Trade and Industry saying that the biomedical and transport engineering sectors were the main drag factors. The services sector contracted by 1.1%, while construction activity rose by 2.9%, but insufficient to offset the declines in other sectors. While some sort of rebound is possible in coming quarters, a sustained recovery in export growth looks unlikely, in view of a slowing China and recent stresses in the global financial markets.

In the last Essential Asia, we held the view that the base case was for the MAS to hold the current policy stance in October, and at the same time highlighted that there is a greater probability of an easing move. In light of the recent development including CNY devaluation, rate cuts in China and downside risks to domestic growth outlook, we now shift our view and expect the MAS to a recenter the S$NEER (lower) in October. Should growth data indicate a technical recession with another qoq contraction in Q3, the MAS may then reduce the slope of the S$NEER band to zero instead. Will the MAS widen the trading band? It's possible as well and it can be justified by the spike in SGD volatility to levels last seen during the European sovereign debt crisis in 2012, and even higher than the taper tantrum in 2013 (see chart 12). The last time the MAS made a widening band move was in October 2010, when the S$NEER repeatedly tested the upper end of the band (ie. SG$ strong) and maintained the wider trading band until April 2012.

Stresses within the financial markets are starting to show up in the spike in interbank rates. In fact, the Swap Offer Rate (SOR) has spiked above SIBOR and this is an anomaly (see chart 13) and could partially be attributed to the risk off environment led by China and heightened caution ahead of FOMC. The SOR rate is the cost of borrowing SG$ synthetically by borrowing US$ for the same tenor and swapping out the US$ in return for the SG$.

Table 1: Macro indicators have disappointed yet again

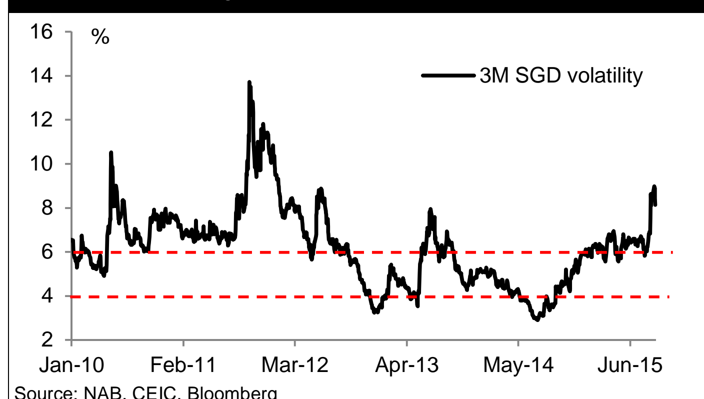
	IP	CPI	PMI	NODX
Actual	-6.1%	-0.4%	49.3	-0.8%
BBG consensus	**-4.0%**	**-0.2%**	49.4	0.0%
Previous	-4.0%	-0.3%	49.7	+4.5%

General elections on 11 September 2015

The General elections will be held on 11 September 2015. The outcome is not expected to have a significant impact on Singapore's financial markets. The first elections without the late Mr Lee Kuan Yew will see voters in every district having at least two political parties to choose from. This will be a first, though there is still the probability of walkovers. There will be 2.5mn eligible voters, voting for members of parliament in 13 single seat constituencies and 16 group districts. The number of seats in parliament will increase to 89 from 87. Currently, excluding the late Mr Lee, 79 of the 86 elected members of parliament are from the People's Action Party (PAP) while the rest are from the Worker's Party (WP).

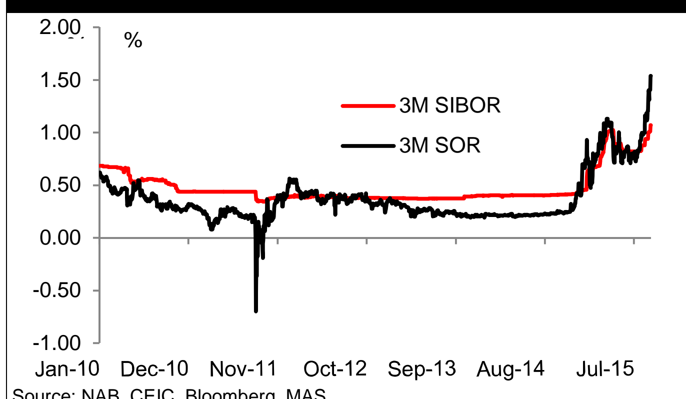
The late Mr Lee's constituency Tanjong Pagar will have a chance to vote for the first time sinve 1988. The PAP won 60.14% of the votes in 2011, its lowest performance since independence in 1965.

Chart 12: SGD volatility above MAS' comfort range, increasing risk of band widening



Source: NAB, CEIC, Bloomberg

Chart 13: Swap offer rate spiked above SIBOR



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	0.72	0.70	0.68	0.69	0.70	0.70	0.71	0.72
New Zealand Dollar	NZD/USD	0.64	0.62	0.60	0.60	0.61	0.62	0.63	0.64
Japanese yen	USD/JPY	124	125	126	126	127	127	126	125
Euro	EUR/USD	1.07	1.05	1.03	1.03	1.04	1.06	1.07	1.08
British Pound	GBP/USD	1.53	1.52	1.51	1.51	1.53	1.54	1.53	1.54
Swiss Franc	USD/CHF	0.98	1.01	1.04	1.04	1.04	1.03	1.03	1.03
Canadian Dollar	USD/CAD	1.33	1.35	1.37	1.36	1.34	1.34	1.33	1.30
Chinese New Yuan	USD/CNY	6.50	6.55	6.60	6.62	6.65	6.70	6.68	6.65

Table 2: NAB Asia Macro Forecasts

Average annual growth in GDP (%)				
	2013	2014	2015	2016
Hong Kong	2.9	2.5	2.4	2.8
Indonesia	5.8	5.0	4.6	4.5
Singapore	3.8	2.9	3.1	4.1
Taiwan	2.1	3.8	3.5	3.9
Thailand	2.8	0.9	3.0	3.8
Malaysia	4.7	6.0	5.0	5.0
S Korea	3.0	3.3	2.5	2.9
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	2017
	% change						
United States	1.6	2.2	2.2	2.4	2.3	2.6	2.5
Japan	-0.4	1.7	1.6	-0.1	0.9	1.2	1.1
Euro-zone	1.7	-0.7	-0.4	0.9	1.4	1.8	2.1
United Kingdom	1.6	0.7	1.7	3.0	2.6	2.4	2.3
Emerging Asia	4.4	4.6	4.2	4.0	3.8	4.0	4.2
Latin America	4.9	2.5	2.5	0.9	0.5	1.1	1.4
China	9.3	7.8	7.7	7.4	7.1	6.9	6.5
Canada	3.0	1.9	2.0	2.4	1.5	2.1	2.0
Australia	2.7	3.6	2.1	2.7	2.6	3.0	3.3
New Zealand	1.8	2.4	2.2	3.3	2.4	2.2	2.1
India	7.7	6.8	6.4	7.1	7.6	7.6	7.8
Africa	5.4	4.4	5.2	5.0	4.4	4.0	4.4
CIS	4.8	3.4	2.2	1.0	-2.0	-1.5	1.0
Eastern Europe	5.4	1.4	2.9	2.8	2.8	2.9	2.8
Middle East	3.9	4.8	2.4	2.7	2.6	2.7	2.8
Other advanced	3.3	2.0	2.2	2.8	2.9	2.8	2.6
World	**4.4**	**3.5**	**3.3**	**3.3**	**3.2**	**3.3**	**3.4**

Source all tables: National Australia Bank

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