5 September 2017

ESSENTIAL ASIA

Take cover from the Pyongyang Tantrum

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Talking Points

- Geopolitical tension has risen visibly, as North Korea decided to up the provocations with its successive missile launches and also underground nuclear tests.
- China's patience is being tested, while US President Trump has been firing verbal responses initially targeted at Pyongyang, China and then extended to all who trades with Pyongyang.
- CNY plays up its role as an anchor of stability, while the KRW looks more vulnerable.

Recent Reports

- 30 Aug 2017 – Australia Economy Watch: Construction cycle extends
- 14 Aug 2017 – China Economic Update: Data returning to trend after strong June
- 10 Aug 2017 – Asia Dashboard: Hong Kong - HKD risk premium staved off for now

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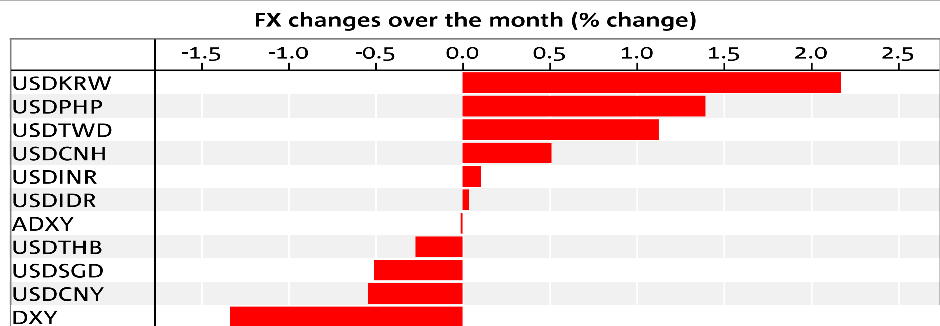
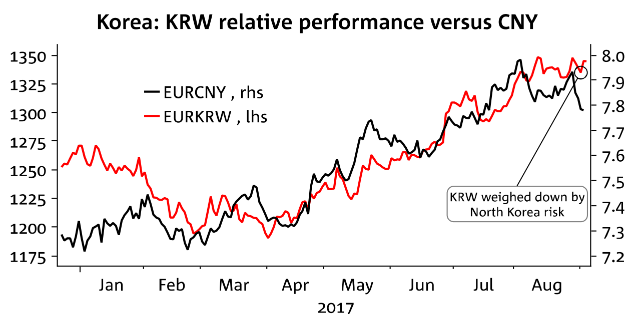
Asia FX in June



Source: National Australia Bank, Bloomberg, Macrobond

Chart of the month



Source: National Australia Bank, Bloomberg, Macrobond

Asia Policy Rates

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Korea	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Malaysia	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00
India	6.75	6.50	6.50	6.25	6.25	6.25	6.00	6.00
Indonesia	5.50	5.25	5.00	4.75	4.75	4.75	4.50	4.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35

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TAKE COVER FROM THE PYONGYANG TANTRUM

- **Geopolitical tension has risen visibly, as North Korea decided to up the provocations with its successive missile launches and also underground nuclear tests.**
- **China's patience is being tested, while US President Trump has been firing verbal responses targeted at Pyongyang, China and then extended to all who trade with Pyongyang.**
- **In the meantime, the CNY plays up its role as an anchor of stability, while the KRW looks more vulnerable.**

Pyongyang's successive provocations and actions that appear to have crossed some key thresholds are expected to keep investors on their toes into the month. While there is still little conviction that all these will escalate into a full blown military response, the relentless show of defiance from North Korean leader Kim Jong Un is increasingly seen as a game of dare on its allies China and Russia. Investors are expected to brace for more volatilities ahead.

Moon and Xi staying put in the diplomatic arena

Despite the repeated provocation from North Korea, South Korean President Moon and Chinese President Xi have on balance maintained their diplomatic stance. While expressing frustration and anger, and promising to seek punitive measures that will force Pyongyang to give up its nukes, President Moon continued to urge Pyongyang to return to the path of dialogue. Additionally, an unnamed official from Moon's office has been cited as saying that it is still unclear whether this latest nuclear test crosses a "red line" that Moon had previously set. President Moon had previously placed this threshold at the completion of a nuclear ICBM but the official suggested that it is still unclear that both the missile and miniaturization technology have been completely mastered by Pyongyang. Seoul's reaction seems to be the canary in the coalmine for now and as long as it keeps singing, the market may refrain from hitting the panic selloff button. President Xi has relied on his foreign ministry to send the message which condemns Pyongyang's actions, but the Global Times, which tends to reflect Beijing's views, warned against cutting off North Korea's oil supply. Coincidentally, China Central Television began to telecast a six-episode political documentary series titled "Major Country Diplomacy" on August 28th. This is deemed a display of major progress in China's diplomacy under President Xi as China's chief diplomat over the past five years, documenting his visits to 56 countries since taking office in 2013.

Trump and Abe's "nuke for nuke" stance

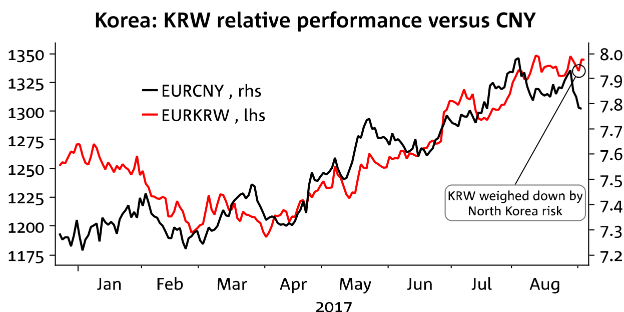
President Trump may have toned down his rhetoric on Pyongyang, but the latest statement from the White House is that the US is ready to use its nuclear capability if North Korea continues to threaten US territories or allies. Japan and the US appeared to be more aligned in terms of standing ready for military response after North Korea recently launched a few missiles that landed over Japan. The Japanese prime minister said Japan will do its best to co-operate with the United States to protect itself from any missile that North Korea has fired. He added that the country would increase its missile defense and capacity.

Markets in the middle of the Pyongyang tantrum

Investors are expected to shift preference to safehaven trades and stay wary of the potentially destabilising Pyongyang tantrum. The panic "selloff" button has not been triggered, short JPY positions are still in place, albeit reduced. China holding firm in its diplomatic stance and also anchoring stability by allowing CNY appreciation is helping to instil some calm as well. In addition, macro data across Emerging Asia has been improving and underpinning appetite for Asian assets, especially when juxtaposed against market discounting Fed hike this year. So, while being watchful, investors are also being selective in their defensive plays. The KRW looks most vulnerable and the government is warning that the impact on financial markets may not be limited to the short term and may deploy contingency measures. A downgrade in South Korea's sovereign ratings could be an increasing risk should the situation worsen further.

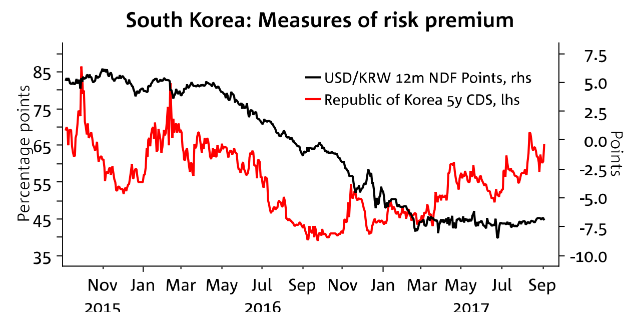
The CNY, on the other hand, may continue to outperform against its trade weighted basket, with stability a key policy priority in the run up to its 19th National Peoples' Congress on October 18th. A new CPC Central Committee and a new Central Commission for Discipline Inspection will be elected at the congress. Chart 1 below shows the divergence between EUR/CNY and EUR/KRW trends, a clear reflection of the impact from the rising tension in the Korean peninsula. However, relative to Korea 5Y CDS, the KRW NDF points appear to be under-pricing the geopolitical risks and suggests more scope for further rightward shifts in the KRW NDFs.

Chart 1: Pyongyang tantrum drives divergence



Source: National Australia Bank, Bloomberg, Macrobond

Chart 2: KRW risks appear underpriced relative to CDS



Source: National Australia Bank, Bloomberg, Macrobond

CHINA SPOTLIGHT:

From stable to supercharged?

- **The CNY may maintain its appreciation bias in the run-up to the 19th Communist Party National Congress on October 18th.**
- **There is also rising conviction that the strength may extend towards the end of 2017, provided the USD stays soft.**
- **Geopolitics may be a double-edged sword for the CNY, but China is still inclined to maintain diplomacy and prioritize market stability for now.**

The CNY outperforms

USD/CNY fell 0.7% in July and nearly 2% in August, breaking through key levels of 6.70 and 6.60 in a single month. Whilst market conviction of CNY appreciation has been increasing, the momentum has caught many investors by surprise. A key trigger for USD/CNY to break 6.60 could be the USD index breaching the 92.0 level in late August. However, there appears to be an increasing willingness to allow not just bilateral CNY strength vs the USD, but also CNY outperformance against other non-USD currencies within the basket. This is observed in the strong daily CNY central parity fix even though the USD index has staged a mild recovery above 92.0. Also, while there was some hesitation before USD/CNY breached 6.7 in early August and some of the weakness could be deemed catching up with the USD's persistent softness, there appears to be a subtle shift towards allowing CNY outperformance towards in the later part of August. The RMB index rose 1.8% in August, a strong divergence relative to the flat performance in July.

That the CNY strength is occurring at the same time as rising geopolitical tension in the Korean peninsula is a key indication that the Chinese authorities are displaying commitment to maintain financial market stability. This may not be a permanent policy stance, but perhaps could be maintained until the 19th National People's Congress on October 18th.

A politically-charged CNY

The 19th CPC National Congress will review the Party's work over the past five years, amongst other things under the leadership of the CPC Central Committee with Xi Jinping at the core since the 18th CPC National Congress. During the session in Beijing, a new CPC Central Committee and a new Central Commission for Discipline Inspection will be elected.

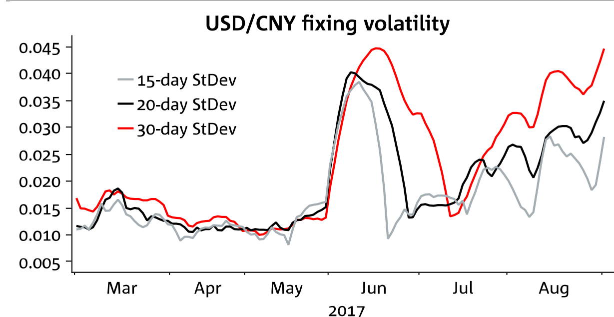
The work report is expected to show progress along the lines of recent reforms and anti-corruption drives. Recent macro data will also help provide some assurance that China is well on track to meet its growth target of 6.5%. The drive to enhance the quality of growth is expected to be emphasised.

Further CNY strength post NPC is a possibility

There are more reasons to believe that CNY strength may extend into the end of 2017. China's GDP could potentially overshoot the 6.5% official target, Trump's trade policies are expected to be more threats than actual war and global growth is recovering at a steady pace towards trend. Even if geopolitical tension involving North Korea persists, China may still be inclined to maintain diplomacy and prioritize market stability and this could sustain a stronger CNY. In addition, expectations of CNY appreciation appears to be taking hold with greater conviction. The CNY has edged back to being ranked the top 5 global payment currency according to SWIFT's data in July. The proportion of international currency payments made in CNY rose for the third consecutive month in July to 2% from 1.98% in June, the highest level since last November.

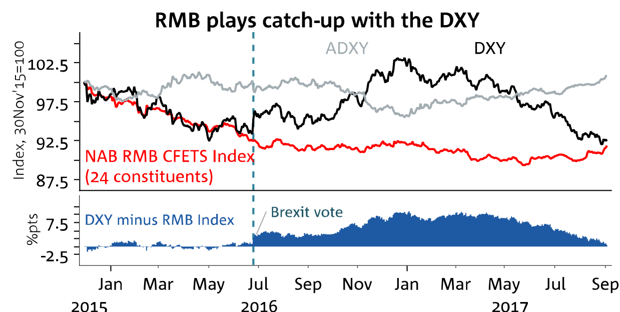
However, we are still mindful of the Fed's balance sheet reduction and rate hikes and the potential recovery of the USD, however modest, over the next few months. A stronger CNY may also be expressed via an appreciating RMB index while n USD/CNY tracks the general USD trend. Hence, we are maintaining our recently revised USD/CNY forecasts for end 2017 at 6.67.

Chart 3: USD/CNY fixing vol suggests behavioural shifts



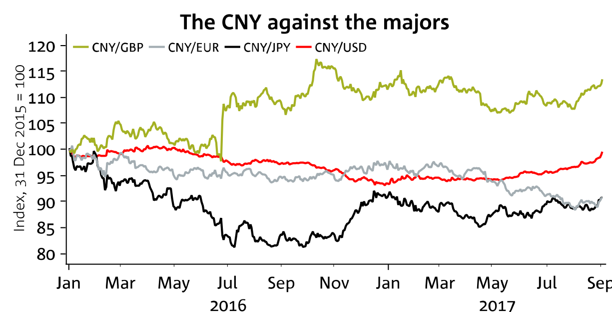
Source: National Australia Bank, Bloomberg, Macrobond

Chart 1: Slight tightening in monetary conditions



Source: National Australia Bank, Bloomberg, Macrobond

Chart 3: CNY profile vs other currencies improves



Source: National Australia Bank, Macrobond

KOREA SPOTLIGHT:

Trouble with the neighbours

- **North Korea's latest provocations again take the limelight with a missile launch over Japan and a much more powerful nuclear test.**
- **Seoul is still taking care to emphasize that diplomacy is still the preferred way to go but more pressure is likely to be piled onto Pyongyang.**
- **Fiscal and monetary will continue to be expansionary to buffer against the geopolitical uncertainty.**

Calm in the face of the storm

September has begun as August ended, with sequential provocations from North Korea that are likely to see Korean and possibly other Asian equity markets reflect the growing uncertainty, despite a fairly strong Q2 GDP growth number. Both fiscal and monetary policy are likely to remain accommodative for the time being given the lack of debt or inflation constraints.

Overall, the KRW and Kospi have exhibited an inordinate level of calm amidst the increasingly provocative actions from North Korea, and from a more aggressive US President Trump. However, September could see a bit more risk priced into both markets.

The rowdy neighbour gets rowdier

Two very recent events have elevated risks to a significantly higher level and the reactions of North Korea's neighbours reflect this. Towards the end of August, North Korea shocked Japan by firing a missile over its northernmost island of Hokkaido. Although it landed in the ocean 1200km east of Hokkaido, this brazen demonstration of its range capability, in light of its recent threats against the US territory of Guam, has increased tensions with multiple regional partners.

Perhaps even more disturbing was North Korea's sixth nuclear test in early September 2017. This came a year after the fifth test and estimates suggest it was between 5-10 times the size of the previous test explosion. Additionally, Pyongyang claims that it has successfully miniaturized it to fit onto an intercontinental ballistic missile (ICBM) that could presumably hit the US mainland.

South Korea seeks a delicate balance

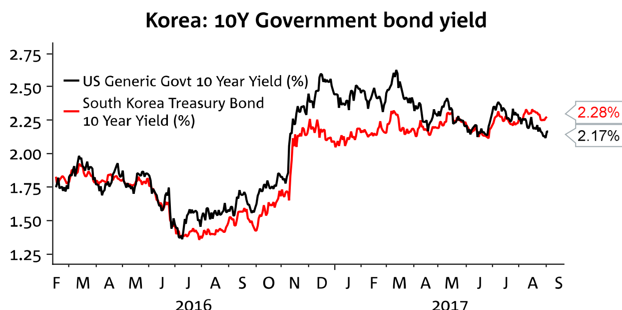
South Korean President Moon Jae-in though has tried to preserve some space for diplomacy. While expressing frustration and anger, and promising to seek punitive measures that will force Pyongyang to give up its nukes, Moon continued to urge Pyongyang to return to the path of dialogue. Additionally, an unnamed official from Moon's office has been cited as saying that it is still unclear whether this latest nuclear test crosses a "red line" that Moon had previously set. President Moon had previously placed this threshold at the completion of a nuclear ICBM but the official suggested that it is still unclear that both the missile and miniaturization technology has been completely mastered by Pyongyang.

Meanwhile, South Korea's military announced that it was coordinating with the US on a joint "military response", without specifying what this might be. A symbolic show of force is possible but clearly this will have to be handled deftly. President Moon maintains that President Trump has agreed that South Korea has veto power over any potential military action.

Economic policy to remain supportive

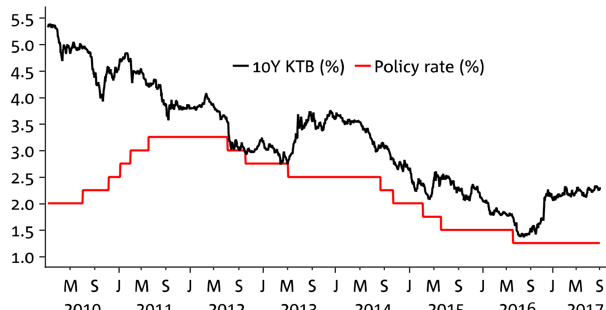
In the face of these escalating tensions, the Korean economy grew a respectable 2.7% yoy in Q2 2017 largely on the back of strong investment. This is likely to continue in Q3 with the government's supplemental budget approved in July helping to stoke economic activity. Finance Minister Kim reiterated the government's commitment to attain 3% growth this year and will push for a balanced two-track sustainable growth policy anchored on industrial innovation and broad-based income distribution. Bank of Korea governor Lee Ju-yeol has suggested that inflation remains benign and that the 3 areas of concern for the BoK are foreign trade, household debt, and geopolitical tensions. The first item presumably refers to the uncertainty surrounding the KORUS FTA; President Trump has said he is still mulling cancelling the trade pact. It may be mildly comforting that potentially some mitigation to the risks to international trade may be sourced from the economic support into 2018. The South Korean government has proposed a record $380bn budget for 2018, representing a 7% yoy growth and the biggest increase since the global financial crisis in 2009. Fiscal policy may be playing a bigger role for overall growth prospects in 2018.

Chart 2: Korea-US spreads may widen further



Source: National Australia Bank, Bloomberg, Macrobond

Chart 3: 10Y KTB yield rises on Pyongyang tantrum



Source: National Australia Bank, Bloomberg, Macrobond

INDIA SPOTLIGHT:

Bitter is the medicine

- **Q2 GDP growth was another downside shock with investment and net exports the main culprit.**
- **RBI is likely to remain very dovish but it needs to be careful to keep rate declines gradual with the US set to see higher interest rates in the coming months.**
- **The government has passed an aggressive highway spending bill and frontloading that will be key to cushioning the impact of the slowdown.**

Policy-politics contagion

The government of Prime Minister Nahrendra Modi is fortunate that it has a large stock of political capital at hand as it faces a double whammy of a fairly sharp slowdown due in part to the already weak investment sentiment, and in part due to the disruption caused by the bold demonetization effort last November. Q3 might not bring much respite either as the introduction of the Goods & Services Tax (GST) on 1 July, which has also been blamed for contributing to the weakness in Q2, further slows of business activity.

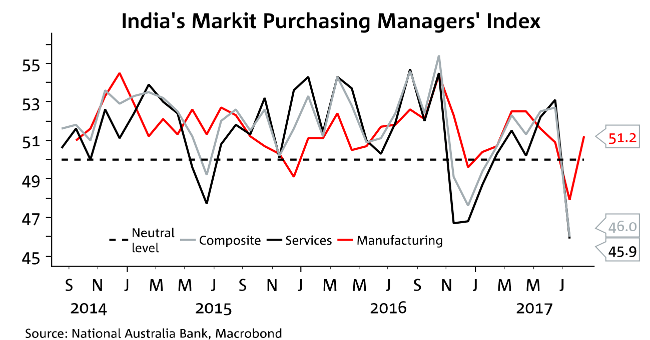
These policy measures are largely positive ones in the medium term but the near term impact will likely be negative for some time. One way to remedy that is to lean more heavily on fiscal policy, and that is apparently what the Modi government is embarking on via infrastructure spending. With consumer sentiment still fairly robust, loose monetary policy could help to raise the multiplier that fiscal spending will enjoy.

The Reserve Bank of India though should be careful to pace itself and avoid a precipitous decline in the carry buffer that the INR enjoys over the USD. The erosion though will happen, and the fiscal spending will likely boost imports. Bond market inflows will likely help ameliorate the damage but overall, the USD/INR could be set for an upward trajectory that could end up at least comparable to its Asian counterparts.

Growing pains

Q2's GDP growth of just 5.7% yoy was a rude shock to a market expecting a rebound from Q1's shock of 6.1%. Investment, which grew just 1.6%, was also weak and contributed just 0.5%pts. Net exports was the main culprit and posed a drag on growth of 2.6%pts. Private consumption remained strong, growing 6.7% yoy and government consumption also helped with 17.2% yoy growth.

Chart 3: Manufacturing sentiment remains weak



Fiscal spending provides a silver lining

Q2's government consumption growth was largely due to the controversial waivers on agricultural loan to alleviate the impact of the drought. In the medium term though, it is likely to be infrastructure spending that drives government spending. Fortunately, the GST implementation is appearing to be the one bright spot, with July's collection exceeding projections, which are for annual revenue to grow by 14% in FY17-18 and 16% and 17% in the following 2 FYs.

The government also seems to have already earmarked revenues for highway spending in its latest 5 year plan. 50,000km of roads are planned for 2017-2022, more than the 30,000km that China is planning to add. INR649bn ($9.7bn) has been earmarked for FY17-18; the amount is estimated by Bloomberg Intelligence to cover 66% of the total funding needed and represents a 24% jump from the previous year.

Pressure on the INR will only increase

RBI governor Urjit Patel's comments suggests that he is watching what the government does on the farm loan waivers before deciding on more rate cuts. Nevertheless, rate cuts in the quarters ahead are very likely, and the ramped up infrastructure spending is likely to see net exports fall and pose an increasing drag on growth. GDP growth is likely to remain tepid for a few quarters and this is unlikely to inspire a surge in equity inflows. Bond inflows are not likely to be sufficient to prevent the INR falling down the Asian leader board.

Chart 1: Disruption from demonetization in Q1 GDP

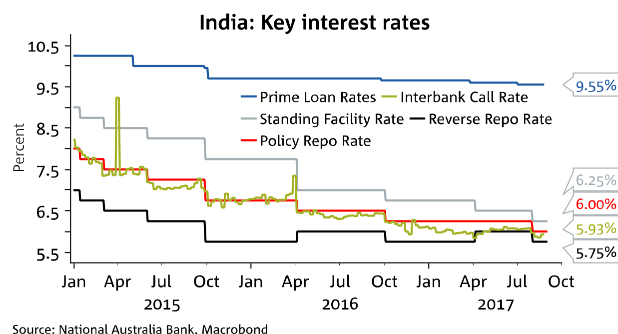
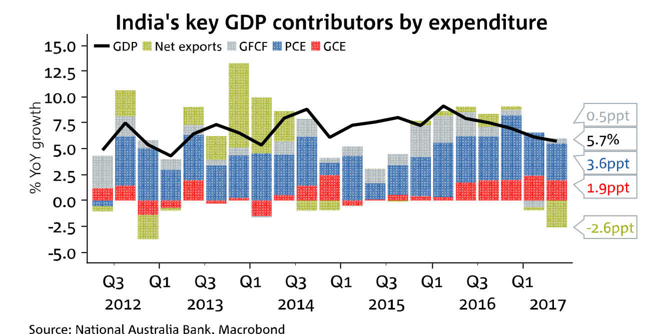


Chart 2: Consumption spending leaking out via imports



SINGAPORE SPOTLIGHT:

Getting back on track

- **August has seen the S$NEER reverse its July gain and has retreated back to 0.5% above the mid-point from a late-July high of 1%.**
- **With the Fed actions still a key source of uncertainty, the recent rise of geopolitical risk has increased the likelihood that MAS will opt to hold fast in October.**
- **The domestic economy provides little directional guidance, with inflation edging higher but the job market remaining somewhat soft.**

Diminishing deviation

After a rather exhilarating July, wherein the S$NEER had surged to 1% above the mid-point of the policy band, August saw the key measure of the SGD brought back down to 0.5% above the mid-point, exactly where it had been at the start of July. This full-circle journey is heavy with portent of how the MAS sees the broad global FX environment: the uncertainty surrounding US domestic policy and politics, and the simmering North Korea situation, mean that it might be best to keep one's powder dry till there is improved visibility on what might happen and how the market might react to it. Key amongst these will be the US Federal Reserve's impending decision on when to embark on its balance sheet reduction, and whether this will finally convince the US Treasury market that yields should really be higher.

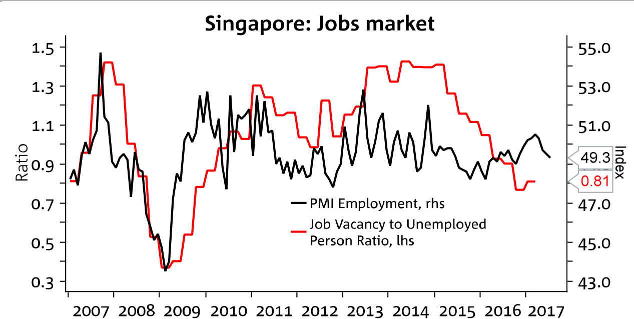
Unless September brings a massive upheaval, the MAS is still very much on track to keep the policy setting unchanged at their biannual monetary policy meeting in the middle of October. Although expectations of strong GDP growth and a gradually climbing MAS Core CPI inflation do both provide some reason to move to a tightening bias in October, but this has to be weighed against the risks from both the US Federal Reserve's balance sheet reduction, and the uncertainty emanating from the Korean peninsula. Our sense is that MAS will prefer to wait these out and do an inter-meeting shift if necessary, or just wait for April.

Domestic discrepancy

Domestically too, there is little need for a shift. The main argument for an early move will likely be inflation. The MAS Core inflation continues to hover comfortably below the medium target of 2%, coming in at 1.6% yoy in July, the headline number continues to be very benign at just 0.6% yoy or 0.2% seasonally adjusted. Growth expectations too remain robust, with the June survey of professional forecasters yielding median expectations of 2.5% growth for 2017. This was up from 2.3% in the March survey largely due to a rise in the expected growth in manufacturing from 4.5% to 5.0%. Projected non-oil domestic exports growth was down from 6.1% in March but was still high at 5.6% in June.

While all these do create the space for a more hawkish position on policy, there are still some cautionary signs. At the periphery, the jobs market remains soft, with job vacancies on the wane and retrenchments at somewhat high levels. Workers also seem to be reacting to this reduced economic security, with resignations on the wane. The property market also appears to be somewhat soft, with inflation for all items less owner-occupied imputed rentals for July coming in at 1.8%, implying significant deflation in property prices.

Chart 3: Jobs market still soft at the margin

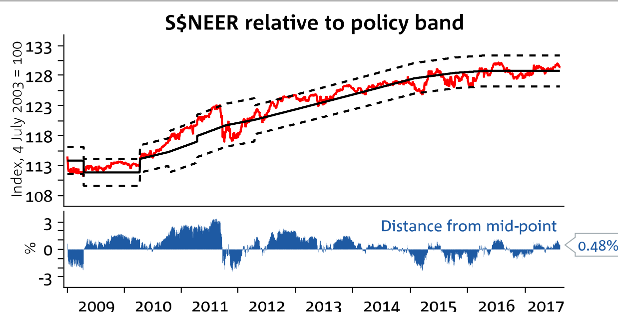


Source: National Australia Bank, Bloomberg, Macrobond

Help from the RMB

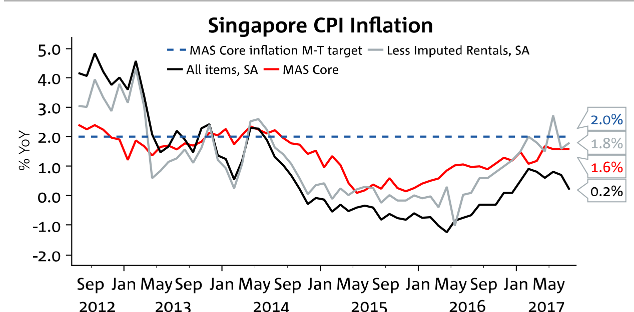
The People's Bank of China's recent appetite for RMB strength though help to nullify the broad USD weakness and make it easier for the S$NEER to remain fairly muted despite a falling USD/SGD. This should ensure that the MAS remains quite sanguine until the Federal Reserve decides to put its balance sheet reduction down in stone and potentially trigger a rebound in the USD. For now, MAS is likely to be quite happy to watch and wait.

Chart 1: S$NEER surges in July



Source: National Australia Bank, Bloomberg, Macrobond

Chart 2: YoY growth less dependent on construction



Source: National Australia Bank, Macrobond

MALAYSIA SPOTLIGHT:

Simple complications

- **Inflation has fallen off sharply but BNM is likely to look past this given that core inflation remains flat.**
- **Domestic demand remains strong and is likely to hurt the current account and add downward pressure to the MYR.**
- **It is expedient for BNM to allow the MYR to underperform regional peers to boost FX reserves, but the optics might be problematic.**

Comfortable with a potential for unease

The combination of relatively strong GDP growth, falling inflation, and strong domestic demand is likely to put Bank Negara Malaysia in a bit of a bind that sees it keep its policy rate unchanged for the next 2-3 quarters. In the interim though, maintaining the MYR's relative underperformance in pursuit of increased FX reserves looks likely to be the most bankable strategy.

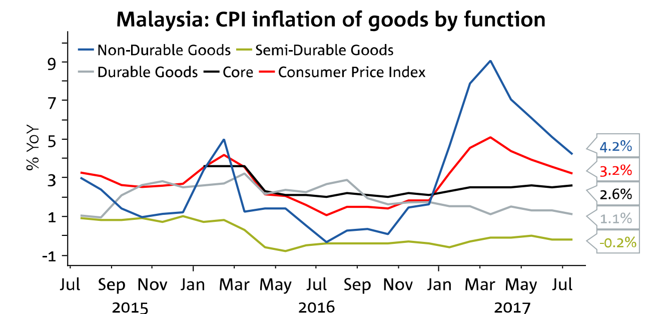
The most pressing statistic might be inflation, which has slid to 3.2% yoy in July from 5.1% in March. This takes the rate near the bottom of BNM's 3.0%-4.0% projected range for 2017. On the other hand, GDP growth is currently running at above the 4.3%-4.8% projection for 2017; Q2 saw the economy grow 5.8% with domestic components running way ahead of projection, especially government spending. This has already seen imports growth accelerate sharply, although the impact on the current account has been masked by concurrent surge in exports. Also worth noting is that personal loans growth has been accelerating and housing loan growth has recently started to accelerate as well.

The strength of domestic demand and its potential for a detrimental impact on the external balance will probably mean that BNM will likely look past the weak inflation number and hold back on monetary stimulus. On the MYR though, any further relative strength could see increased leakage of fiscal stimulus so it is in the interests of both the government and BNM to at least restrict the relative strength of the MYR, if not engineer some small amount of underperformance.

BNM to keep one eye on inflation

On a seasonally adjusted basis, the CPI has seen MoM declines for 5 straight months and fallen a cumulative 0.75%. Most of the YoY disinflation can be traced back to the Transport component, which fell from 23% yoy inflation in March to just 7.7% in July. The sharp rise to 23% in March was due largely to an administered increase in fuel prices, as well as low base effects. While this round of disinflation is not likely to be too worrying for BNM, the central bank is likely to keep a close eye on whether there are second round effects. Given the robust domestic demand though, a disinflation "contagion" is rather unlikely.

Chart 3: Underlying inflation remains low and stable



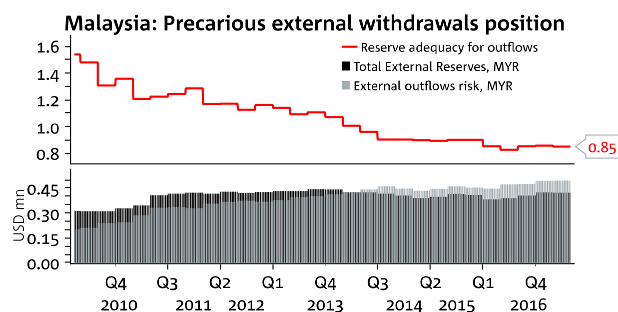
Source: National Australia Bank, Bloomberg, Macrobond

It's never that simple…

The choice to keep its powder dry, ahead of a possible waning of the fiscal impulse in H2 2017, should be quite an easy one. As should the choice to keep the MYR underperforming its regional counterparts, especially in a weak USD environment, but also beyond. What might complicate matters is a potential rebound in the USD in Q4, and the optics of the MYR being a regional laggard in the run-up to elections season in H1 2018, if not earlier.

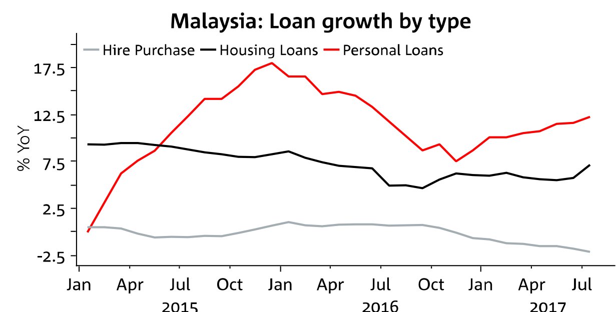
It is worth remembering that Malaysia's FX reserves position remains relatively weak. While this is not an critical problem, it does leave BNM less able to mount a sustained defence of the MYR's relative performance in a strong-USD environment.

Chart 1: Little scope for sustained MYR support



Source: National Australia Bank, Macrobond

Chart 2: Growth in personal loans accelerating



Source: National Australia Bank, Bloomberg, Macrobond

INDONESIA SPOTLIGHT:

A cut too quick?

- **BI surprised the market with a 25bps policy rate cut as growth slowed on the back of weak household spending.**
- **BI is right that a reasonably robust external balance and strong FX reserves position should see the IDR remain well supported.**
- **However, BI might have been a little too hasty given that domestic demand still remains resilient and inflation is not really all that soft.**

More haste, less speed

With the US Federal Reserve still on track to hike one more time before the year's end, and embark on balance sheet reduction, Bank Indonesia's surprise cut in the 7-day reverse repo policy rate to 4.50% from 4.75% is could come back to cause some grief. While this particular cut should not, in and of itself, result in too much stress on the IDR, especially with the central bank in possession of adequate FX reserves, further cuts over the next 2-3 quarters could result in a meaningful increase in pressure.

As for spurring growth, it is far from certain that the binding constraint is the policy rate. To a very significant degree, rate cuts are not being passed on beyond the interbank market. The worry here is that there seems to be structural reasons holding investment back, possibly infrastructure bottlenecks. This creates the risk that only consumption is stimulated and in turn boosts inflation before investment can find its footing.

Rate cuts not getting passed on

Since January 2016, the policy rate has been lowered 300bps and the 12mth interbank rate has fallen 247bps. However, consumer loans rates have only come down 73bps, investment loan rates by 96bps and working capital loan rates by 134bps. This partial transmission seems to suggest that there are other (probably structural) reasons that are preventing previous cuts from fully impacting the economy.

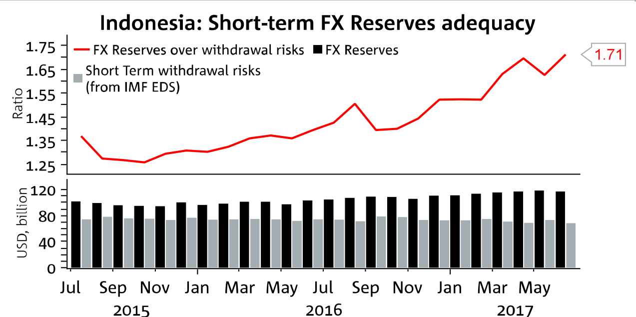
The shift in the policy rate from the BI rate to the reverse repo in August 2016 has helped, with commercial bank loan rates responding a lot more to the 100bps cut since then. However, a gradual climb in the non-performing loan ratio from 1.69% at end-2013 to 3.1% in Q2 2017.

With the somewhat stymied transmission, the part of the burden for stimulating the economy will need to be borne by fiscal spending to boost infrastructure, and structural reforms to reduce red tape.

Well stocked

In terms of the IDR, this one cut is not likely to mean that much given that the interest rate differential is still fairly wide. However, if we do actually see 3-4 more US Fed hikes by the end of 2018 and if this is compounded by a few cuts by BI, this could meaningfully reduce the relative attractiveness of the IDR's carry. However, this erosion will be gradual and BI has sufficient FX reserves in the near term to keep the IDR well cushioned against upward spikes in the USD.

Chart 3: FX reserves adequate against S-T outflows

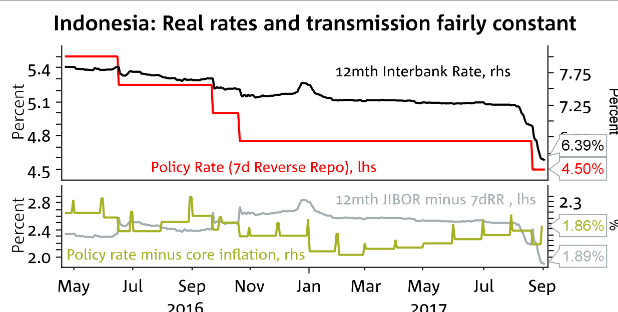


Source: National Australia Bank, IMF, Macrobond

Patience needed

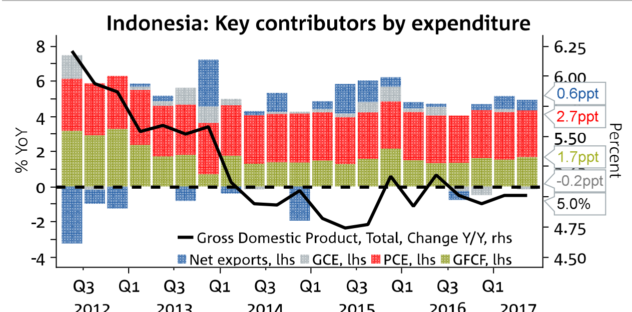
Meanwhile, the government at least seems to have got the message, with President Widodo streamlining the investment process effective 1 January 2018, to improve the ease of doing business. Widodo also called on SOEs and the private sector to use the momentum from the rate cut to invest more. However, for 2017, even BI has resigned to accepting that fiscal spending will be the main source of growth, which means upside potential for growth is limited given the fact that weak revenue collection is limiting the scope for strong fiscal spending. For now, the benign rate of inflation offers scope for some monetary easing but BI should avoid overdoing it.

Chart 1: Transmission has improved recently



Source: National Australia Bank, Bloomberg, Macrobond

Chart 2: Domestic demand doesn't need stoking



Source: National Australia Bank, Bloomberg, Macrobond

SELECTED INDICATORS

Table 1: NAB Asian FX Forecasts

		Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19		Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19
New	**USD/CNY**	6.65	6.67	6.64	6.64	6.62	6.65	6.64	6.65	**AUD/CNY**	5.19	5.00	4.92	4.85	4.83	4.86	4.92	4.98
Old		6.81	6.82	6.81	6.81	6.80	6.79	6.74	6.73		4.97	4.77	4.70	4.63	4.63	4.69	4.72	4.78
New	**USD/IDR**	13450	13500	13500	13480	13460	13400	13360	13350	**AUD/IDR**	10491	10125	9990	9840	9826	9782	9886	10013
Old		13450	13500	13500	13480	13460	13400	13360	13350		9819	9450	9315	9166	9153	9246	9352	9479
New	**USD/INR**	65.0	65.3	65.5	65.8	65.6	65.4	65.2	65.0	**AUD/INR**	50.7	49.0	48.5	48.0	47.9	47.7	48.2	48.8
Old		65.0	65.3	65.5	65.8	65.6	65.4	65.2	65.0		47.5	45.7	45.2	44.7	44.6	45.1	45.6	46.2
New	**USD/KRW**	1160	1200	1200	1180	1160	1160	1150	1150	**AUD/KRW**	905	900	888	861	847	847	851	863
Old		1160	1200	1200	1180	1160	1160	1150	1150		847	840	828	802	789	800	805	817
New	**USD/MYR**	4.25	4.40	4.35	4.35	4.35	4.30	4.25	4.20	**AUD/MYR**	3.32	3.30	3.22	3.18	3.18	3.14	3.15	3.15
Old		4.25	4.40	4.35	4.35	4.35	4.30	4.25	4.20		3.10	3.08	3.00	2.96	2.96	2.97	2.98	2.98
New	**USD/PHP**	50.3	50.5	50.0	49.5	49.2	49.0	48.6	48.5	**AUD/PHP**	39.2	37.9	37.0	36.1	35.9	35.8	36.0	36.4
Old		50.3	50.5	50.0	49.5	49.2	49.0	48.6	48.5		36.7	35.4	34.5	33.7	33.5	33.8	34.0	34.4
New	**USD/SGD**	1.385	1.405	1.400	1.400	1.398	1.395	1.385	1.380	**AUD/SGD**	1.08	1.05	1.04	1.02	1.02	1.02	1.02	1.04
Old		1.385	1.405	1.400	1.400	1.398	1.395	1.385	1.380		1.01	0.98	0.97	0.95	0.95	0.96	0.97	0.98
New	**USD/THB**	34.1	34.5	35.0	34.6	34.5	34.5	34.4	34.3	**AUD/THB**	26.6	25.9	25.9	25.3	25.2	25.2	25.5	25.7
Old		34.1	34.5	35.0	34.6	34.5	34.5	34.4	34.3		24.9	24.2	24.2	23.5	23.5	23.8	24.1	24.4
New	**USD/TWD**	30.2	30.2	30.4	30.5	30.6	30.5	30.3	30.2	**AUD/TWD**	23.6	22.7	22.5	22.3	22.3	22.3	22.4	22.7
Old		30.2	30.2	30.4	30.5	30.6	30.5	30.3	30.2		22.0	21.1	21.0	20.7	20.8	21.0	21.2	21.4

Table 2: NAB Key FX Forecasts

		Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Australian Dollar	AUD/USD	0.78	0.75	0.74	0.73	0.73	0.73	0.74	0.75
New Zealand Dollar	NZD/USD	0.72	0.70	0.69	0.69	0.70	0.70	0.71	0.72
Japanese yen	USD/JPY	112	116	118	118	118	120	120	120
Euro	EUR/USD	1.19	1.17	1.18	1.20	1.22	1.20	1.20	1.18
British Pound	GBP/USD	1.28	1.27	1.29	1.29	1.28	1.26	1.25	1.24
Swiss Franc	USD/CHF	0.97	0.97	0.97	0.96	0.98	0.98	0.98	0.98
Canadian Dollar	USD/CAD	1.27	1.30	1.31	1.32	1.33	1.34	1.35	1.34
Chinese New Yuan	USD/CNY	6.65	6.67	6.64	6.64	6.62	6.65	6.64	6.65

Table 3: NAB Asia Macro Forecasts

	2013	2014	2015	2016	2017	2018
Hong Kong	3.1	2.7	2.4	1.6	1.6	1.6
Indonesia	5.6	5.0	4.9	5.0	5.0	5.0
Singapore	4.6	3.3	2.0	1.5	1.5	1.5
Taiwan	2.2	3.9	0.7	1.3	1.3	1.3
Thailand	2.7	0.8	5.0	4.2	4.2	4.2
Malaysia	4.7	6.0	2.6	2.7	2.7	2.7
S Korea	2.9	3.3	2.8	3.3	3.3	3.3
Philippines	7.1	6.2	5.9	6.8	6.8	6.8
Total	**4.2**	**4.1**	**3.6**	**3.8**	**3.8**	**3.8**
China	7.7	7.3	6.9	6.7	6.5	6.5
India	6.3	7.0	7.2	7.1	7.2	7.2

Table 4: NAB Key Macro Forecasts

Country/region	2013	2014	2015	2016	2017	2018
United States	1.7	2.4	2.6	1.6	2.1	2.3
Japan	2.0	0.3	1.2	1.0	0.8	0.6
Euro-zone	-0.3	1.1	1.9	1.7	1.9	1.8
United Kingdom	1.9	3.1	2.2	2.0	1.8	1.7
Emerging Asia	4.2	4.1	3.5	3.7	3.7	3.6
Latin America	2.5	0.9	-0.2	-1.2	0.1	1.9
China	7.7	7.3	6.9	6.7	6.5	6.3
Canada	2.5	2.6	0.9	1.2	1.7	2.0
Australia	2.1	2.8	2.4	2.4	2.3	2.4
New Zealand	2.2	3.4	2.5	3.2	2.9	2.5
India	6.3	7.0	7.2	7.1	7.2	7.2
Africa	5.2	5.1	3.4	1.6	2.8	3.7
Eastern Europe	2.8	2.8	3.7	2.9	3.1	3.1
Middle East	2.4	2.2	2.5	3.8	3.1	3.5
Other advanced	2.2	2.8	2.0	2.0	2.0	2.0
World	3.36	3.39	3.10	2.94	3.18	3.35

Source all tables: National Australia Bank

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