MACRO | FX RESEARCH | Global

Maybank

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FX Monthly

2016, Issue II: Busy, Busy March for Central Bank Credibility

Key themes[1]

- First, US Fed timeline for eventual future rate hike remains data dependent and remains affected by the tightness of financial conditions. US growth recovery remains on track but recent global developments out of China and volatile market activity may potentially affect the number of hikes in 2016. Markets are now expecting no Fed hikes in 2016; we are expecting 1- 2 rate hikes by end 2016. Key US events: FOMC decision 17 Mar (no change); Fed speakers Lockhart, Bullard, Evans and Harker on 22-23 Mar); NFP on 4 Mar; ISM Manufacturing on 1 Mar; Dec Factory orders 3 Mar; Feb retail sales 15 Mar; Feb CPI inflation and industrial production on 16 Mar; Jan new home sales on 23 Feb; Oct durable goods orders Jan final and Feb Prelim on 3 Mar and 24 Mar respectively.

- **Second, the 2% inflation target has been pushed back to 1H FY 2017 (by Sep 2017) due to oil softness and slow traction in wage increases.** The credibility of Abenomics has waned somewhat in 2016 even though the easing bias is clear. The intermittent threats of further easing in 2016 if EUR/JPY and USD/JPY falls below 125 and 110 respectively may see USDJPY supported on dips. Preliminary 4Q15 GDP on 15 Feb was weak. JGB auctions in Feb: 10-year (1 Mar), 30-year (8 Mar), 5-year (10 Mar), 1-year (16 Mar) and 20-year (17 Mar). BOJ meets on 15 Mar, Dy Governor speaking on 3 Mar, Gov speaking on 17 Mar in a forum; Final 4Q 15 GDP on 8 Mar.

- **Third, subdued core inflation, QE is expected in 1Q March, and structural headwinds in the Euro-area (high debt, possible fiscal slippages, slow reform, etc.) will continue to weigh on the Euro.** But, funding currency status and large current account surplus the Euro-area has over its peers (UK, US) suggest there could even be scope for capital outflow without the Euro coming under intense pressure. ECB could announce further monetary easing via extension of duration or expanding its asset purchase plan in 1Q 2016. And this is expected to weigh on the EUR in 1Q 2016. 4Q Final GDP out of Euro-area (8 Mar), HICP inflation (31 Mar), ECB meeting in 10 Mar.

- Fourth, ongoing reforms in China policies to address domestic, financial, and growth issues continue amid RMB internationalisation efforts. With the economy still under pressure from severe excess capacity, market players remain very bearish on the CNY. We may see another round of yuan depreciation the NPC and CPPCC set the annual targets that should lift the USDCNY. We expect one interest rate cut of 25bps and RRR to be cut in intervals by another 200bps within the year. Moving forward, the central bank has to ensure the transmission mechanism of future rate cuts to be filtered down to the SMEs before there can be significant breakthroughs in its exchange rate policy. First, NPC and CPPCC starts on 3 Mar and end on the 13th. Feb PMI-mfg is due on 1 Mar, accompanied by the Caixin version. Foreign reserves for Feb will be watched on the 7th. Trade data is due on the 8th. CPI, PPI on the 10th. China liquidity data are due from 10th-15th.

- Fifth, FX, equity, oil volatility have risen in Feb and has the potential to remain volatile in Mar with a slew of central bank announcements. If risk appetite wanes amid easing policy bias, we expect safe haven currencies such as the JPY, CHF to benefit with downside risk to AXJs especially KRW, TWD and SGD. If risk appetite gains a foothold, mixed FX environment likely with high yielders such as AUD, IDR, MYR and PHP while USD could gain against safe haven currencies.

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

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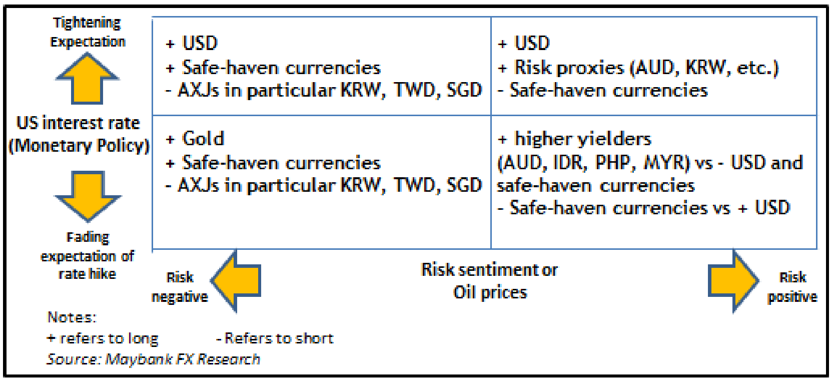
SEE PAGE 53 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

So what?



- Recent market developments, including potential oil production freeze, PBoC Governor Zhou's comments anchoring some stability in CNY outlook, fading expectation for Fed to tighten in Mar, possibly for rest of the year (accommodative monetary conditions globally) and ECB potential easing in Mar, have seen risk sentiment somewhat stabilizing, relative to early January. **Against this backdrop, we look for opportunities to buy the higher yielders (AUD, IDR, PHP, MYR) on dips and short the funding currencies (EUR, CHF, otherwise known as typical safe-haven currencies). We expressed our trading themes in a US monetary policy-overall risk sentiment 2*2 matrix above. Should risk sentiment turns negative, we will switch our bias to the lower left quadrant.**

G7 Global Overview

USD: Choppy dollar in March

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
USD Index	**98.82** (101.44)	**96.17** (101.34)	**96.87** (99.54)	**98.27** (97.63)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We remain mildly bullish on the 2016 dollar outlook. The DXY is currently at 97.44 (as at 25 Feb 2016 @5.00pm). Firmer US data and the Fed rate hike in Dec 2015 have been supporting the USD. However, the recent 17 Feb Fed minutes suggests a more dovish bias with the Fed officials likely need to see more information to assess the impact of recent developments on the growth outlook.
- The risks from the recent tightening in financial conditions have increased and if the recent financial tightening were to persist, the effects would be "roughly equivalent to those from further firming in monetary policy". In addition, there were some concerns about “the possibility of a significant weakening of some foreign economies." Many participants saw "favorable fundamentals" supporting the consumption outlook and a few pointed to the potential positive effects of lower energy costs. Several participants also noted evidence of strength even in some parts of the struggling manufacturing sector. But overall, participants concluded that uncertainty had increased and many saw recent developments as increasing downside risks. We now expect 1 - 2 rate hikes in 2016. This suggests excessive US strength is limited with likelihood of some softness in the middle of 2016. We expect the dollar to strengthen slightly in 1Q towards 98.82, before moderating in the rest of 2016 and end 2016 at around 98.27, barring no global shocks.
- Other G7 currency developments against the USD are mixed. Further developments out of Eurozone with rising market expectations of an ECB easing in 1Q, rising Eurozone banking risks and Brexit concerns has led to some downward changes in EUR and GBP, thus affecting the DXY (upwards) to some extent via the interest differential perspective. The lack of credibility on Abenomics and Nikkei equity sell off have led to significant JPY strength in Feb which have put downward pressure on the USD.
- **Oil remaining soft could be slightly dollar positive if rate hike expectations remain.** Global crude oil prices and commodity prices is likely to remain soft and in tight range. Our baseline scenario is predicated on oil ranging between $30-40/bbl. We expect limited upside in long-term interest rates, partly driven by concerns in the global macro outlook which could help offset any shocks to the US real economic growth. This remains dollar positive.
- **The likelihood of further Fed rate hikes in 2016 remains but 2-year rate differentials have fallen off since the beginning of 2016 which has in part led to some softness in the USD.** The trade weighted dollar should be stronger if not for the Fed’s signaling inconsistencies in between FOMC announcements and lack of 2016 policy forward guidance. In the medium term, there

could still be USD trade weighted support as the 2-year rate differentials will eventually rise further.

- **Growth and Inflation Outlook:** FOMC dots projection (as of Dec 2015) shows 2016 growth being nudged higher at 2.4% from 2.3%. Fed maintained its view that the economy is expanding at moderate pace; household spending, business fixed investment are increasing at solid rates and housing sector continues to improve while net exports remains soft. This outlook lends justification for the recent rate hike in Dec 2015. The minutes of the Jan meeting released in Feb showed that since the Dec meeting, labour market data had generally been stronger than anticipated at the time of the Dec meeting, and wage growth had picked up. However, the spending and production data generally had been disappointing—in particular, information regarding indicators of manufacturing activity, consumption expenditures, and inventory investment. Regarding the outlook for inflation, the additional sharp declines in energy prices and strengthening of the exchange value of the dollar since the Dec meeting were likely to hold down inflation for longer than previously anticipated, but inflation was expected to increase gradually as energy prices and the prices of non-energy imports stabilized and the labor market strengthened further.

- In the medium term, the Fed is likely to closely monitor global economic and financial developments and to continue to assess their implications for the labor market and inflation, and for the balance of risks to the outlook. The implications of the available information were not sufficiently clear to allow members to assess the balance of risks to the economic outlook in the Jan meeting. However, if the recent tightening of global financial conditions was sustained, it could be a factor amplifying downside risks.

- Core PCE inflation was somewhat higher than expected in Jan, rising 0.3% point m/m, and y/y increased from 2.1% in Dec to 2.2% in Jan. Headline unemployment rate has fallen to 4.9% from 5.0% due to third consecutive month of strong household employment gains and a decline in the number of unemployed persons. There is possibility UN rate may fall to 4.6% by end of 2016. Inflation remains low and factors such as depressed crude oil price may cause it to remain well off its 2% target (currently Jan at 1.4%). Fed's preferred measure of inflation, the private consumption expenditure (PCE) deflator, was 0.6% YoY as of Dec 2015 (up from 0.4% in Nov), and Fed currently forecasts inflation to accelerate from 0.4% in 4Q 2015 to 1.6% in 4Q 2016, 1.9% in 4Q 2017 in "justifying" its current FFR guidance. In the Jan minutes, the Fed's forecast for inflation in the near term was revised down slightly, reflecting recent data for consumer prices and the further declines in the price of crude oil; the projection for inflation over the medium term was little revised. Energy prices and the prices of non-energy imported goods were expected to begin steadily rising later this year.

- **Monetary Policy Forecast:** The first FOMC meeting of 2016 ended with the target fed funds rate (FFR) unchanged at 0.25%-0.50% after last month's 25bps hike. Post-liftoff hikes remain "data-dependent" and "event-driven", causing divergence between Fed's guidance and market expectations. **We are expecting 1 -2 hikes by the end of 2016.**

- Fed kept the target FFR at 0.25%-0.50% at its 26-27 Jan 2016 FOMC meeting after raising it by 25bps at 15-16 Dec 2015 FOMC meeting. The decision was not surprising given the tumultuous start to 2016 for the global economy and financial market, indicating the influence of external event on Fed's decision. This is confirmed by

FOMC statement which stated the **Fed is "closely monitoring global economic and financial developments and is assessing their implications for the labour market and inflation, and for the balance of risks to the outlook".** Fed's is currently guiding for an average of +95.8bps p.a. hikes in 2016-2018 based on the "dots plot" chart updated at last month's FOMC meeting i.e. +100bps hikes in 2016, +100bps hikes in 2017and +87.5bps hikes in 2018.

- In contrast, markets have toned down expectations on FFR hikes post-liftoff. As per the market-implied forward rate, FFR is only expected to increase a 25bps hike in 2017. This suggests market does not see a hike this year, followed by between +25bps and +25bps p.a. in the following two years. Based on latest probabilities of FFR hike, the probability of a hike in Mar has dropped to 10% from 54% in Dec 2015.

- The next FOMC meeting is on 15-16 Mar 2016. There are eight FOMC meetings per year and two FOMC meetings per quarter.

- But if there are no changes in FFR in the next FOMC meeting, eyes will be on Fed's quarterly updates on its "dots plot" chart and macroeconomic forecast -especially inflation. **The absence of FFR hike at the next FOMC meeting will underscore Fed's "data-dependent" interest rate policy decision.** In particular, within the context of its dual mandate of maximum employment and stable prices (i.e. 2% inflation rate), **inflation will be key in post-liftoff FFR path** as job market condition continue to improve.

- **Latest Fiscal and External Balance Outlook: Fiscal sustainability risk continues to weigh on the outlook** which will likely be marred by political wrangling, particularly before the Nov 2016 presidential election. 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 2016/2017.

- **Key domestic events and issues to watch in Feb 2015:** Key US events: FOMC decision 17 Mar (no change); Fed speakers Lockhart, Bullard, Evans and Harker on 22-23 Mar); NFP on 4 Mar; ISM Manufacturing on 1 Mar; Dec Factory orders 3 Mar; Feb retail sales 15 Mar; Feb CPI inflation and industrial production on 16 Mar; Jan new home sales on 23 Feb; Oct durable goods orders Jan final and Feb Prelim on 3 Mar and 24 Mar respectively.

- **Technical Outlook:** DXY retraced some of its early month's losses, amid upside surprises to revised 4Q GDP, PCE core and personal spending (26 Feb). Stronger than expected US data brought back hopes that Fed could still be on track for tightening this year. Bearish momentum on weekly chart is slowly waning, but remains too soon to call for bullish bias. DXY still need to break above 100 (double top) for a resumption of bullish trend. Support at 95.40 (2016 low).

EUR: Eyes on ECB

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
EUR/USD	1.0900 (1.0600)	1.1300 (1.0600)	1.1100 (1.0800)	1.0800 (1.1000)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We continue to see **downside pressure on the EUR amid growing expectation for ECB to ease monetary policy further. To some extent, persistent GBP weakness arising out of *Brexit* fear is also expected to weigh on the EUR.** While "sell-on-rally" pressure may continue to persist, we see little risk of a free-fall scenario towards parity levels over the next few months as monetary policy divergence (between Fed and ECB) slows for now. In light of recent development, we recalibrate our EUR forecast higher for 1Q to 3Q, and lower for 4Q (as we expect Fed to resume tightening of policy rate in Dec 2016, reigniting the policy divergence trade).

- **ECB meeting (10 Mar) will be closely watched.** ECB's chief mandate is to get inflation back towards 2% target, or risk losing credibility. There is **growing expectation for ECB to ease monetary policy.** A 10bps cut to current -0.30% deposit rate is expected, from both the markets and us. **We do not rule out deposit rate cut of larger magnitude if Draghi is able to convince the Governing Council.** We think bigger focus should be placed on possible technical adjustment to the asset purchase program to allow for more assets being made eligible for purchase. Some of the policy adjustments ECB could make to its APP include **1) allowing the purchase of debt even when yield is lower than the deposit rate; 2) allow the purchase of other asset classes (i.e. corporate bonds or even Italian bad debts); 3) scrap capital key (ECB can only buy bonds in proportion to each country's contribution to ECB capital); 4) expanding the monthly purchase size by another EUR10-30bn and/or 5) extending further the APP program beyond Mar 2017.** That said, EUR could see an abrupt rebound towards 1.16 levels if ECB fails to deliver easing expectation.

- **In the lead up to ECB meeting, sell-on-rally price action is expected to dominate.** EUR could potentially trade lower towards previous lows of 1.05 levels. This is the level EUR traded to in Mar and Dec 2015 when ECB unleashed QE). But we observed that subsequent price action post-ECB easing saw a rebound of about 400 – 500 pips (sell on rumor, buy on fact).

- **Growth and Inflation Outlook:** Economic recovery (backed by private consumption) in the Euro-area continues but has yet to recover back to pre-GFC levels. Looking ahead domestic demand should continue amid accommodative monetary policy support, and earlier progress made with fiscal consolidation and ongoing structural reforms. Renewed decline in oil prices, weaker EUR and still accommodative monetary conditions should continue to provide support for household disposable income.

- While Euro-area 4Q GDP grew 0.3% q/q (vs. 0.3% in 3Q). Recovery appears to be dampened by subdued growth prospects in EM, slower than expected pace of structural reforms and heightened volatility in financial markets. Activity data also suggest possible falling momentum. **Euro-area composite PMI slipped again for Feb (+52.7 vs 53.6 in Jan), with declines seen in both manufacturing and services PMIs as well.** That said PMI remains in expansionary territory. German ZEW survey and investor confidence slipped for the second month in a row. These could be leading signs of renewed stagnancy in growth and sentiment. Risk remains to growth outlook remains to the downside.

- **Euro-area inflation is expected to remain near zero or even slip into negative territories amid lower energy prices.** ECB expects inflation to recover into later part of 2016, supported by ECB measures and economic recovery. We remain cautious of second round effect from renewed oil price declines. 5y5y inflation swap rate (a measure of inflation expectations) remains on a downtrend (last seen around 1.39 levels vs. 1.55 prior month). This has now gone below its lowest level since in 2015, when ECB first embarked on QE. Jan headline inflation rose +0.3% (vs. +0.2% in Dec). Core inflation continued to hold steady at +1%. Looking ahead we expect inflation to gradually pick up from end-year off the back of oil prices stabilizing, and continued pick-up in demand.
- **Monetary Policy Forecast:** With inflation outlook still benign and recent comments from ECB's Draghi at the last ECB meeting in Jan, we believe **ECB is preparing to unleash more monetary stimulus at its upcoming meeting on 10 Mar.** In particular **ECB's Draghi said the Governing Council is concerned about the renewed strong decline in oil prices and market volatility, and now sees downside risks.** Draghi added that it is **necessary to review and possibly reconsider its monetary policy stance** at its upcoming meeting. He also emphasized that **ECB credibility could be in jeopardy if ECB does not stand ready to act on monetary policy.** Towards the end of the ECB Q&A session (21 Jan), Draghi stressed that "today's message has the unanimous backing of the Governing Council and emphasized again the renewed downtrend in core inflation.
- **We expect at least another 10bps cut to deposit rate. We are not ruling out deposit rate cut of larger magnitude if Draghi is able to convince the Governing Council. There could further technical adjustment to asset purchase program which could include 1) allowing the purchase of debt even when yield is lower than the deposit rate; 2) allow the purchase of other asset classes (i.e. corporate bonds or even Italian bad debts); 3) scrap capital key (as for now ECB can only buy bonds in proportion to each country's contribution to ECB capital); 4) expanding the monthly purchase size by another EUR10-30bn and/or 5) extending further the APP program beyond Mar 2017.** To recap, ECB cut deposit rate by 10bps to -0.30%, extended its asset purchase program by 6months out to Mar 2017 and expanded the list of eligible bonds for purchase under the APP program at its Dec ECB meeting.
- **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 narrowed to EUR25.5bn in Dec from 26.9bn in Nov, on seasonally-adjusted basis. Current account surplus to GDP maintained at 2.2%.

- **Key domestic events and issues to watch:** 4Q F Euro-area GDP (8 Mar); ECB meeting (10 Mar); ZEW survey (22 Mar); Euro-area core CPI inflation (31 Mar).
- **Technical Outlook:** EUR attempted a rally above 1.13-handle but the move higher stalled at 1.1376. Pair is back below 1.10-handle as we write. Weekly momentum and stochastics are bearish bias. Next support at 1.0850 (61.8% fibo retracement of Dec low to Feb high) before 1.0450 (previous double bottom in 2015). Resistance at 1.1050 (200 DMA), 1.1376 (previous high in 2016) before 1.15.

GBP: Uncertainty Looms

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
GBP/USD	**1.3800** (1.4600)	**1.4000** (1.4600)	**1.4600** (1.5000)	**1.5000** (1.5500)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We continue to **caution for further downside risk, given the turn of events (London Mayor Boris Johnson's support for Leave EU) post-UK new deal with EU and in the lead up to the EU referendum on 23 Jun.** We still maintain our view that UK will vote to remain in EU but **regardless of the outcome (which is only due in a few months), the risk in the meantime, is to the downside as referendum debate heats up. Uncertainty over UK's future will keep GBP vols elevated and weigh on GBP.** Support at 1.4080 has already been broken on daily/weekly close, pair could see further downside towards multi-year lows of 1.38, 1.35 levels. We lower our forecast but maintain our forecast trajectory for the rest of the year.
- **UK will vote whether to leave the EU or remain in EU on 23 Jun.** PM Cameron has agreed on a **package of changes to the UK's membership in EU** (19 Feb). Some of these changes that will take effect immediately if UK votes to remain in EU includes, 1) **migrant welfare payment** – UK can decide to limit in-work benefits for EU migrants during their first 4 years in UK. This can be applied in the event of 'exceptional' levels of migration but must be released within 7 years; 2) **Child benefit** – payment to migrant workers for children living overseas to be recalculated to reflect the cost of living in their home countries; 3) **Eurozone** – UK can keep the Pound while being in Europe and its business trade with the bloc. Any British money spent on bailing out Eurozone nations will be reimbursed.; 4) **Protection for the City of London** – safeguards for UK's large financial services industry to prevent Eurozone regulations being imposed on it; 5) **sovereignty** – UK will not be part of an "ever closer union" with other EU member states. This will be incorporated into EU treaty change; 6) **'Red card' for national parliaments** to enable them, jointly to block unwanted legislation; 7) **Competitiveness** – strengthen internal market and take concrete steps towards better regulation; 8) Some **limits of free movement** – deny automatic free movement rights to nationals of a country outside the EU who marry an EU national. **Most of what were initially drafted were agreed, except for a few points** – curb on in-work

benefits (from 13 years down to 7 years), a clause to ensure level-playing field within internal market (in response to French fears that the UK could be seeking special protection that would have given London a competitive advantage).

- Although a date has been set for the referendum, the **whole saga has taken a twist, with the Mayor of London Boris Johnson supporting a *Brexit* campaign. This is expected to heighten volatility and weigh on the GBP in the interim.** He worded a 2000-word column for the Daily Telegraph and said that staying inside the EU would lead to "an erosion of democracy"; added that "there is only one way to get the change we need – and that is to vote to go; because all EU history shows that they only really listen to a population when it says no…and this is the only opportunity we will ever have to show that we care about self-rule". This is seen as a **significant blow to PM Cameron's campaign to remain in EU, especially when the London Mayor is a prominent member of the Conservative Party**. 6 Ministers including PM Cameron's long-time friend and ally, Justice Secretary Michael Gove are also in the campaign to leave EU. As of writing, the majority of the cabinet is still supporting "Stay in EU" campaign but we caution that matters of politics are fluid and will continue to drive GBP.

- Latest EU referendum polls from Telegraph (which tracks the average of the last 6 polls) showed that 54% voted to remain in EU while 46% voted to leave the EU (as of 20 Feb). This is a swing in support for the "Remain in EU", from 50% to 54%. In 2 other separate surveys conducted by Institute of Directors and EEF Manufacturers' Organisation, 6 in 10 executives said they supported "Remain in EU". While opinion polls supported "Remain in EU" for now, we **caution over-reading them as these poll results are merely a survey on a small sample of about 2,000 respondents (ICM Polls) and not indicative of the referendum outcome, as seen in previous episodes of Scottish Referendum in 2014 and UK Elections in 2015.**

- **While a UK exit remains a possibility especially in the face of anti-migrant fervor in Europe. Our base case remains for UK to remain in the EU.** Similar to previous Scottish referendum in 2014 and UK elections in 2015, opposition campaign tends to be more vocal and dramatic (leading to heighted volatility and depressed currency), but core voters want certainty.

- The **economic cost associated with the breakup is huge**. **UK leaving EU could trigger BoP crisis** especially when UK's current account deficit is already large (-4.7% of GDP as at 3Q 2015) while FDI and portfolio inflows could possibly slow (on UK exit fears deferring inward investments). **Business, investors and consumer confidence are expected to dip**; MNC HQs could relocate/ pullout capital/investment (FDI from EU to UK stood at about 62% over past 10 years and 76% of EU FDI goes into UK's financial services) and **trade relations with EU could be strained** (UK imports from EU stood at 53% for 2015 vs. 47% to non-EU). **Moody's has warned that UK exit could risk UK's credit rating downgrade.** UK's exit from EU could also **trigger renewed demands for another Scottish Referendum to go independent.**

- **Growth and Inflation Outlook: 4Q GDP was steady at** +0.5% q/q; 1.9% y/y (vs. 0.5% q/q; 1.9% y/y). This is the 12th consecutive quarters of growth. **Consumer spending remains the main driver of growth** (household consumption rise 0.7% q/q in 4Q). Main drags were exports (-0.1% q/q) and business investments (-2.1% q/q). **UK PMI picture continued to point to an expansion.** Jan manufacturing (52.9 vs. 51.9) and services PMI (55.6 vs. 55.5) rose, while construction PMI fell (55.0 vs 57.8 prior). Latest Labor report was mixed – job growth slowed; unemployment rate steady while weekly earnings (ex-bonus) rose to 2% (better than expected).

- In the Feb Quarterly Inflation Report the **MPC has revised down the inflation outlook** (to 1.2% vs. 1.5% in 2016) **given recent falls in oil and other commodity prices.** BoE expects inflation to return to target in around 2 years.
- Core inflation slipped to 1.12% in Jan (vs. 1.4% in Dec). Volatility in fare fares explained much of the swings. Headline CPI picked up to +0.3% in Jan (vs. 0.2% m/m). Fuel prices increase and smaller decrease in food prices were offset by decline in air fares.
- **Monetary Policy Forecast:** A benign inflation outlook (at 0.3% y/y in Dec remains far from BoE's medium term target of 2%) and *Brexit* risks are expected to keep BoE on the sidelines for longer than expected. Our base case is for BoE to hike rate sometime in 4Q 2016.
- At the last BoE meeting on 4 Feb, there was a dovish surprise from BoE. MPC member Ian McCafferty dropped his hawkish dissent as MPC voted 9-0 (vs. 8-1 previously) to keep policy rate unchanged at 0.5%. Quarterly Inflation Report also saw downward revision to UK GDP and inflation forecast; noted that its forecasts assume rate lift-off in mid-2017. That said BoE Carney said in press conference yesterday that MPC still think that the next move is a hike.
- **Latest Fiscal and External Balance Outlook:** UK posted its largest budget surplus for any Jan since 2008. Government income exceeded spending by GBP11.2bn, and showed a GBP1bn improvement from Jan 2015. IN the first 10 months of the fiscal year, the shortfall was GBP66.5bn. This suggests the deficit for the remaining 2 months need to come in at below GBP7bn to avoid overshooting GBP73.5bn, a forecast made by the Office in Nov. **Chancellor Osborne is expected to announce its annual budget on 16 Mar.**
- UK's current account deficit remains wide at -4.7% if GDP (as at 3Q). But it has gone down owing to improvement in foreign income. The Office for Budget Responsibility expects the current account deficit to narrow in the coming years. That said a large current account deficit could pose risk to balance of payment crisis should FDI/portfolio inflows slow.
- **Key domestic events and issues to watch:** Chancellor Osborne's budget speech on 16 Mar. Labor report (16 Mar), BoE meeting (17 Mar), CPI inflation (22 Mar) will be closely watched.
- **Technical Outlook:** GBP remains on a back foot as we write this section. Last seen around 1.3850 levels (29 Feb). Monthly, weekly momentum and stochastics are bearish bias. Little support levels between here and the next support at 1.35 levels (Jan 2009 lows). Resistance at 1.4080 (before the break lower). Short-term bias (in the lead-up to referendum) remains sell-on-rally.

AUD: Upside Risks

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
AUD/USD	0.74 (--)	0.70 (--)	0.68 (--)	0.70 (--)

No Change from Previous Forecasts

- **Motivation for the FX View:** The latest CAPEX report provided little fresh impetus for the AUD. The transition from a mining investment-centric economy to one that is more diversified remains a painfully slow process, not helped by the gloomy global growth projections. AUDUSD fell a tad despite stronger capital expenditure in the 4Q because the currency was dragged by the drop in expected CAPEX for 2016-2017 (that starts from Jul). However, the fall was mainly due to a steeper decline in the mining sector, not matched by the gains in manufacturing and other selected industries. Indeed, it is hard to found optimism in the longer term at this point when there are still external headwinds. The main takeaway from this release – the picture for Australia and global growth has not changed. While we do not see much signs of improvement, we do not see a sharp deterioration as well and that in itself implies little added reason for RBA to cut on 1 Mar and for the rest of the year.

- Medium term, we have seen signs of bottoming for the economy as well as for the AUD. Household consumptions are underpinned by strong hiring sentiments, low interest rates, cheaper oil prices, barring the recent dips in job numbers. Over the past few months, cheaper AUD has boosted Australia's tourism and education even fanning tradable CPI higher. Recent rise in commodity price index could mean an improvement in terms of trade, short-lived as it might be. With talks of oil establishing a base around the USD30-level, we see risks of upside that could take AUD beyond the 0.74-figure as long as the Fed keeps a low profile with decent data and muted expectations of a rate hike. Our target of 0.74-figure seems to be one of the most bullish of the lot but we intend to keep our long-held call (since last Nov) as risk climate seems to favour our target. Beyond a near-term rally, we anticipate existing headwinds to keep most of the action within 0.68-0.75 for the rest of 2016.

- **Growth and Inflation Outlook:** Commodity index rose in Jan and the recent bounce in iron ore the recent base seen in copper prices have increased demand for AUD. Potential improvement in terms of trade has eclipsed the sharp decline in exports in Dec and AUD was even able to weather the recent declines in the labour numbers. Australia lost another 7.9K of jobs in Jan – 40.6K full time employment was offset by an addition of 32.7K employment.. Labour report is a notoriously volatile report and thus the past two data points are considered aberrations rather than the start of a new trend.

- In the meantime, credit growth keeps pace, capacity utilization is still on the uptrend apart from the Jan print, retail sales on the uptick in line with the rise in tourist arrivals and visitor spending, a direct boost from the cheaper AUD.

- The latest CAPEX report revealed a slow transition still from a mining-investment reliant economy to one that is more diversified is still expected. The mining (investment) cliff had been taken into account by RBA's growth projection for 2016 at 2-3%. 2015 GDP is projected to be around 2.5% with key drivers from stronger net exports from the resource sector, household consumption and non-mining business investment. On those fronts, we saw little progress so far but we had known that the revival of non-mining business investment hinges on signs of a re-invigorated economy and any optimism at this point could be tempered by an overhang of uncertainties.

- Inflation is on the rise. 4Q CPI has risen to 1.7%y/y (sa) from previous 1.5%. The trimmed-mean measure also ticked higher to 2.13%y/y from previous 2.12%. Headline was driven by tradable components. The sectorial breakdown revealed that costs of food, alcohol & tobacco, household contents, health and recreation were the major contributors. The more frequently released TD-MI monthly inflation gauge has also ticked higher, registering 2.3%y/y growth for Feb.
- **Monetary Policy Forecast:** We still expect RBA to remain comfortable with the current level of cash rate at 2.0%. Prevailing interest rates have been supportive of consumption and borrowing, as evidenced by the stable retail sales and upticks in credit growth. Housing costs seem to have peaked but inflation has been ticking higher, especially driven by the tradable component and that could narrow the room for further rate cuts. However, we are still quarters away from the next hike given the uncertainties in the economy and the fragile economic transition that is almost painfully gradual. Key data to watch is Australia's CAPEX. With economic rebalancing still far from complete, RBA is likely to keep cash rate at 2.00% for the rest of the year, at least.
- **Latest Fiscal and External Balance Outlook:** The MYEFO was released on 15 Dec. 2015/16 budget deficit was revised higher to A$37.4bn from A$35.1bn in May. For 2016/17, the deficit is now higher at A$33.7bn. Growth forecast is lowered to 2.5% for 2015/16, in line with RBA. Iron ore price is revised lower to A$39/tonne from A$48 in the May budget.
- Current account deficit narrowed to -A$18.1bn in 3Q from A$20.5bn in the quarter prior, seasonally adjusted. That was mainly due to the improvement in trade balance of goods and services account which saw a narrower deficit of around A$5.3bn as exports volume was boosted by the cheaper AUD.
- **Key domestic events and issues to watch:** RBA sets cash rate target on 1 Mar, along with the release of the Commodity index for Feb. Key data to watch for the month includes 4Q GDP due on the 2nd, labour report on the 17th and 4Q CAPEX on the 25th. TD Securities inflation for Jan is due on 1 Feb. Trade is scheduled for release on the 3rd, retail sales on the 4th. We also watch the NAB business conditions/confidence on the 8th. Home loans are due on the 9th. Westpac consumer confidence for Feb is due on the 10th. RBA Lowe speaks on the 8th. RBA Minutes are due on the 15th followed by Debelle's speech in Sydney before Stevens turn at the ASIC Forum on the 22nd.
- **Technical Outlook:** AUDUSD has inched higher over the past few weeks but rally has been capped at 0.7250/60 levels (200 DMA). Pair was last seen at 0.7140 levels. Weekly momentum remains bullish bias; still favor buying on dips. Daily technicals suggest some near term pressure in the interim. Support at 0.7090 (38.2% fibo retracement of Jan low to Feb high), 0.7040 (50% fibo)

before 0.6990 (61.8% fibo). Resistance at 0.7160 (23.6% fibo) before 0.7260 (200 DMA).

NZD: Bearish Bias

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
NZD/USD	0.6300 (0.6100)	0.6100 (--)	0.6300 (--)	0.6200 (0.6600)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We **remain bearish on the NZD.** Recent development over the past month added to the list of factors that justify our bias for further weakness. NZ 2-year inflation expectation fell to the lowest level since 1994. 10-year IRS also recently fell to its lowest level of 3.11% (24 Feb) since 1996, an indication of market expectation for further policy rate cut. Recent policymakers' speaks including RBNZ Asst. Gov McDermott – said NZD needs to be sustainably lower than what it is today and where it has been over the past few years, PM English – surprised that NZD hasn't dropped with falling dairy prices, all pointed to a weaker NZD outlook.

- Other factors **include RBNZ explicit bias for further easing and weaker NZD**, **benign inflation outlook**, still **challenging dairy market dynamics**, high risk of **current account deficit widening**, **and further downside risk to growth outlook** over the next few months amid weak growth and rising uncertainty in EM countries including China.

- Given recent price movement amid risk supported environment and slowdown in policy divergence (between Fed and RBNZ), we calibrate our forecasts higher for 1Q. We revised 4Q forecast lower to reflect a resumption of policy divergence.

- **Growth and Inflation Outlook: Growth is expected to moderate, due mainly to lower terms of trade.** Sluggish dairy prices also weigh on exports. Other factors weighing on growth outlook include El Nino resulting in drought conditions and weaker output. Recent domestic data have also disappointed. 4Q retail sales surprised to the downside (+1.2% q/q vs. +1.6% in 3Q). RBNZ cautioned in its last statement (28 Jan) that there are many risks around the outlook - prospects for global growth, particularly around China, global financial market conditions, dairy prices, low inflation (due to falling fuel prices), net immigration, and pressures in the housing market. RBNZ expects 2016 GDP growth to be 2.2%. **Fitch has downgraded its outlook (while affirming its "AA" credit rating) for NZ economy, saying it doesn't expect growth to be as strong as previously though citing weak agricultural exports, lower dairy production and slower residential investment growth. Fitch expects business investment to experience a slight rebound.** 4Q GDP data will be released on 17 Mar.

- **NZ inflation remains well below its 1-3% target range and is now at 16-year lows, due to earlier NZ strength and the large decline in oil and commodity prices.** 4Q headline CPI inflation dipped into negative territories (-0.5% q/q), from 0.3% in 3Q, mainly due to falling fuel and vegetable prices. This is the lowest level since 1999. Looking on, inflation expectation remains subdued with RBNZ 2-year inflation expectation falling to its lowest level (1.63%) since 1994. Wage inflation is also near 2010-lows. To compound problems, dairy prices remain on a decline since 2014 highs and remains well below its 5-year average. Dairy prices are expected to remain low for longer until global dairy over-supply and under-demand dynamics adjust. This is unlikely to happen soon, especially with deregulation of US and EU dairy markets (which seen a flush of dairy supply) while demand remains soft as China demand has yet to recover due to rise in domestic production and build-up in inventory while sanctions in Russia also reduce demand.

- **Monetary Policy Forecast:** At the last RBNZ MPC meeting on 28 Jan, RBNZ kept OCR on hold at 2.5%, as widely expected (after cutting OCR by 25bps in Dec). RBNZ's **accompanying statement maintained its desire for further depreciation in the NZD** given ongoing weakness in export prices**. RBNZ also said that some further policy easing may be required over the coming year** to ensure that future average inflation settles near the middle of the target range. It **now expect annual CPI inflation to take longer than expected (initially expected to be early-2016) to return within the target range of 1 - 3%.** While 10-year IRS recently fell to its lowest level of 3.11% (24 Feb) since 1996 – growing indication of market pricing in further policy rate cut, **we do not expect RBNZ to cut rate below historical low of 2.5% at the upcoming meeting on 10 Mar**. We believe RBNZ will adopt and wait and watch approach – for more data flows and what other central banks may do. Our bias remains for RBNZ to cut policy rate by 25bps at the Apr or Jun meetings, should growth momentum fails to pick up.

- **Latest Fiscal and External Balance Outlook:** 3Q current account deficit widened again to –NZD4.75bn, from -NZD$1.2bn in 2Q. For 12 months ending 30 Sep, current account deficit stood at 3.3% of GDP. 4Q data will be released on 16 Mar.

- OBEGAL (Operating balance before gains and losses) saw a deficit of NZ$889 mil for the 6-months ending 31 Dec 2015, NZ$92 mil higher than forecasted.

- **Key domestic events and issues to watch:** 4Q ToT; GDT auction (1 Mar); RBNZ meeting on 10 Mar; BusinessNZ Mfg PMI (11 Mar); another GDT auction on 15 Mar; 4Q current account (16 Mar); 4Q GDP (17 Mar); Feb trade (24 Mar).

- **Technical Outlook:** NZD traded 0.6550 (38.2% fibo retracement of Dec high to Jan low) - 0.6760 (76.4%) range for the month of Feb. Pair was last at 0.6590 levels at time of writing. Price action suggests triangle formation in the making. We caution that a decisive break below 0.6550 could pave way for further downside towards 0.6470 (23.6% fibo). Momentum is not providing much cues for time being. Our bias remains to sell rallies.

JPY: Supportive Safe-Haven Inflows

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USDJPY	110 (120)	108 (122)	110 (120)	112 (119)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Since the beginning of the year, the JPY was the best performer among the currencies we cover, rising 6.5%. The USDJPY briefly touched a low of 110.99 (11 Feb) that was not seen since 31 Oct 2014 and has since hovered between the 110-115 levels with risks still to the downside.
- The USDJPY has been on the slide since climbing higher to the year's high of 121.69 (29 Jan) as safe-haven flows into the JPY overwhelmed any downside pressure on the JPY from the BOJ's adoption of negative interest rate policy (NIRP). Concerns about global growth amid weak global oil prices and banking sector health particularly in the EU have spurred the search for higher quality/safer assets. Japan has been the main beneficiary of these safe-haven flows because the JPY is one of the most liquid currencies and persistent current account surpluses. Thus, as long as there are risk-off sentiments, further downside pressure on the JPY will persist.
- The sharp slide in the USDJPY since 11 Feb is likely to weigh on Japanese companies' exports earnings, while the NIRP should impact banks' profitability and put downside pressure on the Nikkei. This could result in the unwinding of JPY shorts as investors sell-off the Nikkei, putting downward pressure on the pair. At the same time, Japanese corporates could also hedge against further JPY upside, weighing on the USDJPY.
- The current ultra-loose monetary policy and NIRP of the BOJ has led to negative bond yields (-0.212% to -0.0006%) across all tenors except the 30Y (+0.969%) at the point of writing. Negative rates have not deterred investors fleeing to the safety of JGBs. The inflow into JGBs has resulted in yields falling by 0.51-29.60bp broadly across all tenor since the start of the year. The flight into JGBs has weighed on the USDJPY consequently. The continued inflow into JGBs should risk sentiments sour further may pressure the JPY back towards the 110-levels by end-1Q.
- There are concerns now that Abenomics/Kuroda could risk losing credibility as the 2% inflation target fails to gain traction. Not surprisingly then, the time period for achieving the inflation target has been postponed twice and is now expected to be achieved sometime in 1H FY 2017. BOJ governor Kuroda admitted in parliament (23 Feb), the limits of the BOJ's present monetary policy approach, which is insufficient to lift inflationary expectations. He however clarified on 24 Feb that this was not the motivation for the NIRP. Despite his clarification, Kuroda's comments do suggest that interest rate is likely to be the tool of choice going ahead and even more negative interest rates could be in the cards ahead. This should be slightly JPY positive.
- While we do not expect any moves by the BOJ at its next meeting on 15 Mar, further adjustments cannot be ruled out, especially

should the USDJPY slide below the 110-levels and the EURJPY stay below 125 (key support) for an extended period. Still we do not expect any further moves by the BOJ until 2H with official jawboning likely until then. This together with the expected hike by the US Fed in 4Q could lead the USDJPY to inch higher towards the 112 by end of 2016 after ending 2Q at 108.

- **Growth and Inflation Outlook:** The economy shrank 1.4% q/q seasonally adjusted annualized rate (SAAR) in 4Q15 following an upwardly revision to 3Q GDP at 1.3%. Weighing on growth was private consumption, which fell by a 3.3% q/q SAAR from 3Q's gains of 1.5%. This was not surprising given that wage growth is almost non-existent, flat in both Nov and Dec 2015. Other high frequency data are also pointing to a lackluster outlook for the economy. The decline in retail sales accelerated in Jan, falling by -1.1% m/m in Jan from Dec's -0.3%. Industrial production contracted by a larger 3.8% y/y in Jan from 1.9% in Dec, while core machine orders – an indicator of future capital spending by private companies – fell by 0.5% y/y in Dec from +4.3% in Nov.
- Both headline and core inflation (headline CPI less fresh food) – BOJ's key gauge of inflation – are still not showing much signs of life at the start of the year in Jan, especially with oil still soft at around the USD30/bbl levels. Lackluster domestic growth amid muted wage growth and the ultra-loose BOJ monetary policy has failed to ignite inflationary pressures. This increases the risk that the 2% inflation target might not be met, even after it had been postponed to sometime in 1H FY 2017. There is some glimmer of hope though in the form of the inflation gauge favoured by the central bank - core-core inflation, i.e. headline inflation less fresh food and energy prices – that continues to tick higher above 1.0% levels (Dec: 1.3%). This print helps to reaffirm the BOJ's conviction that inflation is gaining traction in the economy.
- **Monetary Policy Forecast:** The adoption of negative interest rates, while having its desired effects of bringing down government bond yields, did not have the intended impact on the USDJPY. Instead of driving the JPY lower, the USDJPY slipped lower instead, overwhelmed by safe-haven flows. Still, it appears to be early to gauge the impact of the NIRP. As for the existing expansion of monetary base policy, BOJ governor Kuroda had admitted in parliament (23 Feb) to the limits of the BOJ's present monetary policy approach, which is insufficient to lift inflationary expectations. He however clarified on 24 Feb that this was not the motivation for the NIRP. Kuroda's comments do suggest that interest rate is likely to be the tool of choice going ahead and even more negative interest rates could be in the cards ahead to achieve its inflation goal. However, we do not expect another move in the near term as the BOJ evaluates the impact of the NIRP. Any further moves by the BOJ to lower the rate lower is expected in 2H, possibly at the beginning of 3Q, ahead of the Upper House election which expected in early summer.
- **Latest Fiscal and External Balance Outlook:** Despite the JPY3.3tn supplementary budget for FY2015 passed earlier in the year, the parliament is now focused on the record JPY96.7tn budget for 2016. The government hopes that the parliament will pass the budget by Mar in time for the start of the fiscal year 1 Apr. While the government efforts are to ensure the passage of the 2016 budget, rumours are swirling that a new supplementary budget is in the works to further boost the economy after it shrank in 4Q 2015 and ahead of the Upper House elections.

- The current account surplus narrowed further in Nov to JPY0.96tn from JPY1.14tn in Nov, underpinned by the narrowing surplus in the primary account even as the goods and services account rebounded to a small surplus. Similarly, the overall balance of payments (BoP) surplus narrowed to JPY2.79tn in Dec from Nov's JPY5.49tn on the back of smaller surpluses in both the current and financial accounts. The narrower financial account surplus was due largely to a smaller surplus in the portfolio investment inflow and larger deficit in the other investment account. For the full-year, the current account and financial account surpluses ballooned to JPY16.64tn and JPY21.14tn in 2015 from JPY2.65tn and JPY5.50tn respectively in 2014.

- **Key domestic events and issues to watch:** Aside from final 4Q15 GDP that is on tap on 8 Mar, BOJ meets on 15 Mar on monetary policy. BOJ Deputy Governor Hiroshi Nakaso speaks in Naha on 3 Mar, while BOJ governor Haruhiko Kuroda will make a brief remark at the Settlement System Forum on 17 Mar. JGB auctions in Mar: 10-year (1 Mar), 30-year (8 Mar), 5-year (10 Mar), 1-year (16 Mar) and 20-year (17 Mar).

- **Technical Outlook:** USDJPY fell by a large magnitude from 121.70 (end Jan) to a low of 110.99 (11 Feb) amid the sell-off in Japanese equities (BoJ's negative interest rate put pressure on banks' profitability). Pair was last at 113 levels at time of writing. Monthly technicals continue to point to a bearish bias. Next support at 111 (Feb double bottom). Break that and we probably see 107.25 (38.2% fibo of end-2012 to 2015-high) before 101.50 (50% fibo). Resistance at 115.30 (100 DMA).

CNY: Strong Against USD, Weaker Against Basket

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/CNY	6.55 (6.60)	6.60 (6.75)	6.65 (6.75)	6.75 (6.70)
USDCNH	6.55 (--)	6.60 (--)	6.65 (--)	6.80 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Yuan had a noticeably stronger month against the USD, in tandem with regional peers. However, against the basket as published by CFETS, the CNY weakened. Our estimate of the RMB index is at 99.84 as of 22 Feb, a tad softer than the index at 100.50 at the end of Jan. The official index was published at 99.23 as of 5 Feb. Offshore yuan slumped below the 6.50-figure before settling between 6.48-6.58 towards the end of Feb. Gap between the onshore and offshore yuan has diminished. The weakness of the greenback had allowed PBOC to adjust the CNY in basket terms.

- Moving beyond Feb, we no longer expect USDCNY to reach towards the 6.60-figure by the end of the quarter as risks to the USD remains to the downside for this month. In addition, JPY strength could also serve to support the CNY to some extent. Strength of the currencies in the basket would allow PBOC to keep a lid on USDCNY and speculators at bay. However, that does not translate to any improvement in the fundamentals. An obscene extent of excess capacity, heavily indebted corporations and huge liquidity injections continue to add immense pressure on the economy and the yuan medium term. In addition, the supply-side structural reforms have not taken effect and while we remain hopeful that China's economy could reach a base by year end, a bottom is not yet in sight. With the RMB index last seen around 99.80, a dollar rebound could lead USDCNY towards the 6.75-level which should place the RMB index around 98. PBOC has cautioned that yuan internationalization efforts could come in wave. We think it is inevitable that USDCNY and USDCNH would see another wave of upmove as dollar rebounds from current level. We envisage this to occur in the second half of the year as we anticipate the next rate hike to come only at year end. That would take USDCNY towards 6.75.

- Given our view for stability in the yuan in the near-term, USDCNH is likely to remain close to the values of USDCNY. Spread is likely to widen towards the end of the year when we anticipate more rapid depreciation of the onshore yuan against the dollar. We anticipate USDCNH to reach 6.80 by year end.
- 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 has improved to 5.0 from the previous 5.2. This was due to an improvement in its score for its current account relative to its regional peers that outweighs the slight deterioration in its fiscal score. Expect the widening current account to remain a buffer for its capital outflows.
- **Growth and inflation outlook:** Jan PMI-mfg disappointed with a print of 49.4 vs. expected 49.6. Caixin's version showed mild improvement to 48.4. Foreign reserves fell almost U$100mn in Jan to U$3.2bn, triggering concerns that PBOC might draw down on its reserves faster than we think. Exports and imports declined for another month but the prints were less in focus due to seasonal distortions. Perhaps the most astounding release was the liquidity numbers. CNY2.51trn of new yuan loans were made last month. Aggregate financing rose CNY3.4trn. Money supply M2 quickened to 14.0%y/y from previous 13.3%. The large amount of loans raised concerns of increasing NPL. In addition, reports of PBOC's intentions to lower the minimum provision ratios from current 150% underscore the amount of stress local banks are experiencing at the moment, especially when NPL could very well be rising. With debt at a rising ratio of over 200% of GDP, there are concerns on how the leverage level of GDP affects productivity, efficacy of monetary policy, actual and potential group. It is still early days yet for efforts to reduce housing stocks, to deleverage, to lower excess capacity, reduce transactional costs and tax rates for corporates.
- **Monetary Policy:** Instead of the RRR cut, PBOC has resorted to other forms of liquidity injections via SLO, MLF, PSL and SLF. These lending facilities are typically activated as and when the central bank deem necessary and serve to be more targeted than a broad-based RRR. PBOC continues to conduct liquidity injections including the CNY163bn MLF on 19 Feb. In the week ending 19 Feb, PBOC has withdrawn CNY455bn of liquidity via OMO. The use of other liquidity injection suggests less use of

broader monetary tool at this point. We expect one interest rate cut of 25bps and RRR to be cut in intervals by another 200bps within the year.

- Supply side reforms imply reform to its monetary policy as well. PBOC is in the midst of establishing an interest rate corridor and has mentioned to use the SLF rates as the ceiling of the interest rate corridor. Moving forward, the central bank has to ensure the transmission mechanism of future rate cuts to be filtered down to the SMEs before there can be significant breakthroughs in its exchange rate policy.
- Capital account liberalization made small progress recently when PBOC abolished the quota for foreign financial institutional investors in the interbank bond market. In addition, the approval system has now become a registration system. This further deregulation in the onshore markets comes at a time when the yuan is under capital outflow pressure. The amount of domestic RMB bonds held by the overseas entities had also softened from its peak of RMB797bn last Jul. With the economy still under downward pressure, foreign institutional investors are unlikely to be in a hurry to rush into the interbank bond market at this time. We see little impact on the yuan in the near-to-medium term.
- **Latest Fiscal and External Balance Outlook:** Supply side reforms also apply to its fiscal plan for 2016. The central economic work conference indicated that tax levels could be lowered and we expect an official announcements and details as soon as the NPC and CPPCC on 3-13 Mar. We continue to expect fiscal stimulus. In fact, Vice FinMin Zhu Guangyao said the threshold of 3% implies that there is still room for expansionary fiscal policy. In 2014, the budget deficit came to 2.1% of GDP. Expect the ratio to come close to 3.0% of GDP for 2015.
- The 4Q current account surplus widened to US$84.3bn from the previous US$60.2bn in 3Q15. The outflows via its financial accounts had increased to USD84.4bn. While the breakdown of the financial account has not been released, recent releases suggest outflows are likely to be via currency and deposit, loans and trade credit. These details reveal that corporates and residents have been keen on buying foreign assets in the first two quarters of the year. CNY will continue to remain under pressure amid greater portfolio outflows though there could be some buffer from the current account surplus.
- **Key domestic events and issues to watch:** First, NPC and CPPCC starts on 3 Mar and end on the 13th. Feb PMI-mfg is due on 1 Mar, accompanied by the Caixin version. Foreign reserves for Feb will be watched on the 7th. Trade data is due on the 8th. CPI, PPI on the 10th. Liquidity numbers are due from 10th-15th.
- **Technical Outlook:** USDCNH traded with downside bias, falling from above 6.65 to a low of 6.4870 levels (mid-Feb). Momentum remains bearish bias on the weekly chart but could wane as indicated by stochastics. Key support at 6.5050 (21 DMA) before 6.4250 (61.8% fibo of Aug low to Jan high). Resistance at 6.5770 (50 DMA).

KRW: Hit by Double Whammy

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
USD/KRW	1230 (1170)	1260 (1190)	1280 (1210)	1300 (1220)

Previous Forecast in Parenthesis

- **Motivation for the FX View**: We see further downside on KRW, against a backdrop of both external and domestic factors, including **ongoing sluggish external demand** (Korean exports remain on double digit decline; Jan exports fell 18.5% y/y), **rising risks of slowing recovering in domestic demand** (both private consumption and department store sales fell; industrial production also fell 1.9% y/y in Jan), **benign inflation outlook** (0% in Jan; 1.4% inflation target for 2016) amid downward revision of 2016-18 inflation medium-term objective to 2% (from 2.5%), **still fragile risk sentiment** (as KRW remains a risk proxy), **rising risk that BoK could be pressured to lower policy rate** beyond historical lows of 1.5% (current) as well as **geopolitical tension in Korean peninsula**. We revised higher our USDKRW forecast for the forecast horizon, in light of the above factors.
- KRW has declined by 4% (vs. USD) since beginning of Feb (but has retraced some of its losses at time of writing). **Rapid decline of KRW or further BoK rate cuts could risk capital outflow.** Net foreign equity investment (12-month rolling sum) has seen net outflow of nearly -US$6bn (as of 23 Feb). The authorities (BoK and MOF) are aware of the situation and further rapid weakening could create a vicious cycle and result in further KRW weakness. We believe the authorities have likely intervened in the past month and will continue to intervene (both via FX and/or verbal) to smooth volatility and slow the pace of depreciation.
- There could be further pressure for BoK to cut policy rate from current 1.5%, should domestic demand shows slowing recovery. But **we believe BoK will not squander away monetary policy tools unnecessarily** and prefer to wait for Fed meeting in mar and further data before making the decision. Furthermore the MoF has already front-loaded 2016 fiscal spending in 1Q and typically the effect requires a few months to be reflected on the data. Rising JPYKRW also gives breathing room for BoK as we observed that BoK tends to cut policy rate when JPYKRW is falling.
- While we noted an increase number of calls from markets to say that the KRW has depreciated a lot (vs. the USD) and may even be perceived as oversold. We are not disagreeing but wish to add that in BIS REER terms, KRW has only fallen 2.7% from its peak and remains near its 10-year and 20-year historical averages. This suggest that further downward adjustment in the KRW (i.e. weaker) should not be taken as a surprise.
- We noted that 1230-1240 is a key technical area of resistance. Should the pair close above said-resistance on monthly close basis, the next move higher could mean 1,300 over the next few months. Short term, we do not rule out technical pullback towards 1180 – 1200 (from current levels of 1230) should risk

sentiment remains supported. We look for opportunity to re-load longs.

- **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 improved to 6.4 (from 6.7 in Jan). The improvement was due to GDP and FX reserves.
- **Growth and Inflation Outlook: Manufacturing PMI slipped back into contractionary territory in Jan (49.5 vs. 50.7 in Dec).** Most sub-indexed including production, new orders, stock of purchases, employment fell. Korea's Jan exports also fell 18.5% y/y (13th back to back decline) and the largest slump since 2009. These data suggest the recovery in consumption could be limited.
- **BoK lowered 2016 GDP growth to 3% (from 3.2%), owing to China slowing demand.** For 2015, the economy expanded 2.6% (a touch softer than its previous forecast of 2.7%).
- For Jan 2016, headline inflation was flat at 0% (vs. +0.3% m/m in Dec). On y/y terms, inflation slowed to +0.8% (vs. 1.3% in Dec). The drag was due to industrial products. **BoK expects 2016 inflation to rise 1.4%** (vs. previous expectation of 1.7%).
- **Monetary Policy Forecast:** We continue to **expect the BoK to maintain its accommodative monetary stance,** for longer, so as to support economic recovery and **to see a re-alignment of CPI on the new set of inflation target (2% for next 3 years). Rising JPYKRW also gives breathing room for BoK** (we observed that BoK tend to cut rates when JPYKRW is falling).
- **While we acknowledged increasing risk of BoK cutting policy rate, we still expect the BoK to keep policy rate on hold at 1.5% at its upcoming meeting on 10 Mar,** as front-loading of fiscal spending is akin to fiscal stimulus (in some sense). BoK is likely to wait for further data before making any policy rate cut below historical lows. **We continue to caution the risk of BoK cutting policy rate could return possibly in 2Q, if the pick-up in domestic demand fails to gather further momentum.**
- At the last MPC meeting (16 Feb), BoK kept policy rate on hold at historical low of 1.5% for the 8th straight meeting as widely expected. But the **decision was not unanimous as one MPC member voted for a rate cut.** BoK Governor Lee acknowledged the current unfavourable macroeconomic environment but said that a rate cut at this point would not have the desired effects of monetary policy on the economy. He added that **BoK could respond aggressively to changes in external environment and foreign capital flows.**
- **Latest Fiscal and External Balance Outlook:** Current account surplus narrowed to $7.46bn in Dec, from $9.91bn in Nov due to a rise in services deficit. Current account surplus is projected to continue; and to be around 7% of GDP for 2015.
- According to the Public Finance 2015 report issued by National Assembly Budget Office, fiscal deficit for 2016 is expected to widened to -2.3% of GDP. Sovereign debt to GDP is expected to climb to 40% of GDP for 2016.
- **Key domestic events and issues to watch:** S. Korea releases Jan exports (1 Mar); CPI inflation numbers (3 Mar); BoK meets on 10 Mar; Mar Business Survey Manufacturing (31 Mar).
- **Technical Outlook:** USDKRW has seen a massive lift-off from under 1200 to a high of 1245 (29 Feb). Underlying momentum

(monthly, weekly) continues to point to a bullish bias. Next resistance at 1260. Break above could see an extension towards 1300. But we cautioned against stretched positioning. Daily stochastics is falling from overbought conditions. Support at 1220 (21 DMA). We continue to favor buying the pair on dips.

SGD: Pressured Lower As MAS Meeting Approaches

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USDSGD	1.4300 (--)	1.4600 (1.4450)	1.4700 (--)	1.4750 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The USDSGD had bounced higher by about 0.9% since the start of the year. The pair has swung from a multi-year high of 1.4444 (11 Jan) to a 2016 low of 1.3861 (11Feb) in the span of two months on the back of concerns about global growth and speculation about MAS' next move. The release of Jan CPI and final 4Q15 GDP in the last week of Feb has resulted in some market waffling on the MAS decision in Apr. The downwards revision to headline inflation triggered long USDSGD positioning as expectations of the likelihood of a MAS move in Apr increased. However, the failure of final estimates for 4Q15 GDP to disappoint, especially with GDP accelerating on a SAAR-basis, lifted sentiments and resulted in some unwinding in long USDSGD positions. This was manifested in the decline in government bond yields at the longer end (by 1.4-40.1bp), though the 6M and 1Y yields rose by 6.5-14.4bp.
- Despite the unwinding we are seeing at this point of time, USDSGD volatility remains on the uptick. Looking at past episodes, volatility tends to rise as MAS meeting approaches and we do not expect it to be different this time round. Of interest is that the USDSGD volatility currently is still way below the levels seen in the month approaching the Oct 2015 MAS meeting and there is still room for volatility to go higher as we enter into Mar.
- For now, the data out so far, NODX, CPI and GDP point to a bleak outlook for the Singapore economy, despite the MTI maintaining their 2016 growth outlook at 1-3%. We believe that risks to growth remains on the downside given the global slowdown led by China. Growth coming in closer to the lower end of the government's forecast remains a possibility. The 2016 outlook for headline inflation was downwardly revised lower, though the outlook for MAS core inflation was maintained at +0.5%-1.5%. This suggested that an Apr easing is not a done deal. Still, continuing soft global oil prices and weak global domestic and external demand could continue to pressure headline inflation lower. Overall, our baseline for the MAS to maintain its current 'modest and gradual' appreciation stance remains intact but we acknowledge that we are inching closer towards the hurdle for a MAS move with the latest GDP print. This should keep the SGD softer, going into the MAS meeting in Apr.
- The economy continues to face both domestic and external headwinds, challenging the USDSGD. Domestically, the ongoing

restructuring of the economy away from reliance on foreign labour towards productivity-driven growth has resulted in the economy underperforming, offsetting any benefits from lower oil prices. External headwinds, including the sluggish global growth outlook driven by a slowdown in China, the possibility of further hikes in the Fed fund target rate, as well as the uncertainty arising from the US presidential election, are likely to intensify risk for the rest of the year, stir a flight to safety and lead to greater volatility in the FX markets and weigh on the currency. Even the strong persistent balance of payments surpluses are unlikely to keep the USDSGD from climbing above the 1.47-levels by end-2016 from its current levels around 1.4000.

- **Our monthly Maybank Vulnerability score:** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Singapore held steady again at 4.0 with no changes to the various variables. This should continue to be supportive of the intrinsic value of the SGD. Our model shows that the SGD NEER continues to hover below the mid-point. The SGD NEER is now (@ 9.00am, 29 Feb 2016) hovering around 0.9% below the midpoint of the policy band. (topside: 1.3683, mid 1.3965, floor: 1.4247, current: 1.4110).

- **Growth and Inflation Outlook:** 4Q15 GDP met expectations at 1.8% y/y (adv. estimates: 2.0%; 3Q15: 1.8%). On a seasonally-adjusted annualized rate (SAAR) basis though, GDP accelerated by 6.2% q/q, beating both market expectations and advance estimates of 4.5% and 5.7% respectively. Breakdown suggests that services sector (4Q: 2.8%; 3Q: 3.4%) growth underpinned the headlines. Though MTI maintained their 2016 growth outlook at 1-3%, we believe that risks to growth remains on the downside given the global slowdown led by China. Growth at the lower end of the government's forecast remains a possibility. Consequently, our economic team has revised its growth forecast for 2016 to 1.7% from 2.0% previously as the slowdown in China, financial market volatility, ongoing shift towards productivity-driven growth and less-reliance on foreign workers and property cooling measures continue to weigh on the economy.

- Inflation pressure continues to be lacking, with headline inflation falling by -0.6% y/y in Jan, dragged lower by transport, housing and communication. There were some flicker of inflationary hope in core inflation (which excludes private transport and accommodation), as it ticked higher to 0.4% y/y in Jan (Dec: 0.3%). More importantly, MAS adjusted its headline inflation outlook for 2016, lowering its forecast to -1.0-0.0% from -0.5-0.5% previously (Maybank forecast: +0.5%). This was due to the significant step-down in global oil prices in recent months and the larger-than-expected decline in COE premiums. However, the forecast for core inflation was left unchanged at 0.5-1.5% for 2016 as it is expected to pick up gradually as base effects from oil prices and budgetary and other one-off measures ease.

- **Monetary Policy Forecast:** Despite the recent waffling, a move by MAS at its Apr meeting appears to gaining credence in the market. This was especially so with data out so far pointing to a bleak outlook for the Singapore economy. Our baseline for the MAS to maintain its current 'modest and gradual' appreciation stance remains intact but we acknowledge that we are inching closer towards the hurdle for a MAS move with the latest GDP print. Growth is increasingly gyrating towards the lower end of the government's forecast range, while the move to revise downwards the headline inflation outlook for 2016 could be a prelude to a similar adjustment to core inflation. However, with MAS core inflation left unchanged at +0.5%-1.5% for now, an Apr adjustment is not a done deal. We expect MAS to move only if there is another change in the inflationary outlook because of the recent oil prices moves, which stalls a recovery in core inflation and/or growth slumps significantly due to a risk event. We continue to expect the SGD NEER to trade below the mid-point of the policy band given a weak growth path, normalization in domestic property prices and ongoing restructuring of the economy amid a slowdown in the global economy.

- The USD/SGD hovering above the 1.40-levels should be supportive of the upward trajectory in domestic interest rates. Given the concerns about the impact of a global slowdown on US growth, our house expectations is now for just one Fed rate hike expected sometime in 4Q of this year. The uptick in domestic interest rates could be less aggressive than previously anticipated. The 3-month SIBOR has come off from its five-year high of 1.254% (25-27 Jun) to hover around the 1.2520-region at the point of writing. This less aggressive climb in interest rates should also moderate the rise in mortgages rates for now. We now expect the 3-month SOR & SIBOR at 1.18% and 1.07% respectively by end-1Q 2016 and 1.58% and 1. 74% respectively by end-2016.
- **Latest Fiscal and External Balance Outlook:** The 2016 Budget will be tabled in Parliament on 24 Mar and is expected to be "pragmatic and normalized" after the expansionary election-related budget in 2015. While government expenditure is unlikely to match those in 2015, our economic team still expects the budget to address cost of living and business costs issues and to incentivize economic restructuring towards productivity-driven growth.
- The current account surplus narrowing marginally in 4Q 2015 to SGD20.60bn from SGD20.62bn in 3Q 2015. The surplus in the goods and services account ballooned to SGD28.4bn in 4Q (3Q: SGD28.8bn) which was offset slightly by the rise in both the deficits in the primary and secondary income balance accounts. The overall balance of payments (BoP) surplus slipped into a deficit of SGD0.35bn in 4Q from a surplus of SGD0.48bn in 3Q due to a larger outflow of portfolio investment (4Q: -SGD27.9bn) and reduction in direct investment inflows (4Q: SGD8.7bn), reflecting the turmoil in the global economy. For the full-year, the current account surplus increased to SGD79.1bn in 2015 from 2014's SGD67.4bn, though the overall BoP balance narrowed to SGD1.5bn (2014: SGD8.6bn) as a result of a larger capital and financial account deficit due to a larger portfolio outflow in the year.
- **Key domestic events and issues to watch:** The 2016 Budget will be presented to Parliament on 24 Mar.
- **Technical Outlook:** USDSGD fell from above 1.43-handle to a low of 1.3861 (mid-Feb) amid fading expectation of US to hike rates. Pair has traded range-bound between 1.40 – 1.41 since then. Last seen at 1.4080 levels. Daily momentum is bullish bias but stochastics is showing early signs of turning lower from overbought conditions. We continue to watch 1.4150 (50% fibo retracement of Jan high to Feb low). Failure to break decisively above could subject the pair to trade recent range. Support at 1.40 (23.6% fibo) before 1.3960 (200 DMA). Bias remains to buy on dips.

MYR: Weakness Gradually Dissipates

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
USD/MYR	4.1000 (--)	4.2500 (4.1500)	3.9000 (4.1000)	4.1000 (--)

Previous forecast in parenthesis.

- **Motivation for the FX View:** We stand convicted to our call - that we see **limited weakness in the MYR** and we acknowledged that our view could be slightly more optimistic than street estimates. This comes off the back of a combination of drivers including, gradually dissipating domestic issues, a positive recalibrated budget, relative stability in oil prices (which are helping to support sentiment), and to some extent, less impetus for Fed to tighten. We also expect domestic demand to remain resilient (despite some softness) and this is expected to help offset some of the sluggish external demand concerns. Near term outlook for portfolio flows have stabilized and further improvement will help mitigate the negativity surrounding MYR.
- **That said we revised our USDMYR forecast higher for 2Q 2015. The upward revision was to take into consideration the increasing risk of BNM cut to OPR, sometime around mid-2016. This is driven by recent BNM meeting which was somewhat dovish-sounding and had unexpectedly cut the SRR by 50bps to 3.50% to boost liquidity.** The 50bps cut in SRR came amid slump in deposit growth, rising loan-deposit (LDR) ratio and the recent upward pressures in market interest rates, namely the 3-month KLIBOR, fixed deposit rates, Base Rate/Base Lending Rate. The move will release about MYR6b liquidity into the banking system. Further SRR cuts cannot be ruled out. A return to the record low of 1% during the 2009 recession in the aftermath of the Global Financial Crisis will free up MYR30b in liquidity, which incidentally is equivalent to the dropin total deposit from its peak in Apr 2015 and Nov 2015 (latest available data), and will have a more material impact on market interest rates.
- **We continue to reiterate that Ringgit weakness is temporary** and is not a reflection of underlying fundamentals (which remain intact). We expect to see some stability returning to Ringgit over the next year or so as political/contingent liability risk subsides, fiscal consolidation/reforms gains traction and oil prices stabilize at lower levels. **Hence lowering our USDMYR forecast for 2H to reflect the bias.**
- The stability in external reserves suggests portfolio fund flows is becoming less of a pressure point. On equity side, foreign investors were net buyers of equities in Feb 2016 month-to-date at +MYR0.3b, compared with net selling of –MYR1.0b in Jan 2016.The downside to equity flows is limited as we estimated that around 90% of earlier cumulative net buying into equities since 2010 has already reversed into cumulative net selling since mid-2013.
- In the bond market, foreigners were net buyers of Malaysian debt securities for the fifth consecutive month in Jan 2016at +MYR1.7b (Dec 2015: +MYR1.2b). As mentioned in our report on 4Q 2015 balance of payment last week, the “dovish” outlook on the major economies’ monetary policy, in terms of the prolonged low (even

negative) interest rates, have caused investors to search for yields elsewhere and Malaysia is one of the beneficiaries of such flows.

- Malaysia's foreign reserves rose USD0.1b to USD95.6b (MYR410.2b) at 15 Feb 2016 from USD95.5b (MYR410.1b) at 29 Jan 2016, and have stayed above-USD95b since Dec 2015. Latest tally is equivalent to 8.2 months of retained imports and 1.2x of short term external debt. Portfolio flows are less of a pressure point amid sustained current account surplus and indication of repatriations, especially by the Government-linked investment funds.

- Our fair value model estimates USD/MYR to be in the range of 3.50. The current exchange rate's 80 sen or so deviation from fair value is due to the rapid decline in oil prices (around 50% decline since Jun 2014), USD strength (> 20% gain in the DXY since Jul 2014), domestic concerns (falling revenue and narrowing current account surplus arising from the decline in oil prices).

- **Our monthly Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Malaysia worsened slightly to 4.8 in Feb (vs. 4.7 in Jan). This was due to slight worsening in the current account and GDP.

- **Growth and Inflation Outlook:** 4Q 2015 real GDP growth slowed for the third consecutive quarter to +4.5% YoY (3Q 2015: +4.7% YoY) due to a decline in inventories. Full-year 2015 growth moderated to +5.0% (2014: +6.0%). Our 2016 real GDP growth forecast is revised to +4.3% from +4.5% (2015: +5.0%) amid moderating domestic demand, especially in consumption expenditure and private investment and to take into account of actual 2015 GDP figures which affect the base for calculating 2016 growth, plus incorporating factors like Budget 2016 recalibration impact and changes in the assumptions on variables like crude oil price and unemployment rate. Overall, we expect moderation in domestic demand (2016E: +4.0%; 2015: +5.1%) mainly on slower growth in consumer spending (2016E: +5.1%; 2015: +6.0%) and decline in public consumption (2016E: -0.8%; 2015: +1.1%), although we see pick up in gross fixed capital formation (2016E: +4.2%; 2015: +3.7%) on the rebound in public investment (2016E: +2.8%; 2015: -1.0%) amid moderating private investment (2016E: +4.9%; 2015: +6.4%). Net external demand will be less of a drag (2016E: -2.2%; 2015: -3.7%) thanks to firmer exports (2016E: +2.4%; 2015: +0.7%) and imports (2016E: +3.1%; 2015: +1.3%).

- Headline inflation rate rose sharply to +3.5% YoY in Jan 2016 (Dec2015: +2.7% YoY; Maybank-KE: +3.7% YoY; Consensus: +3.7% YoY). Inflation for the post-GST period (Apr 2015-Jan 2016) held firm at +2.7% YoY (1Q 2015: +0.7% YoY). Underlying or core inflation rate remains elevated, underscoring rising cost of living as our measure of core inflation rate (excluding 'FNAB', 'Transport' and 'HWEGOF' which consist of volatile and the remaining subsidised components of the CPI) eased but remain elevated at +4.8% YoY in Jan 2016(Dec2015: +5.3% YoY).

- Part of the sharp rise in inflation was due to the base effect as CPI was low in Jan 2015(+1% YoY)on the back of substantial drop in transport cost, primarily due to the impact of the fall in crude oil price on the retail fuel prices.

- Inflation expected to average 3.0%-3.5% in 2016, notwithstanding the gradual tapering of GST impact. The upward inflationary pressures will be sustained by factors such as further adjustments in domestic subsidies and other controlled prices, the impact of weak MYR on imported prices and costs, as well as the 11%-15% increase in Minimum Wages effective 1 July 2016.

- **Monetary Policy Forecast:** BNM left overnight policy rate unchanged at 3.25%, but **unexpectedly cut the Statutory Reserve Requirement (SRR) Ratio to 3.50%** (from 4.00%), effective 1 Feb 2016. at the recent MPC meeting (21 Jan).
- The Monetary Policy Statement (MPS) sounded somewhat “dovish” given BNM’s assessment that growth will moderate this year after expanding by about 5% last year amid increased downside risk, while the upward pressures on inflation is expected to peak by 1Q 2016 and moderate thereafter.
- The 50bps cut in SRR came amid slump in deposit growth, rising loan-deposit (LDR) ratio and the recent upward pressures in market interest rates, namely the 3-month KLIBOR, fixed deposit rates, Base Rate/Base Lending Rate. The move will release about MYR6b liquidity into the banking system. Further SRR cuts cannot be ruled out. A return to the record low of 1% during the 2009 recession in the aftermath of the Global Financial Crisis will free up MYR30b in liquidity, which incidentally is equivalent to the drop in total deposit from its peak in Apr 2015 and Nov 2015 (latest available data), and will have a more material impact on market interest rates.
- We expect OPR to remain steady at 3.00%-3.25% this year despite higher inflation rate as BNM’s monetary policy will be geared towards supporting growth. Our eyes are on the 18-19 May and 12-13 July MPC meetings. By then, the leadership transition at BNM in terms of a new Governor is done, 1Q 2016 GDP is out (by mid-May 2016) and BNM can see whether inflation is moderating post-1Q 2016 as expected.
- **Latest Fiscal and External Balance Outlook:** According to the latest revised budget (released 28 Jan), the government aims to maintain its 2016 fiscal deficit at 3.1% of GDP via a series of restructuring steps (operating and development expenditures cuts) that are expected to save the government MYR9bn. Malaysia’s fiscal and broader economic outlook could still be under pressure from weaker commodity prices in 2016. **The revised Budget has adjusted lower its oil price assumption to US$30-35/bbl (from $48/bbl).** Downside pressure on rating agencies’ ‘Stable’ outlook could arise in 2H 2016 if oil price averages below US$30/bbl as that may trigger projection of fiscal revenue shortfall.
- Exports and imports slowed to 1.4% y/y (Nov 2015: +6.3% y/y) and +3.2% y/y (Nov 2015: +9.1% y/y), narrowing the trade surplus to MYR8bn (Nov 2015: +MYR10.2bn). Full year, exports and imports also slowed to 1.9% (2014: 6.3%) and 0.4% (2014: 5.3%) but trade surplus was larger at MYR94.3bn (2014: MYR 82.5bn). For 2016, we expect export and import growth of 3.5% and 4.7% respectively to result in a smaller trade surplus of MYR89.5bn in 2016. Key downside risk is harder landing in China hitting world trade and commodity prices.
- External reserves increased USD 0.1b to USD95.6b (MYR410.2b) at 15 Feb 2016 from USD95.5b (MYR410.1b) at 2 Jan 2016, and have stayed above USD95b since Dec 2015. Latest tally is equivalent to 8.2 months of retained imports and 1.2x of short-term external debt. Portfolio flows are less of a pressure point amid sustained

current account surplus and indication of repatriations, especially by the Government-linked investment funds.

- Part of the stabilization and improvement in the external reserves in recent months may be attributed to the repatriation of overseas investment income by the Government-linked companies and investment funds. i.e. overseas properties invested earlier especially in London.
- Last year, the Employees Provident Fund (EPF) and the Pilgrim Fund (Tabung Haji) each sold a block of office building for GBP210m in Apr 2015 and GBP250m in Oct 2015 respectively. So far this year, we understand that the Government Pension Fund (KWAP) planned to dispose an office building in Wood Street that it bought at GBP215m in 2013 for GBP270m, while EPF is selling another property at Fleet Street, which was acquired back in 2011 at the cost of GBP148m, but no details have been released yet on the final transactions. It is also reported that Sime Darby Berhad plans to sell some of its real estate assets in Australia (Karri Valley Resort) and Singapore (Regent Centre) to raise about MYR2b funds
- **Key domestic events and issues to watch:** Trade balance (4 Mar); FX reserves (7 & 22 Mar); BNM meeting (9 Mar) and CPI inflation (23 Mar).
- **Technical Outlook:** USDMYR traded a wide range of 4.09 – 4.25 for the month of Feb. Momentum remains bullish bias but stochastics shows signs of turning lower. Resistance at 4.2680 levels (50% fibo of Jan high to Feb low, 50, 100 DMAs). Support at 4.1770 (23.6% fibo) before 4.1300 (200 DMA). Bias remains to sell on rallies towards 4.27 levels, targeting the 200 DMA. Break below 4.0950 (2016 low) could expose the pair to towards 4.00.

IDR: Lifted By Policies

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USDIDR	13400 (14000)	13200 (14200)	12950 (14400)	12500 (14500)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The reversal in investor sentiments towards the IDR has been swift. The recent moves by the central bank to cut the policy rate and the primary required reserve ratio re-affirmed investors' expectations that both the central bank and the government are now coordinated and are pulling out the stops to boost the economy. We expect at least one more rate cut (possibly two) before the end of 1H 2015. Meanwhile, the positive carry on government debt amid a pause in US Fed fund rate hike till the end of the year (our house expectations) continues to encourage foreign fund inflows. Risks are to the downside for the USD/IDR in 2016 and we now expect the pair to end the year below the 13000-levels in 2016.
- Aside from the monetary policy moves on 18 Feb, recent policy initiatives by the government to liberalize and open up the Indonesian economy to foreign investment (including allowing

100% foreign ownership of certain sectors and planned tax amnesty), improvement in the current account position (to around 2.0% of GDP in 2015 from 3.09% in 2014) and expectations of further inflows into Indonesian assets on positive carry stemming from negative interest rate policies of the major economies are positives for the IDR. Given these boosts to investor sentiments, we no longer expect the USDIDR to climb aggressively above the 14000-levels to end at 14500 by end-2016. Instead we now expect the USDIDR to slip lower towards the 12000-levels by year-end.

- Consequently, foreign investors have been buying up Indonesia portfolio assets. Year-to-date, foreign investors have pumped a net USD140.10mn into equities, though this pace was off the USD517.88mn bought in the same period last year. As for government debt, foreign funds added a net IDR32.55tn to their outstanding holding since the beginning of the year, just a tad off the IDR39.33tn added in the same period in 2015. For the whole of 2015, foreign funds sold a net USD1.58bn in equities, while they added a net IDR97.171tn to their outstanding holdings of government debt.

- Our fair value estimates is also favoring downside pressures on the USDIDR. Our estimate of the USDIDR fair value is around 12340 by end-2016. Our model, which takes into account nine market and macroeconomic factors, such as yield differentials, terms of trade, growth differentials, productivity differentials, net foreign assets, government expenditure and private consumption to determine the fair value, showed that domestic factors like productivity differentials and government expenditure driving the fair value lower. We expect the spot exchange rate to hover close to the fair value estimate by the end of the year.

- There are several caveats to the revised USDIDR forecast. This includes continuing political consolidation by President Jokowi remains intact that will enables him to push through the much-needed reforms through parliament, including tax rules that encourage dividends from equities and debt to be retained within the country. As well, the carry in Indonesia government debt continues to be positive, encouraging further inflows amid a more gradual pace of Fed fund rate hikes and global risk sentiments calms down.

- Given the recent development, we now expect the USDIDR to settle around the 13400 levels by end-1Q 2016 before edging below the 13000-levels at 12500 by year-end.

- **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Indonesia improved to 5.6 from 5.7, underpinned by the improvement in GDP and fiscal risks that offset the deterioration in current account risks. This should be supportive of the intrinsic value of the IDR.

- **Growth and Inflation Outlook:** The growth picked up in 4Q 2015, rising by 5.04% y/y (3Q: 4.74%), helped by an acceleration in government spending that rose 7.31% y/y (from 3Q's 7.11%). Government spending had risen in the quarter due to the greater push in infrastructure building. This helped to offset the continuing headwinds in the external sector, where weak global growth and falling commodity prices put exports under pressure, which contracted by 6.44% y/y in 4Q. For the full-year, the economy expanded by 4.79% in 2015, slower than the 5.02% in

2014. Going forward, growth is expected to accelerate underpinned by greater government spending on the push for more infrastructure building, and stronger investment as a consequence of the government's series of policies and reforms.

- Headline inflation inched higher in Jan to 4.14% y/y after moderating to 3.35% in Dec, the first uptick in six months. The acceleration was largely due to higher food prices (6.60%) and transport cost (1.47%) that offset the moderation in housing (including electricity, gas and fuel) cost (3.06%). Core inflation slipped for the fourth straight month, rising by 3.62% y/y in Jan. Headline inflation now hovers within BI's inflation target of 3-5%. Our economic team continues to expect headline and core inflation to average 4.56% and 3.68% by end-2016.

- **Monetary Policy Forecast:** BI reduced its reference rate by another 25bp to 7.0%, continuing to front-load rate cuts to spur the economy. Expectations of a pause in the US Fed fund rate hike and stability in the IDR as well as the moderation in inflation to below 5% provided room for the central bank to maneuver. At the same time, the deposit (FASBI) and lending facility rates were also similarly cut by 25bp to 5.0% and 7.0% respectively. Unexpected though was BI's 100bp cut to the primary reserve requirement to 6.5% effective 16 Mar. Our economic team was just expecting a 50bp cut. This cut would release IDR34tn to the market, keeping the banking system flushed with liquidity and could add IDR165tn of potential capital for economic development. Taken together, these measures should be beneficial to domestic investment and consumption on lower borrowing cost. The easing cycle is likely to continue with one or even two more cuts likely by the end of 1H 2015, though aggressive cuts are unlikely for now despite calls by the government to lower the policy rate to 4-5%.

- **Latest Fiscal and External Balance Outlook:** The government is planning to submit a revised 2016 state budget to parliament on the back of lower oil prices and more stable IDR. The government now expects the budget deficit to end at 2.53% of GDP in 2015, below the legal limit of 3%, and lower than the 2.8% earlier estimated. The average USDIDR exchange rate is now expected at 13500 though this could strengthen.

- Current account deficit (CAD) widened to 2.39% of GDP in 4Q 2015 from 1.94% in 3Q, lifted by narrowing surplus in the goods and services segment. For the full-year, the CAD narrowed significantly to below the BI's threshold of 2.5% of GDP to 2.06% in 2015 from 3.09% in 2014. The improvement in the CAD could be attributed largely to surplus in the goods and services account of USD4.79bn in 2015 vs. -USD3.03bn in 2014. The BI expects the CAD to accelerate to 2.65% of GDP in 2016 on the expected take-off in infrastructure spending, while our economic team is looking at 2.45% of GDP by end-2016.

- **Key domestic events and issues to watch**: BI meets on 17 Mar to decide on monetary policy.

- **Technical Outlook:** USDIDR traded with a bearish bias despite cuts to policy rate and required reserve ratio. Pair was last at 13400 levels. Monthly, weekly momentum remains bearish bias. Next support at 13230 (Oct low). Break below opens door for further downside towards 13000. Bias remains to sell on rallies. Resistance at 13500 (21 DMA) before 13700 (50, 100, 200 DMAs).

PHP: Political Uncertainty To Reign

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USDPHP	48.00 (--)	48.00 (--)	47.80 (--)	47.80 (--)

No Change from Previous Forecast

- **Motivation for the FX View:** The outlook for the PHP remains bearish. We expect the upcoming presidential and general elections in May this year, as well as risks emanating from the El Nino weather phenomenon and possible slowdown in overseas remittances as global economy stalls, to weigh on the currency. The possible bright spot preventing the further depreciation of the PHP against the USD is the BSP keeping rates on hold for 2016 and even possibly hiking rates at the end of the year due to the expected strong growth this year. This should act as a backstop for the PHP amid FX market volatility. The PHP remains the worst performer among its regional peers, down 0.9% against the USD YTD.
- Unlike its regional peers, there is little pressure on the BSP to cut rates to lower borrowing cost to spur growth given the country's strong economic fundamentals. Persistent current account surpluses, economic growth outperformance (above 5%), healthy import-cover ratio and short-term debt-to-reserve (18.3 months and 6.1 times respectively) make it unnecessary for the central bank to provide added support to the economy. Moreover, the implementation of the interest rate corridor (possibly by Apr) to steer market rates closer to the policy rate should see BSP keep the policy rate steady for some months thereafter. Even the political uncertainty from the presidential election in May 2016 is unlikely to pressure BSP to move. Moreover, the uncertainty in the FX markets from uncertainty regarding global growth also discourages the central bank from adjusting its policy rate anytime soon. This should provide the PHP with support for the year.
- Nevertheless, further upside risks to the USDPHP is expected this year. Key driver of this upside risk is the May presidential and general elections. Examination of the election trends on flows and the PHP showed that investors generally are not enthusiastic of the presidential election as incumbents are constitutionally barred from running for a second term. In the upcoming May elections, there is no certainty that outgoing-President Aquino's business-friendly policies and reforms would survive beyond his term of office especially if the candidate he endorsed fails to win. The uncertainty generated by this likely outcome could drive the equity market lower up to six-months after the elections. Consequently, the USD/PHP could climb higher in 1H 2016 towards the 48-figure. But should come off in 2H once there is better clarity of the new president's economic policies and goals.
- So far the foreign inflows have been mixed. Foreign investors have sold-off a net USD100.09mn in equities so far this year, compared to an inflow of USD24.35mn during the same period last year. In contrast, foreign funds have been largely pouring

into government debt year-to-date, underpinned by the likely outperformance of the economy vis-à-vis its regional peers and the likelihood that the BSP will stay the course for now. Yields have fallen broadly lower by 27.3-116.8bp across most tenors, except for the 3Y, 5Y and 25Y. We do not expect these inflows to government debt to last and for the outflow from equity to continue. This is because the volatility due to the elections and the likelihood of a rate hike by both the Fed and BSP by 4Q should encourage outflows and increasing the risk to the USDPHP.

- Further risks to the USDPHP stems from the El Nino weather phenomenon and the possible tapering of overseas remittances from the global slowdown. The El Nino weather phenomenon is expected to be severe in 2H 2016 and could lead to floods and droughts, negatively affecting crops and hence agricultural export earnings and domestic inflation. Sluggish global growth particularly in the G3 could slow the remittances, and put downward pressure on private consumption - the mainstay of economic growth.
- Our monthly **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Philippines deteriorated to 4.9 from 4.7, with the improvement in yield risks more than offset by the rise in current account and reserve risks. This should weigh on the intrinsic value of the PHP.
- **Growth and Inflation Outlook**: The economy outperformed expectations of 5.9-6.0% in 4Q 2015, expanding by 6.3% y/y in 4Q (3Q: 6.1%). Growth in the quarter was supported by private consumption and investment as well as acceleration in government spending. With growth trajectory still on the uptrend, our economic team maintains its GDP growth forecast of 7% for 2016 underpinned by stronger private consumption due to election-related spending, front-loading of government projects and continuing improvement in external demand. This is within the government's downwardly revised forecast of 6.8-7.8% for 2016 (7-8% previously).
- Inflation remained benign with both headline and core inflation moderating 1.3% and 1.8% y/y in Jan respectively from 1.5% and 2.1% in Dec. Driving this moderation was softer prices of energy-related items (transport and utilities) due to the drop in oil prices. The central bank now expects inflation to grind lower as a result slumping oil prices, lowering their inflation forecast to 2.2% in 2016 from 2.4% previously. 2017 inflation outlook was maintained at 3.2%. Our economic team continues to look for inflation to average 2% in 2016 based on sustained low fuel prices.
- **Monetary Policy Forecast:** The BSP kept its key policy rate and the SDA rate unchanged at 4% and 2.5% at its 11 Feb meeting to save its firepower should global risk worsen or inflation spike on El Nino and oil price rebound. For now, the central bank is expected to stand pat on policy for some time to come after the implementation of the interest-rate consider. The interest-rate corridor is expected to be implemented in Apr to make monetary policy transmission more effective. This is to be achieved by more narrowly bracketing the policy rate or the reverse repurchase rate (RRP) between the repurchase rate (RP) or overnight lending rate and the SDA. Still, with growth this year expected to be one of the world's fastest, the Philippines remains one of the few economies where rate hikes are more likely than a cut, which is likely to come by year-end.

- **Latest Fiscal and External Balance Outlook:** External balances did not have a good start to the year. The overall balance of payments (BoP) was slipped back into a deficit in Jan at USD0.81bn from Dec's surplus of USD0.48bn. This was largely due to the government's payment of foreign exchange debt, foreign exchange operations of the BSP and net portfolio investment outflows. The BSP governor sees this deficit as temporary though and anticipates a turnaround later this year underpinned by steady remittances and receipts from business process outsourcing (BPO).
- **Key domestic events and issues to watch:** BSP monetary policy decision is on tap on 23 Mar.
- **Technical Outlook:** USDPHP traded with a mild bearish bias over the past month. Pair was last seen at 47.50 levels. Momentum indicators are not indicating a clear bias. Some technical levels to watch out for include 47.45 (50% fibo retracement of Jan low to high) before 47.21 (100 DMA). Resistance at 47.60 (21 DMA) before 47.78 (23.6% fibo).

THB: Domestic Challenges To Persist

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/THB	36.75 (36.50)	37.00 (--)	37.50 (--)	37.50 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** USD/THB remains on an upward trajectory in 2016 despite having gained 1.1% against the USD so far this year. Still, the stimulus package implemented by the government is unlikely to completely outweigh the concerns about global growth and political uncertainty over the return of democracy. These are likely to weigh on investor sentiments and put downward pressure on the THB. Taken together, we expect the downside risks to the THB to lift the USD/THB above 37-figure by 3Q and then continue to rise before settling to hover around 37.50 by year-end.
- So far, the THB has found support from foreign portfolio inflows into government debt. Foreign funds have so far purchased a net THB59.19bn in government debt so far this year, largely due to the search for yields given the negative interest rate policies of some of the advanced economies. In contrast, foreign investors have sold a net THB7.34bn in equities since the start of the year, reflecting their concerns about the domestic economy. However, should global risks rise, outflows from government debt and equities are likely and could weigh on the THB.
- For now, no further rate adjustments are expected in 2016 as the concomitant weakness in the THB from a rate cut is unlikely to be a panacea to the kingdom's export woes. Moreover, the policy rate is already at near historical lows. In addition, fiscal policy is a more effective tool to stimulate the economy than lowering borrowing rates. More importantly, the central bank is likely to save its limited ammunition for more averse shocks to the economy. A possible risk to our policy rate outlook is rate hikes in

2016 to stem portfolio outflows in the wake of the Fed's rate next hike in 4Q, but this not our base case for now.

- Domestic politics remain a key risk especially with the postponement of elections till 2017. There are expectations that the second draft charter would limit the powers of politicians and continue to allow for military intervention in politics like in the rejected first draft. Such a charter is likely to inflame underlying political tensions. Political tensions should run high in the lead up to the charter referendum (expected in 3Q) and the national election (latest by Jul 2017) and could weigh on investor sentiments, putting downside pressure on the THB.
- While the stimulus package should lift domestic growth, a rebound back above its 5-year average of 3.9% remains a hurdle. Still the economy is likely to gain more traction this year as the government accelerates spending and pushes forward with its THB54bn stimulus spending programme. A sharp rebound is unlikely as weak external demand remains a drag on the economy. Uncertainty over domestic growth should put downward pressure on the THB.
- The current account surplus continues to be the backstop for the THB. It had strengthened to levels not seen in the past 10 years due largely to the larger contraction in imports compared to exports. However, these surpluses could shrink in 2016 as imports rise on the stimulus package and exports continues to be weighed by the sluggish global economy led by a China-slowdown. This too could put downward pressure on the THB.
- **Our Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Thailand deteriorated to 4.7 from 4.4 on the back of an deterioration in GDP and inflation risks, which offset the improvement in current account risks. This is likely to weigh on the intrinsic value of the THB.
- **Growth and Inflation Outlook:** The economy expanded by 2.8% y/y in 4Q15, little changed from 3Q's 2.9%, due to improved private consumption, government spending and investment. For the full-year, real GDP was up by 2.8%, a vast improvement from 2014's 0.8%, underpinned by private consumption and investment. Ongoing stimulus measures and the continued improvement in tourist arrivals is expected to underpin growth in 2016. Consequently, the National Economic and Social Development Board (NESDB) is now expecting real GDP growth to come in at 2.8-3.8% in 2016 from 3-4% previously, while the BoT maintained its growth forecast of 3.5%.
- Headline inflation remained in negative territory for the 13th straight month, contracting by 0.53% y/y in Jan from Dec's 0.85% due to lower energy prices and transportation costs on the back of soft global oil prices. Core inflation moderated to 0.59% y/y in Jan from Dec's 0.68%. Going forward, the weak THB as well as slumping oil prices are likely to keep inflationary pressure muted, though the low base effect could mitigate some of these downside pressure. The BoT expects head and core inflation to average 0.8% and 0.9% respectively in 2016, while the government is expected to revise its inflation forecast lower from 1-2% this year on slumping global oil prices on 1 Mar.
- **Monetary Policy Forecast:** Policy rate remains at 1.50% since it was cut twice in Mar and Apr 2015. For now, no further rate adjustments are expected in 2016 as the concomitant weakness in the THB from a rate cut is unlikely to be a panacea to the

kingdom's export woes. Moreover, the policy rate is already at near historical lows. In addition, fiscal policy is a more effective tool to stimulate the economy than lowering borrowing rates. More importantly, the central bank still has room to cut rate if necessary and is is preserving its firepower to counter possible external threats to the economy. A possible risk to our policy rate outlook are rate hikes in 2016 to stem portfolio outflows in the wake of the Fed's rate next hike in 4Q, but this not our base case for now.

- **Latest Fiscal and External Balance Outlook:** In a move to help the agricultural sector further, the government is planning a THB10.08bn budget to help support rice farmers that have been under pressure on soft rice prices and poor harvest. The outlay will be financed from the central budget from FY 2016 and 2017. This plan comes in the wake of the government's THB100bn budget to help ease the impact of drought on crop planting. An additional THB2.9bn was also approved by the cabinet as a second phase.
- **Key domestic events and issues to watch:** BoT meets to decide on monetary policy on 23 Mar.
- **Technical Outlook:** USDTHB continues to trade with a bearish bias. Pair was last seen at 35.69 levels. Weekly momentum remains bearish bias but stochastics suggest waning momentum. Key support at 35.64 (23.6% fibo of Apr low to Oct high). Break below on weekly close could see further down-move towards 35.00 (38.2% fibo, 50 DMA).

INR: Retracements Ahead

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/INR	67.50 (67.00)	68.00 (--)	68.50 (--)	67.50 (--)

No Change from Previous Forecasts

- **Motivation for the FX View:** USDINR bucked the trend of most USD/AXJs and edged higher in Feb as fiscal woes, weaker economic data weighed on the rupee. Trading in the past couple of months have illuminated the currency's weakness - vulnerability to inflation, market sentiments, narrowing fiscal room and political will to press on with much needed reforms. However, we think the rupee could be oversold at this point as the recent economic data exaggerated the pessimism over the currency. Fundamentally, the currency is still attractive base on growth differentials with regional peers. Data-wise, forward looking indicators such as PMI-mfg numbers of late have been encouraging. In addition, we are in an environment of extended period of low oil prices which could allow RBI time to tackle agflation and oil prices to be re-invested into the agriculture sector. In a global environment of low rates, rupee is high yielding and that gives it an extra edge over regional peers. Post-Union Budget delivery on 29 Feb could be an opportune time for the USDINR to pull back towards the 67-figure.
- Beyond the near-term, we should not discount volatilities and while we illustrated how rupee has its buffers, the currency will

still be swung by election jitters this year with 5 state elections due. In addition, eyes are on whether the government is able to implement the GST. The government has been promising investors GST reforms and high growth this year and while growth drivers are still decent, uncertainties on the political will to push through much-needed reforms could keep USDINR supported on dips. The erosion of the confidence in the government ahead of the Budget has manifested in the rupee. Apart from a retracement towards 67-figure that we bet on the technical charts, we expect USDINR to head back towards the 68-figure by 2Q from 67.50 end 1Q and then towards 68.50 before easing back towards 67.50 as we expect dollar strength to taper towards the end of the year.

- Our Maybank vulnerability score (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for India had a slight deterioration to 4.6 from 4.4 due to poorer score for current account relative to regional peers.
- **Growth and Inflation Outlook:** High frequency data suggest that growth slowed towards the end of 2015. Growth slowed to 7.3%y/y from previous 7.7% in the quarter ending Dec. Industrial production slipped again to -1.3%y/y in Dec, after a steeper decline of -3.4% in the month prior. The external sector remained weak with another decline for exports by -13.6%y/y in Jan compared to previous -14.7%. Imports also fell -11.0%y/y vs previous -3.9%, thanks to cheaper oil. However, PMI-mfg was a tad more encouraging at 51.1 vs previous at 49.1. Trade deficit narrowed to U$7.6bn.
- CPI quickened to 5.69%y/y on the back of higher food and housing costs from previous 5.61%. Inflationary pressures have trended higher since the lows in Jul and RBI Rajan had once again highlighted the need for “a certain amount of depreciation to ensure we do not become uncompetitive”…”until we bring inflation down”. Focus is on getting inflation lower rather than steadily weakening the rupee. However, we think India should not have much concerns over the competitiveness of its currency as its REER has been rather stable in the past six months.
- Looking forward, we do not expect the recent moderation in industrial output to be extended for the rest of the FY15/16. The industrial outlook survey conducted during Oct-Dec 2015 reveals “moderate increase in optimism in the overall business situation”. There was however, marginal reduction in optimism on employment and profit margin and marginal increase in optimism for production, order books, capacity utilization and overall business situation. Household consumption will continue to be a strong pillar of support while the government and central bank strive to crowd in private investment with reform measures. Eyes are on the Union Budget on 29 Feb that will shed light on the sectors that will benefit.
- **Monetary Policy Forecast:** RBI left the policy repo rate unchanged at 6.75%, cash reserve ratio was held steady at 4.0% and reverse repo rate was also unmoved at 5.75%. Further inflation data will determine the next rate action that the RBI will take. Higher CPI has likely restrained the Reserve Bank from lowering policy rates, in spite of slower growth momentum. With inflation trajectory narrowing scope for further rate actions, we still anticipate one rate cut at the next meeting to boost growth. In the meantime, RBI will continue to inject liquidity via open market operations to keep cost of funding low to support credit

growth and ensure a conducive business environment. The central bank will continue to inject liquidity via open market operations to keep cost of funding low to support credit growth and ensure a conducive business environment.

- We also suspect that the central bank wants to await more clarity on the upcoming Union Budget on 29 Feb. The Governor highlighted that "*Indian economy is currently being viewed as a beacon of stability because of the steady disinflation, a modest current account deficit and commitment to fiscal rectitude. This needs to be maintained so that the foundations of stable and sustainable growth are strengthened*". The focus of the government seems to have shifted towards growth rather than fiscal consolidation and it remains to be seen whether the GST bill will be approved by the parliament.

- **Latest Fiscal and External Balance Outlook:** India's capital account has been under pressure. Foreign investors sold USD2.384bn of equity since the start of the year. USD107bn of debt was also sold in Feb so far (as of 18 Feb), leaving net foreign debt holdings at USD58.6mn (ytd) as of 18 Feb. Concerns of fiscal slippage ahead of the Union Budget on 29 Feb spurred investors to trim rupee-denominated assets. Their fiscal target of 3.9% for FY15/16 is likely to be met but the government's commitment to fiscal consolidation and what it decides to spend on for the next few years are key. There have been talks of India's Start-Up initiatives, agricultural boosts and tax reforms. We expect the government to follow through with details. Moody's have earlier assured India's credit profile will not be impacted by a mild slide in its fiscal deficit target as fiscal consolidation efforts is expected to continue. More recently, Moody's clarified that fiscal consolidation efforts could be affected by shocks and its fiscal metrics could remain weak. The rating agency also pointed out that the GST clarity could provide clues on the long term revenue. The originally set fiscal deficit goal for FY16/17 at 3.5% is likely out of reach for India and could be adjusted.

- Current account deficit widened to $8.2bn in the quarter ending Sep from the previous $6.1bn because of the higher trade deficits, underscoring the fact that external sector remains a constraint on growth.

- **Key domestic events and issues to watch:** Finance Minister Jaitley will present the Union Budget for fiscal year 2016/2017 on 29 Feb. India has Feb PMI-mfg due on 1 Mar, trade numbers on 10-15th. Jan industrial production, Feb CPI, WPI are both due on the 14th.

- **Technical Outlook:** USDINR continues to push higher. Last seen at 68.68 (nearing its fresh 3-year high). Upside pressure remains. Break above 69 (2013 high) could see a series of stop-loss orders being triggered in uncharted waters. Support at 68.20 (21 DMA).

VND: A Rangy March

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/VND	22400 (22750)	22600 (23000)	22800 (23210)	23000 (23450)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** USDVND rebounded from the 200-DMA and has been testing the 50 and 100-DMA around 22375 in the last week of February. Recent upmove suggests that USDVND is still vulnerable to upside given headwinds to its external sector. However, there have been cushions for the VND since the start of the year - 1) the adjustment in the in the maximum USD mobilizing interest rates for entities (excluding credit institutions and foreign bank branches) and individuals to 0% p.a which took effect on 18 Dec; 2) FDI inflows in preparation for the TPP.
- Medium term, Vietnam should benefit from the Trans Pacific Partnership and the key sector to get the boost is its apparel, footwear, agro-forestry and seafood industry. However, benefits in terms of export earnings could only be felt as early as end 2016 as the agreement has to be ratified by member countries and political obstacles in US, Australia and Canada may delay the process. In the meantime, foreign invested enterprises have already begun to increase capital expenditure to increase its capital and production capacity. That could provide some support to the VND.
- In the absence of dollar strength and a Fed hike in the first half of the year, we revise our 1Q forecast lower towards 22400. We also take into account resilience exhibited by VND and less depreciation for VND towards 23000 by the end of this year.
- **Growth and Inflation Outlook:** Jan PMI-mfg improved to 51.5 from previous 51.3 as new business accelerates whilst input costs and output prices saw steeper declines. New orders rose at a faster pace with as firms surveyed noted increasing client demand. Industrial production rebounded to 7.9%y/y in Jan from previous 5.9%, an improvement but still softer than average growth in the past 12months. Retail sales slowed to 9.7% in the first two months of the year compared to 11.7%. Trade deficit turned into surplus for Jan-Feb as imports surprised to the downside with a contraction of -6.6%y/y, not matched by exports at 2.9%y/y. Activity on the whole has slowed in the first two months of the year and we continue to expect USDVND to remain on an upside bias.
- CPI accelerated from 0.8%y/y in Jan to 1.3% in Feb, slightly food, and overshooting consensus of 1.2%. Higher price pressures in food, education, culture/sports/entertainment and other consumer goods bumped up the headline. Overall, low energy costs have capped inflationary pressures and keep the CPI near historic low levels.
- **Monetary Policy Forecast:** The SBV did not act at all in Feb. The last move by the central bank was an adjustment in the maximum USD mobilizing interest rates for entities (excluding credit institutions and foreign bank branches) and individuals to 0% p.a. with effect from 18 Dec. This was a move to reduce dollar

hoarding. Previously on 5 Oct, SBV restricted dollar trading to only those who can settle with their counterparties within two working days. The administrative measures and exchange rate reforms seem to have supported the dong to a fair extent.

- With exchange rate stabilized and inflation benign, we see risks of a 50bps cut to policy rates (currently base rate at 9.0%, refinancing rate at 6.5% and discount rate at 4.5%) to support growth especially in the midst of weak global external demand.
- **Latest Fiscal and External Balance Outlook:** With the change in leadership this year, there is uncertainty on whether the SOE reforms and privatization will continue. While monetary policy targets business funding cost, fiscal policy will continue to be used to boost private and public consumption. More infrastructure projects will also be rolled out. The draft plan of the new five-year plan revealed that inflation will be capped at 5% and the budget deficit capped at 4% of GDP. According to our Vietnamese analyst Le Hong Lien, fiscal expenditures have been outpacing that of revenue in recent years and could be reined in with the recent revised Budget Law meant to take effect from FY2017 that could guide the fiscal deficit below% of GDP from 5% in 2015.
- Vietnam's external balance is expected to weaken this year on weaker exports. Current account recorded a surplus of USD0.655bn in 3Q (latest data available). The expected deterioration on the external front is a key reason for us to expect an approximate 3% depreciation in the VND.
- **Key Domestic Events and Issues to Watch:** Nikkei PMI-mfg will give a feel of the manufacturing sector, due on 1 Mar. CPI is due on the 24th. Trade balance, retail sales and industrial production for the same month will be released anytime within 25-31 Mar.
- **Technical Outlook:** USDVND seems trapped between the 50,100 DMA and the 200-DMA, last seen around 22320. This pair has retraced from overbought conditions and we see room for two-way actions in this pair in the next few weeks, in the absence of dollar strength.

2016 FX Forecasts

	End Q1-16 f	End Q2-16 f	End Q3-16 f	End Q4-16 f
USD/JPY	110.00	108.00	110.00	112.00
EUR/USD	1.0900	1.1300	1.1100	1.0800
GBP/USD	1.3800	1.4000	1.4600	1.5000
AUD/USD	0.7400	0.7000	0.6800	0.7000
NZD/USD	0.6300	0.6100	0.6300	0.6200
USD/SGD	1.4300	1.4600	1.4700	1.4750
USD/MYR	4.1000	4.2500	3.9000	4.1000
USD/IDR	13400	13200	12950	12500
USD/THB	35.75	37.00	37.50	37.50
USD/PHP	48.00	48.00	47.80	47.80
USD/CNY	6.55	6.60	6.65	6.75
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	33.30	33.40	33.40	33.50
USD/KRW	1230.00	1260.00	1280.00	1300.00
USD/INR	67.50	68.00	68.50	67.50
USD/VND	22400.00	22600.00	22800.00	23000.00
SGD Crosses	**End Q1-16 f**	**End Q2-16 f**	**End Q3-16 f**	**End Q4-16 f**
100 JPY/SGD	1.3000	1.3519	1.3364	1.3170
EUR/SGD	1.5587	1.6498	1.6317	1.5930
GBP/SGD	1.9734	2.0440	2.1462	2.2125
AUD/SGD	1.0582	1.0220	0.9996	1.0325
NZD/SGD	0.9009	0.8906	0.9261	0.9145
SGD/MYR	2.8671	2.9110	2.6531	2.7797
SGD/IDR	9371	9041	8810	8475
SGD/THB	25.00	25.34	25.51	25.42
SGD/PHP	33.57	32.88	32.52	32.41
SGD/CNY	4.58	4.52	4.52	4.58
SGD/JPY	76.92	73.97	74.83	75.93
SGD/HKD	5.45	5.34	5.31	5.29
SGD/TWD	23.29	22.88	22.72	22.71
SGD/KRW	860.14	863.01	870.75	881.36
SGD/INR	47.20	46.58	46.60	45.76
MYR Crosses	**End Q1-16 f**	**End Q2-16 f**	**End Q3-16 f**	**End Q4-16 f**
EUR/CNY	7.14	7.46	7.38	7.29
EUR/MYR	4.47	4.80	4.33	4.43
JPY/MYR	3.73	3.94	3.55	3.66
MYR/HKD	1.90	1.84	2.00	1.90
MYR/CNY	1.60	1.55	1.71	1.65
GBP/MYR	5.66	5.95	5.69	6.15
AUD/MYR	3.03	2.98	2.65	2.87
NZD/MYR	2.58	2.59	2.46	2.54
MYR/JPY	26.83	25.41	28.21	27.32
MYR/IDR	3268	3106	3321	3049
MYR/INR	15.95	16.36	16.46	16.00
MYR/KRW	300	296	328	317
MYR/PHP	11.59	11.71	11.29	12.26

Source: Maybank FX Research as at 29 Feb 2016.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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