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Global

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FX Monthly

2017, Issue 1: Waiting for Sustained Signs of Synchronised Export Recovery

Key Themes[1]

- First, ***expectations of an improved US medium term growth and productivity outlook on the back of expectations of a targeted fiscal infrastructure package, changes in the regulatory environment and tax reforms (i.e. lower taxes) under the Trump administration***. Longer terms, concerns about changes in trade and immigration policy, have raised concerns globally. Expected US fiscal boosts could lead to concerns of faster inflationary pressures and as such affect the Fed rate hike trajectory, with consensus expecting around 2 hikes in 2017 and the Fed 3 hikes. In 1H 2017, we still expect on average a steepening of the UST curve with the back end rising faster than the front end (higher nominal rates). The dollar should remain supported in 2017. Overall the monetary policy divergence (Fed vs ECB & BOJ) should manifest in a long USD, short EUR/JPY.

- Second, ***even though the dateline for achieving Japan's 2% inflation target is now*** open-ended, we expect the BOJ to push back this dateline to FY2018. BOJ have scrapped its target for the average maturity of its government bond holdings and forward guidance has been strengthened, with the BOJ stating asset purchases will continue until inflation is stable above 2%, making it clear that exit won't happen immediately if they hit 2%. BOJ kept the benchmark rate unchanged at -0.1% and have stated that the JPY 80trn annual monetary base target will now fluctuate in the short term in order to shape the slope of yield curve.

- Third, ***major risk out of Eurozone likely to emanate via the political event risk channel, i.e. elections in Netherlands, France, Germany (in 2017) and hard stance adopted by Britain and Euro-area leaders on Britain exit could keep the EUR under pressure***, especially in an environment of growing monetary divergence between Fed and ECB. Our base case is for no Eurozone break up. EUR is expected to face further downside pressure amid an environment of growing divergence in monetary policies (between ECB and Fed) and political contagion risks, mainly in 1Q – 3Q 2017 before regaining strength towards end-2017 as monetary divergence slows (due to the possibility of an end to QE or even tapering amid pick-up in inflation closer towards medium term objective of 2%). While EUR has traded a relatively stable range of 1.05 – 1.16 for 2016 so far (as compared to 2015 trading range of 1.05 – 1.21), we see risks of EUR potentially trading a wider range of 0.95 – 1.12 in 2017.

- ***Fourth, China still has excess capacity, heavily indebted corporations and huge liquidity injections continue to add immense pressure on the economy and the yuan medium term***. PBOC continues to rely on SLF, MLF and PSL as liquidity tools rather than interest rate cuts and RRR cuts. We continue to expect PBoC to limit the depreciation in the CNY trade weighted. CNY and CNH will depreciate against the USD but at a smaller magnitude compared to other currencies. That implies a potential for CNH to outperform other non-USD currencies that has higher beta. We see opportunity to long CNH against EUR, SGD and NZD. China potentially filling up the political, trade and military vacuum in the world left by the US, may lay the foundation for China's growth stabilisation. This could provide some buffer from US anti-trade policies and thus allowing some floor to RMB and EM weakness.

- **Commodities likely to improve due to Asian infrastructure spending plans, and low base global pick up, expected synchronised export recovery and oil prices seem to have stabilised, so overall commodity prices should be moving higher in 2017.** Despite, the recovery in US rig counts, diminishing supply of oil surplus remains due to the lag of capex in the past 18 months. For next 6 months we are supportive oil and metal prices benefitting MYR, CAD and AUD.

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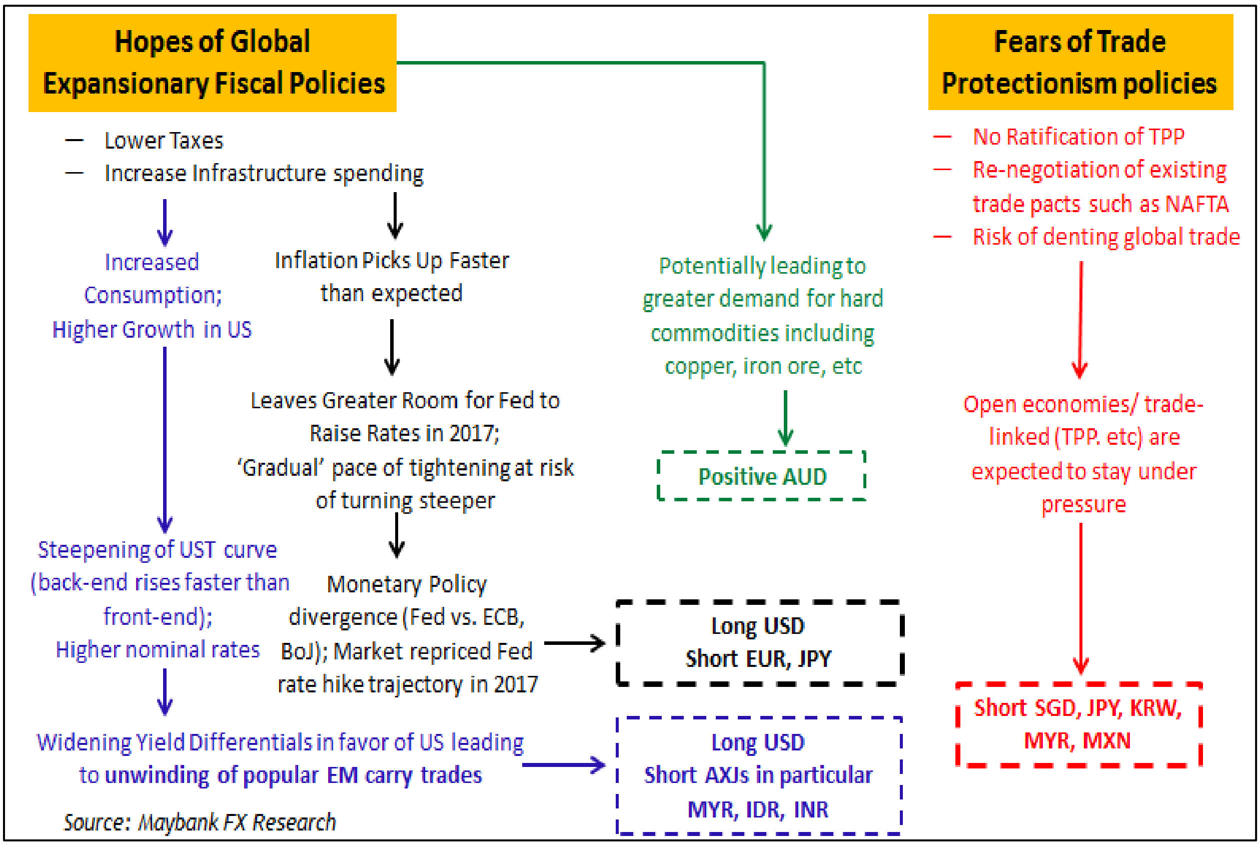
[1] Underlined words represent new developments in the FX themes.

So What?

Hopes of Expansionary Fiscal Policies vs. Fears of Trade Protectionism



	2015	1Q- 3Q 2016	4Q 2016	2017 Outlook?
Global Growth	IMF, ADB downgrades	Growth 'not hot not cold'	Lesser Downgrades from IMF, ADB	Early Signs of Stabilisation in 1H 17; & potential synchronised export recovery
Inflation	Subdued globally; Only US showed signs of pick up in end-2015	Subdued globally; but inflation in US managed to stabilize 1 – 1.5%	China, Europe started to show signs of uptick in headline inflation; US inflation holding up above 1.5%	Inflation shows signs of further pick up via the headline (base effects and pick-up in commodity prices)
US Rate Hike Expectation	First Fed rate Hike in 10 years	No rate hike	Rising expectation for rate hike in Dec	MBB Expects 50-75bps hike expectation vs. Markets' expectation for 48bps
Commodity/ Oil Prices	Decline to more than 10Y low of $30/bbl	Stabilised around $43 (1Q-3Q avg)	Stabilised at higher average of $50/bbl	Potentially Moving Higher into $55 – $65 Range
Impact on FX	USD strength against most currencies	USD Strength Eased; Carry trade returns (hunt for yield)	USD strength returning; UST yield steepening	Expect further steepening of UST yield curve; **Markets underpricing of rate hikes could lead to further USD strength ahead**

Source: Maybank FX Research

	3-months	6-months	12-months	24 to 36 months
Short Term Dynamics (Key risk event)	- FoMC meeting (1 Feb and 16 Mar) - Trump's State of the Union Address (End Jan-Early Feb) - Trump's cabinet appointments - Implementation of oil production cuts (Jan 2017) - Jakarta Governor election (15 Feb 2017)	- US debt ceiling - Potential announcement of US fiscal expansion plans - Netherlands Presidential Elections (15 Mar) - French Presidential Elections (Apr-May 2017) - Potential early Malaysian Elections - Potential early Korean Elections - Trigger of Article 50 in UK - Risk of snap elections in UK - OPEC review of oil production cut at May 2017 meeting	- Trump may push for more protectionist trade policies (no ratification of TPP, re-negotiation of NAFTA, etc.) - Speculation for Fed Governor appointments in 2018 - German Federal Elections (Oct 2017) - Thai Elections (Dec 2017) - NZ elections (by end Nov 2017)	Trump may continue to push for more protectionist trade policies (no ratification of TPP, re-negotiation of NAFTA, etc.)
Long-Term Thematic	Anti-globalization Anti-establishment (Protectionist-policies)			

Source: Maybank FX Research

- In light of Trump world, we expect USD strength to persist over 3-6 months. We expect USDAXJ to be broadly higher, in particular open economies (SGD, JPY, KRW) to be weaker; domestic idiosyncratic factors also weigh on AXJs such as political risk factors in Indonesia, Philippines and Thailand; growth, credit concerns in China, and trade and investment concerns in Vietnam.
- Monetary policy divergence/ widening inflation difference to weigh on EUR and JPY. There is high chance of EUR moving towards parity and USDJPY likely to move higher towards 115-120 levels.
- Trump's expansionary fiscal policies, capex spending upswing and Asian infrastructure spending may lead to demand for hard commodities AUD to find some support around 0.70-0.72 levels.
- We also Favor Relative Beta Plays ex-USD with long hard commodity vs short open economies/benign inflation, favouring CNH longs vs. EUR, JPY and SGD. Our opportunist trades at some stage this year, given stretched spot levels vs. fundamentals are Long IDR & MYR.

G7 Global Overview

USD: Ebb and Flows More Frequent in 2017

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD Index	103.72 (106.48)	107.82 (107.66)	105.10 (106.91)	101.56 (103.88)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We expect at least two rate hikes in 2017, more likely in June onwards. We do caution that additional repricing of a surprise Fed hike earlier in Mar (due to market complacency over Fed rate hike trajectory) could continue to see UST yields higher in particular Treasuries 2y and below, and see **USD strength (buy the rumor) in the lead-up to FOMC** meetings. Since the US Presidential elections, the focus has shifted back to a stronger USD due to a US cyclical upturn and the potential for a pickup in inflation. We continue to expect domestic factors and a repricing of the future stance of monetary policy to drive the USD stronger. Even though the market's expectations on the Fed tightening cycle have moved, we think market pricing for the federal funds rate is still too dovish and we expect the Dollar to appreciate. During this phase and around FOMC announcements, we believe the **USD could still be mildly supported**. As long as the Fed tightening expectations remain the USD appreciation trend should remain. In addition, we may need clarity on both fiscal and trade policies from the Trump administration to support a US reflation view. If one of these falters, we could see softness in the USD and further sharp ups and downs in the dollar in the first quarter of 2017.
- As long as there are less economic growth downgrades by supranationals and the market, some signs of global inflation emerging, rising expectation of faster pace of Fed rate hike and if oil remains somewhat stabilized around $50-60/bbl, then we will expect USD strength to be sustained in 2017 and UST yield steepening to appear more entrenched.
- **Growth and Inflation Outlook:** The advance estimate of Q4 US GDP, at 1.9% q/q saar, was broadly in line with expectations. Consumer spending remained robust and inventories made a positive contribution, but net trade was a significant drag. Weaker than expected existing and new home sales implied less broker commission and slightly slower residential investment growth than expected. The advance trade report also showed a larger deficit than expected as well as weaker equipment investment, while inventory accumulation was a little stronger than expected. US pending home sales rose 1.6% m/m in Dec, beating expectations. However, the drag on home sales from higher mortgage rates is likely to play out in the near future. The data remain supportive of a modest recovery in the housing sector in 2017.
- CPI inflation firmed further in Dec, increasing 0.3% m/m. Energy prices rose for the fourth consecutive month, while food prices remained flat (the same reading since July). On a y/y basis, CPI accelerated to 2.1% from 1.7%, as energy base effects continued to boost headline CPI. Core inflation firmed slightly, rising 0.2% m/m and 2.2% y/y.

- Core goods CPI is most affected by dollar strength and soft imported inflation; as those deflationary pressures unwind, we expect core goods inflation to stabilize and turn neutral in 2018. The recent increase in China PPI and the improving import inflation trend, suggest to us that the drag from core goods on CPI is likely to bottom this year. In addition, the December weakness was concentrated in one component and suggested an improving performance elsewhere.
- Core services rose 0.3% m/m and 3.1% y/y. Rent of primary residence and owners' equivalent rent increased 0.3% each, a key factor affecting domestic inflation pressures. Transportation increased a solid 0.6% following a strong rebound in airfare prices. We now expect core CPI and headline CPI to reach around 2.5% y/y end 2017 and around 3.0% by Dec 2018.
- **Monetary Policy Forecast:** US Fed kept the target fed funds rate (FFR) at 0.25%-0.50% **at the 15-16 Dec 2015 FOMC meeting. We see a the rate trajectory in 2017 to see another move in the middle of 2017.**
- The Fed in Dec 2016 stated that "near-term risks to the economic outlook *appear roughly balanced*", which is slightly more "hawkish" than "near term risks to the economic outlook *have diminished*" previously.
- The committee also modestly firmed its policy path in the December Summary of Economic Projections, with 11 FOMC participants now expecting three hikes or greater, against six who look for only one to two hikes in 2017. Although the minutes to the December meeting indicate that many participants incorporated expansionary fiscal policy in their forecasts, the changes were generally minor and offset by the expectation that long-dated interest rates would rise and the dollar appreciate. Indeed notwithstanding uncertainty in fiscal policy, there was a notably hawkish shift in tone. The FOMC judged that the risk of undershooting the long-run unemployment rate has risen and wanted to signal that monetary policy will not be passive in the face of expansionary fiscal policy.
- These were corroborated by Yellen's speech in mid Jan which is also hawkish. Fed Chair Janet Yellen said that the Fed is near to achieving its dual mandate. From there, she refocused the discussion on the likely course of monetary policy and why the FOMC continues to see a gradual pace of rate hikes as appropriate. In evaluating economic activity, labor market conditions, and inflation, Yellen sounded more hawkish in her stance in comparison with her dovish stance previously. Regarding labor markets, she said: The Fed increased the policy rate at the December meeting due to the cumulative progress in labor markets and growing comfort on inflation trends. In Chair Yellen's view, labor market underutilization has been removed as "the unemployment rate is now close to estimates of its longer-run normal level". **We are currently pricing in a +50-75bps hike in fed fund rate this year.**
- **Latest Fiscal and External Balance Outlook:** Fiscal policy should be expansionary over the next few years as the prospect of a tax reform and some investment in infrastructure becomes apparent under the Trump administration. The deficit has fallen sharply from its peak. Fiscal sustainability risk continues to weigh on the outlook and may emerge sooner than later. In the long term, an improved US economy and manufacturing sector, US shale oil and gas production may improve the US current account leading to dollar support but this is likely to be long drawn and may probably begin only in 2018. The US other deficits - current account and BOP deficits have moved slightly wider and is expected to continue.

- **Key domestic events and issues to watch in Feb 2017:** Key US events: ISM Manufacturing Sep (1 Feb) (expected: 55); Factory Orders (3 Feb); Durable Goods (3 Feb, 27 Feb); Trade Balance (7 Feb); NFP (3 Feb); FOMC Meeting (2-3 Feb); FOMC Meeting Minutes (23 Feb); CPI (15 Feb); GDP 4Q (28 Feb); PCE Core (28 Feb).

- **Technical Outlook:** DXY appears to be on course to end the month lower for the first time since Sep 2016. Last seen at 100.30 levels. The cross-over (21 DMA cuts 50 DMA to the downside) suggests selling pressure may persist in the short term. Weekly momentum and stochastic indicators are indicating a bearish bias, but daily stochastics suggests that the DXY is in oversold conditions. Price action also seem to suggest that a falling wedge appears to be forming on the daily chart – characterized by lower highs and lower lows, moving between 2 downward sloping and converging trend-lines. This is typically a bullish reversal. We expect 99 – 99.50 area of support to hold but caution that downside may have more room to run, possibly towards 97.40 levels (200 DMA) if the area of support fails. We expect the DXY to continue its upward momentum albeit at a milder pace, possibly from mid-Feb into March as markets re-price Fed's rate hike trajectory. Resistance at 100.80 (38.2% fibo), 101.90 (23.6% fibo) before 103.80 (2017 high).

EUR: Upside Limited as Core Inflation Remains Benign

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
EUR/USD	**1.0400** (1.0000)	**0.9800** (--)	**1.0200** (0.9800)	**1.0800** (1.02)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Our bearish outlook on the EUR over the medium term (~6 months) remains intact. A handful of factors we cited in our Annual Outlook, including growing divergence in monetary policies between ECB and Fed, as well as political contagion risks remain valid and should start to play out in the months ahead. We maintain our FX forecasts over the forecast horizon. In the short term, we acknowledge stale EUR shorts are being unwound and the pair could see a technical squeeze towards 1.0750, 1.0830 levels but this up-move should not be misinterpreted as change in trend. Looking into 2H 2017, we moderately revised our EUR forecasts higher as ECB may hint at QE tapering.

- ECB remains on monetary easing bias (extension of bond purchases to end-2017) and it is too early at this stage to call for a QE tapering especially when core inflation remains subdued. True headline inflation rebounded, but is due to base effects and energy prices. Those upticks were well within ECB officials' expectation. In particular ECB Draghi said for inflation to be considered as 'sustained adjustment', there are four elements that need to be fulfilled:

Inflation (1) is affecting the medium term, (2) is durable, (3) is self-sustained and (4) is region wide. Recent upticks do not exhibit any of those elements.

- Juxtapose ECB easing against Fed's tightening (could tighten more than expected), we expect monetary policy divergence to grow further especially in the lead up to key FoMC meetings in Mar and Jun. Widening yield differentials (higher UST yields while EU bond yields stay low) is expected to re-exert downside pressure on the EUR.
- We have also highlighted that Euro-area faces a busy political calendar - potential Italy elections (Feb-Mar 2017); Netherlands Presidential elections (Mar 2017); French Presidential elections (Apr-May 2017) and Germany Federal elections (Aug-Oct 2017). There is rising risk of political contagion that could undermine the future of the Euro-club, heighten the level of market uncertainty, and weigh on the EUR. For example, France's Far-Right party leader Marine Le Pen could stoke anti-EU sentiment leading to France and more European countries following the UK in exiting the EU. We caution this as a risk but not our base case scenario.
- **Upside risk to our Outlook:** In the event that monetary policy divergence slows – either due to ECB tapering earlier than expected or less hawkish Fed, we think the EUR could turn higher or if political events this year surprise with no upsets (i.e. pro-euro establishment manages to secure victories, political stresses dissipate) or if inflation in Euro-area picks up sustainably. Any of this reasons materializing could negate our downside view.
- **Growth and Inflation Outlook:** We expect economic recovery in the Euro-area to continue, albeit at a moderate pace. PMI releases since Aug 2016 continue to point to an optimistic outlook. Both composite and manufacturing PMIs hit above 5-year high in Dec 2016 while services PMI remains in expansionary territories. Industrial production in the Euro-area also saw an uptick towards 3.2% y/y in Dec.
- In ECB staff members/Euro area national central banks' macroeconomic projection (dated Dec 2016), the ECB expects 2017 GDP to grow by 1.7%, supported by resilient domestic demand amid accommodative monetary conditions. The ECB projects exports to gradually gain momentum resulting in a gradually improving net trade contribution. 4Q GDP is scheduled for release on 31 Jan. 3Q GDP rose by 0.3%, thanks to private consumption and fixed capital formation.
- **Euro-area inflation** increased to 1.1% y/y in Dec 2016, up from 0.6% in Nov, thanks to energy prices. While this is a 4-year high, ECB Draghi warned that this spike is likely to be temporary and remains well below the ECB's objective of 2%. Recall that previous accounts of ECB meeting had already projected inflation to rise towards end-2016 and this uptick in headline inflation is not a surprise to the policymakers. In addition, core inflation was largely unchanged at 0.9% y/y in Dec (unchanged from previous month) and ECB Draghi's main focus remains on underlying price pressures (core inflation), which remained subdued.

- On inflation expectations, the ECB continues to project 2016 inflation at +0.2% (unchanged from Sep projection) but marginally raised 2017 projection to 1.3% (from 1.2% in Sep projection).

- **Monetary Policy Forecast:** There is no ECB meeting scheduled for Feb. We expect ECB to keep monetary policy status quo for the foreseeable months ahead, after its decision (back in Dec 2016) to extend QE till end 2017. We reiterate that it remains too early to call for more tapering, given that core inflation has yet to see a meaningful recovery. He had also said that higher inflation will not automatically result in QE tapering. For inflation to be considered as 'sustained adjustment', there are four elements that need to be fulfilled: Inflation (1) is affecting the medium term, (2) is durable, (3) is self-sustained and (4) is region wide.

- To recap, **QE was extended beyond Mar 2017 for another 9 months to end-2017, at a reduced pace of** €60bn per month. There were also a handful of technical tweaks to the APP to ensure smooth implementation of the program. Our take is ECB's monthly purchase after Apr 2017 may seem like a tapering at first glance but in actual fact, the option chosen between the 2 (either €80bn per month for 6 months or €60bn per month for 9 months) implies a larger QE amount (€540 bn). This implies ECB is still far from tapering and is expected to remain on easing bias.

- Tweaking of parameters of APP (to address bond scarcity issues) includes broaden the maturity range of the public sector purchase program by reducing the minimum remaining maturity to 1 year (from 2 years) and to allow for the purchase of securities under the APP with Yield-to-maturity below interest rate on depo facility (-0.4%).

- **Latest Fiscal and External Balance Outlook:** The government deficit ratio is projected to decline to 1.5% in 2017, from 2.1% of GDP in 2015. Projected government debt ratio is projected to decline gradually to 88.4% in 2017, from 91.5% of GDP in 2015.

- Euro area current account surplus widened to EUR28.4bn in Oct (vs. EUR27.7bn in Sep) thanks to increase in surpluses on services and primary account. 12-mont cumulated current account for period ending in Oct showed current account surplus at +3.2% of GDP.

- **Key domestic events and issues to watch:** Dec PPI (2 Feb); Dec IP (14 Feb); Feb ZEW Survey Expectations (14 Feb); Euro-area 4Q preliminary GDP (14 Feb); Jan CPI (22 Feb); Feb Prelim PMI (21 Feb); CPI estimates for Feb (28 Feb).

- **Technical Outlook:** EUR looks set to end the month on a positive close. Last seen at 1.07 levels. Price action shows a rising wedge in the making, characterized by higher highs and higher lows, moving between 2 upward sloping and converging trend-lines. This is typically a bearish reversal. Bullish momentum on daily chart shows signs of waning and stochastics is showing signs of falling from overbought conditions. We look for further downside towards 1.06, 1.0550 levels (38.2% fibo retracement of Dec high to Jan low) before 1.0470 (23.6% fibo). Move beyond this should put previous low at 1.0340 in focus. We do however that a decisive move above 1.0890 (Dec high) nullifies our bearish bias.

GBP: Upside Risks but Bias to Lean against Strength

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
GBP/USD	1.2200 (1.1600)	1.2000 (1.1800)	1.2300 (--)	1.2400 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View**: With *Brexit* in the price, we expect the ongoing relief rally in GBP to continue as PM May's *Brexit* speech (17th Jan) offered some clarity, Supreme Court ruling (24th Jan) that the government need not consult Scotland, Wales and Northern Ireland on *Brexit*, Brexit bill to be introduced in parliament in coming days (a commitment that exit procedures are moving swiftly at this stage) and UK growth still holding up for now. Against USD weakening environment and some unwinding of stale GBP shorts, we think GBP could be poised for more gains towards 1.27 levels over the coming weeks. Short term technical also supports the case for a rebound – with double-bottom support at 1.20 levels (Oct and Jan lows). A potential squeeze towards 1.27 levels in the short term should not be ruled out.

- This **does not imply we are turning bullish or even neutral on the currency**. We think it is too soon to say that UK is out of the woods as *Brexit* process has yet to commence (Article 50 expected to be triggered before end-mar 2017) and is likely to be a long-drawn process (can take up to 2 years).

- We emphasize that the focus is on implementation. Negotiating trade deals can take a long time (especially with the EU) and UK faces a potential risk of London losing its financial status hub, potential relocation of HQs to other European cities (Goldman Sachs is reported to consider 50% cut to London staff, with transfers to NY and Frankfurt offices while UBS and HSBC are considering moving their staff out of London), concerns over sustained investment/portfolio inflows and job creation.

- The UK also faces the issue of twin deficits - rising budget deficit and widening current account deficit to more than 5% of GDP and needs to manage growth (which could suffer a dent if investment, consumer spending falls) and rising inflation (BoE may not be able to raise rates to arrest inflation as businesses will very likely need financing/monetary conditions to remain accommodative).

- While we continue to maintain our bearish bias on the outlook of UK economy and the GBP over the medium term horizon (6-9 months), we calibrate our 1H 2017 forecast higher to take into account recent movement and the swift progress the incumbent government is proceeding with Brexit. Our bearish bias stems from uncertainty remains over the timing of trigger of Article-50, exit strategies the incumbent government has in place and the repercussion of all these on UK's outlook.

- **Growth and Inflation Outlook:** UK's economy grew by 0.6% q/q (unchanged from previous 2 quarters). On y/y basis, 4Q growth was 2.2%. This is the 16th straight quarters of expansion and exceeded expectations despite UK's exit from EU. Manufacturing and services PMIs, industrial production continued to surprise to the upside. While the economy may show resilience, we caution that the official break-up has yet to occur. Much remains unknown over London's status as a financial hub; if it can continue to attract foreign inflow of funds and investments, if HQs will relocate their HQs and result in job losses. We see these issues potentially affecting the UK's growth prospects in the medium term.

- Briefly the key highlights of Theresa May's Brexit speech (17 Jan) include (1) UK will not seek continued participation in the EU single market; (2) will not be part of the EU's common commercial policy – this means UK can strike their own comprehensive trade agreements with other countries outside the EU and represent itself at WTO; (3) work on some form of customs union with EU; (4) control immigration from the EU, ending free access to EU workers; (5) end to jurisdiction of European Court of Justice in Britain; (6) yearly large sum contribution to EU would end.

- Headline inflation jumped to 2-year high of 1.6% y/y in Dec (vs. 1.2% in Nov). The rise was fueled by air fares, food prices and fuel. Further rises in inflation should not be ruled out amid sharp decline in GBP last year. We continue to caution that this is likely to erode the purchasing power of the UK consumer and weigh on growth, over time. BoE's Carney said that GBP depreciation was going to lead to inflation around 2.5% over 2-3 years of the forecast horizon. We see a risk of this being overshoot. Core inflation also increased to 1.7% in Dec (from 1.4% in Nov).

- **Monetary Policy Forecast:** We expect BoE to keep monetary policy status quo (policy rate at 0.25% and APP at GBP435bn/month) at its next meeting on 2 Feb. In our opinion there is little room for BoE to ease monetary policy further given that inflation has begun to rise while UK's exit is still fraught with many uncertainties. At the same time faced with rising inflation, the BoE is also not expected to raise rates as it could impact business investments. Moreover BoE Carney already said that BoE is willing to tolerate higher inflation than its formal target of 2%, if necessary in order to avoid rising unemployment. But there are limits to the extent to which above-target inflation can be tolerated. Those limits depend, for example, on the cause of the inflation overshoot, the extent of second-round effects on domestic costs, the evolution of inflation expectations, and the scale of the shortfall in economic activity below potential (in 15 Dec BoE accompanying MPS).

- **Latest Fiscal and External Balance Outlook:** In the latest fiscal sustainability report, public sector borrowing is projected to rise to 16.6% by 2066-67 (from 0.7% of GDP in 2022-21) and public sector debt could increase from82% of GDP to 234% of GDP by 2066-67. In Chancellor Hammond Autumn's statement, he said he expected deficit to rise to 2% if GDP by 2020, instead of achieving a balanced budget. The Office for Budget Responsibility had warned that it is impossible to balance the government books in the years ahead without increasing taxes or cutting spending. Rising costs for healthcare, long-term care and state pensions will outpace the growth of tax revenues.

- UK's current account deficit widened to -5.2% of GDP (from -4.6% of GDP in 2Q). We think the large current account deficit (by historical and international standards), could pose significant risks to financial stability, especially with UK government projected to experience higher budget deficit, borrowing.

- **Key domestic events and issues to watch:** Jan PMI (1 Feb); BoE meeting (2 Feb) – expected to maintain monetary policy status quo; Dec IP (10 Feb); Jan CPI, PPI (14 Feb); Dec jobs report (15 Feb); Jan retail sales (17 Feb) and 4Q prelim GDP (23 Feb). On *Brexit* bill debate - Chamber will hold detailed examination of bill, so-called committee stage, over three days 6 Feb; remaining stages of process in Commons, including final vote, conclude 8 Feb.

- **Technical Outlook:** GBP appears to have formed an interim double-bottom just under the 1.20-handle at around 1.1980 levels. Last seen around 1.2510 levels. Weekly and daily momentum indicators remain mild bullish bias but we caution that stochastics is showing signs of turning lower from overbought conditions. We think upside move from here could be sticky. Resistance at 1.2720 (23.6% fibo retracement of Jun high to recent low) likely to cap rally. We look for a drift lower towards 1.2420 levels (50 DMA), 1.2350 (21 DMA).

AUD: Medium-term Bulls

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
AUD/USD	0.7600 (--)	0.7300 (--)	0.7500 (--)	0.7800 (--)

No Change To Previous Forecasts

- **Motivation for the FX View:** AUD has been on the rise for much of Jan after forming a base at around mid-0.71 by end Dec. After probing the 0.75—figure without much success, we anticipate a swing lower to provide another dip to buy into around 0.73 for a target of around 0.78. AUD has been supported by rise in metal prices and we continue to expect metal prices to head higher. In a reflationary world that has many countries re-focusing on their own infrastructure improvements, the rise in demand for bulk commodities should improve Australia's terms of trade and boost its income. We look for the pair to reach our target of 0.78 as stated in our 2Q forecast, or perhaps even earlier.

- **Are we worried about Australia's AAA rating?** Australia may lose its AAA rating at the May budget delivery this year. Most of the impact on the AUD is likely to be a kneejerk. It could be a mild knock on business confidence and a political blow. However, the economic consequence is more nuanced. Australia government debt is fully denominated in Australian dollars so the government is fully able to pay by its debt even if borrowing cost rise. The impact could however be on the banks' credit rating as a downgrade from their current AA- could raise their funding cost. In response, RBA may have to cut cash target rate to negate the rise. In an environment of rising rates, that is a downside risk to our AUD forecast. That said, growth outlook this year seems a bit more sanguine, albeit still uncertain, than the last. The recovery in external demand may allow more breathing room for services sector in Australia to fill the void left behind by the mining investment. The improvement in its external balance should boost the government's ability to finance its budget shortfall and avert the loss of its AAA rating within the year.

- **Growth and Inflation Outlook:** We are cautious of Australia's growth outlook. Growth in the third quarter was mainly supported by household spending and retail sales in Nov came in well under expectations at 0.2%m/m. The growth print for 3Q GDP has also surprised to the downside, raising some concerns on the economic outlook. The Westpac consumer confidence also fell to 97.3 for Dec. However, not all is gloom and doom. Ratio of Household interest payments to their disposable income has fallen. The recent surprise trade surplus for Nov confirms that exports are seeing a pick up and we continue to expect bulk commodity demand to remain strong amid ongoing projects from the One Belt One Road initiatives, China's rail project and potential infrastructure plans by incoming President Trump.

- On the inflation front, CPI came in under expectations with Q4 headline print at 0.5%q/q vs. the previous 0.7%. Year-on-year, inflation picked pace to 1.5% from previous 1.3%, narrowly missing the average forecast of 1.6%. The trimmed mean version steadied around 0.4% vs. expected 0.5%. Excluding the volatile items and tobacco, the tradables inflation actually slowed to 0.1%y/y and -0.1%q/q, suggesting that the depreciation in the AUD did not fan higher price pressure at home. Non-tradables saw greater price pressure to 2.14%y/y from the 1.7% seen in the previous quarter, reflecting the tweaks in the composition of the traded/non-traded series in the quarter done by the bureau of statistics. All in all, inflationary pressure seems pretty much subdued and may not provide much impetus for an action in the first RBA meeting on 7 Feb.

- **Monetary Policy Forecast:** The next action move is still tilted to a cut rather than a hike but we think the risks of a cut this year has reduced. If we recall, the last two cuts done in 2016 was done to raise demand so that inflation could be nudged nearer to the 2-3% target. In the November Statement on Monetary Statement, RBA judged that "the risks to global inflation appear to be more balanced than they have been for some time".

- However, we are still wary of spikes in wholesale funding cost that could happen in another global bond rout. We have seen 5y credit spreads rising to 80bps in Nov before tapering off to 60+ pips as we write. A persistent rise could raise cost of funding for banks, raises the interest payments for households and could dampen spending.

The odds are still there and we do not rule out another rate cut in response from the RBA.

- **Latest Fiscal and External Balance Outlook:** When it comes to the budget, the incumbent government is always wary about losing its AAA sovereign rating. The Mid-Year Economic and Fiscal Outlook (MYEFO) released in Dec 2016 saw its budget deficit rise by more than A$10bn. Australia kept its top-grade rating at all three agencies but S&P expressed pessimism about the government's ability to return the budget to surplus by end FY2021.

- The macro economic assumptions for the budget are crucial. Real GDP growth forecast for 2016-17 is revised lower to 2¾% from previous 3%. Nominal GDP growth is also revised lower to 4½%, taking into account weaker commodity prices and moderate outlook for inflation. The government tries to reduce the share of fiscal spending of GDP From 25.9% in 2015-16 to 25.3% in 2018-19. The economy is very much predicated on how key commodities will perform and the recent commodity run-up bodes well. We even see upside risks to growth that could stem from stronger external demand this year, allowing room for economic rebalancing and domestic services to strengthen.

- **Key domestic events and issues to watch:** Dec trade is due on the 2nd along with building approvals. Melbourne Institute Inflation for Jan and retail sales are due on the 6th. RBA decides on cash target rate on the 7th. Building approval is due on the 2nd. Dec home loans are due on the 10th. Trade on the 3rd followed by retail sales on the 4th. Statement on Monetary Policy is due on the 4th. NAB business surveys are due on the 8th. Minutes of the Feb meeting is due on the 21st.

- **Technical Outlook: Weekly chart is bullish with potential for the AUDUSD to reach towards the 0.7630-target first before the next at 0.7780. MACD is flagging slight bullish conditions while stochs are rising from oversold conditions. Price action suggests that there could be some retreat but pullbacks might be limited. Support is seen around 0.7460 (50% Fibonacci retracement of the Nov-Dec pullback), before the next at 0.73-figure.**

NZD: Strength Reflects Favorable Fundamentals

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
NZD/USD	0.7400 (--)	0.7100 (--)	0.7300 (--)	0.7500 (--)

No Change to Previous Forecast

- **Motivation for the FX View:** We expect NZD to trade in 0.71 – 0.74 range over the next few weeks, supported by strong growth momentum, stable inflation outlook (worries of falling inflation dissipates), favorable yield differentials amid an environment of temporary USD weakness (Trump-trade unwinding).

- We **expect RBNZ to potentially signal the end of easing bias** possibly as early as at its upcoming meeting on 9th Feb as downside pressure to prices is dissipating (another additional factor supporting NZD). Though markets are pricing in more than 80% chance of tightening in Nov 2017, we expect RBNZ to maintain its stance that **monetary policy will remain accommodative** (with OCR at record low of 1.75% over the next few months) as inflation has yet to move back into its 1 – 3% target range, RBNZ is worried about funding risks for NZ banks and external environment – Trump's policies, Europe's busy election calendar, etc. - remains highly uncertain.

- Our **FX forecasts and trajectory over 2017 remain unchanged** – we expect some downside pressure for NZD in 2Q as a result of markets re-pricing their expectation for Fed rate hike, leading to narrowing yield differentials. We expect NZD to rebound gradually into end-2017 as market gears up for an RBNZ rate hike towards 4Q 2017. While an election is expected before 18 Nov, we do not expect much surprise and expect limited impact on FX markets. In fact we even expect elections to be held earlier (sometime in 3Q 2017) as NZ growth outlook stays strong in the foreseeable future and fiscal and debt remain at healthy levels

- **Risks to our outlook:** Ongoing USD unwinding is due to lack of details on President Trump's policies on fiscal spending and tax cuts. And we caution that this could turn around when Trump details his economic plans with more details. Further re-pricing of Fed rate hikes leading to sell-off in USTs could see USD strength returning and we think this could pose downside risk to NZD.

- **Growth and Inflation Outlook:** NZ's economy continue to outperform most of G7 economies, supported by strong labor market (3Q unemployment rate fell to lowest level in 7 years while job creation outpaced population growth), construction activity (expect an acceleration of activity on Kaikoura rebuilding efforts post-Earthquake), tourism spending (direct contribution to GDP at 5.6%; a further 4.3% is indirectly contributed; while tourism spending accounted for 20.7% of NZ total export earnings) amid accommodative monetary policy (OCR at record low of 1.75%). RBNZ expects 2017 GDP to be 3.7%. 4Q 2016 GDP is due for released only in Mar 2017. The latest 3Q GDP (released in Dec 2016) saw a sequential pick up in 3Q (+1.1% vs. +0.9% prior vs. +0.8% expected) due to household spending.

- 4Q CPI surprised to the upside (0.4% q/q vs. 0.3% Consensus), led by jumps in petrol prices and housing-related costs. Tradable prices rose 0.3% q/q (-0.1% y/y), while non-tradable prices rose 0.6% q/q (2.4% y/y). On y/y terms, headline inflation rose to 1.3% (vs. 0.4% prior), putting inflation back into RBNZ range of 1-3%. This marks the end of the 8th consecutive quarter below the lower bound of RBNZ's inflation target range.

- **Monetary Policy Forecast:** With inflation showing signs of stabilization and could pick up further in coming months (due to oil, dairy prices, global commodity prices and potentially construction-related cost pressures), we believe the **easing cycle is likely to have**

ended. In fact, we had shared in our Annual Outlook (sent in Dec) that OIS futures were **already pricing in more than 80% chance of a hike in Nov 2017**. That said we **expect RBNZ to keep monetary policy accommodative at current levels of 1.75% (OCR) over the next few months** as downward pressure on inflation is dissipating. Concerns over funding risks for NZ banks amid rising US rates is also another factor that could prevent the central bank for raising rates, earlier than expected. RBNZ Wheeler also noted (in 8 Dec speech) that monetary policy consideration will take into account political and economic uncertainties including the new US Administration under Trump (on trade and fiscal policies), UK's Brexit plan and response from European governments, the build-up of corporate debt and rising bad debt in China, future political relationship between US, China, Japan, Russia and the busy elections calendar in Europe this year.

- At the last meeting on 9th Nov, RBNZ cut OCR by 25bps to record lows of 1.75%, as expected. While the accompanying MPS noted persistently negative inflation is holding down headline inflation, flowing through to inflation expectations and reducing inflationary pressures, we noted the subsequent speech given by RBNZ Wheeler (8th Dec) may have over-ridden the Nov MPS statement. Specifically he said that "**the low point for CPI inflation has probably passed** and, supported by the improvement in global commodity prices in recent months". He added that prospects of stronger growth in US and spillovers through trade, commodity prices and exchange rate movements should be positive for NZ.

- **Latest Fiscal and External Balance Outlook:** 3Q current account deficit widened to $1.9bn (vs. deficit of $1.8bn in 2Q). This is due to higher import of goods and slightly lower tourism spending. Current account deficit for 3Q remained at -2.9% of GDP. NZ's net external debt position (as of 3Q 2016) increased to NZD148.5bn (about 58% of GDP), from $141.4 billion (55.9 percent of GDP) at 30 June 2016.

- NZ reported an operating surplus of 1.8bn for the year to June, boosted by a surge in taxes from a growing economy and high immigration. This is the second straight budget surplus and raises the possibility of tax cuts in this year's budget.

- **Key domestic events and issues to watch:** 4Q Labor report (1 Feb); 2Y inflation expectation (7 Feb); RBNZ meeting (9 Feb); Jan Food prices (14 Feb); 4Q Retail Sales (17 Feb); Jan trade (28 Feb). GDT auctions on 7 and 21 Feb.

- **Technical Outlook:** NZD continued to trade higher, for the month of Jan. Last seen at 0.7290 levels. Mild bullish momentum on daily chart remains intact though showing signs of waning while stochastics is in overbought conditions. Price action suggests a rising wedge formation appears to be in the making. This is typically a bearish reversal. We expect moves to the upside to be sticky. Resistance at 0.7330 levels. Support at 0.7240. Decisive break below this could see further downside pressure towards 0.7140 (100 DMA).

JPY: Still Poised For Further Downside

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDJPY	118 (122)	120 (124)	124 (125)	125 (122)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The USDJPY attempts to break towards the 119-handle was not successful and the pair has since retraced back towards the 112-113 handle. This retracement comes amid a softer US dollar underpinned by the flattening of the UST yield curve as long-US dollar positions are unwound on the back of uncertainty in the Trump administration policies. The JPY has been one of the main beneficiaries in Asia of the weakness in the USD so far this year. The JPY has gained over 3.3% against the US dollar so far in Jan, compared to the 2.8% gain for the whole of 2016. This though is likely to be temporary and we expect a rebound in the dollar to lift the USDJPY higher.
- Driving the USDJPY higher is the expectation of tighter monetary policy by the US Fed this year, while the BOJ is expected to maintain its ultra-loose monetary policy for now. This divergence in monetary policy between the US and Japan should spur fund outflows from Japan to the US in search of higher returns. Compounding these outflows is the planned expansionary fiscal programme (infrastructure spending plus tax breaks) of the Trump administration that could result in faster-than-expected inflation and growth in the US. This in turn could potentially trigger more aggressive rate hikes by the Fed to mitigate inflationary pressures, thus further steepening the UST yield curve. This widening in yield differentials in favor of the US should see further USDJPY upside. However, in the near term, question marks over US economic policy are likely to moderate US dollar strength more than anticipated. This suggests that the grind higher for the USDJPY will be more gradual than previously forecasted. We now look for the USDJPY to bounce higher to 118 by end-1Q 2017 instead of 122 previously.
- Recent CFTC data is reflecting this bias for further JPY weakness. Speculators had been positive about the JPY and had positioned for net long JPY for most of 2016. Since end-Nov 2016, these net long positions have been completely reversed and are now net short-JPY. Net short-JPY climbed to peak at end-Dec at 87009 contracts before easing slightly to around 77830 contracts as of 17 Jan 2017. Still as market re-price Fed rate hike expectations and UST yields continue their climb higher, these net long-JPY bets could be increased even further. Such speculative bets should weigh on the JPY and lift the USDJPY higher.
- Further BOJ easing measures are possible in 2017 should inflationary pressures fail to pick up steam and JPY weakness peters out in 2017. Should USD strength underpinned by the steepening of the UST yield curve as well as more stable oil prices re-emerge as we expect, further upside in the USDJPY can be expected. This should help to provide inflation with a leg up. Nevertheless should inflation fail to gain traction, the BOJ could still unleash its next wave of easing measures, including cutting interest rate further to -0.3% (from -0.1%

currently) and increasing asset purchases of ETFs and J-REITs and other instruments to JPY10tn and JPY6tn. We do not expect any action by the BOJ at its first meeting of 2017 on 31 Jan. Instead, we believe that the BOJ will watch for the impact of further US Fed rate hike before making its own moves.

- In summary, we continue to expect the US dollar to strength for the rest of 2017 amid further steepening of the UST yield curve. The widening yield differentials in favor of the US should provide the impetus for further USDJPY upside towards the 120 levels by end-2Q (from 124 previously) and then to the 125 levels by end-3Q and end-4Q (previously 125 and 122 respectively).
- There are some mitigating factors that could cap USDJPY upside to a certain extent. First, there have been persistent current account (CA) surpluses since 1996. In the first eleven months of the year, the surplus was JPY19.54tn, on track to exceed last year's surplus of JPY16.41tn. Second, risk aversion on concerns about US protectionist measures and geopolitical tensions could spur safe haven plays. Together, these should cap upside to the USDJPY ahead. Third, there is speculation that the BOJ will have to embark on tapering this year as it runs-up against operational limits where there could be greater demand for JGB than supply. Such speculations could slow the pace of the USDJPY's climb higher.
- **Growth and Inflation Outlook:** The economic recovery continues at a moderate pace as highlighted by the Cabinet Office's economic report for January. The moderate recovery is reflected in the gains in industrial production and core machinery orders in Nov - latest data point available - expanding by 4.6% and 10.4% y/y respectively. Year-to-date though, industrial production and core machinery orders fell by 1.2% and 6.4% y/y respectively. There was also a flicker of hope from exports in Dec. For the first time in 15 months, exports rose by 5.4% y/y in Dec, buoyed by auto parts and electronics. Imports though continued their decline, slipping 2.6% y/y in Dec on the back purchases of aircraft and crude oil. This resulted in a trade surplus of JPY641bn in Dec, the fourth consecutive month of surplus.
- The economy could also be poised to benefit from a 'synchronized' recovery in ASEAN, where a rebound could translate into stronger demand for Japanese exports, but this could be mitigated should protectionism takes hold. As well, the economy could receive a boost from the record budget of JPY97.45tn approved by the cabinet for FY2017. However, the fiscal impulse is unlikely to be significant as most of the budget is allocated for military expenditure, debt-servicing expenses and social services cost. Only JPY5.98tn is set aside for public and other works. Thus, no sharp recovery is in the works.
- Headline inflation rose by 0.3% in Dec – the third consecutive month of gains. Core inflation (headline inflation excluding fresh food) however slipped 0.2% y/y in Dec, the 10th month of decline. The pace of decline for core inflation though eased compared to Nov's -0.5%. This is likely to reinforce expectations that inflation could turn positive later in the year. Still, this optimism is likely to be tempered should the favored gauge of the BOJ – 'core core' inflation (headline inflation less fresh food and energy prices) – continues on its downtrend. The most recent data from Nov showed 'core core' inflation hovering close to the zero levels at 0.2%.
- **Monetary Policy Forecast:** Since its meeting in Sep 2016, the BOJ has maintain the status quo in its new policy framework of QQE with Yield Curve Control. It kept short-term interest rate at -0.1% and its 10Y

JGB yield target at about 0%. The BOJ has refrained from adding to its policy measure for now as it focuses on achieving a "normal" yield curve through control of both the short- and longer-terms interest rates. The monetary base expansion – main policy tool of BOJ from the start of QQE – has not been discarded though it is no longer is the key target of monetary policy. This does not mean that the BOJ is poised to taper anytime soon, though there are some expectations for it to do so in the market. The BOJ has maintained the pace of JGB purchases at around JPY80tn.

- We hold to our belief that the BOJ has room to ease policy further. But this does not mean that the BOJ will act immediately to ease policy. Instead, additional measures are likely to be taken should the reflation efforts stall. So far, USD strength underpinned by the steepening of the UST yield curve and more stable global oil prices should spur inflationary pressure and put upside pressure on the USDJPY. We are therefore not expecting any move at its next policy meeting on 30-31 Jan. Instead, we believe that the BOJ will watch for the impact of further US Fed rate hike before making its own moves. The additional measure that the BOJ could unleash includes cutting interest rate further to -0.3% (from -0.1% currently) and increasing asset purchases of ETFs and J-REITs and other instruments to JPY10tn and JPY6tn.
- **Latest Fiscal and External Balance Outlook:** The cabinet has approved a budget of JPY97.45tn for FY2017. The bulk of this record budget is allocated for military expenditure, debt-servicing expenses and social services cost, which together accounts for slightly over 60% of the total budget. Of the total, only JPY5.98tn is set aside for public and other works that would directly impact the economy. Tax revenue is expected to be flat, up just 0.2% to JPY57.7tn.
- The current account (CA) surplus narrowed to JPY1.42tn in Nov from JPY1.72tn in Oct due to the smaller surpluses in the goods and services account (Nov: JPY0.39tn vs. Oct: JPY0.42tn) and primary account (Nov: JPY1.2tn vs. Oct: JPY1.47tn). The financial account surplus widened in Nov to JPY1.10tn in Nov from JPY0.74tn in Oct due the surpluses in the financial derivatives, other investment and reserve asset segment that more than offset the deficit in the portfolio investment segment (-JPY2.34tn). Consequently, the overall balance of payments surplus widened to JPY2.19tn in Nov from JPY1.49tn in Oct.
- **Key domestic events and issues to watch:** There is no BOJ meeting in Feb, but the BOJ will release minutes of its 19-20 Dec meeting on 3 Feb as well as its summary of opinions for the 30-31 Jan meeting on 8 Feb. We also have GDP for 4Q 2017 on tap on 13 Feb. Of interest could be Prof. Koichi Hamada - economic advisor to PM Abe - speaking in Tokyo on 2 Feb and his speech will be culled for clues of future economic policy direction of the government. JGB auctions in Feb: 10-year (2 Feb), 30-year (9 Feb), 5-year (14 Feb), 1-year (15 Feb) and 20-year (23 Feb).
- **Technical Outlook:** USDJPY looks on course to reverse its Dec monthly gains. Last seen at 113.50 levels. Daily momentum remains bearish bias. 21D cuts 50DMA to the downside – an indication of potential downside pressure in the short term. Support remains at 112.50 (38.2% fibo retracement from Nov low to Dec high). We caution that a break below this level could suggest further downside pressure towards 109.90 levels (50% fibo). Our bias remains to buy on dips.

Resistance at 114.80 (21 DMA), 115.30 50 DMA) before 118.70 (previous high).

CNY: Brace for USD Strength

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/CNY	7.00 (--)	7.05 (--)	7.10 (--)	7.10 (--)
USDCNH	7.00 (--)	7.06 (--)	7.11 (--)	7.08 (--)

Previous Forecast In Parenthesis

- **Motivation for the FX View:** USDCNH has had a tumultuous month and we continue to expect more volatility this year. This is the year that China needs to anchor the RMB against the basket (more than ever) as we brace for USD strength to return along with Fed tightening, higher inflationary pressures and higher rates. This has not played out so far this year as concerns as concerns of a strong USD were mentioned by Trump and his Treasury Secretary Nominee Mnuchin. Chinese New Year is here and we suspect PBoC will still be on guard, even during the festivities, to lean against the wind if necessary. The 11 currencies added into the basket will help and further add conviction to our view that CNY and CNH may depreciate less than most other currencies in the basket, against the USD.

- Capital outflow is still a main concern as more Chinese nationals seek returns overseas and gain the USD exposure, in addition to the requirements of the One Belt One Road initiative. We also want to keep in mind that China has been garnering interest in its domestic financial markets. However, the recent defaults in the bond market, the volatilities seen in the equity markets in recent years and capital controls have dampened investor confidence. Now, China is focused on mitigating its asset bubbles in the face of rising global rates as well. The 10bps hike in the 1-year and 6-month MLF rates (conducted on 24 Jan) indicate some form of policy tightening but stopped short of raising the 7-day reverse repo rate the following day to keep short-term liquidity intact ahead of the lunar new year. We will not rule out the possibility of a hike after Lunar New Year. 1-year MLF may be taken as a policy rate guide and a tightening bias can lend support to the CNY.

- Our USDCNH outlook hinges on our strong USD outlook, slower economic growth and structural capital outflows. However, let us not be too pessimistic as the recent improvement in regional exports data could signal synchronized recovery in the external demand, notwithstanding the low base last year. Improvement in the external balance may in turn provide some support for the Asians (including China) FX in the face of a strong USD. Heartened as the recent prints (Korea, Singapore NODX) may be, we monitor the trade data release for further confirmation of trend.

- **Our monthly Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) showed the score for China improved marginally to 5.3 from previous 5.4 (with 1 being the best and 9 being the worst) due to a stronger score for ***reserves*** relative to Asian peers.

- **Growth and inflation outlook:** Our forecast of USDCNY and USDCNH is based on a slower growth forecast of 6.5% this year. We expect credit growth to be strong this year even as marginal returns on growth diminish. Leading indicators like the NBS PMI-mfg inched lower to 51.4 from 51.7. Pace of expansion in the manufacturing sector seems to have slowed according to official figures with small and medium manufacturing enterprises slipping back into contractionary mode. Nonetheless, inflationary pressures continue to build with the purchasing price index creeping to around 69.6 from previous 68.3. That could trickle into the CPI. Growth-wise, the real estate development that was the driver of growth for 4Q,

- Managing growth stability, yuan stability and deleveraging with stability is a challenging juggling task.

- 4Q GDP firmer than expected, at 6.8%, picking pace from the previous 6.7% in 3Q. China managed to achieve its growth target of 6.5-7% for 2016 with a full-year GDP print of 6.7%. Accompanying the GDP release was the activity data for Dec, industrial production was remarkably subdued at 6.0%y/y, reflecting the less sanguine outlook for manufacturing outlook as the effect of property cooling measures start to kick in. Industrial profitability peaked in Nov and slowed to 2.3%y/y from previous 14.5%. The profits of overcapacity and non-overcapacity companies softened as the impact of property cooling measures take hold. On the other hand, we expect support to come from infrastructure projects domestically (railway) and externally (One Belt One Road).

- Retail sales surprised to the upside with a print of 10.9%y/y for Dec, firmer from the previous 10.8%. Stronger growth was seen in daily-use items, cosmetics and furniture. Interestingly, household electronics seem to have decelerated to 9.5%y/y growth from previous 14.7%. The details suggest that consumption was probably boosted by festive spending ahead of Lunar New Year. The slowdown in household electronics could mean that the property cooling measures seem to have already taken hold in Dec. Our outlook for consumption is cautiously optimistic as we expect the burgeoning services sectors to support employment, wage growth and to a certain extent, provide positive wealth effect via the equities. However, we do believe that the government is determined to keep property prices stable and cooling measures are unlikely to be lifted this year. That should crimp on household spending significantly.

- CPI came in a tad lower at 2.1%y/y from previous 2.3%. PPI was the shocker which came in at 5.5%. Prices were inevitably lifted along with commodity prices as the government continues to cut capacity. Given a weaker yuan and supply-side conditions including oil, we will not be surprised if the CPI target for 2017 will be lifted from 3% in 2016 to 4-5%.

- **Monetary Policy Forecast:** The RRR cut on 20 Jan was a temporary measure meant to boost liquidity amid strong festive demand. It was also fortunate that USD is also in a corrective state such that long USDCNH bets have subsided. Prior to that, the amount of OMO injection reached a record high of CNY1130bn in the week ending 22 Jan but for the same month of Jan, we saw a withdrawal of CNY840bn in the first two weeks. So net basis, there was an injection of around CNY390bn, still higher than what was seen in the past three months but much lower than the CNY871.6bn that was injected in Sep, ahead of the golden week holiday. Afterall, PBoC has already cut RRR by 100bps for 28 days for the major 5 banks on 20 Jan to meet the seasonal liquidity demand.

- Credit growth has been spurred by pledged supplementary lending, medium term lending facility and standing lending facility to supply credit to the targeted sectors that require more liquidity support. In a surprise move, PBoC conducted MLF operation at a higher rate (24 Jan). 1 year MLF rate was raised to 3.1%, up 10bp from 3.0%. 6-month MLF was conducted at 2.95% from 2.85%. This is the first time that the central bank has raised MLF rates and could be done as a way to reinforce the message that they have not eased monetary policy by lowering the RRR. In addition, note that the tenors were 1-year and 6-month which should have less impact on short-term liquidity. The tenors also suggest that the MLF rates could be better used to guide the lending rates rather than the 1-year lending rate or re-discount rate.

- PBoC had stated in their recent statements (Central Economic Work Conference, 4Q Monetary Report) that monetary policy will be “prudent and neutral” and the central bank is certainly sticking to this theme. However, with growth still slowing, we see little room for MLF rates to be raised a lot more.

- **Latest Fiscal and External Balance Outlook:** The IMF estimates that China’s ‘augmented’ fiscal deficit is running at around 10% of GDP. Growth of government expenditure is still likely to head higher as the government works to pump prime the economy with infrastructure investment. In addition, local government has been accumulating a lot of off-balance sheet debt in order to finance infrastructure investment. The recent tax overhaul which moves construction, property, finance and consumer service sectors under the value-added structure could mean less revenue for the local governments. The central government plans to increase budget deficit to redistribute the VAT revenue back to provinces. Small businesses with less than CNY500,000 in annual sales will drop to 3% from 5%.

- Current account surplus widened to U$69.3bn in 3Q from previous U$64.1bn mainly on the improvement in merchandize trade balance. The outflow via its capital accounts rose to -U$194mn vs the previous -U$30mn on the back of trade credits, currency and deposits and loans. We watch the 4Q estimate due on the 8th Feb, which is expected to worsen.

- **Key domestic events and issues to watch:** Mfg PMI is due on 1^{st}, Caixin on 3^{rd}, foreign reserves on 7^{th}, BoP on the 8^{th}, Jan trade on 10^{th}, monetary data on 10-15^{th} and CPI, PPI opn 14^{th}. Industrial profits on 27^{th}.

- **Technical Outlook:** USDCNH is seen around 6.8570 as we write. Weekly chart shows more room for downside with MACD increasingly bearish and stochs falling from overbought conditions. Support is seen around 6.7749 (61.8% Fibonacci retracement of the Sep-Dec rally), before the next at 6.7240. Barrier is seen around 6.9080 (23.6% fibo) before the high at 6.99.

KRW: Of Divergence in Growth and Monetary Policies

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/KRW	1170 (--)	1220 (--)	1180 (-)	1180 (--)

No Change from Previous Forecast

- **Motivation for the FX View:** We maintain our call that KRW remains vulnerable to wild swings, given its high sensitivity to external events, potential growth and monetary policy divergence (with the US).

- We noted that USDKRW has corrected (by about 4%) from its highs of 1210 to current levels of 1162, since the start of 2017. This move has been flagged out in our Annual FX Outlook (sent on 1 Dec 2016) – we said USDKRW could turn around as some of the domestic negativity (relating to political scandal) has already been priced in and domestic conditions could show some improvement. We also said that we expect external events to exert depreciation pressures on the KRW in 2Q 2017. To add, we see downside risks (for USDKRW) limited towards 1150 in the next 1-2 weeks and the pair should eventually rebound, possibly towards 1175-85 levels as markets re-price Fed rate hike risks into mid-Fed to Mar.

- The decline in USDKRW since the start of the year was due in part to early signs of synchronized recovery in Asia exports including ASEAN, TW, China and Korea (via first 20 days of Jan exports data) and to a larger extent - little clarity on President Trump's promises on infrastructure spending and tax cut plans so far. Some called this the 'Trump trade' (built since Nov elections) unwinding and is broadly affecting most USD/Asian currencies including JPY and the regionals (SGD, MYR). We think it is too soon to write off President Trump's economic plans as he has only just assumed office (20^{th} Jan). We expect President Trump to deliver (to some extent) infrastructure spending, tax cuts at some stage and these should benefit US growth and bring about demand-pull inflation for US. This leaves room for Fed to raise rates by more this year (relative to 1 hike each in 2015 and 2016). Recall that Fed Chair Yellen said (18 Jan) that her colleagues and she expect the Fed to raise rates “a few times” a year through 2019. Back at the last FoMC meeting in Dec 2016, FoMC’s dots plot projection for median rate also shifted higher to 3 hikes in 2017.

- Domestically, growth momentum is likely to moderate further due to slowing private consumption (account for 40% of GDP) and construction investment amid ongoing political scandal (affecting investor sentiment) and corporate restructuring (job losses). While household debt remains large at 90% of GDP, we expect BoK to keep monetary policy accommodative, to support economic recovery amid an uncertain external environment. We expect **growth divergence and monetary policy divergence between US and S.Korea to re-assert downside pressure for KRW vs. USD.**

- Other factors that could subject KRW to further depreciation pressures include President Trump’s trade protectionist policies and geopolitical tension. S.Korea is highly dependent on exports (exports of goods and services make up about 50% of Korea’s GDP) and Trump has previously singled out the Korea-US free trade agreement as a ‘catastrophe’ that needs to be renegotiated. Bear in mind that US accounts for 14%% of Korea’s exports and Korea’s trade surplus with the US swelled to 25.8bn in 2015 (vs. 11.6bn in 200 before US-Korea FTA went into effect). Trump’s plans of new missile defence system against Iran and North Korea could antagonize the latter. Reports that North Korea could be prepping intercontinental ballistic missile launch to the US (if true) could see the KRW come under pressure (though this is probably a short term noise).

- **Our monthly Maybank Vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for S.Korea held steady at 5.9.

- **Growth and Inflation Outlook:** For 4Q 2016, the economy expanded at its slowest pace in more than a year (0.4% q/q vs. 0.3% Consensus vs. 0.6% in 3Q). The slowdown was due to construction investment (-1.7%) while private consumption slowed (0.2% vs. 0.5% in 3Q). Infrastructure investment was the bright spot (+6.3%), contributing the most to growth in the 4 Q. BoK said that the decline in construction investment was due to base effects and sees no sign of rapid fall in investment.

- While exports may have shown tentative signs of improvement, as indicated in the exports first 20-days of Jan data (+25% y/y vs. 11.6% prior), the BoK has indicated that the pace of domestic economic growth may have slowed. Private consumption and construction investment have been cited as the weaker links. BoK projects 2017 GDP to expand by 2.5%, owing to improvement in exports and facilities investment. Net contribution of domestic demand to 2017 GDP is expected to decline to 1.7ppts (from 2.3 ppts in 2016).

- Headline inflation held steady at 1.3% y/y in Dec. This is the 4th consecutive month CPI inflation had held above 1%-handle, and was due to increase in food prices, especially fruits and vegetable. This was due to hot weather and typhoon that hit S.Korea in Summer. Core inflation remained firm at 1.2% y/y (vs. 1.4% prior). We expect headline inflation to pick up in the coming months amid rising oil prices. And this is more of cost-push inflation rather than demand-pull.

- **Monetary Policy Forecast**: Against a backdrop of rising household debt (90% of GDP), potentially more Fed rate hikes and rising price pressures (in KR), we think the window for further rate cut is getting smaller. We expect BoK to keep monetary policy accommodative, with rate on hold at record low of 1.25%, at its upcoming meeting on 23 Feb. We had shared that cutting rate could risk exacerbating the debt situation at home. BoK may want to retain its monetary policy toolkit for use at a later stage if need arises.

- **Latest Fiscal and External Balance Outlook:** Current account surplus widened to 8.99bn in Nov (vs. 8.72bn in Oct) due to goods account surplus widening. This is the 57th consecutive month of surplus.

- Korea's sovereign debt is expected to increase to KRW682.4tn by end-2017, from KRW641tn. Government debt now stands at 44.8% of GDP. The rising debt has to do with tax cuts and increasing welfare spending made during former President Lee's era. The National Assembly Budget Office estimates government debt will rise to KRW800tn in 3 years' time.

- **Key domestic events and issues to watch:** S. Korea releases Dec IP, Jan trade data (1 Feb); CPI (2 Feb), BoK meets (23 Feb) and PMIs (28 Feb).

- **Technical Outlook:** USDKRW fell about 4% for the month of Jan. Last seen at 1162 levels. Technical signals conflict between weekly and daily tech - weekly is bearish bias while daily shows signs of rebound. **Price action shows a potential mini head and shoulders (H&S) formation in** the making, with neckline support at 1150 – 1158 levels, shoulder 1 top was at 1188 and shoulder 2 top at 1178. The H&S formation would be confirmed if the area of support (1150 – 1158) gives way; and this suggest that downside risks towards 1130 could come. We watch price action for further indication. On the other hand, if the neckline area of support holds, we could see a consolidative phase of trading between 1151 and 1180 until the next catalyst comes along.

SGD: Weighed By The Dollar Story

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDSGD	1.4000 (1.4400)	1.4250 (1.4450)	1.4350 (1.4350)	1.4200 (1.4350)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The SGD has started the year on a positive footing. The back-pedaling of the US dollar so far this year as long-USD positions are unwound on the lack of clarity in Trump's economic policies. This has allowed the SGD to be one of the best performers among the regional currencies. The SGD has so far risen by 2.4% against the USD so far in Jan. This adds to the nearly 2.0% gains the SGD had already made in 2016. These gains have created a new starting point for the currency this year.

- For now, there is some risks of downside pressure on the USDSGD as the synchronize recovery in exports in the region due to expectations of stronger US growth could possibly be beneficial to the Singapore as well. This together with the possible further unwinding of long-USD positions could weigh on the USDSGD and allow the pair to end 1Q 2017 around 1.4000. We will continue to monitor upcoming data like industrial production and PMI prints for further evidence that the synchronized recovery is gaining traction.
- This synchronized recovery in exports in the region is expected to lift economic growth in Singapore. Our economic team expects the economy to grow by 2.5% in 2017 (vs.1.8% in 2016), up from 1.8% previously. This is at the upper half of the government's 1-3% forecast. Nevertheless, we do not expect the stronger outlook to significantly alter the trajectory of the USDSGD in 2017. First, the ongoing economic restructuring of the economy and property curbs are likely to still affect sentiments and this could weigh on the SGD. Second, volatility in the FX markets from possible market re-pricing of US Fed fund rate hikes, rising protectionism and uncertainty in the Trump administration economic policies could cause the SGD to diverge from its macroeconomic fundamentals. Third, the yield differentials between the US and Singapore is also likely to spur portfolio outflows and put downside pressure on the SGD.
- Aside from the synchronized recovery, expansionary fiscal policy, still accommodative monetary policy, its triple-A status and persistent balance of payments surpluses should continue to backstop the USDSGD and moderate the pair's climb higher. These though are unlikely to offset completely the current policy bias of possible aggressive US Fed rate hike. The possibility of even more aggressive US Fed rate hikes in 2017, triggered by the Trump administration's plans for expansionary fiscal stimulus (infrastructure spending plus tax breaks) could result in faster-than-expected inflation and growth in the US. The rate hikes could further steepen the UST yield curve, widening the yield differentials in favor of the US and lifting the USDSGD higher.
- On the monetary front, forward guidance by the MAS in its Oct policy statement suggested that the neutral policy stance is likely to be maintained beyond the Apr 2017 meeting. While we expect growth to be at the upper half of the government's 1-3% forecast at 2.5% for 2017, inflation is expected to be mild. Our economic team expects headline inflation to average around +1.0% y/y vs. MAS official forecast of: 0.5%-1.5% and core inflation to come in at +1.6% y/y (MAS official forecast: 1%-2%). This is due to the improvement in energy-related components along with global commodity prices, and the dissipation of the effects of the budgetary measures. As the increase in headline inflation is mainly due a rise in prices of energy-related components and base effects, we continue to expect MAS to remain neutral and keep its policy unchanged in its upcoming meeting in Apr-17, i.e. maintain the rate of appreciation of the SGD NEER at zero percent and keep the width of the policy band and the level at which it is centered unchanged. Maintaining the neutral policy should allow the SGD NEER to hover at the lower half of the policy band, suggesting that further weakness in the SGD can be expected ahead.

- We have tweaked our 2017 forecast for the USDSGD to reflect these recent developments. We now expect the USDSGD to climb higher in 2Q and 3Q to 1.4250 and 1.4350 respectively before easing off towards the end of the year to the 1.42-levels.
- **Our monthly Maybank Vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Singapore was steady at 4.6 as its risk profile was unchanged. This should be supportive of the intrinsic value of the SGD. Our model shows that the SGD NEER was last seen 0.70% below the mid-point implied at 1.4090. Upper bound is implied at 1.3810 while lower bound is now at 1.4380.
- **Growth and Inflation Outlook:** The economy outperformed expectation in 4Q 2016, expanding by 1.8% y/y in the advanced estimates vs. market expectations of 0.3% and which was an improvement from 2Q's 1.2%. On a q/q SAAR basis, real GDP jumped 9.1% (cons.: +4.0%), a significant rebound from 2Q's 1.9% drop. The better-than-expected advanced estimates could be attributed to the rebound in manufacturing (up 6.5% y/y and 14.6% q/q SAAR) led by electronics and biomedicals and services (up 0.6% y/y and 9.4% q/q SAAR). The possibility of a regional synchronized recovery in exports due to a stronger US economy could keep economic growth momentum going in 2017. The strong recent prints in industrial production and NODX as reflected in the uptick in manufacturing (Dec: 21.3% y/y and Nov: +11.8% y/y) and two consecutive months of growth in NODX (Nov: +11.5% y/y and Dec: +9.4% y/y) suggests such a synchronized recovery in exports is benefiting the manufacturing and export sectors. Given this development, our economic team expects the economy to grow by 2.5% in 2017 (vs.1.8% in 2016), up from 1.8% previously. This is at the upper half of the government's 1-3% forecast.
- CPI rose for the first time in more than 24 months, climbing by 0.2% y/y in Dec due to higher transport cost. Core inflation, which excludes costs of accommodation and private road transport, rose 1.2% y/y in Dec. MAS and MTI continue to expect core inflation to pick up only gradually in 2017 and to average 1-2%. Headline CPI is also projected to still rise by 0.5-1.5% in 2017. Our economic team's outlook is for inflation to remain mild. The team expects headline inflation to average around +1.0% y/y and core inflation to come in at +1.6% y/y due to the improvement in energy-related components along with global commodity prices, and the dissipation of the effects of the budgetary measures.
- **Monetary Policy Forecast:** Forward guidance by the MAS in its Oct policy statement suggested that the neutral policy stance is likely to be maintained beyond the Apr 2017 meeting. While we expect growth to be at the upper half of the government's 1-3% forecast at 2.5% for 2017, inflation is expected to be mild as discussed above. As the increase in headline inflation is mainly due a rise in prices of energy-related components and base effects, we continue to expect MAS to remain neutral and keep its policy unchanged in its upcoming meeting in Apr-17, i.e. maintain the rate of appreciation of the SGD NEER at zero percent and keep the width of the policy band and the level at which it is centered unchanged.
- The neutral policy was necessary to provide "some flexibility for the S$NEER to accommodate the near-term weakness in inflation and growth". With policy already accommodative, any policy adjustments will be data-dependent. An intermeeting move remains available to the MAS though but will be undertaken only if the macroeconomic

environment deteriorates materially. With the neutral policy stance likely to be maintained beyond the Apr 2017 monetary policy meeting, the SGD NEER likely to hover at the lower half of the policy band ahead.

- The USDSGD briefly touched a multi-year high (not seen since Jul 2009) of 1.4547 at the start of the year (on 3 Jan). The pair has since retreated back towards the 1.42 levels. This drop in the USDSGD has resulted in the 3-month SOR (3MSOR) coming off from 1.0118% on 3 Jan to 0.7913% on 25 Jan. The slide in the 3-month SIBOR (3MSIBOR) was more gradually with the rate falling from its recent peak of 0.9689% on 3 Jan to 0.9611% at the point of writing. Year-to-date, the 3MSIBOR and 3MSOR have fallen by around 1.2% and 22% respectively from their Jan high of 0.9726% and 1.0152% respectively. The more modest rise in rates suggests that the rise in mortgage rates is unlikely to be significant for now. Deposit rates (for 12-month fixed) have not risen since end-Jan and remains at around 0.35% currently. This continues to suggest that risks related to interest rate increases affecting financial and economic stability, particularly in interest rate- and property-related sectors, seems limited for now.
- Upward pressure on domestic rates remains gradual given the recent re-pricing of a Fed rate hike risk in 2017. US 3MLIBOR has edged above the 1.0% levels in Jan. The US 3MLIBOR is currently hovering at 1.0318% at the point of writing but this is slightly off its 10-year high of 1.0434% on 20 Jan. Ample liquidity has so far kept domestic rates from tracking the US 3MLIBOR higher. With US rate hike trajectory still on a gradual path, domestic rates should continue its slow grind higher. We expect the 3MSIBOR and 3MSOR to end 1Q 2017 at 1.47% and 1.25% respectively. For the full-year, we expect the rates to end 2017 at 2.32% and 2.10% respectively.
- **Latest Fiscal and External Balance Outlook:** Latest print showed that the surplus in the current account widened again in 3Q. The current account rose to SGD24.67bn in 3Q 2016 from SGD22.38bn in 2Q. The larger current account surplus could be attributed to the widening goods and services surplus (of SGD30.08bn from SGD28.75bn) and the improvement in both the deficits in the primary and secondary income accounts (to –SGD2.90bn and –SGD2.51bn respectively from -SGD3.82bn and SGD2.56bn in 2Q respectively). The financial account surplus widened again in 3Q to SGD19.45bn (2Q: SGD17.80bn) on the back of strong portfolio inflows (to SGD13.61bn). The overall balance of payments surplus was higher at SGD5.43bn in 3Q 2016 compared to SGD4.76bn in 1Q as a result.
- **Key domestic events and issues to watch:** Two key events to watch out for in Feb, namely the 2017 Budget and final 4Q16 GDP. The Finance Minister will present the 2017 Budget in parliament on 20 Feb and markets will be closely watching for further measures to boost the economy and prepare for the future. 4Q16 GDP is expected to be released sometime between 17 and 24 Feb. Also, the Committee on the Future Economy will be unveiling its pro-growth strategies sometime in the second week of Feb.
- **Technical Outlook:** USDSGD continued to trade with a heavy bias for the month of Jan. Last seen at 1.4190 levels. Bearish momentum on weekly and daily chart remains intact. Key support at 1.4150 before 1.4090 (38.2% fibo retracement of Aug low to Jan high, 100 DMA). A decisive move below these support levels may pose further downside pressure towards 1.3950 (50% fibo). Resistance at 1.4260 (23.6% fibo, 21 DMA) before 1.4330 (50 DMA). Need a close above 1.4330 for uptrend to resume.

MYR: Vulnerable To Event Risks

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/MYR	4.2500 (4.2000)	4.3500 (4.3000)	4.2000 (4.1500)	4.2500 (4.2000)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Over the past 1 month, MYR has generally strengthened by around 1.5% against the dollar, with oil prices stabilizing, commodity prices picking up and USD mildly softer in Jan.
- USDMYR traded as high as 4.50 (4 Jan) but has since retreated very slowly unlike in the past. We think this weakness could still persist in the short term but solid underlying fundamentals and policies {backed by domestic demand, re-calibrated supportive budget (on a lower oil price assumption suggests flexibility in the fiscal space), relative stability in oil prices though some downside pressure exists, relative attractive yields in the MGS, stabilizing ratio of FX reserves to retained imports & short-term debt, accommodative monetary conditions to support businesses} remain intact and should provide an anchor for MYR stability once short-term noises subsided. Given the openness of the economy and the high participation of foreign investors, the Malaysian Ringgit is highly exposed to the global economic environment. Nonetheless, the Ringgit could face downside risk on the back of the recent declining trend in the current account surplus, relatively limited FX reserves in comparison to other major EMs, exposure to Chinese demand for the country's export performance, and US rate normalization affecting emerging markets.
- USDMYR is likely to trade in very narrow ranges unlike in the past since the restrictions on the offshore market were made late 2016. Some dollar retracements remain possible following the actual Fed rate hike and bond positioning in 1Q 2017 could be positive for the MYR. That said, in light of recent market development, we have calibrated our USDMYR forecasts a touch higher over the forecast horizon.
- **Our fair value estimate (which takes into account interest rate differential, inflation differential, current account differential and reflation variables) puts USDMYR at 3.65 levels.** We had previously said that Ringgit weakness was temporary and was not a reflection of underlying fundamentals (which remain intact). We still expect to see some stability returning to Ringgit as political/contingent liability risk subsides, fiscal consolidation/reforms gains traction, oil prices stabilize and uncertainty and likelihood of Fed rate hike subsides for the next 6 months.
- External reserves fell -USD0.3b to USD94.3b at 15 Jan 2017 from USD94.6b at end-Dec 2016, the lowest since Nov 2015. Latest tally is equivalent to 8.7 months of retained imports and 1.3 times of short-term external debt. Falling external reserves since late-2016 mainly reflect net portfolio capital outflows.
- Foreigners turned net buyers of Malaysian equity so far this month (3-19 Jan 2017: +MYR0.4b; Dec 2016: -MYR1.0b). They were net sellers of Malaysian bonds last month (Dec 2016: -MYR5.4b; Nov 2016: -

MYR19.9b), and the continued external reserves fall in 1H of Jan 2017 suggest further net selling in the bond market. The key thing to watch on this space is what foreign investors in Malaysian Government Securities (MGS) are going to do with their portions in the upcoming maturities totaling MYR8.8b on 15 Feb 2017 and MYR10.5b on 15 Mar 2017 i.e. re-invest or repatriate...?

- To recap, BNM announced measure to boost external reserves in early-Dec 2016 i.e. repatriation of 75% of export earnings with the flexibility where the repatriated export earnings can be reconverted into foreign currencies to meet obligations six months ahead (e.g. import bills, repayment of foreign currency loans) subject to documentation as proofs. BNM said that in Dec 2016, the net repatriation of export earnings was in excess of MYR2b amid a reconversion rate of 57%. On 17 Jan 2017, BNM's statement said the repatriation of export earnings continue to increase so far in Jan 2017 without giving any figure.

- External reserves may get additional lift from the divestments of overseas assets by Government-linked investment funds. Permodalan Nasional Berhad (PNB) may look into strategically divesting its properties locally and regionally which have appreciated over the years. Meanwhile Khazanah Nasional recently sold "Skyscanner", an Edinburgh-based travel search engine to "Ctrip.com" a Shanghai-based online operator for USD1.75b. Both funds did not mention whether the proceeds from such divestments would be re-invested overseas or repatriated to Malaysia, but if repatriated, they will help with the external reserves, onshore FX market liquidity and MYR.

- **Growth and Inflation Outlook:** No change in our 2017 growth forecasts of +4.5% for now as we closely monitor key domestic indicators and developments in major economies.

- At this juncture, we need to keep a close tab on key high frequency domestic data, namely the monthly economic indicators such as the indices on industrial production and distributive trade, external trade, money and banking statistics, as well as major commodity output and prices. In addition, our eyes are also on the economic trends as well as policy and political developments in the major economies i.e. US, Europe (including UK), China, Japan.

- Exports and imports rebounded +7.8% YoY (Oct 2016: -8.6% YoY) and +11.2% YoY (-6.6% YoY) respectively while trade surplus is sustained at +MYR9.0b (Oct 2016: +MYR9.8b) amid improved global manufacturing PMI and revival in commodity prices as US-China trade relation poses risk to outlook. No change in our full-year forecasts for exports (2017E: +2.0%; 2016E: +0.1%), imports (2017E: +2.5%; 2016E: +0.5%) and trade surplus (2017E: +MYR87.3b; 2016E: +MYR88.9b).

- Both headline and core inflation rates in Dec 2016 were little changed at +1.8% YoY (Nov 2016: +1.8% YoY) and +2.1% YoY (Nov 2016: +2.2% YoY) respectively. Full year 2016, headline inflation was +2.1% (2015: +2.1%) while core inflation was +2.5% (2015: +3.1%). Our economics team adjusted 2017 inflation rate forecast slightly higher to +2.5% from +2.3%.

- Overall, monthly headline inflation rate in 2016 has been volatile from the peak of +4.2% YoY in Feb 2016 to the low of +1.1% YoY in Jul 2016 and gradually picking up towards the end of last year. The volatility was mainly due to the monthly adjustments in domestic fuel prices, taking cue from the trend in global crude oil prices as well as series of adjustments in administered prices such as increase in rail transport fare hike and domestic cooking oil prices.

- We expect the gradual upward movement in monthly headline inflation rate in 2H 2016 to be sustained in 2017. Seasonal factors like recent flooding and longer than expected monsoon season as well as Chinese New Year celebration together with weaker MYR, higher domestic fuel prices, school bus fare hike and lagged effect from domestic cooking oil price adjustments will sustain the upward trajectory in monthly inflationary rates into this year.
- Our economics team adjusted their 2017 headline inflation forecast higher to +2.5% from 2.3% previously on cost push effect of weaker MYR against USD (average 2017E: 4.27; average 2016: 4.14), higher-than-expected domestic fuel price hike in Jan 2017 on firmer global crude oil price as well as price adjustments from the new 2016 Price Control & Anti-Profiteering Act effective 1 Jan 2017, which are now limited to food and beverages, as well as other household items only. Upside risks to the forecast includes factors such as weather and seasonal effects on food-related commodity prices as well as scheduled and pending reviews of "administered prices" like gas prices, electricity tariffs and sewerage charges.
- **Monetary Policy Forecast:** BNM kept the Overnight Policy Rate (OPR) at 3.00% at the first MPC meeting for the year, while the Statutory Reserve Requirement (SRR) was also maintained at 3.50%. We maintain the view that OPR to stay at 3.00% in 2017. We expect BNM to keep OPR at 3.0% this year. Monetary policy stance is biased towards growth as per last year's 25bps cut in July 2016. However further cut(s) unlikely amid volatile MYR and pick-up in inflation rate to 2.5% this year from 2.1% last year. Neither is interest rate policy is also not used to support MYR via hikes given BNM's FX market measures to stabilise MYR and the re-imposition of export earnings repatriation to boost external reserves announced early last month.
- In the accompanying Monetary Policy Statement (MPS), BNM continues to expect the economy to be on track to expand as forecast for 2017 at 4.0%-5.0% range (2016E: 4.0%-4.5%; 2016YTD: 4.2%), while inflation expected to average higher in 2017 (official forecast: 2.0%-3.0%; Maybank KE: +2.5%; 2016: +2.1%) on prospect of higher global oil prices. Core inflation is expected to be stable indicating contained domestic demand condition.
- The improved economic activity in the major advanced economy is expected to support domestic economy via improvement in export growth; as the global economy is expected to grow at a slightly faster pace supported by balanced policy environment with progressive use of fiscal policy by developed economies. Private sector activity is expected to continue driving domestic growth led by sustained growth in private consumption from stable wage and employment growth while investment to be driven by ongoing infrastructure development projects and capital spending in the manufacturing and services sector.
- The key risks to global and local economic outlook are protectionism, geopolitical developments and commodity price volatility which in turn potentially lead to increased financial market volatility.
- **Latest Fiscal and External Balance Outlook:** Themed "Accelerating Growth, Ensuring Fiscal Prudence, Enhancing Wellbeing of People", Budget 2017 maintains commitment to fiscal discipline and consolidation; supports domestic demand via corporate income tax rate cut, incentives for tourism, SMEs, exports and digital economy, and infrastructure investment; and focuses on the wellbeing of the low-and middle-income groups by addressing the issues of inclusivity, equality, cost of living and affordable housing.

- Budget deficit target for 2017 is set at -3.0% of GDP, sustaining the policy of fiscal consolidation since 2010. This year's aim of -3.1% of GDP is maintained and achievable. Based on monthly data, we estimated budget deficit in Jan-Aug 2016 was -3.9% of GDP as the deficit of -5.6% of GDP in 1H 2016 turned into an estimated surplus of +1.2% of GDP in July-Aug 2016.
- We expect the fiscal deficit to remain flat at 3.1% of GDP, as government spending is likely to pick up (as we enter the election campaign). Current account surplus in 2016 so far has been around 1.4% of GDP and is expected to remain stable in 2017. As an oil-exporting country, the current account surplus may pick up to 1.7% of GDP in 2017, on the back of rising energy exports offset by higher service deficits and income outflows.
- **Key domestic events and issues to watch:** Trade data (8 Feb); FX reserves (7, 15 Feb); CPI Inflation (22 Feb), GDP 4Q (16 Feb); Industrial Production (10 Feb), BNM Policy Meeting (2 Mar); Current Account Balance (16 Feb).
- **Technical Outlook:** USDMYR continued to drift lower in subdued trading. Last seen at 4.43 levels. Weekly momentum and stochastics indicators remain bearish bias. Key support at 4.4240 (23.6% fibo retracement of Nov low to Jan high). Break below this puts next support at 4.3770 (38.2% fibo). Caution that stochastics is at oversold conditions on daily chart and may pose some rebound risks. Resistance at 4.48 levels (double top between high of 2015 and 2017). Bias to stay short USDMYR.

IDR: Displaying Some Resiliency

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDIDR	13400 (13650)	13600 (13800)	13600 (13500)	13300 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The IDR was among the outperformers last year in the Asian FX space. Supported by positive sentiments arising from the tax amnesty program as well as President's Jokowi's infrastructure building program, the IDR had risen by 2.3% against the USD in 2016. The upmove so far in 2017 has been given some legs by the unwinding of long-USD positions amid uncertainty over the Trump's administration's economic policies that has reignited appetite for emerging market assets. Just as important, there is some downside risks to the USDIDR on the back of an expected synchronized recovery in exports in the region due to the anticipated stronger growth in the US that could lift demand for commodities and other raw materials in Indonesia.
- So far this year, investment sentiments have been mixed as a result. Foreign investors have so far sold off equities but have added government debt to their investment portfolios. Year-to-date, a total of USD64.96mn of equities have been sold off, but this is still a better result than the USD273.04mn that were sold off in Dec 2016. As for

government debt, foreign investors added IDR20.16tn to their outstanding holdings compared to IDR9.75 in Dec last year. Our recent re-examination of valuations in the region (as reflected by estimated P/E ratios minus their 5-year average P/E ratios) suggested that Indonesian equities are relatively cheaper now than they were six months ago. This could make equities more attractive to foreign investors. Together with demand for higher yielding government debt, portfolio investment by foreign funds could be supportive of the IDR in 1Q 2017.

- However, the IDR gains against the USD could be limited as narrowing yield differentials in favor of the US as the UST yield curve steepen amid potentially more aggressive rate hikes by the US Fed is likely to spur portfolio outflows and the tax amnesty program is nearing the end of its shelf-life at end-Mar. Just as important, the most important political position in Indonesia aside from the Presidency – the governorship of Jakarta – will go to the polls on 15 Feb with questions on religion and race making the headlines. Political tensions ahead of this gubernatorial election could weigh on foreign investment sentiments and keep the USDIDR supported in the near term. We no longer expect the USDIDR to climb towards the 13600 levels as a result. Instead, pair is likely to end 1Q 2017 around the 13400 levels.
- In the next 6-9 months though, risks the USDIDR are still to the upside as manifested in the forward points that suggested some mild upside to the USDIDR in the 1-month, 3-month and 12-month ahead. There is potential for long-USD bets to re-emerge, driving UST yields higher. This in turn could trigger dollar hedging and rate re-pricing, sparking further fund outflows to less risky assets. This could hit Indonesia harder than its regional peers as foreign ownership of government debt is quite high at nearly 40%.
- However some of these upside risks are likely to be mitigated by the improved domestic macroeconomic environment. The government has taken steps to reduce the twin deficits. The tax amnesty program has gone some ways to boost tax revenues. Tax revenue collect has reached IDR110tn as at end-2016. While not the sole reason, the tax revenue from the program should have helped to bring the fiscal deficit down to 2.5% of GDP, a better outcome than the 2.7% targeted. At the same time, the current account deficit (CAD) looks set to improve markedly from its 2015's deficit of 2.1%. The BI is looking for the current account to come in at 1.8% of GDP in 2016.
- In addition, the government continues to move forward with its reform process with 14 stimulus packages introduced by the Jokowi administration to date and the 15th (relating to logistics) underway. These reform packages aimed to cut red tape, liberalize rules that have been a drag on investment and growth, and support specific growth industries. The USD400bn in infrastructure spending should be positive for the macroeconomic environment. These improvements could set the country on course to receive a sovereign credit rating in next 12 months and the potentiality of such an event should weigh on the USDIDR in 2017.
- Given these developments, downside risks to the IDR, while still dominate in the next 6-12 months, is unlikely to lift the USDIDR aggressively higher as we had previously anticipated. We have tweaked the outlook for our USDIDR to reflect these risks. We now expect the USDIDR to climb higher to hover around the 13600 levels by end-2Q and -3Q before easing slightly on more moderate dollar strength to 13300 by end-2017.

- **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Indonesia was unchanged at 5.1 as there was no changes to its risk profile. This should be supportive of the intrinsic value of the IDR.
- **Growth and Inflation Outlook:** Growth in 4Q is not expected to match that of 3Q. In 3Q, the expanded by 5.02% y/y. The FinMin Sri Mulyani expects 4Q GDP to come in "at least 4.7% y/y", which would allow the economy to expand by 5.0% for the full-year in 2016. This forecast is not dissimilar to our economic team's forecast of 5.06% for 2016. Still, there could be upside surprises if growth in Singapore is use as a gauge. Singapore's growth had outperformed expectations aided by a rebound in manufacturing as export demand picks up. A similar situation is possible for Indonesia. Private consumption is expected to remain healthy as reflected by still healthy motor vehicle and motorcycle sales of 6.1% in Dec 2016 and 6.6% y/y in Nov 2016 respectively. There are also signs of the synchronized recovery of exports our economic team is expecting. Exports have expanded double-digit in Nov and Dec by 21.4% and 15.6% y/y respectively. The outlook for 2017 is expected to improve with the FinMin and our economic team projecting GDP to expand by 5.1% in 2017.
- Headline inflation eased to 3.02% y/y in Dec from Nov's 3.58% and beating market estimates of 3.1%. Once again, lower food prices (up just 5.69% y/y in Dec vs. 8.53% in Nov) accounted for this moderation in headline inflation. Core inflation held steady at 3.07% y/y in Dec, in line with consensus. For the full-year, headline and core inflation rose by 3.5% and 3.4% respectively, well-win the BI's forecast range of 3-5%. For 2017 though, inflationary pressures are expected to rise on the back of a rise in administered electricity tariff and volatile food prices. Moreover, the weaker domestic currency is also likely to lift imported prices. As a result, the central bank is expected to accelerate to above 4.0% in 2017 compared to 3.5% in 2016. Our economic team also expects inflation to average 4.0% in 2017.
- **Monetary Policy Forecast:** The BI maintain the status quo at its first policy meeting of the year on 19 Jan as expected. The 7-day reverse repo rate remained at 4.75%, while both the lending facility and deposit facility rates were held steady at 5.5% and 4.00% respectively. This kept the interest rate corridor at 75bp on either side of the policy rate. The front-loading of rate cuts (amounting to 150bp) in 2016 has given some breathing space to BI to hold its policy rate steady amid downside pressure on the IDR and the outflow of portfolio investments. As noted by our economic team, the uncertainty in the global environment and the desire to maintain stability in the IDR weighs on any decision by BI to cut rates further. In addition, the BI is also likely to guard against the prospects of further rate hikes by the US Fed that could spur even greater portfolio outflows. Just as important, there is growing concern in BI for a potential uptick in inflation in 2017, not least because of rising global oil prices and electricity tariff rate hikes. BI is not discounting the possibility of headline inflation climbing above 4% in 2017 after easing to around 3.0% in 2016. Cutting the policy rate further could add upside pressure to inflation. Thus, the room for further rate cut appears to have dissipated. Our economic team expects the central bank to keep the policy rate on hold for the rest of the year.
- **Latest Fiscal and External Balance Outlook:** The budget deficit came in better-than-anticipated at 2.5% of GDP in 2016 vs. the targeted deficit of 2.7%. The smaller fiscal shortfall was on the back of government revenues coming in at IDR1314tn and spending at

IDR1636tn. For 2017, our economic team expects further efforts by the government to expand and deepen the revenue base and more efficient spending to bring the fiscal deficit even lower down to 2.5%.

- The current account deficit (CAD) came in at -USD4.49bn in 3Q 2016 or 1.8% of GDP, narrowing from 2Q's -USD5.0bn (2.2% of GDP). The narrower deficit was attributable to a larger goods and services surplus of USD2.40bn (vs. 2Q: USD1.57bn) that offset the slight increase in the deficit in the combined primary and secondary income accounts (3Q: -USD6.90bn vs. 2Q: -USD6.56bn). The overall balance of payments surplus widened to USD5.71bn in 3Q from USD2.16bn in 2Q, underpinned by a narrower CAD and larger financial account surplus (of USD9.42bn in 3Q vs. USD7.55bn in 2Q). Our economic team expects the 2016 CAD to come in at 2.0% of GDP and then for the CAD to deteriorate further in 2017 to 2.3% of GDP.
- **Key domestic events and issues to watch**: A couple of key events to watch out for in Feb. First, 4Q17 GDP will be released between 6 and 7 Feb. Next, BI meets for its second policy meeting of the year on 16 Feb. Finally, on the political front, we have the Jakarta gubernatorial elections slated for 15 Feb where the under-fire incumbent governor Ahok is facing challenges from two opposition candidates.
- **Technical Outlook:** USDIDR consolidated 13200 – 13420 range for the month of Jan, and is likely to continue over the next few days to weeks. Pair was last seen at 13340 levels. Price action suggests the moves are within a wider symmetrical triangle defined by 2 converging trend-lines: upward sloping trend-line support between the lows of Sep, Oct-2016 and Jan-2017 and downward sloping trend-line resistance between the highs of Nov, Dec-2016 and Jan-2017. This can represent a either a continuation of a trend (bearish trend channel formed since start of 2016) or a reversal. The direction of the next move can only be confirmed after a valid breakout.

PHP: Still Vulnerable To Domestic And External Risks

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDPHP	50.00 (51.00)	50.50 (51.80)	50.50 (51.50)	49.80 (51.50)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Despite the growth outperformance in 2016, the PHP failed to rise concomitantly with GDP. Instead, the PHP fell 5.2% against the USD for the whole of 2016. This could be attributed to the Duterte risk premium that led foreign investors to sell-off Philippine assets, putting downward pressure on the PHP. For 2016, foreign funds sold off USD1.19bn in equities compared to purchases of USD1.26bn in 2015. While data on foreign bond purchases are not available, examination of the Philippine sovereign bond yield movement appear to reinforce the view of a foreign sell-off. In 2016, yields for Philippine sovereign bonds were mostly higher by 2.33-41.33bp, suggesting that there has been a sell-off.

- Since then, the sell-off in equities in the past two weeks, amounting to USD41.64mn, has weighed on the PHP. On the government bond front, yields were mixed. At the short-end of the curve, yields were lower while those at the longer end were higher. The sell-off in Philippine assets could be due to the potential downside to the economy from US protectionist measures. Thus, the PHP did could not find much support so far in the year. The PHP has been the worst performing currency in ASEAN as a result, falling by 0.24% against the USD since the start of the year.
- The dip in the PHP could have been worst if not for the unwinding of long-USD positions amid uncertainty over the Trump's administration's economic policies that have reignited appetite for emerging market assets. As well, the PHP may have found some support from the expected synchronize recovery in exports in the region due to the anticipated stronger growth in the US that could lift demand for Philippine commodities and other raw materials. In addition, valuations have fallen in the past six months and equities are now relatively cheaper (as reflected by estimated P/E ratios minus their 5-year average P/E ratios). This could make Philippine equities more attractive to foreign investors. All of these should provide some respite for the PHP that is still under pressure from the Duterte risk premium and keep the USDPHP from rising too aggressively as we had previously expected. We now expect the USDPHP to climb towards the 50-figure by the end of 1Q 2017.
- Still, PHP is likely to remain weak for an extended period due a variety of reasons. Not least among them is because of the potential for more aggressive Fed rate hikes this year due to the Trump administration's planned expansionary fiscal stimulus that could accelerate inflation and growth. Fed rate hikes should lift the UST yield curve, narrowing the yield differentials between UST and Philippine debt, and sparking capital outflows. In addition, the potential trade disruption from protectionist measures implemented by the Trump administration is also adding downside pressure to the PHP.
- Just as important, concerns about the government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament continue to weigh on foreign investment sentiment. There is also pressure on the PHP from the deteriorating current account due to higher infrastructure-related imports and commodity prices (as a net commodity importer). Also, overseas remittances have moderated to about +5% in 2016 from over +7% in the 2011-to-2014 period. As well, the pivot away from the US could also be hurting FDI inflows, though the tilt towards China and Russia could mitigated this to a certain extent. So far in the first nine months of 2016 (latest data available), the current account stood at +USD1.62bn, a moderation from 2015's +USD7.69bn.
- With risks still to the upside, we expect the USDPHP to stay elevated hovering around the 50-figure in 2017. Even the possibility of a rate hike by the BSP this year – one of the few economies in the region that may need to hike domestic rates in 2017 – may not be sufficient to mitigate all these downside risks to the PHP. We expect the USDPHP to climb slightly higher to 50.50 in 2Q and hover around that level before easing slightly in 4Q to around 49.80 levels on the moderation in USD.
- Our monthly **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, deteriorated slightly to 5.2 from 5.1. This

was due to an increase in reserves risk. This should weigh on the intrinsic value of the PHP.

- **Growth and Inflation Outlook:** The economy expanded by 6.6% y/y in 4Q 2016, a tad slower than the 7% achieved in 3Q. This was still in line with the average growth of 6.5% for the last five years. Driving growth was both domestic and external demand. Domestic demand growth was fueled by still healthy consumer spending (4Q: +9.0% y/y vs. 3Q: +10.5%) and gross fixed capital formation (4Q: +18.7% y/y vs. 3Q: +23.8%), and stronger government consumption (4Q: +4.0% y/y vs. 3Q: +3.1%). Meanwhile, net external demand rose by +36.7% y/y in 4Q (4Q: +101%) underpinned by increases in both exports (4Q: +10.4% y/y vs. 3Q: +8.8%) and imports (4Q: +15% y/y vs. 3Q: +13.6%) of goods and services. For the full-year, the economy grew by 6.8%, faster than the 5.9% recorded in 2015 and at the upper end of the government's 6-7% target.

- In 2017, the government is aiming for growth of 6.5-7.5%. Our economic team though is less sanguine. The team has revised slightly lower its 2017 growth forecast to 6.4% from 6.5% previously. While growth in 2017 continues to be supported by infrastructure spending, the slower pace of consumer spending is the major factor for the more moderate growth forecast. Faster inflation amid weaker PHP and expected implementation of the first phase of the tax system reforms towards consumption taxes as well as the expected 25bp policy rate hike in mid-2017 should slow consumption in 2017. In addition, more moderate overseas remittances amid risks posed by Trump's trade and immigration policy should also moderate consumer spending.

- Headline inflation accelerated to 2.6% y/y in Dec – a two-year high - from 2.5% in Nov due to the continued rise in food prices (Dec: 3.6% y/y vs. Nov: 3.3%) amid strong demand during the Christmas festive season and by higher transport cost (Dec: 1.9% y/y vs. Nov: 0.5%) as retail petrol prices rose following the recovery in global crude oil prices. Core inflation rose by 2.5% y/y in Dec from Nov's 2.4%. For the full-year, headline inflation rose by 1.8% but still below the government's inflation target of 2-4%. As for core inflation, it rose by 1.9% in the whole of 2016, just a tad off the 2.0% pace recorded in 2015. Inflation looks set to accelerate in 2017. A combination of weaker PHP against the USD, impact of phase 1 of the proposed tax reform package and higher commodity prices (especially crude oil and food commodities) should lift inflationary pressures this year. Consequently, our economic team expects full-year headline inflation to average 3.0% in 2017, a significant bump up from last year's 1.8%. This forecast will be at the upper end of the government's 2-4% inflation target for 2017 and inflation with the BSP's average inflation expectations of 2.9%.

- **Monetary Policy Forecast:** Since transiting to an interest rate corridor regime in Jun 2016, the BSP has left its key policy rate unchanged at 3.0%. The central bank also held steady the overnight lending rate and overnight deposit rate at 3.5% and 2.5% respectively, maintaining the symmetrical 50bp corridor on either side of the policy rate. This situation is likely to change in 2017 as unlike its regional peers, the BSP is likely to be one of the few central banks in the region to hike domestic rates in 2017. Even though economic growth could face some challenges in 2017 as discussed above, growth is still likely to remain relatively healthy. At the same time, inflation looks set to accelerate (as discussed above) amid pressures on the PHP. Moreover, with the US Fed potentially hiking rates more aggressively in 2017, narrowing the yield differentials in favor of the US, capital outflow could be exacerbated. In view of these risks to the economy, our economic team is expecting a 25bp rate hike possibly at end-1Q 2017 or early 2Q 2017. This modest rate adjustment should ensure that real interest rate remain positive, thus easing pressure on the PHP and at the same time, ensuring that domestic growth is not choked off by higher rates.

- **Latest Fiscal and External Balance Outlook:** The government budget remained in deficit in Nov, coming in at PHP19.15bn - larger than the deficit of USD2.35bn in Oct. The deficit was due to the recovery in revenue, which climbed to PHP209.21bn in Nov from PHP174.64bn in Oct, that was more than offset by the jump in expenditure to PHP228.36bn in Nov (Oct: PHP176.99bn). In the 11 months of 2016 so far, the budget deficit stood at PHP138.38bn, larger than 2015's - PHP121.69bn. Nevertheless, this remained way off the PHP388.9bn deficit targeted for the full-year as part of government spending plan to spur economic growth.
- The current account remains in surplus, coming in at USD0.57bn in Sep 2016 (latest data available), an improvement over Aug's USD0.37bn. As for the overall balance of payments (BoP), it has slipped into a deficit since Sep 2016. As of Dec 2016, the BoP deficit stood at USD0.21bn, though this was an improvement over Nov's - USD1.67bn. The driver of this deficit is likely to be the slippage in fund inflows amid uncertainties surrounding the Trump administration's economic policies as well as slower overseas remittances. Consequently, the overall BoP has slipped into a deficit of USD0.42bn for the whole of 2016 compared to the surplus of USD2.62bn in 2015. As for the current account, it stood at +USD1.62bn in the first nine months of the year, a moderation from 2015's +USD7.69bn.
- **Key domestic events and issues to watch:** BSP meets for the first time in 2017 on 9 Feb to decide on monetary policy.
- **Technical Outlook:** A triple top around the 50-handle appears to be in the making - the highs of Nov, Dec-2016 and Jan-2017. A sustained move lower may confirm the bearish reversal pattern. Weekly momentum and stochastics are indicating a mild bearish bias. Next support at 49.15 (23.6% fibo retracement of Aug low to triple top, 100 DMA) before 48.60 (38.2% fibo). Resistance at 50-handle (triple top).

THB: Political Uncertainty Could Still Reign

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDTHB	35.00 (36.20)	35.50 (36.70)	36.00 (36.00)	36.20 (36.50)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The THB has been one of the outperformers in the region against the USD so far this year. The THB has gained around 1.6% against the USD month-to-date, attributable to the strong portfolio inflows. In Jan so far, foreign funds have purchased THB7.64bn and THB26.23bn in equities and government debt, an improvement over Dec 2016's THB0.45bn and -THB1.86bn purchases. This compares to the 0.8% gains for the whole of 2016, likely due to the sell-down in Thai assets towards the end of the year as a result of HM King Bhumibol's passing in Oct that mitigated the gains earlier in the year.

- The outperformance of the THB so far received help from the unwinding of long-USD positions amid uncertainty over the Trump's administration's economic policies that have reignited appetite for emerging market assets. In addition, there has been support coming from the expected synchronized recovery in exports in the region due to the anticipated stronger growth in the US that could lift demand for Thai exports. Equities could also see greater gains given that valuations have fallen and equities are now relatively cheaper (as reflected by estimated P/E ratios minus their 5-year average P/E ratios) than in the past six months. Meanwhile, the ascension of HM King Maha Vajiralongkorn to the throne has helped to provide relative calm and political stability to the kingdom still shocked by the death of the late HM King Bhumibol. Together, these should provide support for the THB that should keep the USDTHB from rising as aggressively as we had previously anticipated. We now expect the USDTHB to end 1Q 2017 around the 35-figure compared to 36.20 expected previously.

- However, the potential for more aggressive US Fed rate hikes in 2017 this year due to the possibility of the Trump administration embarking on infrastructure building program and initiating tax cuts that could accelerate inflation and growth. These Fed rate hikes should lift the UST yield curve, narrowing the yield differentials in favor of the US, and sparking portfolio outflows. In addition, there is also the potential for some trade disruption arising from the Trump administration's implementation of protectionist measures that could put downward pressure on the THB.

- More importantly, domestic politics remains a key risk to the THB in 2017 despite the relative calm so far. Though the new constitution has been given royal assent, the promised general elections might not be held by end-2017. This is because any elections are likely only after the funeral of the late King and the coronation of HM King Maha Vajiralongkorn. Thus, any general election is likely to now take place only in the early part of 2018. While the year-long mourning period should ensure some calm in the political arena, simmering political tensions could come to a boil once the funeral and coronation events are completed. This is because the new Constitution, which is viewed as anti-politician, would allow for a non-elected PM to head the government, which suggests that the current PM could remain in office even after civilian rule is restored and also for the military to continue to dominate politics. The rise in political temperature in the run-up to the elections could impact investor sentiments and send the USDTHB higher.

- Beyond political concerns, the domestic macroeconomic environment remains favorable to the THB. A combination of accommodative monetary policy and expansionary fiscal policy has helped the Thai economy to rebound from its subpar growth performance in 2015 to above 3% in the first nine months of 2016. The boost from the government's THB1.8tn infrastructure program should help mitigate any weaknesses in exports. Our economic team estimates that the disbursement for infrastructure projects in 2017 could double to around THB200bn from less than THB100bn in 2016 and this should enable the economy to expand close to 5.0% for the full-year, a faster pace than expected by the government. As well, the ballooning current account surplus, which has risen to THB1.51tn in the first 11 months of 2016 from 2015's THB1.10tn, should also provide the THB with a backstop and keep the USDTHB from climbing too rapidly in 2017.

- Expansionary fiscal policy aside, monetary policy remains accommodative as well with the policy rate at near historical lows at 1.5%. We do not foresee any further rate cuts in 2017, barring material risks to the economy. Instead, our economic team sees an increasing risk that the BoT could lift the policy rate this year by at least 25bp (expected sometime in 3Q). This move will not only be in response to the stronger than expected economic recovery spurred by the government's fiscal stimulus but also by the regional synchronized recovery in exports. Rate hikes could prevent the economy from overheating and at the same time, could lift domestic yields, maintaining the current spread between the UST and Thai bonds or widen it. This should help to reduce the outflow out of Thai assets that could take place in search of higher returns. This should be supportive of the THB.
- These developments should keep the THB upward trajectory intact for 2017. We look for the USDTHB to climb higher to around 35.50 levels by end-2Q and then to the 36-figure by end-3Q as US Fed fund rates are hiked. Thereafter, we expect the rise in political tension towards the end of 2017 to fuel further upside in the USDTHB, mitigating any downside risk from a moderating USD. We expect the USDTHB to end 2017 at around 36.20.
- **Our Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Thailand held steady at 4.1 and this could be attributed to its unchanged risk profile. This should be supportive of the intrinsic value of the THB.
- **Growth and Inflation Outlook:** The growth momentum in 3Q 2016 looks set to fail to maintain the pace of recovery seen in 1H 2016. This was reflected in the more moderate growth of 3.2% in 3Q vs. 2Q's 3.5% as the slump in government consumption (-5.8% y/y) was more than offset by gains in private consumption (+3.5%), public investment (+6.3%) and services (+15.3%). To prevent any further slippages, the government has rolled out another round of ad-hoc stimulus package amounting to THB213bn in 4Q 2016. This together with the synchronized recovery in exports in the region (domestic exports have risen for the second consecutive month with Dec printing growth of 6.2% y/y, bringing full-year growth to 0.5% - a 4-year high) should keep the economy humming along into 2017. Our economic team expects the economy to expand by 3.5% for the whole of 2016, an improvement from 2015's 2.8% and better than the BoT's forecast of 3.2%. For 2017, the BoT expects government spending and recovering exports to support GDP growth and maintains their full-year growth forecast at 3.2%. Our economic team continues to expect stronger growth in 2017 underpinned by infrastructure spending as well as the regional synchronized recovery in exports with real GDP coming in at an above-consensus 4.5% this year.
- Headline inflation accelerated past the 1.0% level in the last month of 2016 for the first time since Nov 2014, rising 1.13% y/y – almost doubling the pace of 0.6% in Nov. This acceleration was the surge in transport cost (up 3.01% y/y in Dec vs. 0.46% in Nov) as global oil prices recovery. Core inflation was relatively steady at 0.74% y/y in Dec compared to 0.72% in Nov as higher oil prices did not have any significant knock-on effects. For the full-year, headline inflation was flat in 2016, a vast improvement from 2015's -0.9%, coming in within

the Ministry of Commerce's headline inflation forecast of 0-1%. Core inflation though moderated, rising by just 0.7% in 2016 vs. 1.1% in 2015. For 2017, given the expected sharper economic recovery, rising commodity prices and still weak THB, our economic team expects headline inflation to accelerate to 2.5%. This compares to the BoT's forecast of 2.2%.

- **Monetary Policy Forecast:** The BoT has not adjusted its key rate since 29 Apr 2015 with the policy rate held steady at 1.50%. The last time the policy rate was even lower at 1.25% was during the Great Financial Crisis in 2009-10. With the policy rate at near historical lows, monetary policy remains accommodative. Our economic team believes that the window for any rate cuts have closed especially with fiscal policy leading the way in stimulating the economy. The risk though is that the BoT may have to adjust its policy rate higher in light of still healthy economic growth (spurred by expansionary fiscal stimulus and a regional synchronized recovery in exports), fading disinflationary pressure and a weak THB. A rate hike could not only prevent the economy from overheating but could also lift domestic yields, maintaining the current spread between the UST and Thai bonds or widen it. This should help to reduce the outflow out of Thai assets that could take place in search of higher returns. Thus, Thailand one of the few economies in the region to lift its policy rate in 2017.
- **Latest Fiscal and External Balance Outlook:** The budget for FY2018 (Oct 2017 – Sep 2018) is currently in the works. The government has agreed to a larger deficit of THB450bn (2.9% of GDP) for FY2018 compared to the expected deficit of THB390bn (2.6%) in FY2017. Expenditure for the new fiscal year is set at THB2.9tn, up 6% from FY2017. Of this amount, 23% has been earmarked for investment. With the government still running a budget deficit, public debt is likely to come in around 45% of GDP (current at 42%) and is unlikely to exceed the 60% threshold.
- The current account surplus widened further to THB112.84bn in Nov from THB100.77bn in Oct. The wider surplus was due to the larger trade surplus (THB95.59bn) that reinforced the smaller surplus in the income account (THB14.25bn). The overall balance of payments (BoP) remained in deficit for the third consecutive month at THB55.69bn in Nov, an increase from Oct's deficit of THB19.05bn. Nevertheless, the overall BoP is still showing a surplus of THB582.02bn for the first 11 months of 2016, exceeding the surplus of THB190.83bn for the whole of 2015. As well, the current account recorded a surplus of THB1.51tn in the first 11 months of 2016 compared to the THB1.10tn surplus for the whole of 2015.
- **Key domestic events and issues to watch:** We have BoT meets for the first time in 2017 on 8 Feb to decide on monetary policy. There is also 4Q16 GDP on tap on 20 Feb.
- **Technical Outlook:** USDTHB continues to trade with a heavy bias. Last seen at 35.20 levels and remains well within the mild bearish trend channel: main trend line formed between the highs of Sep-2015 and Dec 2016 and channel trend line formed drawn from Mar and Aug 2016. Weekly momentum and stochastics are bearish bias. Next support at 35-levels (38.2% fibo retracement of Mar-Apr-2015 low to Sep-2015 high) before 34.50 (50% fibo). Resistance at 35.60 (23.6% fibo) before 36 (upper bound of bearish trend channel).

INR: Waiting To Break Out of Range

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/INR	68.45 (69.00)	69.00 (69.50)	69.30 (68.50)	69.60 (68.00)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The rupee is likely to see more volatility in Feb compared to Jan. The USD retreat and a general absence of events have left the USDINR within the 67.70-68.40 range. We are heading into a more eventful month, even if it is shorter - that starts with the delivery of the Union Budget (1 Feb) before the state elections kick in. We also watch the Feb RBI MPC decision where we expect a 25bps rate cut, taking advantage of a still-benign inflation environment. The central bank could be near the end of an easing cycle as we anticipate inflationary pressure to pick up as we move further into 2017. Our USDINR forecast has been adjusted lower to 68.45, taking into account the recent dollar correction that has been deeper than expected. However, our trajectory is still to the upside given political events ahead and our expectations for USD recovery.
- As you are reading this report, we should know shortly if the government has kept to its fiscal consolidation efforts by sticking to the budget deficit target of 3% of GDP. Adjustments to the minimum taxable income threshold are expected as well as cuts to corporate tax that was already in the plan. Should the government be able to achieve fiscal consolidation with some boosts to investment and consumption, market investors are likely to be satisfied. In the meantime, the GST roll-out is likely pushed to July - stated as the more realistic time (vs. the original Apr) for its implementation. As much as the Union Budget is watched, there is quite a bit of uncertainty at this point and little expectations. With rupee positioning rather even as we write, reaction to the budget may be modest compared to last year.
- Uttar Pradesh legislative assembly election is the most watched state assembly election this year with the most Rajya Sabha and Lok Sabha seats at stake, 31 and 80 respectively. The notable contenders are BJP, BSP and the Congress-SP alliance that was forged recently. With an under-representation of BJP at Rajya Sabha, this election could be an important one to win. In addition, it will be an indication on the extent of damage done by the demonetization initiation on their popularity given the sheer population of Uttar Pradesh. We anticipate this event to bring more volatility throughout most of Feb as the election campaign intensifies. The election will be held from Feb 11 to Mar 8 in 7 phases. Results declared on 11 Mar. Average opinion polls suggest that BJP is in the lead which is rupee positive.
- Our **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for India steadied at 4.7 (with 1 being the best score and 9 being the worst).
- **Growth and Inflation Outlook:** Factory output rebounded in Nov, seemingly unaffected by the demonetization initiative that began earlier that month. Industrial production rose 5.7%y/y from a

contraction of -1.8% in the month prior, boosted by the rise in output by manufacturing. While the data brings some cheer, more recent numbers suggest that business conditions are deteriorating. The Dec Markit mfg PMI released earlier this month showed a drop in manufacturing production and new work contracts. RBI also just released the findings of the RBI industrial outlook survey. Business expectation index has declined with pressure from rise in cost of raw material expected to bring down profit margin. The order books outlook for 4Q of 2016-17 (Jan-Mar) deteriorated sharply and pending orders rose. Capacity utilization is also projected to inch lower. Generally, manufacturing companies have weaker expectations of demand conditions while inflationary expectations are heading higher on all fronts, both reflected on the Dec market mfg PMI and the RBI industrial outlook survey.

- The government's commitment to the inflation target of 4% (+/-2%) for the next five years could also help anchor inflation target. Inflation numbers for Dec have been softer than expected with CPI slowing to 3.41%y/y in Dec from previous 3.63%. Dec CPI was likely suppressed by the limited access to cash that depressed spending in the month. That could mean that the 5% inflation target is likely to be met.
- **Monetary Policy Forecast:** The Reserve Bank of India will make its next rate on the 8th. The past month has been quite a stable month for the rupee, as with the rest of regional currencies. The rise in global yields has also been met with calm for Asia. With some indicators suggesting that demand condition could soften and inflationary pressure still within control, we see a risk of 25bps cut to the RBI policy rates. Lowering the repo-rate should be growth supportive as the profit margins of manufacturing businesses are squeezed by lower demand and higher costs. The minutes of the Dec meeting had highlighted that the surprise rate-hold decision is in the backdrop of "heightened uncertainty" ahead of "imminent tightening of monetary policy in the US" and "supply disruptions in the backwash of currency replacement" that could negative for growth. The current tranquility in the financial markets provides an opportunity for RBI to cut rates while the increasing concern over growth, should be the key motivation. Expect the impact on the rupee to be muted as a cut is anticipated.
- **Latest Fiscal and External Balance Outlook:** Focus of the Union Budget 2017 would be on spurring digital payments, raising the minimum taxable income threshold as well as the subsequent tax slabs and potentially corporate tax cuts to boost consumption and investment. Other sweets also include tax incentives on home loans to support the real estate sector. Fiscal consolidation should be adhered to with the budget deficit target possibly lowered to 3.2% of GDP from the previous 3.5%, instead of the originally intended 3.0%. With rupee positioning rather even as we write, reaction to the budget may be modest compared to last year.
- The current account deficit remained steady widened to $3bn in the quarter ending Sep. Trade deficit was lower at U$25.6bn vs. previous U$23.8bn. Capital account recorded an outflow of U$17.5bn. Portfolio investment recorded a net inflow of U$6bn due to strong equity demand in the quarter.
- **Key domestic events and issues to watch:** Union Budget, Nikkei PMI-mfg (Jan) on 1 Feb, RBI meeting on 8 Feb, Dec IP on 10th, Trade on 10-15th, CPI on 13th, WPI on 14th, 4Q GDP on 28th, Uttar Pradesh Elections on 7 Feb- 8 Mar, results on 11 Mar.
- **Technical Outlook:** 1M NDF remains stuck within the 66-67 range. Momentum indicators signal bearish tendencies for this pair on the

monthly chart and support is seen around 66.25 before the next at 64.90. That said, downmove may be a grind ahead of Fed hike in Dec. Barrier is seen around 67.50. We need a breakout of the 66-67 range before a trend can be seen.

VND: Still Vulnerable To USD Strength

Forecast	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/VND	22500 (22700)	22850 (22900)	23000 (--)	22900 (23000)

No Change From Previous Forecast

- **Motivation for the FX View:** USDVND has weathered the strong USD phases in the past few months rather well, capped by ample supply of USD. The start of 2017 saw steep falls in the pair from 22760 highs to levels around 22600 as we write, aided by the combination of yuan strength and USD weakness. Since the FX reform last year, USDVND has been more responsive to market movements than before and we see USDVND largely determined by the direction of the USD and CNY. The daily reference rate fixing is more market determined. The current phase of weak USD and relative CNY strength is unlikely to last. Reference rate is likely to be fixed higher in an environment of yuan weakness and USD strength.
- Earlier this month (Jan), the Premier Nguyen Xuan Phuc announced that the country will raise foreign investment caps on banks. While the new limit was not mentioned, it should take effect within the year. This is also to allow foreign investors greater access to the securities market. With focus on investors-friendly reform, potential SoE reforms that could reduce the government debt and forging new trade ties in the absence of TPP, it is no wonder that Vietnam is looking for a higher growth of 6.7% for 2017. While potential improvement in exports could provide substantial support to the dong, we are still wary of potential USD strength and yuan weakness that proven to be drags on the dong in the past. We see pressure points especially in the 2Q and 3Q this year that should lift USDVND towards 23000.
- **Growth and Inflation Outlook:** Growth came in around 6.21%y/y, a bit under the expected 6.30%, supported by strong growth in the industry/construction sector as well as the services sector. The manufacturing sector had a solid December as flagged by the Nov Markit PMI-mfg. The index rose to 54.0 from previous 51.7. Industrial production for the month surged 8.3%y/y from previous 2.0%. With the exception of mining and quarrying, manufacturing, electricity and water supply saw jumps in their growth for Dec. The survey taken in Dec has softened but new orders continue to rise solidly as external demand remains strong. Output, new orders and employment have grown in the month. That said, input costs were reportedly sharply higher. Hence, we anticipate some retracements in the manufacturing sector but still a healthy growth. Exports grew 8.6%y/y for the year and imports also picked pace to 4.6%y/y from previous 3.5% for the first 11-months. Retail sales also sped to a growth of 10.2%y/y from

9.5% in the first 11 months. Outlook for the economy seems to be rather positive given the strong month in Dec. The amount of FDI seems to have risen from recent lows to U$2.1bn in Dec, a 6.5%y/y growth as investors expect more investor-friendly reforms and trade pacts in 2017.

- Trade remains a strong focus for the government. Vietnam has recently committed to more tariff cuts for quite a number of products out of China, fulfilling its part in the ASEAN-China FTA. In return, China has also promised to do the same for Vietnamese goods. That should raise the trade volume between the two nations but it is premature to estimate the net impact on Vietnam's current account.
- **Monetary Policy Forecast: SBV has announced its inflation target for 2017 to average at 4%.** Growth is expected to come in around 6.7% for the year while credit growth is targeted to be around 18%. The risk of SBV easing rates (currently base rate at 9.0%, refinancing rate at 6.5% and discount rate at 4.5%) seem to slim at this point even if Vietnam wants to accelerate its growth to 6.7% for 2017. We look for inflationary pressures to creep higher and a potential return of USD strength that could leave little room for SBV to act. That said, USDVND has weathered the strong USD phases in the past few months rather well, capped by ample supply of USD. The start of the year saw steep falls in the pair from 22760 highs to levels around 22600 as we write, aided by the combination of yuan strength and USD weakness. Since the FX reform last year, USDVND has been more responsive to market movements than before and we see USDVND largely determined by the direction of the USD and CNY. The daily reference rate fixing is more market determined. The current phase of weak USD and relative CNY strength is unlikely to last. Reference rate is likely to be fixed higher in an environment of yuan weakness and USD strength. In addition, lean FX reserves-import ratio of barely above 2 would mean that any external shocks in the FX space could force SBV to devalue the dong, notwithstanding the ample USD supply onshore. Should USD remain on the upmove, expect USDVND reference rate to be fixed higher and that should guide the USDVND towards our 222300 forecast by 3Q this year.
- **Latest Fiscal and External Balance Outlook:** Vietnam is need of serious commitment to its SoE reforms that could lighten its government debt burden. The Ministry of Finance has resolved to set its 2017 budget deficit to 3.5% of GDP, expected to amount to VND178.3trn.
- We still watch the Japanese yen as Vietnam's external debt/GDP stood at 41.5% as of end 2015. Strong relationship with Japan suggests that JPY-denominated debt could be at least 30% of total debt (as reported by our Vietnamese analysts) and a stronger JPY could weaken Vietnam's debt position. That said, given the threat of BOJ intervention and potential monetary and fiscal stimulus, we expect USDJPY to remain above 95. That should in turn alleviate pressure on Vietnam's debt.
- Growth of exports came in above expectations for 2016. Current account recorded a surplus of USD3.5bn in 3Q (latest data available), widening from previous U$2.24bn seen in 2Q on the back of wider trade surplus of goods and wider net trade deficit of services. External demand and current account demand may continue to lend some support to the dong.
- **Key Domestic Events and Issues to Watch:** Jan CPI, trade, industrial production are due on 2 Feb, a postponement due to Tet. PMI-mfg is

due on the 3rd. CPI is due on the 24th. Trade balance, retail sales, industrial production within 25-30th.

FX Forecasts

	End Q1-17	End Q2-17	End Q3-17	End Q4-17
USD/JPY	118	120	124	125
EUR/USD	1.0400	0.9800	1.0200	1.0800
GBP/USD	1.2200	1.2000	1.2300	1.2400
AUD/USD	0.7600	0.7300	0.7500	0.7800
NZD/USD	0.7400	0.7100	0.7300	0.7500
USD/SGD	1.4000	1.4250	1.4350	1.4200
USD/MYR	4.2500	4.3500	4.2000	4.2500
USD/IDR	13400	13600	13600	13300
USD/THB	35.00	35.50	36.00	36.20
USD/PHP	50.00	50.50	50.50	49.80
USD/CNY	7.00	7.05	7.10	7.10
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	32.80	32.80	32.80	32.80
USD/KRW	1170	1220	1180	1180
USD/INR	68.45	69.00	69.30	69.20
USD/VND	22500	22850	23000	22900
DXY Index	103.72	107.82	105.10	101.56
SGD Crosses	End Q1-17	End Q2-17	End Q3-17	End Q4-17
100 JPY/SGD	1.1864	1.1875	1.1573	1.1360
EUR/SGD	1.4560	1.3965	1.4637	1.5336
GBP/SGD	1.7080	1.7100	1.7651	1.7608
AUD/SGD	1.0640	1.0403	1.0763	1.1076
NZD/SGD	1.0360	1.0118	1.0476	1.0650
SGD/MYR	3.0357	3.0526	2.9268	2.9930
SGD/IDR	9571	9544	9477	9366
SGD/THB	25.00	24.91	25.09	25.49
SGD/PHP	35.71	35.44	35.19	35.07
SGD/CNY	5.00	4.95	4.95	5.00
SGD/HKD	5.57	5.47	5.44	5.49
SGD/TWD	23.43	23.02	22.86	23.10
SGD/KRW	836	856	822	831
SGD/INR	48.89	48.42	48.29	48.73
MYR Crosses	End Q1-17	End Q2-17	End Q3-17	End Q4-17
EUR/MYR	4.42	4.26	4.28	4.59
JPY/MYR	3.60	3.63	3.39	3.40
MYR/HKD	1.84	1.79	1.86	1.84
MYR/CNY	1.65	1.62	1.69	1.67
GBP/MYR	5.19	5.22	5.17	5.27
AUD/MYR	3.23	3.18	3.15	3.32
NZD/MYR	3.15	3.09	3.07	3.19
MYR/IDR	3152.94	3126.44	3238.10	3129.41
MYR/INR	16.11	15.86	16.50	16.28
MYR/KRW	275.29	280.46	280.95	277.65
MYR/PHP	11.76	11.61	12.02	11.72
CNY/MYR	0.6071	0.6170	0.5915	0.5986

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