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FX Monthly

2016, Issue III: Will This Bullish "Mirage" Continue in April?

Analysts

Saktiandi Supaat
saktiandi@maybank.com.sg
(65) 6320 1379

Christopher Wong
wongkl@maybank.com.sg
(+65) 63201347

Fiona Lim
Fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
leslietang@maybank.com.sg
(+65) 63201378

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: US Mar NFP (1 Apr) (expected: 205k); ISM Manufacturing Mar (1 Apr) (expected: 51.0); Factory Order (4 Apr) (expected: -1.7%); Durable Goods Orders (4 Apr); Trade balance (5 April); Retail Sales, (13 Apr); Mar CPI (14 Apr); FOMC Rate Decision (27 Apr); GDP 1Q (28 Apr); Fed Mester (2 & 7 Apr); Evans (5 & 16 Apr); Kaplan (7 Apr); Yellen (8 Apr); Williams (13 Apr); Lockhart (14 Apr); Dudley (18 Apr).*

- Second, Japan's 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 still clear. *We do not expect the BOJ to add to its easing measures (including cut rates further) in 1H 2016. The central bank is likely to pause to evaluate the impact of the various easing measures on the economy so far. We do not expect any further moves by the BOJ until the Jul meeting the earliest with jawboning likely until then. 1Q Tankan is on tap 1 Apr. BOJ meets on 28 Apr to decide on policy and will also release the central bank's outlook for the economy on the same day. JGB auctions in Apr: 10-year (4 Apr), 30-year (14 Apr), 5-year (19 Apr), 1-year (18 Apr) and 20-year (21 Apr).*

- Third, subdued core inflation and structural headwinds in the Euro-area (high debt, possible fiscal slippages, slow reform, etc.) will continue to weigh on the Euro. *With ECB easing out of the way, a dovish Fed weighing on the USD and slowing monetary policy divergence between ECB and Fed, the EUR could see further upside. A potential "floor" on ECB deposit rate may limit the downside for European bond yields while market expectation for Fed to tighten has also been fading. EU-UST bond yields could continue to narrow and that suggest near-term upside risk for EURUSD. ECB minutes (7 Apr); Mar Euro-area CPI (14 Mar); ECB meeting (21 Apr) - we expect no change to monetary policy stance.*

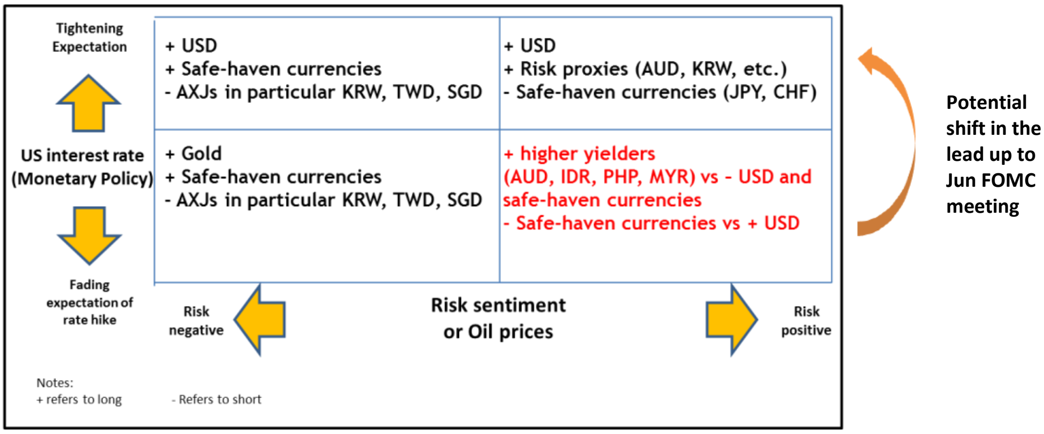
- Fourth, ongoing reforms in China policies to address domestic, financial, and growth issues continue amid RMB internationalisation efforts. *We expect at most one interest rate cut of 25bps and RRR to be cut in intervals by another 150bps within the year. PBOC likely to keep CNY stable against the USD and stable against the basket. This will naturally keep the gap between onshore and offshore yuan from widening drastically this year. However, China still has excess capacity, heavily indebted corporations and huge liquidity injections continue to add immense pressure on the economy and the yuan medium term. Mar PMI-mfg is due on 1 Apr, accompanied by the Caixin version. Foreign reserves for Feb will be watched on the 4th. Trade data is due on the 13th. CPI, PPI on the 11th. Liquidity numbers are due from 10th-15th. Activity data for Mar will be released on the 15th along with 1Q GDP.*

- *We see opportunities to long IDR, INR, MYR, AUD in times of easy monetary policy environment that favours higher yielding currencies. This is conditional on the fact that global growth outlook remains subdued and remains driven by market expectations of rate hike trajectory and risk sentiments/oil prices.*

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

SEE PAGE 53 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

So what?



- **Macro Themes:** Dollar tends to strengthen leading into the next hike which we project to be in Jun. This quarter could be somewhat similar to 4Q 2015 leading into the first hike. However, we expect markets to have learnt from the previous quarter. Rate hike "fears" are unlikely to be as sharp and accompanying risk relief rallies will be correspondingly less dramatic. This assumes Fed keeps the current pace of rate hikes at 2 per year. **Current environment seems to favour high yielding currencies (bottom right quadrant of our 2by2 grid shown above) but there could very well be a move towards the top right grid in the lead up into the Jun FOMC meeting.** In addition, we have to ask the question **"Are we too bearish on China?"** as we notice a pick-up in demand especially in the property sector which could have positive spill-over effects on other industries.

- **Major Currencies:** UST curve suggests that markets expect only 1 hike at most within the year but economic data still suggest that 2 hikes are not impossible. Put that together **and USD strength could resurface. Meanwhile, a potential "floor" on ECB deposit rate (as signalled by Draghi may limit downside for European bond yields. EU-UST bond yield differential may narrow, entailing upside risks for EURUSD. Elsewhere, GBP is still under pressure as Brexit debate intensify and the saga could drag on.** For the bold hearted, we see opportunities to accumulate GBP on fear. **For AUD, good news out of China translates to boosts to the currency but as economic transition is still slow, there are caps to how high AUD can fly. Nonetheless,** range trading for the AUD has shifted higher**. On the other hand,** USDJPY will remain under downside pressure until confidence in Abenomics is restored.

- **China:** CNY adjustment is not over but PBOC is likely to continue to keep yuan stable to stem capital outflows as the economy remains under pressure. Markets seem to be convinced of the central bank's ability to ensure yuan stability and downside pressure has eased significantly. We eye the moves of USD and the RMB index and look for rangy moves between 6.40-6.60.

- We see **opportunities to long IDR, INR, MYR, AUD in times of easy monetary policy environment that favours higher yielding currencies.** PBOC will ensure RMB stability against the basket and 98 seems to be the line in the sand which allows opportunity to short EUR and GBP against the CNY once the RMB index nears this level. In addition, Brexit saga might drag so we see no hurry to buy GBP though we look for opportunities to accumulate GBP on fear. Risks to our view is - What if Abenomics fails?, The Upside Risks to China, Oil Supply Overhang to drag on oil and a Donald Trump Win.

G7 Global Overview

USD: Not Writing Off the Dollar Just Yet – Strength Likely to Precede Fed Hikes

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USD Index	96.42 (98.82)	97.53 (96.17)	96.78 (96.87)	97.16 (98.27)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We remain mildly bullish on the 2016 dollar outlook but only during periods of run up ahead of June and Dec as we expect the dollar to see strengthening spurts ahead of the FOMC hikes. The DXY is currently at 94.67 (as at 1 Apr 2016 @5.00pm). Thus far 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. This was followed by the dovish bias from the recent 17 Mar and more recently the dollar headed for its biggest weekly decline in almost two months on speculation the Fed will maintain a gradual pace for raising interest rates after Yellen reiterated global headwinds may restrain the US economy.
- The FOMC Feb minutes had highlighted that 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.
- “Caution” is the word stressed by Fed Chair Yellen when she made her **address titled “The Outlook, Uncertainty, and Monetary Policy” to** the Economic Club of New York. She opined that caution is needed because of the “asymmetric” effect of conventional monetary policy on economic disturbances – that the FFR could be raised readily should the economy strengthen more than expected but cutting the FFR would only be able to provide a “modest degree of additional stimulus” in an environment of weak economic growth and inflation. The dollar fell on her dovish tone. As we move into April, a seasonally weak month for the greenback, the current risk-on trade could continue.
- We now see 1 – 2 rate hikes in 2016. This suggests excessive US strength is limited with likelihood of some softness in periods following the likelihood of FOMC hikes on 2Q and 4Q 2016. In between in 3Q 2016 and 1Q 2016, we expect periods of dollar strength. We expect the dollar to 2016 at around 96.78.

- Other G7 currency developments against the USD are mixed. Further developments out of Eurozone **with a potential "floor" on ECB deposit rate (as signalled by Draghi) may limit downside for European bond yields. EU-UST bond yield differential may narrow, entailing upside risks for EURUSD. Besides,** with ECB easing (10 Mar) out of the way, a dovish Fed (as seen from previous FoMC meeting) weighing on the USD and slowing monetary policy divergence between ECB and Fed, the EUR could see further upside. Brexit concerns have led to some downward changes in 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 and remained weak in Mar, which have put downward pressure on the USD.

- **Oil remaining somewhat 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**: In the latest Mar FOMC, Fed's forecasts for US GDP growth and inflation rate for 4Q 2016 were trimmed to 2.2% annual rate (from 2.4% annual rate) and 1.2% YoY from 1.6% YoY respectively, although the unemployment rate forecast remain at 4.7%.

- Fed maintained its view that the economy is expanding at moderate pace; household spending, are increasing at solid rates and housing sector continues to improve while business investment and net exports have been. This outlook lends justification for the recent rate hike in Dec 2015.

- Inflation picked up in recent months; however, it continued to run below the 2% longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

- 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. Global economic and financial developments continue to pose risks. If the recent tightening of global financial conditions was sustained, it could be a factor amplifying downside risks.

- Inflation is expected to remain low in the near term, in part because of the further earlier declines in energy prices, but to rise to 2% over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further.

- **Monetary Policy Forecast:** Fed kept the target fed funds rate (FFR) unchanged at 0.25%-0.50%for the second consecutive FOMC meeting this year after the 25bps hike at Dec 2015's FOMC meetingas Fed sees risk in the global economic and financial markets. The key takeaway from the latest FOMC meeting was the revision in Fed's "dot plot" where the guidance is now for a +50bps hike in FFR this year rather than +100bps hike previously. We expect 1-2, 25bps hike this year.
- The decision was not surprising given the indications of softening global economy and volatile financial market in early-2016, indicating the influence of external event on Fed's decision. This is confirmed by FOMC statement which explicitly stated that "global economic and financial developments continue to pose risk".
- The key takeaway from the latest FOMC meeting was the revision in Fed's "dot plot" that represents the FOMC's FFR median forecasts, which for 2016, 2017 and 2018 were cut to 0.875%, 1.875% and 3.00% respectively from 1.375%, 2.375% and 3.25% back in Dec 2015. Consequently, this means an average +88bps p.a. hikes in 2016-2018 i.e. +50bps hikes in 2016, +100bps hikes in 2017and +113bps hikes in 2018, lower than the Dec 2015's "dot plot" that guided for an average of +95.8bps p.a. hikes in 2016-2018 i.e. +100bps hikes in 2016, +100bps hikes in 2017 and +87.5bps hikes in 2018.The biggest change in obviously for this year as Fed now guides for a +50bps hikes vs +100bps hikes in Dec 2015.
- The latest Fed's guidance reduce the "gap" with the market-implied forward rate, where FFR is expected to increase by an average of +26 bps p.a. in 2016-2018 i.e. +22bps in 2016, +31bps in 2017 and +27bps 2018, suggesting markets only expect a single hike of +25bps per annum in 2016-2018.
- The pause in FFR hike at FOMC meetings so far this year and the cut in the FOMC's FFR median forecasts for 2016-2018 underscore Fed's "data-dependent" and "event-driven" policy decision. The latest probabilities on FFR movements indicate a single hike this year, likely in 2H 2016 as the probability of FFR staying at 0.25%-0.50% dropped to less than 50% and the probability of a 25bps hike rose to around 40% for the last three FOMC meetings of the year i.e. 20-21 Sep, 1-2 Nov, 13-14 Dec.
- **Latest Fiscal and External Balance Outlook:** Fiscal sustainability risk continues to weigh on the outlook and may emerge after 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 2017/2018.
- **Key domestic events and issues to watch in Feb 2015:** Key US events: US Mar NFP (1 Apr) (expected: 205k); ISM Manufacturing Mar (1 Apr) (expected: 51.0); Factory Order (4 Apr) (expected: -1.7%); Durable Goods Orders (4 Apr); Trade balance (5 April); Retail Sales, (13 Apr); Mar CPI (14 Apr); FOMC Rate Decision (27 Apr); GDP 1Q (28 Apr); Fed Mester (2 & 7 Apr); Evans (5 & 16 Apr); Kaplan (7 Apr); Yellen (8 Apr); Williams (13 Apr); Lockhart (14 Apr); Dudley (18 Apr).
- **Technical Outlook:** A top appears to have been formed on the DXY at 100 levels (double top in Mar and Dec 2015). A death cross is observed on the DXY, where 50 DMA cuts 200 DMA. This is typically bearish. Monthly and weekly momentum indicators are

also bearish bias. Next support at 94.60 (Mar 2016 low) before 92.20 (38.2% fibo retracement of 2014 low to double top in 2015) Rebounds are likely to be shallow. Resistance at 95.40 (23.6% fibo). We look for further downside.

EUR: Eyeing Upside

Forecast	2Q 2016	3Q 2016	4Q2016	1Q 2017
EUR/USD	1.1300 (1.0600)	1.1100 (1.0800)	1.1200 (1.0800)	1.1100 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** With ECB easing (10 Mar) out of the way, a dovish Fed (as seen from previous FoMC meeting) weighing on the USD and slowing monetary policy divergence between ECB and Fed, the EUR could see further upside. We caution that a break above 1.15-resistance could expose the pair towards 1.18 levels, as soon as over the next 3-4 weeks. Downside should see support around 1.10 levels.
- In the recent ECB post-meeting press conference (10 Mar), ECB President Draghi said interest rates would stay low for "an extended period" but **added that he did not anticipate pushing rates deeper into negative territories, somewhat hinting that a "floor" could be in place.** This comment saw a turn-around in EUR's fate on 10 Mar. EUR/USD has been tracking front-end yield spreads between European and US Treasuries. A potential "floor" on ECB deposit rate may limit the downside for European bond yields while market expectation for Fed to tighten has also been fading. Put together, **EU-UST bond yields could continue to narrow and that suggest near-term upside risk for EURUSD. EU-UST 2Y yield spreads was -142bps (11 Mar), the spreads have last narrowed to -132bps.**
- As such, we revised our 2Q EUR forecast higher to reflect the above and tame it lower amid possible Fed tightening in Jun meeting as well as *Brexit* fear, which had previously weighed on the EUR. We also revised the EUR forecast higher for 2H 2016 (from our previous projection) but kept the lower than 2Q as we expect another round of Fed tightening in Dec to keep USD supported on dips.
- Downside risks to our view includes growing monetary policy divergence between ECB (to ease further) and Fed (to tighten), more verbal intervention from other ECB members to talk down the EUR and/or any re-intensification of *Brexit* fears.
- **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, recent credit easing support, 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 private consumption. ECB expects GDP to rise by 1.4% in 20016, 1.7% in 2017 and 1.8% in 2018.

- Euro-area 4Q GDP grew 0.3% q/q (vs. 0.3% in 3Q). Recent consumer and business sentiment indicators declined but still suggest continued moderate growth in activity in the first half of 2016. **Euro-area composite PMI firmed in Mar (53.7 vs 53.0 in Feb). Both manufacturing and services PMIs firmed as well.** 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. Feb headline inflation slipped into negative territories of -0.2% (vs. +0.3% in Jan). Core inflation slipped to +0.8% in Feb (vs. +1% in Jan). Looking ahead we expect inflation to remain subdued for most part of the year and only gradually pick up from end-year off the back of oil prices stabilizing, and continued pick-up in demand.

- **Monetary Policy Forecast:** In the last ECB meeting (10 Mar), the ECB eased on multiple fronts – cutting all key policy rate including the main refi to 0% (from 0.05%), marginal lending rate to 0.25 (from 0.3%) and deposit rate to -0.4%. ECB will also increase the monthly purchase by €20bn to €80bn per month (from €60bn previously). There were also technical adjustments being made to the QE program to strengthen the monetary and credit transmission, rather than place the focus on just the currency alone.

- These technical adjusts are 1) Increasing the issuer and issue share limit for the purchases of securities issued by eligible international organizations and multilateral development banks to 50%, from 33% means **ECB's pool of eligible securities for APP has increased and ECB can now own half of an entire bond issue.** 2) Include investment-grade Euro-denominated bonds issued by non-bank corporate established in the Euro-area will **further increase the pool of eligible securities for APP and further strengthen the transmission mechanism of the APP to the financing conditions of the economy** (i.e. an attempt to ensure "cheap" funding goes out to IG corporates, and not just banks or financial institutions via corporate bond purchase to lower cost of borrowing). 3) The new series of 4 TLTROs II imply that **banks could potentially be paid to borrow from the ECB. This is an attempt to reinforce ECB's accommodative monetary policy stance and strengthen the monetary transmission mechanism by incentivizing banks to lend to the real economy**. This is slightly different from TLTRO I where loans were taken at 0.15% (MRO + 10bps) as compared to TLTRO II which is at 0% at most and as low as -0.4% if banks' net lending exceeds a benchmark. As of Dec 2015, TLTRO I saw a take-up of about €418bn thus far.

- Technically monetary easing should weigh on the currency, but the situation becomes complicated if an interest rate "floor" is in place. During the press conference (10 Mar), ECB President Draghi said **interest rates would stay low for "an extended period" but added that he did not anticipate pushing deeper into negative territories, somewhat hinting that a "floor" could be in place.** EURUSD reversed initial sell-off post-ECB easing decision and traded an overnight high of 1.1218 on the above comments from ECB Draghi. EUR/USD has been tracking front-end yield spreads between European and US Treasuries. **A potential "floor" on ECB deposit rate may limit the downside for European bond yields while market expectation for Fed to**

tighten has also been fading. Put together, **EU-UST bond yields may narrow and that could suggest near-term upside risk for EURUSD.**

- Given that the ECB has fired on all cylinders in Mar, we do not expect the ECB to unleash further easing in the upcoming meeting (21 Apr).
- **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 EUR25.4bn in Jan from 28.6bn in Dec, on seasonally-adjusted basis. Current account surplus to GDP maintained at 2.2%.
- **Key domestic events and issues to watch:** ECB minutes (7 Apr); Mar Euro-area CPI (14 Mar); ECB meeting (21 Apr) – we expect no change to monetary policy stance.
- **Technical Outlook:** EUR rebounded from its low of 1.0820-30 levels (post-ECB easing in Mar) to trade higher into end-Mar. Pair was last at 1.1370 levels (5-month high). Monthly momentum has turned bullish for the first time since 3Q-2014. Monthly stochastics have also risen. There are some resistance around 1.15 levels (previous highs in Aug and Oct) but a break above should see EUR drift higher towards 1.1850 (38.2% fibo retracement of 2014 high to 2015 low). Support at 1.1040 (200 DMA).

GBP: Still Not Over with *Brexit*; Weakness to Persist

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
GBP/USD	1.4000 --	1.4400 (1.4600)	1.4800 (1.5000)	1.4800 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Remain bearish bias on GBP ahead of the referendum on 23 Jun. *Brexit* debate could intensify, especially with recent development – resignation of Duncan Smith (Works and Pension Secretary as well as supporter of Leave EU) and Brussel bombing (22 Mar). The latter will result in lingering fears over security threats in Europe and could lower the attractiveness of EU membership. This could tilt the undecided voters towards the “Leave UK” camp. Recent ICM poll showed 43% polled to leave the EU while only 41% polled to stay. 15% remain undecided. We caution that the poll was only conducted on a small sample size of 2,000 respondents and is not representative of the true results. Opinion poll results tend to swing and media overplay on the headlines could exert further downside pressure on the GBP.
- We hold to our base case scenario that **UK will ultimately vote 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.

- But we wish to caution there is a risk that the referendum (on 23 Jun) may not be the last. "Leave UK" vote could happen and PM Cameron could then use that opportunity to bargain for more rights and concession on UK membership with the EU. And if this conspiracy theory is true, a second referendum could then be held at a later date after 23 Jun and this uncertainty will continue to persist and weigh on the GBP. Having said that, it remains a conspiracy theory.

- Latest EU referendum polls from Telegraph (which tracks the average of the last 6 polls) showed that 55% voted to remain in EU while 45% voted to leave the EU (as of 25 Mar).

- **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). Feb PMIs slipped but remain in expansionary territories. Feb manufacturing (50.8 vs. 52.9 prior), services PMI (52.7 vs. 55.6 prior) rose, and construction PMI fell (54.2 vs 55.0 prior). Latest Labor report was mixed – job growth slowed; unemployment rate steady while weekly earnings (ex-bonus) rose to 2.1% (better than expected).

- Both headline (0.3% y/y) and core CPI (1.2% y/y) held steady in Feb (0.3% y/y). Biggest downward contribution comes from transport costs, including bicycles and used casrs. Inflation remains well below BoE target of 2%, due to lower oil prices.

- In the Feb Quarterly Inflation Report the MPC 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.

- **Monetary Policy Forecast:** A benign inflation outlook (at 0.3% y/y in Feb 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. Markets are only pricing in first BoE rate hike in Sep 2017 (as implied from 90 days Sterling futures). We continue to expect BoE to stay in the dovish rhetoric for time being, till inflation shows further signs of pick-up and after the referendum is over.

- The previous BoE meeting on 17 Mar saw a continuation of the shift in dovish rhetoric. MPC noted that there is increased uncertainty surrounding the referendum on 23 Jun and is likely to be a significant driver of GBP; has the potential to delay spending decision and weigh on growth in the near term. This follows the BoE meeting on 4 Feb where there was a dovish surprise from MPC votes - 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.

- On 29 Mar 2016, The Bank of England's Financial Policy Committee (FPC) announced an increase in the countercyclical capital buffer to 0.5% of risk-weighted assets (effective 29 March 2017) from zero, and warned that it could be raised further to 1%. In effect, by tightening financial conditions, markets may infer that interest rate increases from the BoE may now be further down the track. The FPC sees the risks around Brexit as the most significant domestic risks facing financial stability in the near term.
- **Latest Fiscal and External Balance Outlook:** In UK Budget speech by Chancellor Osborne (16 Mar), UK growth was revised lower for the next 3 years due to pessimistic view of labor productivity and weaker global outlook. UK posted a larger than expected budget deficit of GBP70.7bn in Feb (for the 1st 11 months of the FY) as government spending exceeded revenue by GBP7.1bn. This means the shortfall for the final month needs to come in at GBP1.5 bn or less to meet the GBP72.2 bn forecast by the Office for Budget Responsibility.
- In terms of outlook, pace of fiscal tightening for 2017-18 will be moderated but fiscal tightening will be stepped up by a larger magnitude in 2019-20.
- 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:** CPI inflation (12 Apr), BoE meeting (14 Apr), labor report (20 Apr), 1Q GDP (27 Apr) will be closely watched.
- **Technical Outlook:** GBP managed to climb back above the 1.43-handle, after falling as low as 1.3830-40 levels (early Mar) thanks to a weaker USD. Pair was last seen at 1.4380 levels. Weekly momentum and stochastics are showing signs of mild bullish bias. Next resistance at 1.4640 (38.2% fibo retracement of 2015 high to 2016 low), 1.4880 (50% fibo). While technicals do suggest upside bias, we continue to caution that re-intensification of *Brexit* talks is likely to keep GBP bulls capped. Bias to sell on rally towards 1.4570 (100 DMA). Targeting a move back towards 1.40 lows. (SL above 1.4670).

AUD: Seasonal Boosts

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
AUD/USD	0.78 (0.70)	0.75 (0.68)	0.78 (0.70)	0.75 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** With dollar unlikely to be in the way of AUD in Apr and decent risk appetite, we expect AUD to head towards our target of 0.80-figure. Forays above this level are unlikely to venture far as structural economic challenges are still present. Bulls will be fueled by good risk appetite, decent yields in the current low rate environment, a central bank that is comfortable with the current cash target rates albeit with an easing bias and Australia's AAA sovereign credit rating. In addition, any positive news out of China could boost AUD as well. While we do not rule out pullbacks in the iron ore prices, technical chart of the metal suggests that a bottom might have been found for the medium term. Hence, we see a limit to how low AUD can go over the next three months.
- We have seen signs of bottoming for the economy as well for the AUD. Household consumptions are underpinned by strong hiring sentiments, low interest rates, and cheaper oil prices. Over the past few months, cheaper AUD has boosted Australia's tourism and education even fanned the tradable CPI higher. Recent rise in commodity price index could mean an improvement in terms of trade. With oil seemingly sticky around the USD35-40-level. We have turned more bullish on the currency and now expect the pair trade within 0.72-0.80 for the rest of the year.
- **Growth and Inflation Outlook:** Commodity index had slipped by 21.6% to 73.2 but we expect a reversal in the print for Mar, due 1st Apr. There are some signs of demand pick up in the property sector in China that could probably sustain the bounce in metal prices or at least provide an anchor. Potential improvement in terms of trade has eclipsed the sharp decline in exports in Dec. Labour report for Feb was weaker than expected but markets took comfort in the positive net number of 300 jobs added - 15.9K of which was full time employment in Jan that offset the 15.6K of part-time employment that was lost in the month.
- In the meantime, credit growth keeps pace, capacity utilization extends its uptrend, retail sales had softer print for Jan but rise in tourist arrivals and visitor spending and cheap AUD should continue to support the retail sales.
- 4Q GDP came in firmer than expected at +0.6%q/q with the previous print also revised higher to 1.1%.Year-on-year, growth picked pace to 3.0% from previous 2.7%. Private GFCF was the main drag again. Household expenditure was stronger in the quarter, picking pace to 4.7%y/y from previous 4.5% while external demand remained in contraction.
- Looking forward, 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%. **We saw some profit taking in the domestic bond markets across all tenors in the past month after 4 months of exuberance, suggesting that markets are aligning with our view that the central bank is likely at the bottom of its easing cycle.** 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.

- **Latest Fiscal and External Balance Outlook:** The next budget will be delivered on 3 May and a double dissolution election could be held on 2 Jul if the Senate rejects the industrial laws reconstituting the Australian Building and Construction Commission. From the last MYEFO released on the 15 Dec, the 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 widened to -A$21.1bn 4Q from previous –A18.8bn in 3Q.

- **Key domestic events and issues to watch:** RBA sets cash rate target on 5 Apr. Feb retail sales is due on the 4th along with Feb building approvals. and 4Q CAPEX on the 25th. We also watch the NAB business conditions/confidence on the 12th. Westpac consumer confidence for Mar is due on the 13th, followed by labour report for Mar on the 14th. RBA Kent speaks on the 6th, Minutes are due on the 19th and RBA Glenn Stevens speaks on the 19th followed by the Debelle on the 29th.

- **Technical Outlook:** While there are some risks for a retracement in the near term, as flagged by the bearish divergence on the chart, possibly by a more cautious RBA ahead, dips could be seen as opportunity to buy as weekly and monthly indicate bullish trend in the making. We will not rule out tests of the 0.7850 and risk taking could take it above the 0.80-figure. AUD at those levels may attract some leanings against the wind.

NZD: USD Dynamics Eclipsing Weak NZ Fundamentals

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
NZD/USD	0.6800 (0.6100)	0.6600 (0.6300)	0.6700 (0.6200)	0.6600 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Our bearish take on the NZD off the back of macro-fundamentals (challenging dairy market, benign inflation outlook, etc.) did not work out well as **much weaker USD eclipsed weak NZ macro-fundamentals**. Weaker USD was due to dovish Fed as falling expectation for Fed to tighten in 2016 continues to lead to a slowing divergence in monetary policies. US OIS is only pricing in 22 bps hike in Fed fund target rate over the next 12 months.

- In an environment of low rate and easy monetary conditions, **markets tend to seek high-yield plays and Kiwi bonds yields are attractive as it is the highest among G7**. NZ-UST 2Y bond yields are widening, in favor of NZD (yield spread at 1.25% vs. 1.11% low in 2016). And this is also limiting NZD downside.

- **Coupled with the breach of technical level - triple top at 0.6880 - there could be further upside risk for the NZD in the next 3-4 weeks.** Technically a break above that technical level could suggest further move towards 0.7120 (61.8% fibo retracement of Jun high to Aug low).

- As such we think the weak USD dynamics could still continue to drive markets, we are revising our NZD forecasts higher across the forecast horizon, taking into consideration the recent moves.

- That said we also need to re-visit the factors we previously highlighted, for our bearish outlook on the NZD – **RBNZ's 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.** The above-mentioned factors remain valid and we continue to cite them as downside risks for the NZD. These factors will come into play and weigh on the NZD when Fed resumes rate hike cycle.

- **Growth and Inflation Outlook:** 4Q headline GDP surprised to the upside (+0.9% q/q vs 0.7% expected vs. 0.9% in 3Q), owing to the stronger than expected contribution from seasonal balancing. All other sectors - primary, services and goods remain broadly in line with market expectations. Recent data confirmed that growth momentum picked up in 2H 2015 (due to the fall in NZD, low interest rates), after slowing in the 1H 2015 (due to weaker global demand, commodity supply glut).

- **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.

- **Monetary Policy Forecast:** At the last RBNZ MPC meeting on 10 Mar, the RBNZ surprised with 25bps cut **taking the OCR to record lows of 2.25%. Statement specifically noted "there has been a material decline in a range of inflation expectation measures… a concern because it increases the risk that the decline in expectations becomes self-fulfilling and subdues future inflation outcomes".** This is in line with 2-year inflation expectation which fell to its lowest level since 1994. Statement also noted **dairy sector is facing difficult challenges** and that the **TWI is more than 4% higher than projected and a decline would be appropriate given weakness in export prices.** This is in line with RBNZ Asst Governor Mcdermott's speech (in Feb) that NZD needs to be sustainably lower than what it is today and where it has been over the past few years. With macro-fundamental factors still weak, we believe RBNZ could possibly move to cut OCR again as soon as the upcoming meeting (28 Apr).
- **Latest Fiscal and External Balance Outlook:** 3Q current account deficit narrowed to -NZD2.61bn (from -NZD4.75bn in 3Q). 4Q 2015 current account deficit narrowed at 3.1% of GDP (from -3.3%).
- OBEGAL (Operating balance before gains and losses) saw a surplus of NZ$934 mil for the 7-months ending 31 Jan 2016, NZ$724 mil higher than forecasted.
- **Key domestic events and issues to watch:** 1Q CPI (18 Apr), Mar trade (27 Apr), RBNZ meeting (28 Apr). GDT auction on 5 Apr and 19 Apr.
- **Technical Outlook:** NZD drifted higher amid broad USD weakness (as a result of dovish Yellen). Last at 0.6920 levels. Weekly, daily momentum and stochastics are showing signs of bullish bias. Triple top of 0.6880 appears to have been breached, at time of writing. We continue to watch price action over next few days if this is a false break. Resistance at 0.6935 (50% fibo retracement of 2015 high to low) before 0.7130 (61.8% fibo). Support at 0.6745 (38.2% fibo).

JPY: Negative Interest Rate Policy Not A Panacea

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USDJPY	**110** (108)	**114** (110)	**116** (112)	**120** --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Since the beginning of the year, the JPY was the best performer after the ringgit, having risen by over 7.0% against the dollar. Since the beginning of Mar, the JPY has not performed as strongly as before, rising by just 0.4% vs. the dollar. The USDJPY touched a new low of 110.67 (17 Mar) on broad dollar weakness before rebounding to trade between 112 and 114. The recent market development has kept the USDJPY elevated and do not expect the pair to now slip lower to the 108-levels. **We continue to expect the pair to edge lower, but now, to 110 by end-2Q before rebounding towards the 116-levels by end-2016 and then to 120 by end-1Q 2017.**

- The BOJ's adoption of negative interest rate policy (NIRP) has so far helped to limit the USDJPY downside but has failed to provide the pair with the lift the central bank had probably hoped for to spur inflation. The dovish comments by Fed Chair Yellen on 29 Mar, which pushed the dollar lower, did not help the JPY cause. The strengthening JPY together with the NIRP is likely to weigh on exporters and banks' profitability, putting downside pressure on the Nikkei. This in turn could lead to unwinding of JPY hedges as investors sell-off the Nikkei and risk the USDJPY falling further. The strong current account surplus (2015: JPY16.64bn) should also limit JPY downside. As well, the need to diversify reserves away from dollar and euro could spur currency reserve managers to consider the JPY – one of the most liquid currencies. This rebalancing in global reserves holding could be supportive of the JPY.
- The current ultra-loose monetary policy and NIRP of the BOJ has pushed bond yields into negative territory (by -0.040% to -0.225%) across all tenors except the 30Y (+0.53%) at the point of writing. Since the beginning of Mar, foreign investors have fled JGBs, selling a net JPY1.95tn of government debt, weighing on the JPY and keeping the JPY from moving further lower. Year-to-date though, inflows remained positive with a net JPY3.42tn purchased so far. The continued inflow into JGBs could pressure the JPY back towards the 110-levels by end-2Q.
- We do not expect the BOJ to add to its easing measures (including cut rates further) in 1H 2016. The central bank is likely to pause to evaluate the impact of the various easing measures on the economy so far. To prevent a one way bet on the JPY, the governor did warn that the central bank could adjust policy even before that. Still we do not expect any further moves by the BOJ until the Jul meeting the earliest with jawboning likely until then. This together with the expected hike by the US Fed in 4Q could lift the USDJPY higher towards the 116 by end-4Q 2016 and 120 by end-1Q 2017.
- The risk ahead is the rising concern of the efficacy of the policies of Abenomics, putting PM Abe's and BOJ governor Kuroda's credibility at risk should the economy fail to reflate. More importantly, the collapse in confidence could trigger a sell-off in the Nikkei and force large unwinds of JPY-hedges and risk the USDJPY falling further.
- **Growth and Inflation Outlook:** Final 4Q15 print showed that the economy shrank by a slower 1.1% q/q compared to the preliminary estimates of 1.4% and market expectations of -1.5%. On a y/y basis, the economy expanded by 0.8% y/y in 4Q, a moderation from 3Q's 1.7%. The better print for 4Q was due to a modest upward revision in business spending and inventories. Business spending rose 1.5% q/q saar (3Q: +0.7%) while private inventories was up 0.7% (3Q: -0.2%). The drag on the economy remained private consumption, which fell by a sharper 0.9% in 4Q from -0.8% in the preliminary estimates and 3Q's +0.4%. This was not surprising given that wage growth remained non-existent, flat for the past three months since Nov 2015. In the same vein, retail

sales slipped further into the red, falling by -2.3% m/m in Feb from Jan's -0.4%. Similarly, industrial production and core machine orders - an indicator of future capital spending by private companies – continued to contract. Industrial production fell by 1.5% y/y in Feb -3.8% in Jan and core machine orders dipped by 15.77% y/y in Jan from Dec's -0.54%. The 1Q16 Tankan reinforced the lackluster outlook for the economy. Sentiments of large and small manufacturers remained weak with the former falling to +6 from +12 in 4Q and the latter to -4 from 0 in 4Q. These numbers suggest an economy under duress and likely to remain lackluster ahead.

- Recent prints for headline and core inflation (headline CPI less fresh food) – BOJ's key gauge of inflation – continue to show that inflation is still not gaining traction even with firmer global oil prices. It would appear that lackluster domestic growth amid muted wage growth and the ultra-loose BOJ monetary policy has failed to ignite inflationary pressures. Headline inflation rose 0.3% in Feb, an improvement from Jan's -0.1%. More importantly, core inflation remained flat in Feb. The risk remains that the 2% inflation target might not be met in 1H FY 2017 based on these indicators. The inflation indicator now favoured by the central bank - core-core inflation, i.e. headline inflation less fresh food and energy prices – continues to show resiliency in inflation. Core-core inflation rose by 1.1% y/y in Feb – the same pace as in Jan – allowing the central bank to remain convicted that inflation is gaining traction in the economy.

- **Monetary Policy Forecast:** As expected, the central bank maintained its asset purchase framework and interest rates at its Mar policy meeting. The BOJ can take comfort now that the risks of a USDJPY move back towards the 111-levels has subsided and now focus on evaluating the impact of the NIRP on the economy. This would suggests that further easing (either increasing asset purchases or lower interest rates even lower) could be on hold for now until after the Upper House elections in Jul. This however does not preclude the BOJ from further measures if necessary as warned by BOJ governor Kuroda. Such a move could come as soon as Apr if the central bank judges that the wage increases at the Spring wage negotiation as insufficient or that inflationary expectations are backsliding. But our base case remains for any further moves (possible a deeper cut in the interest rate combined with an increase in asset purchase) by the BOJ to come only in Jul after the Upper House election in early summer.

- **Latest Fiscal and External Balance Outlook:** The FY2016 budget was passed by parliament on 29 Mar, just in time for the start of the fiscal year on 1 Apr. PM Abe has ordered the Finance Ministry to front-load spending the record JPY96.7tn budget to support the economy. This move did not necessitate a supplementary spending package that the market was expecting following the passage of the FY2016 budget. However, press reports suggested that the PM was mulling plans for a new economic stimulus package despite his public denial. Moreover, recent weak data especially 1Q16 Tankan survey results could spur considerations for another stimulus package.

- The current account surplus continued to narrow for the sixth straight month. The surplus came in at JPY0.52tn to start the year in Jan from Dec's JPY0.96tn. The narrower surplus was the result of a deficit of JPY0.64tn (Dec: JPY0.02tn) in the goods and services account which partially offset the larger surplus of

JPY1.33tn (Dec: JPY1.01tn) in the primary income account. The overall balance of payments (BoP) surplus narrowed slightly to JPY2.43tn in Jan from JPY2.79tn in Dec on the back of smaller surpluses in both the current and financial accounts as well as larger deficit in the capital account. The narrower financial account surplus was due to a larger deficit in the other investment account that partially offset the surpluses in the investment accounts.

- **Key domestic events and issues to watch:** 1Q Tankan is on tap 1 Apr. BOJ meets on 28 Apr to decide on policy and will also release the central bank's outlook for the economy on the same day. JGB auctions in Apr: 10-year (4 Apr), 30-year (14 Apr), 5-year (19 Apr), 1-year (18 Apr) and 20-year (21 Apr).

- **Technical Outlook:** USDJPY stayed soft within the 110.70 – 114.60 range for the month of Mar, after the decline from above 120 levels in Feb. Monthly momentum remains bearish bias. Key support at 110.70 (Mar low). 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). Resistance at 114.40 (23.6% fibo).

CNY: Yuan Stability – The Additional 2016 NPC Target

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USD/CNY	6.50 (6.60)	6.55 (6.65)	6.50 (6.75)	6.55 --
USDCNH	6.50 (6.60)	6.55 (6.65)	6.50 (6.65)	6.55 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Yuan is likely to retain much of its strength in Apr. The redback had remained strong in the absence of dollar strength but weakened against the basket as what we had stated in the last FX Monthly for Feb. This was not a coincidence and the adjustment of the RMB weaker against the basket was mainly achieved because of the absence of dollar strength. As of 18 Mar, CFETS published RMB index at 98.05. Last Dec, we had expected that PBOC to remain largely stable within 98-102. Beyond 18 Mar, dollar bulls awaken to the hawkish tones of Fed speakers, allowing USDCNY to be fixed higher whilst still gaining strength against the rest of the trading partners. **This affirms our call that the 98-figure could be the line in the sand for CNY weakness.** With the forwards market indicating less depreciation pressure on the yuan (just below 3% in the next 12M compared to 5.7% at the start of the year), pressure on the FX reserves has likely reduced. With FX Reserves still recorded at USD3.2trn, markets are more or less convinced of PBOC's ability to keep CNY stable against the USD and stable against the basket. This will naturally keep the gap between onshore and offshore yuan from widening drastically this year.

- A more stable yuan does not mean that the economy has seen fundamental improvements. China still has excess capacity, heavily indebted corporations and huge liquidity injections continue to add immense pressure on the economy and the yuan medium term. However, the State Council has shown a certain level of commitment to eradicating excess capacity including a plan for 1.8mn job losses in the coal and steel sector. The Chairman of the State Owned Asset Supervision and Administration Commission assured that big SOEs will strengthen as a result of the plan to cut overcapacity and duplication will be eliminated. In addition, the government is also focused on emerging and higher-value industries including aerospace, nuclear power, high speed rail, renewable energy, smart grid technology. We are hopeful that liquidity could be channelled into building new growth engines. However, economic rebalancing efforts like these take time. In the interim, industrial profits have rebounded from a year of contraction. Notwithstanding favourable base effects, a rebound of around 4% still indicates some sort of stabilization. Real estate investment has also started to show signs of stabilization, an indicator that gels well with rising mortgage loans. Potential recovery in property demand and real estate dependent industries may stave off hardlanding fears, reduce capital outflows and ease the downward pressure on the yuan.
- **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 deteriorated to 5.2 from the previous 5.0 because the PE valuation worsened against its peers.
- **Growth and inflation outlook:** The key summary of the 2016 Work Report is in the table below:

Macro indicator	2016 Target	2015 Target	2015 Actual	2016 vs 2015 Target
GDP	+6.5% to +7%	~+7%	+6.9%	Lower & adopt a range target
Money Supply (M2)	~+13%	~+12%	+13.3%	+1ppts
CPI	~+3%	~+3%	+1.4%	Same
Trade Volume	"Steady Rise"	~+6%	-7%	Drop trade target
Railway Investment	>CNY800b	>CNY800b	CNY824b	Same
Budget Deficit	CNY2.18t	CNY1.62t	na	+CNY560b
Budget Deficit (% GDP)	3%	2.3%	2.4%	+0.7ppts
Urban New Employment	>+10m	>+10m	+13.12m	Same
Urban Unemployment Rate	<4.5%	<4.5%	4.05%	Same

Source: Sina Finance, Tencent Finance, JRJ, Maybank Kim Eng

- The State Council has stuck to their promise of more fiscal stimulus in order to achieve its growth target of 6.5-7.0%. The growth target is set at a range, underscoring the headwinds of the economy. Budget deficit increased by CNY560bn. Money supply growth is maintained at 13.0%, steady from 2015, suggesting that PBOC has to maintain its current stance of "prudent monetary policy with an easing bias".

- The Work Plan seems to be largely focused on achieving more jobs and supporting growth. Towards the end of the National People Congress, Premier Li Keqiang also spoke of facilitating deleveraging by allowing conversion of corporate debts to equities. He acknowledged that debt is an issue but we anticipate that this could be dealt in phases. Amid the many goals set out this year, the focus on growth is not just for fulfilling the vain ambition, set out in the year 2000 by the Communist Party and to kick the can of deleveraging further down the road. The focus on growth is meant to buy time for newer growth engines to increase GDP as well as to ensure that the RMB will not end up in a downward spiral whilst it still has a relatively comfortable USD3.2trn of FX Reserves. The main target that belies the 9 targets in the above table is yuan stability and we are quite sure that this will be the stance taken for much of this year.
- Feb PMI-mfg deteriorated to 49.0 from previous 49.4. Non-mfg slipped to 52.7 from previous 53.5. Caixin PMI-mfg was also in line with the NBS version, down to 48.0 from previous 48.4. Exports tanked by 20.6%y/y, accelerating its decline from previous 6.6%. Imports shrank less than expected by -8.0%y/y. Trade balance was halved to CNY209.5bn from previous CNY406.2bn. That set a solemn tone for NPC meeting. Inflation numbers were firmer on cost of food, quickening to 2.3%y/y from 1.8%. PPI showed less contraction by -4.9%y/y from previous -5.3%. Data paints a rather subdued picture of the economy but a silver lining was spotted and that was industrial profits for Jan-Feb which rebounded 4.8%y/y from a year of contraction in 2015. Whilst favourable base effects have to be taken account, the rebound coincides with rise in real estate investment and mortgage loans. A recovery in the real estate sector could have positive spillover effects in mining, construction, consumer goods and real estate services.
- **Monetary Policy:** PBOC finally delivered a 50bps cut to RRR in the first quarter whilst still utilizing other liquidity tools such as 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. However, news of tightening home lending rules in Shanghai and Shenzhen whilst home destocking are still ongoing elsewhere in China suggests that the growth landscape is still uneven. That, and rising inflation, could limit the scope to deliver further broadbased easing such RRR cuts.
- 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.
- Perhaps the reform that impacts the yuan most is likely to be the much talked about Tobin Tax, set at 0% “tentatively to allow authorities time to refine the rules”. We think given their endeavours to release capital account, albeit at a gradual pace, this is likely a threat more than anything to discourage speculators who want to bet on further yuan depreciation.
- **Latest Fiscal and External Balance Outlook:** The budget deficit widened to 2.4% of GDP in 2015 from previous 2.1% in 2014. Supply side reforms also apply to its fiscal plan for 2016. In fact, Vice FinMin Zhu Guangyao had said the threshold of 3% implies

that there is still room for expansionary fiscal policy. Recently there have been calls to reduce the maximum individual income tax rate to 35% from 45% by PBOC Researcher Yao. This could serve to boost disposable income and domestic consumption.

- 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. We suspect that the capital outflows might have peaked in the second half of last year.
- **Key domestic events and issues to watch:** Mar PMI-mfg is due on 1 Apr, accompanied by the Caixin version. Foreign reserves for Feb will be watched on the 4th. Trade data is due on the 13th. CPI, PPI on the 11th. Liquidity numbers are due from 10th-15th. Activity data for Mar will be released on the 15th along with **1Q GDP.**
- **Technical Outlook:** USDCNH looks set to trade with a downside bias within a downward sloping trend channel. Key support is seen at 6.4300, the 200-DMA before the 6.42 (76.4% fiboncci retracement of the Sep-Jan rally). Rebounds to meet barrier at 6.4858 before 6.5385. Momentum on the daily, weekly and monthly chart is bearish bias.

KRW: Maintain Bearish Bias

Forecast	2Q 2016	3Q 2016	4Q2016	1Q 2017
USD/KRW	1160 (1260)	1190 (1280)	1170 (1300)	1180 --

Previous Forecast in Parenthesis

- **Motivation for the FX View**: USDKRW had a choppy 2 months (Feb-Mar), rising by about 4% in Feb before falling by about 7% in Mar. The decline was due to improvement in risk sentiment (off the back of firmer oil prices moving back above $40/bbl), KRW repatriation flows for dividend season and dovish FOMC (17 Mar) which saw USD weakness. Unwinding of long USDCNY position also led to unwinding of proxy trades (USDKRW, USDTWD) as bets for CNY weakness did not materialize.
- Looking ahead we **remain bearish on the KRW** against a backdrop of factors previously highlighted - ongoing sluggish external demand, rising risks of slowing recovery in domestic demand, benign inflation outlook and geopolitical tension. In addition, announcement (28 Mar) of the change of guard at BoK MPC – introduction of 4 new MPC members (effective 13 May upon approval from President) tilts the MPC to the dovish camp. **Further monetary easing could almost certainly be warranted - questions are by what magnitude, how soon and if unconventional easing could even take place.** We reiterate our observation that the BoK tends to cut policy rate when **JPYKRW is falling** (losing competitiveness) while rising JPYKRW tend to give breathing room for BoK. JPYKRW has fallen from its end-Feb high from above 11 to a low of 10.24 (about 7.8% decline in the

cross). **Further move lower at a faster pace could suggest that the BoK could cut sooner than expected.**

- In another separate announcement (29 Mar), the **government announced tentative strategies to possibly consider "Korean-style" quantitative easing** which includes the purchase of Korea Development Bank bonds to finance corporate restructuring as well as direct purchase of mortgage-backed securities to convert household mortgages into longer term amortizing mortgages. This is a **targeted form of quantitative easing to help with financing corporate restructuring as well as aimed at lowering the burden of servicing mortgages for households** (in an attempt to ensure debt sustainability and reduce risk of households NPLs). These plans are yet to be approved. The government is also looking to explore fiscal impulse to do its fair share of heavy lifting to to improve growth potential and re-design of tax structure to encourage corporate investment, R&D, etc.

- Given the factors above, we remain bearish in KRW. But given the large adjustment in FX markets last month, we are recalibrating our forecasts lower while still maintaining the overall trajectory.

- Downside risks to our USDKRW forecast include further reduction in depreciation pressures on CNY, Fed rate hike to be more gradual than expected, dovish Fed and/or further improvement in risk sentiment.

- Technically the 1150 levels is a key support level and it has been taken out at time of writing. The pair could possibly head lower towards 1126 levels (50% fibo retracement of the up-move from 2014 low to 2016 high). Resistance at 1155 (38.2% fibo), 1175 (200 DMA).

- **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 worsened to 6.6 (from 6.4 in Feb). The deterioration was due to inflation and FX reserves.

- **Growth and Inflation Outlook:** 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%).

- **Manufacturing PMI further into contractionary territory in Feb (48.7 vs. 49.5 in Jan).** Industrial production also fell in Jan (-1.8% m/m vs. +1.3% in Dec). Korea's Jan exports continue to fall (-12.2% y/y in Feb vs. -18.5% in Jan) but by a smaller magnitude (nevertheless 14th back to back decline). These data suggest the recovery in consumption could be limited.

- **Feb headline inflation rebounded (+0.5% m/m vs. 0% prior), off the back of higher food and services prices.** On y/y terms, inflation rose to 1.3% (vs. \0.8% in prior month)

- **Monetary Policy Forecast:** We continue to **expect the BoK to maintain its accommodative monetary stance,** for longer, so as to support economic recovery. Given the new replacement of members, we see high likelihood that BoK will cut rate by at least once in 2Q. The current MPC will sit through its last meeting on 19 Apr and is likely the MPC **keep policy rate on hold at 1.5%, leaving the onus on the new MPC in May.**

- **3 out of the 4 new nominees to the MPC are perceived to have a dovish stance.** 1) Cho Dong Chul (Chief Economist for Korea Development Institute) has been highlighting concerns that Korea faces deflationary risks and has been calling for accommodative monetary policy to boost inflation. 2) Shin In Seok (member of the National Economic Advisory Council which offers advice to the President) has recently mentioned that there is no reason to follow the Fed to hike rate against a backdrop of current growth and inflation environment; called for more efforts to internationalize the KRW; 3) Koh Seung Beom (Commissioner of the Financial Services Commission) is known to be dovish. The exception is 4) Lee Il Houng (Head of Korea Institute for International Economic policy) who may resist further cuts. But his stance may be unclear as he mentioned the risk of sustained trade stagnation and monetary and fiscal policies could help as temporary solutions but structural reforms are necessary to move away from low growth.

- At the last MPC meeting (10 Mar), BoK kept policy rate on hold at historical low of 1.5% for the 9th straight meeting as widely expected. But the **decision was not unanimous as one MPC member voted for a rate cut.**
- **Latest Fiscal and External Balance Outlook:** Current account surplus narrowed to $7.06bn in Jan from $7.38bn in Dec due to the decline in exports and widening deficit in the services sector.
- 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 Mar exports and CPI inflation (1 Apr); BoK meets on 19 Apr; 1Q GDP (26 Apr) and Mar IP (29 Apr). Legislative elections will be held on 13 Apr.
- **Technical Outlook:** USDKRW has fallen by nearly 100won from 1244 (29 Feb) to a 4-month low of 1143, at time of writing. Weekly momentum is indicating a bearish bias. Technically the 1150 levels is a key support level and it has been taken out at time of writing. The pair could possibly head lower towards 1126 levels (50% fibo retracement of the up-move from 2014 low to 2016 high). Resistance at 1155 (38.2% fibo), 1175 (200 DMA).

SGD: Increased Volatility Likely In Lead-Up To MAS Meeting

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USD/SGD	1.3400 (1.4600)	1.3600 (1.4700)	1.3700 (1.4750)	1.3800 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The down moves in the USDSGD since mid-Jan this year from the year's high of 1.4444 (11 Jan) to the year's low of 1.3480 on 18 Mar has increased speculation on the MAS next moves in Apr. We do not expect MAS to adjust policy in Apr. MAS has already eased the policy band twice in 2015; once during an intermeeting move in Jan to take into account the weaker inflationary environment because of global oil price drop; and the other in Dec as a pre-emptive move in the light of domestic and external headwinds prevailing.

- Both the USDSGD 2-weeks and 1-month implied volatility are back on the uptick after coming off mid-month. Examination of past episodes showed that volatility tends to rise ahead of MAS meeting as market readjusts its positions in anticipation of MAS decision. These adjustments/positioning should continue and higher vols are likely. Though vols have edged higher, there is still room for vols to go even higher if episode leading up to the Oct 2015 MAS meeting is a guide. We can expect higher vols and hence higher USDSGD in the run up to the Apr MAS meeting.
- Despite the domestic and external headwinds faced, foreign investors continue to unwind their long USDSGD positions. The expansionary FY2016 budget should ensure that growth comes in within the 1-3% growth estimates of the government, keeping the economy from slipping into a recession. Since the beginning of the month, government bond yields have fallen by 6.20-31.44bp across all tenors, manifesting the ongoing unwinding and foreign demand for government debt. YTD, bonds yields have fallen by 0.85-63.90bp across all tenors. This should weigh on the USDSGD.
- Given expectations that the Fed will hike its Fed fund rates at a more gradual pace than previously expected, we now expect the upward trajectory of the USDSGD to be more gradual than before. We expect the SGD movement to track that of the dollar ahead. We are pricing two rate hikes in 2016 with the first likely to take place in Jun. So until then, dollar missing strength could help to keep the SGD buoyant in the next three months or so. Thereafter, dollar could reassert itself in 3Q before easing slightly towards the end of the year. **We now expect the USDSGD to edge lower to 1.34 at end-2Q and then to bounce higher by 1.36 and 1.37 at end-3Q and end-4Q. Pair should continue to edge higher to 1.38 by end-1Q 2017.**
- **Our monthly Maybank Vulnerability score:** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Singapore has improved to 3.8 from 4.0 on the back decreasing inflation and fiscal risks. This should continue to be supportive of the intrinsic value of the SGD. Our model shows that the SGD NEER hovering above the mid-point. The SGD NEER is now (@ 9.00am, 1 Apr 2016) hovering around 0.4% above the midpoint of the policy band. (topside: 1.3247, mid 1.3516, floor: 1.3785, current: 1.3460).
- **Growth and Inflation Outlook:** The expansionary budget for FY2016 should keep the economy humming within the government's 1-3% forecast range in 2016. The fiscal impulse amounted to slightly over 1% of GDP and could narrow the negative output gap. There have been growth concerns especially after manufacturing PMI came in at its lowest levels since Dec 2012, which was not a good sign for manufacturing ahead. Also, NODX contracted by 4.7% y/y in the first two months of the year. In addition, the ongoing re-structuring of the economy amid weak external growth outlook is likely to weigh on growth. We are looking for real GDP to come in at 1.7% in 2016 before rebounding to 2.0% in 2017 as the global environment improve as growth in China recovers.
- Though the government lowered its headline inflation forecast to -1.0-0.0% from -0.5-0.5% previously due to lower global oil prices

and the larger-than-expected drop in COE premiums, the outlook for core inflation was left unchanged at 0.5-1.0%. This is despite the weak labour market conditions, and that the pass-through from wage costs to consumer prices are likely to be tempered by the subdued economic growth environment. Already, headline inflation slipped for the 16 straight by 0.8% y/y in Feb on the back of weaker transport and housing costs. Core inflation continues to tick higher, rising by 0.5% y/y in Feb from Jan's 0.4% due to higher food prices.

- **Monetary Policy Forecast:** Having already eased policy twice in 2016, any significant shifts towards an even more dovish bias or loosening would need to overcome a high hurdle in our view. The MAS is likely to refrain from causing further policy driven volatility in the current environment with the economy still undergoing much-needed supply side structural adjustments. So far, domestic growth, though yet to return to trend growth, has not deteriorated to a point that the SGD has to be depreciated to support the economy but instead could come in at the lower bound of the government's 1-3% forecast range. Similarly, while headline inflation outlook has been downgraded, core inflation is still primed to the upside as the disinflationary effects of oil and budgetary and other one-off measures ease. Even measures to lower the cost of doing business, which could be on tap at the upcoming budget, is unlikely to derail upside risks to core inflation. Thus, the balance of risks appears to remain slightly biased towards growth, and expansionary FY2016 budget should go some ways in supporting growth in 2016 amid already accommodative monetary conditions.
- The current band, basket and crawl framework comes in especially useful in such an environment. The band is able to absorb the dollar moves without the need to adjust the slope and the level at which the band is centered for now. Any changes to these fundamental parameters would require a fundamental shift in how the government views the state of the economy over the next 6 to 12 months. We do not expect any changes in the policy path for the Apr monetary policy meeting.
- **We therefore do not expect any change in policy for now. Our analysis suggest that the expected tightening in rates via Fed, and then in turn to SOR & SIBOR, could impact growth, temper inflation further and push USDSGD higher in the trade-weighted index. However, the uptick in both domestic interest rates and the USDSGD are not likely to be as aggressive as estimated previously. Any move now could add more volatility in the SGD market.**
- The USD/SGD has come off from its recent highs in the 1.44-region to hover below the 1.37-levels helped by the softer dollar, suggesting that the climb in domestic interest rates could be more gradual. To date, the 3-month SIBOR (3MSIBOR) has come off from its five-year high of 1.254% (19-27 Jan) to hover below the 1.20-region at the point of writing. This slowdown in the 3MSIBOR climb should also moderate the rise in mortgage rates for now. Deposit rates (for 12-month fixed) have risen gradually from 2014 lows of 0.31% to 0.35% currently. This suggests that risks related to interest rate increases affecting financial and economic stability, particularly in interest rate- and property-related sectors, seems limited for now. We now expect the 3MSIBOR and 3MSOR to end 2016 at 1.44% and 1.54% respectively and end 2017 at 1.74% and 1.85%.

- **Latest Fiscal and External Balance Outlook:** Budget 2016 announced on 24 Mar was prudent and crafted to guide the economy to a new phase of development for future growth. The three key thrusts of the budget were adopting an expansionary fiscal spending; Industry Transformation Programme (ITP) and supporting people through demographic, cyclical and structural changes. An overall budget surplus of SGD3.4bn (+0.8% of GDP) was envisaged in FY2016 with FY2015 projected deficit at SGD4.9bn (-1.2% of GDP). More importantly, the primary fiscal balance (that is, without special transfers and top-ups and net investment returns contributions) was in a larger deficit of SGD4.99bn That said, the fiscal impulse of the budget as stated above is over 1% of GDP.
- **Key domestic events and issues to watch:** Keenly watched will be the MAS meeting expected sometime in the second week of Apr. Likely released at the same time will be the advanced estimates of 1Q16 GDP.
- **Technical Outlook:** USDSGD fell from above 1.40-handle (end-Feb) to a low of 1.3415 (at time of writing). A death-cross was observed in the pair, where 50 DMA cuts 200 DMA to the downside. This is typically bearish in nature. Weekly and daily momentum indicators are bearish bias. Next support at 1.3405 (50% fibo retracement of 2014 low to 2016 high). There is little in between the support at 1.3405 at the next support at 1.3160 (61.8% fibo). Resistance at 1.3650 (38.2% fibo), 1.3950 (23.6% fibo, 200 DMA).

MYR: Roaring Back with a Vengeance

Forecast	2Q 2016	3Q 2016	4Q2016	1Q2017
USD/MYR	3.9000 (4.2500)	3.9500 (3.9000)	3.8500 (4.1000)	3.9000 --

Previous forecast in parenthesis.

- **Motivation for the FX View: Our conviction for limited weakness in the MYR and our more optimistic view than market consensus were finally validated.** USDMYR has fallen by nearly 7% to more than 7-month low of 3.89 levels (at time of writing) from above-4.23 levels (end-Feb). The **move lower was largely due to relative stability in oil prices (oil volatility has eased towards Nov 2015 lows while oil prices have moved above $40/bbl), stabilizing portfolio flows (anchoring investor sentiment), domestic concerns gradually dissipating and a dovish Fed as seen from recent FOMC meeting (17 Mar) and Fed Chair Yellen's speech (29 Mar) which were dovish and has been exerting downside pressure on the USD and helping to keep sentiment positive for risk assets.** Broadly speaking in addition to those factors above-mentioned, a positive recalibrated budget (Jan 2016), and resilient domestic demand is expected to help offset some of the sluggish external demand concerns. **Near term outlook for portfolio flows have stabilized and further improvement is expected to contribute to the positivity surrounding the MYR.** As such we **remain convicted to our**

more-than-optimistic-view-than the market on the MYR and further revised USDMYR lower across the forecast horizon. We believe street consensus will eventually adjust lower their FX forecasts soon.

- **Our fair value estimate which takes into account interest rate differential, inflation differential, current account differential and reflation variables shows USDMYR at 3.52 levels.** We had previously said that Ringgit weakness was temporary and was not a reflection of underlying fundamentals (which remain intact). We expected to see some stability returning to Ringgit as political/contingent liability risk subsides, fiscal consolidation/reforms gains traction and oil prices stabilize at lower levels. These are now gradually coming in place.
- As a positive correlation exists between oil prices and Ringgit, we our analysis found that **an asymmetric relation exists between oil and ringgit. When oil price is rising, Ringgit rises faster as compared to when oil price was falling.** In previous episode (end 2014-15) when oil price was falling, a 10% move lower in oil prices corresponded with about 1.5% move lower in the Ringgit against the USD. This time round in the episode of oil prices rising (since early 2016), **a 10% move higher in oil prices saw a 2.6% move higher in Ringgit. To put that in perspective, if oil rises from $40 to $48 (representing a 20% rise), USDMYR could potentially fall to 3.82 levels.**
- **External reserves increased USD0.5b to USD96.1b (MYR412.3b) at 15 Mar2016 from USD95.6b (MYR410.5b) at 29 Feb 2016 amid intensifying net foreign buying of Malaysian equities.** The latest count is equivalent to 8.4months of retained imports and 1.2x of short-term external debt.
- We are also keeping an eye on China-related and other central bank flows. The development in Malaysia's external reserves will also be influenced by "China-related flows". Recall back in Nov 2015, Premier Li Keqiang announced that People's Bank of China will buy more of Malaysian government debt securities. China's companies were the key players in the 1MDB's debt rationalisation process following China General Nuclear Power Corporation's (CGN) acquisition of Edra Global Energy Berhad's entire power assets for MYR9.83b,and the sale of 60% equity in Bandar Malaysia worth MYR7.41b to China Railway Group Ltd – Iskandar Waterfront Holdings (CREC-IWH) consortium. Further, CREC will invest USD2b (MYR8.13b)to build an integrated complex in Bandar Malaysia to house its Asia-Pacific regional office, which represents 30% of the first phase of Bandar Malaysia and construction is expected to begin next year. In addition, the Thailand's cabinet approved a change in law to allow Bank of Thailand (BoT) to invest its external reserves (latest USD170.9b as at 11 Mar 2016) in international equities. BoT may initially invest some 3%-4% of its reserves in shares and funds linked to stock indices.
- **On Malaysian equity:** Month to date, **foreigners were net buyers of equity, amounting to +MYR3.9b as of 22 Mar 2016, the highest since April 2013.** Foreign investors first turned net buyers of equity last month (Feb 2016: +MYR0.4b; Jan 2016: -MYR1.0b) after three consecutive months of net selling. The net foreign buying momentum was sustained and strengthened in the first half of this month (1H Mar 2016: +MYR2.56b).
- **On Malaysian debt:** Foreigners were net sellers of Malaysian debt securities last month (Feb 2016: -MYR1.4b; Jan 2016: +MYR1.7b)

for the first time in six months last month, mainly due to the net foreign selling of discount instruments ((Feb 2016: -MYR2.1b; Jan 2016: -MYR0.5b), suggesting profit-taking by bond investors at the short-end of the yield curve amid the strengthening of MYR vs USD. **Nonetheless, foreigners remained net buyers of the Malaysian Government Securities (MGS) suggesting "search for yields"** flows amid falling, very low or negative sovereign bond yields especially in the major economies. Our Fixed Income Research analysts noted there is still foreign real money demand on MGS, and foreign investors are buying Malaysian bonds this month amid further strengthening in MYR that reached and breached 4.00 vs USD yesterday.

- **Our monthly Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Malaysia held steady at 4.8 in Mar.

- **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 further to +4.2% YoY in Feb 2016 (Jan 2016: +3.5% YoY) while core inflation remained elevated at +3.6%YoY 2016 (Jan 2016: +3.6% YoY). Maintain our 2016 inflation rate forecast of +3.0% to +3.5%.

- The sharp rise in inflation was attributed to the base effect as CPI was extremely low in Feb 2015 (+0.1% YoY) due to the substantial drop in "transport" cost reflecting the pass-through of the slump in crude oil price on retail fuel (petrol, diesel) prices. The base effect will be the key factor in 1Q2016 as the Jan-Feb 2016 was already at+3.8% YoY(1Q 2015: +0.7% YoY). Nevertheless, our Economists believe inflation rate has peaked in Feb 2016 and expect it to taper gradually for the rest of the year as the base effect diminishes. Other notable increase in Feb 2016's CPI was the higher 'food" cost due to higher prices for "vegetables" and "fish and seafood".

- 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 kept the Overnight Policy Rate (OPR) and the Statutory Reserve Requirement (SRR) ratio unchanged at 3.25% and 3.50% respectively. We were expecting another 50bps cut in SRR. Maintain our OPR forecast range of 3.00%-3.25% this year, and together with any further SRR cut, it will be data dependent in terms of the balance of risk between growth and inflation, as well as liquidity condition and movement in market interest rates.
- The tone of the Monetary Policy Statement (MPS) remains "dovish" given BNM's assessment that growth will moderate this year after expanding by 5% last year amid vulnerability to downside risks. Although inflation is expected to be higher this year, BNM sees the upside risk is mitigated.
- Our Economists are penciling in a range of 3.00%-3.25% for OPR this year. **A 25bps OPR cut in 2H 2016 is possible if growth threatens to slip below what we believe to be BNM's comfort zone of 4%-6%.** BNM outgoing Governor Zeti had said that she is confident Malaysia can achieve the growth target this year. Having said that, latest inflation rate of 4.2% YoY as of Feb 2016 is over what we deemed to be BNM's tolerance range of 2%-3%. Therefore, OPR decision will ultimately be dependent on data – including external developments – that affect the balance of risk between growth and inflation. Similarly, any further SRR cut will depend on liquidity situation and movement in market interest rates.
- 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.
- **The composition of Malaysian Government bonds' foreign investors was revealed for the first time.** As at Jan 2016, 44% of non-resident holdings of Malaysian Government bonds were by asset managers, followed by central banks / governments (29%), pension funds (13%), banks (10%), insurance companies (1%), nominees / custodians (1%) and others (1%). From now on, such data will be published on quarterly basis
- **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 dropped for the first time in eight month in Jan 2016 by -2.8% (Dec 2015: +1.4% YoY)while importsgained+3.3% YoY(Dec 2015: +2.7% YoY), resulting in narrower trade surplus of +MYR5.39b(Dec 2015: +MYR8.2b).This year, we expect moderate growth in exports (2016: +3.4%; 2015: +1.9%) and imports (2016: +3.9%; 2015: +0.4%) as well as narrower trade surplus (2016: +MYR93.8b;2015: +MYR94.3b).
- **Key domestic events and issues to watch:** Trade balance (6 Apr); FX reserves (7 & 22 Apr); and CPI inflation (20 Apr).

- **Technical Outlook:** USDMYR traded with a heavy bias. Pair traded as low as 3.8920 levels on 31 Mar before closing around 3.90 levels (a 7-month low). Monthly, weekly, daily momentum remains bearish bias. We reiterate our technical observation that a death-cross was seen in the pair, where 50 DMA cuts 200 DMA to the downside. This is typically bearish in nature. The last time when 50 DMA cuts 200 DMA was in Nov-2014 and that time 50 DMA cuts 200 DMA to the upside (golden cross – bullish), and the pair rose from 3.30 levels to above 4.40. This death cross should be respected, in our opinion. We remain bearish bias in the medium term. Next support at 3.80 (the level the pair was pegged at before 2005 and subsequently being defended in 2015 on the up-move), before 3.50 (our fair value model estimates)

IDR: Still Forging Ahead On Policy Moves

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USDIDR	**13200**	**12950**	**12500**	**12400**

No Change from Previous Forecast

- **Motivation for the FX View:** The 75bp cuts by the central bank so far, including a cut to the primary required reserve ratio, have not stalled the IDR downward trajectory. There could be one more rate cut before the end of 1H 2015, though it would be unsurprising for BI to pause to allow the previous three cuts to work their way into the economy. Meanwhile, the positive carry on government debt amid a pause in US Fed fund rate hike till the Jun and the end of the year (our house expectations) should continue to encourage foreign fund inflows. Risks remain to the downside for the USDIDR in 2016 with the pair still poised to end the year below the 13000-levels.
- Aside from accommodative monetary policy, fiscal stimulus programmes and policy initiatives by the government to liberalize and open up the Indonesian economy to foreign investment (the eleventh package targeted export activities, real estate investment trusts, port efficiency and pharmaceuticals) have lifted investment sentiments and bolstered the IDR. As well, 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 have also been IDR-positives.
- This has been manifested in the purchase of Indonesian assets by foreign investors. So far in Mar, foreign investors have bought a net USD146.25mn in equities, a slowdown from Feb's USD517.88mn. As for government debt, foreign funds added a net IDR17.34tn to their outstanding holding since the beginning of the month vs. USD302.65mn in Feb. Year-to-date they have purchased a net USD0.28bn of equities and added a net IDR47.69tn to their outstanding holding of government debt. In contrast, foreign funds sold a net USD1.58bn in equities, while

they added a net IDR97.17tn to their outstanding holdings of government debt for the whole of 2015.

- 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. We expect the pair to settle around the 13000-region by end-1H 2016 before edging lower below the 13000-levels at 12500 by end-year and then to 12400 by end-1Q 2017.
- There remain several caveats to our USDIDR forecast, including the continuing consolidation of power by President Jokowi that would enable him to push through the much-needed reforms (including tax rules that encourage dividends from equities and debt to be retained within the country) through parliament, and that positive carry for Indonesia government debt continues, which would encourage further inflows amid a more gradual pace of Fed fund rate hikes and calmer global risk sentiments.
- **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Indonesia improved to 5.2 from 5.6, underpinned by the improvement in fiscal risks. This should be supportive of the intrinsic value of the IDR.
- **Growth and Inflation Outlook:** After expanding by 4.79% in 2015, economic growth is expected to pick up in 2016. Market and our economic team are looking for the economy to expand by at least 5.0% in 2016 (Maybank: 5.20%). Key growth drivers are 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. External demand is likely to remain a drag on the economy with both exports and imports having contracted for 17^{th} consecutive month.
- The eleventh stimulus package, announced on 29 Mar, is targeted at micro, small and medium enterprises for export activities, real estate investment trusts with tax incentives, improving efficiency at ports and enhancing domestic pharmaceutical industry's competitiveness. This package reinforces the government's strong commitment to reforming the economy and encouraging greater investment, putting the economy on track to grow above 5.0% in 2016.
- After bottoming to a low of 3.35% y/y in Dec 2015, headline inflation climbed higher in the past two months inched. Headline inflation rose 4.42% y/y in Feb on the back of higher food prices and transport cost. Core inflation though is slipping lower after peaking at 5.07% y/y in Sep 2015. Our economic team expects headline and core inflation to average 4.36% and 3.68% by end-2016. However, the forecasts could change with the announcement of an
- **Monetary Policy Forecast:** BI cut its policy rate for the third time this year by 25bp, bringing the total cuts to 75bp and the policy rate to 6.75%. The deposit and lending facility rates were also cut by 25bp each to 4.75% and 7.25%. The cut reaffirmed our belief that the central bank is front-loading rate cuts to spur the

economy. The gradual pace of US Fed fund rate hike, IDR stability and benign inflation provided ample room for the central bank to maneuver. 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. So far, the three policy rate cuts plus the 100bp cut to the primary reserve requirement to 6.5% effective 16 Mar (announced in Feb) have put downward pressure on borrowing cost, helping to boost investment and growth. The easing cycle should continue with one more cut likely before the end of 1H 2015. However, aggressive cuts to bring the policy rate to 4-5% as espoused by the government are unlikely as it could put investor sentiments and IDR stability at risk.

- **Latest Fiscal and External Balance Outlook:** The government is in the process of revising its 2016 budget targets. There are expectations that the government may lower 2016 tax revenue target to a more realistic level. The Finance Minister has speculated that the shortfall in tax revenue could be around IDR190tn given the poor outlook from the oil and gas industries. Nevertheless, the government intends to maintain its 3% budget deficit ceiling. Given the shortfall in revenue and the government's developmental plans, it is likely that operational spending will need to be cut.

- The central bank is sanguine about the outlook for the current account. The BI governor believes that the current account deficit (CAD) could improve as a result of a pick-up in fixed investments. This could bring the CAD to around 2.5% of GDP in 2016 from its current expectations of 2.65%. This would bring the BI's forecast for the CAD in line with our economic team forecast of 2.45% of GDP by end-2016.

- **Key domestic events and issues to watch**: BI meets on 21 Apr to decide on monetary policy.

- **Technical Outlook:** USDIDR was one of the outliers amongst USD/AXJs. Pair traded lower in early part of Mar but appeared to found an interim bottom around 13,000 (Mid-Mar) before rebounding higher towards 13,460 (29 Mar). Pair was last at 13256. Monthly momentum is bearish bias. But weekly stochastics suggest the pair at oversold conditions. Not surprised to see the pair trading in the range of 13,000 – 13,500 as we await clearer indications.

PHP: Political Uncertainty To Still Weigh

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USDPHP	47.00 (48.00)	47.50 (47.80)	47.80 --	47.50 --

Previous Forecast in Parenthesis

- **Motivation for the FX View**: Though the recent dollar weakness has given the PHP a fillip, we maintain our bearish bias on the PHP. The upcoming presidential and general elections on 9 May, the risks emanating from the El Nino weather phenomenon as well as possible decelerating overseas remittances amid global economic uncertainty and softer global oil prices could weigh on the currency. The saving grace so far that has prevented the USDPHP from climbing above the 47-handle has been the softer dollar, the strong economic fundamentals and 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 provide the PHP backstop amid FX market volatility.

- The strong economic fundamentals should allow the BSP to keep policy rates steady for the most part of the year. Persistent current account surpluses and economic growth outperformance (above 5%) as well as the implementation of the interest rate corridor (possibly by Apr) to steer market rates closer to the policy rate should allow central bank to stand pat on the policy rate steady for the time being. Even the political uncertainty from the presidential election in May 2016 is unlikely to pressure BSP to move as the BSP is likely to view it as a short-term phenomenon that will dissipate eventually. This should provide the PHP with support for the year.
- Nevertheless, we do not now expect the USDPHP to climb as rapidly as before. Risk-supported sentiments as a result of expectations of a more gradual pace of Fed fund rate hikes have led to portfolio inflows, particularly into equities. In Mar, foreign investors have purchased a net USD203.88mn of equities compared to USD167.19mn in the same period last year. So far in 2016, they have bought a net USD76.22mn in equities, still off the pace of USD1.07bn during the same period in 2015.
- In contrast, demand for government debt appears to have waned in Mar. Yields for government debt across most tenors (except for 1Y, 3Y, 5Y and 20Y) were mostly higher by 5.8-86.25bp in Mar. Year-to-date though, foreign funds have added to their holdings of government debt with yields across most tenors down by 4.17-102.33bp except for the 3Y and 10Y. This has enabled the PHP to gain 2.4% against the USD in Mar, one of the better performing currencies in the region. Year-to-date, the PHP is up 3.2% vs. the USD. However, these gains could be short-lived as the volatility due to the elections and the likelihood of a rate hike by both the Fed and BSP by 4Q could encourage outflows and increasing upside risk to the USDPHP.
- Upside risks to the USDPHP from the Presidential and general elections remains intact despite the recent slippages in the pair. There tend to be a sell-off in equities in the lead-up to the elections and at least six-months after the elections. This is because of uncertainty surrounding the policies of the incoming president.
- The El Nino weather phenomenon and the possible tapering of overseas remittances from the global slowdown are likely to weigh on the PHP. A severe El Nino weather phenomenon is expected in 2H 2016 with the resultant floods and droughts to negatively affect crops and hence agricultural export earnings. The El Nino is likely to manifest itself eventually in higher domestic inflation. Sluggish global growth particularly in the G3 and lower global oil prices affecting those Filipino workers in the Middle East could slow remittances back into the Philippines. Slower remittances could put downward pressure on private consumption, which is a key driver of domestic economic growth.

- Consequently, the USD/PHP could now climb higher in 1H 2016 towards 47.50 by end-3Q from 47.00 in 1Q and then to 47.80 by end-4Q as the Fed hikes its short-term rates again. We expect the pair to settle lower to 47.50 by 1Q 2017 after the uncertainty surrounding the elections dissipates.

- 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 5.0 from 4.9. The improvement in risks to reserves and inflation were more than offset by the deterioration in fiscal risks. This should weigh on the intrinsic value of the PHP.

- **Growth and Inflation Outlook**: After expanding by 5.8% in 2015, the economy is expected to continue to accelerate in 2016 underpinned by election-related spending and front-loading of government projects. This should boost both domestic consumption as well as investment spending, which could mitigate any slowdown in remittances as a result of slower growth in the G3 and oil-producing Middle Eastern economies. Remittances rose by just 3.4% y/y in Jan after rising by 4.9% in Dec. The drag to the economy could also come from sluggish external demand. Exports have so far contracted for the past 10 months (2015: -5.6%) with exports falling by 3.9% y/y in Jan (Dec: -3.0%). Our economic team continues to believe that the economy could expand by 7.0% in 2016 as a result of election-related spending and accelerated government spending. This is in contrast to the Economic Planning Secretary who is expecting growth to come in at just 5.9% in 2016.

- Inflation continues to moderate, rising by 0.9% y/y in Feb from Jan's 1.3%. Similarly, core inflation moderating rose by 1.5% y/y in Feb, a moderation from Jan's 1.8%. Once again, softer prices of energy-related items (transport and utilities) due to the drop in oil prices helped to contained inflationary pressures in Feb. Transport cost was down -0.5% in Feb vs. +1.5% in Jan and housing and utilities cost fell by a sharper 1.2% in Feb vs. Jan's -0.5%. Also, keeping price pressure to the downside was moderating food prices (Feb: 1.5% vs. Jan: 1.7%). As a consequence of moderating price pressures, the central bank has once again cut its 2016 inflation forecast to 2.1% from 2.2% previously. 2017 inflation outlook was also lowered to 3.1% from 3.2% previously. 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 4.0% and 2.5% for the twelfth consecutive meeting on 23 Mar. BSP inaction was not surprising given that the central bank continued to be sanguine about the economy with domestic demand still firm and liquidity conditions still adequate. As well, inflation expectations remained well-anchored this year and into 2017. According to BSP governor, there is little need for the BSP to deviate from its current monetary stance. However, he did warn again that the central bank would not hesitate to make adjustments to contain any "unwarranted exuberance". That said, we believe that the central bank is likely to keep its current policy stance on hold especially following the implementation of the interest-rate corridor. 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. With growth likely to outperform its regional peers, the Philippines remains one of the few economies where the bias is tilted to tightening than an easing. Any rate hike is expected only at the end of 2016.

- **Latest Fiscal and External Balance Outlook:** The budget deficit ballooned in Dec to PHP75.1bn from Nov's surplus of PHP6.0bn, a result of the government's accelerated spending to meet its spending targets and lower revenues. For the full-year, the budget deficit was at PHP121.7bn in 2015 – the widest deficit since 2013's deficit of PHP164.1bn. The deficit accounted for 0.9% of GDP which was higher than 2014's 0.6% but still way below the 2% cap set in 2015.
- The overall balance of payments (BoP) remained in deficit in Feb. The BoP deficit at USD0.32bn was smaller than Jan's USD0.81bn. Despite the two consecutive months of deficits, the BSP remains sanguine about external balances prospects. The BSP expects the BoP to achieve a surplus of USD2.2bn in 2016.
- **Key domestic events and issues to watch:** There are no events or issues of note in Apr.
- **Technical Outlook:** USDPHP traded with a bearish bias over the past month. Pair was last seen at 46 levels. Daily momentum indicator is indicating a mild bearish bias. 21 DMA cuts 200 DMA while 50 DMA cuts 100 DMA – an indication of mild bearish bias. Next support at 45.64 levels (50% fibo of 2014 low to 2016 high). Resistance at 46.22 (38.2% fibo), 46.70 (200 DMA).

THB: Political Tensions Could Reignite

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USD/THB	35.50 (37.00)	36.50 (37.50)	37.00 (37.50)	37.00 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** USDTHB rose 2.55% against the USD so far in 2016 with Mar seeing the pair gain 1.3% vs. the USD. Portfolio inflows increased as global risks sentiments with the expected delay in Fed fund rate hikes, supporting the pair's slide lower. The gains in Mar have made it unlikely that the USDTHB would climb rapidly in 2Q. But we still expect upside risks to the USDTHB as the stimulus packages may have helped to prevent a free-fall in the economy but did not spurred any sharp economic recovery. Similarly, political uncertainty is expected to rise in the lead-up to the referendum on the draft constitution in Aug and see USDTHB volatility is expected to increase. These are likely to weigh on investor sentiments and put downward pressure on the THB.
- Portfolio inflows have so far been the saving grace for the USDTHB. Given expectations that rate hikes in the US could be delayed for longer as well as the negative interest rate policies of some of the advanced economies have spur portfolio inflows into Thai assets. Foreign investors had bought a net THB26.45bn and THB95.85bn in equities and government debt in Mar, weighing on

the USDTHB. Year-to-date, foreign funds have purchased a net USD18.98bn and THB160.86bn in equities and government debt, in sharp contrast to the sell-off of a net THB8.46bn in equities and net THB7.31 purchase of government debt over the same period last year. However, should global risks sour or political tensions erupt, capital flight is 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, the central bank is of the view that 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.
- The referendum to approve the new constitution is the key risk for the USDTHB. As expected, the the second draft charter plans to limit the powers of civilian politicians and allows for the military to continue to play an active role in politics. Political tensions are likely to intensify in the lead up to the referendum in Aug and could weigh on investor sentiments, putting downside pressure on the THB.
- We therefore continue to see downside risks to the THB and expect the USDTHB to climb to 35.50 by end-2Q and then higher to 36.50 by end-3Q as political tension rise prior to the referendum and post-referendum regardless of the outcome. The pair is expected to settle higher at 37.00 by year-end as the Fed is expected to hike it fund rate then and should continue to hover around 37.00 by 1Q 2017.
- **Our Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Thailand improved to 4.6 from 4.7 on the back lower PE valuation and inflation risks that offset the deterioration in fiscal risks and risks to yield. This is likely to support the intrinsic value of the THB.
- **Growth and Inflation Outlook:** The economy continues to show sign of economic stabilization. Recent data released by the BoT showed that both private consumption and private investment up by 3.3% and 1.95% y/y in Feb. Exports were up by 6.2% y/y in Feb, though imports continue to slip lower by 16.3%. Ongoing stimulus measures and the continued improvement in tourist arrivals should continue to underpin growth in 2016. Following in the footsteps of the National Economic and Social Development Board's (NESDB) downgrade of real GDP growth last month, the BoT also cut its growth forecast to 3.1% for 2016 from 3.5% previously.
- There does not seem to be any relief for inflation for now. Headline inflation remained in negative territory for the 14th straight month, contracting by 0.46% y/y in Feb. This though was an improvement from Jan's -0.50%. Softer global oil prices continued to drag inflation lower in Feb. Core inflation however picked up, rising by 0.75% y/y in Feb from 0.68% in Feb. Going forward, the weak THB , firmer global oil prices, the low base effect and improving domestic demand could provide some relief to inflation. The BoT continues to expect headline and core

inflation to average 0.8% and 0.9% respectively in 2016, but any changes to the forecasts is expected only in May.

- **Monetary Policy Forecast:** With policy rate already close to historical lows at 1.50%, there was little need for the BoT to adjust the policy rate for now. Not surprisingly, the BoT kept its policy rate steady at its policy meeting on 23 Mar. We do not expect any rate adjustments 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. The preference remains for fiscal policy to do the heavy lifting of supporting the economy. The BoT is likely to cut rates only in the event of a risk event. 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.
- To make it easier for capital to flow out of Thailand, the central bank is allowing commercial banks to offer FX derivatives based on other currencies other than the baht to all customers, effective 18th Apr. Intermediaries for FX trading with banks were also widened to include securities companies. Also, qualified companies in telecoms, e-payments and money-changers are now allowed to act as transfer agents to facilitate electronic fund transfers. Finally, the daily limit for outward transfers was raised to THB200,000 per customer from USD2,000 previously.
- **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:** There are no events or issues of note in Apr.
- **Technical Outlook:** USDTHB was the other outlier in USD/AXJs which saw similar price movement as USDIDR for the month of Mar. But looking at price action, there could be further downside for USDTHB. There is also a death cross – 50 DMA cutting 200 DMA to the downside. Bullish momentum on monthly and daily indicators is waning. Daily stochastics suggests the pair is at overbought conditions. Downside should target 35-figure (38.2% fibo retracement of 2015 low to high) before 34.50 (50% fibo). Resistance at 35.50 (200 DMA).

INR: Bullish Bias

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2016
USD/INR	66.00 (68.00)	67.50 (68.50)	66.00 (67.50)	67.00 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** USDINR could see further downside, after surpassing our target of 67.50 for 1Q. The pair had taken a sharp U-turn right after the budget delivery on 29 Feb as investors cheered the government's resolve to maintain its fiscal discipline despite a high annual growth target of 7-7.5%. The relief rally looks set to continue into Apr. We had anticipated growth boosting measure to trigger the relief rally but the Finance Ministry surprised with its resolve to keep to the fiscal targets of 3.5% of GDP for 2016/17. Market investors cheered and the USDINR surpassed our target of the 67-figure towards 66.23 as we write.

- Fundamentally, the currency is still attractive base on growth differentials with regional peers. While industrial production prints for Jan remained soft, forward looking indicator PMI-mfg for Feb steadied at 51.1. In addition, we continue to see extended period of low oil prices which could allow RBI time to tackle "agflation" and savings from oil prices could 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.

- Moving into Apr, election season is here with five states holding elections – West Bengal, Tamil Nadu, Kerala, Puducherry and Assam. According to recent polls done in Mar for West Bengal, the voters still favour Trinamool Congress so investors may not be too hopeful for an improvement in the seat tally. That said, there seems to be more upside risks than downside given the fact that the incumbent does not hold many seats in the Rajya Sabha (Upper House) anyway. Hence, USDINR could be set to reach towards the 65.80-target within the next quarter.

- **Our Maybank vulnerability score (using 9 economic and market variables:** GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for India held steadied at 4.6 with scores for all variables unchanged in the past month.

- **Growth and Inflation Outlook:** High frequency data suggests that domestic activity could still be subdued as industrial production for Jan shrank by another -1.5%y/y vs previous -1.3%. However, forward looking indicator PMI-mfg kept steady at 51.1 while that of the services deteriorated to 51.4 from 54.3. In addition, the output from the key eight infrastructure industries actually gained pace to 5.7%y/y from previous 2.9%. The external sector remained weak with another decline for exports by -5.7%y/y in Feb, albeit a smaller contraction than the previous -13.6%. The government's focus on the rural sector and manufacturing could boost consumption and investment.

- Feb CPI eased unexpectedly to 5.18%y/y from previous 5.69%. The WPI also fell more than expected by 0.91% in Feb after a decline of -0.9% in the month prior.

- 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.

- **Monetary Policy Forecast:** We expect RBI to deliver a 50bps cut at its next meeting on 5 Apr, given the central bank's penchant to surprise the market. Consensus expects a 25bps cut. Domestic conditions remain subdue, risks of inflation turning higher later in the year and some form of compromise achieved by the government to keep to fiscal discipline whilst providing some higher fiscal spending on the economy could prompt RBI to move in Apr. In addition, Finance Minister Jaitley has started to urge for interest rate cut as he sees a need for more competitive cost of capital in India.

- **Latest Fiscal and External Balance Outlook:** Since the start of Mar, foreign investors bought USD3.18bn of equity and sold USD525.8mn of bonds. The upbeat sentiment in the stock market is in line with the region and was also boosted by the relaxation of capital requirement norms for lenders. On 30th Mar, RBI announced that the cap for foreign portfolio investors in government securities will be raised by INR105bn from 4 Apr and by another INR100bn by 5 Jul. Un-utilized limits of government securities could be made available to open category in the next half of the year.
- India's fiscal targets were held steady at 3.5% for FY16/17. The government highlighted "Transform India" that is meant to boost domestic demand, continue the pace of economic reforms and policy initiatives. There was also focus and budget allocation for agriculture and farmers' welfare - Irrigation projects will be sped up, a dedicated Long Term Irrigation Fund will be created as well as programme for sustainable management of ground water resources. There is also a substantial amount allocated to education and health care, as well as infrastructure and investment. Total expenditure projected to be INR19780bn – INR14280bn of which is non-plan and INR5500bn is plan. The plan and non-plan classification will be scrapped in the next fiscal year.
- Current account deficit narrowed slightly to $7.1bn in the quarter ending Dec from the previous $8.7b due to the better performance of net exports of goods (-U$34.0bn vs previous U$37.4bn) and greater net current account services surplus at USD18bn.
- **Key domestic events and issues to watch:** RBI meets on the 5th. India has Mar PMI-mfg due on the 4th, trade numbers on the 8-18th. Feb industrial production and Mar CPI are due on the 12th. WPI is due on the 14th. Second half of the Parliament session begins on 20 Apr.
- **Technical Outlook:** A critical month ahead as USDINR tests the lower bound of the upward sloping trend channel that has formed since 2014. Last seen around 66.25, a break of the 200-DMA at 65.80 which coincides with the lower bound mention, could confirm a double top at 68.75 and risks extending downsides towards 64.77 (38.2% Fibonacci retracement of the 2014-2016) before the next at 63.54 (50%). Failing to break below may set the USDINR back on the upmove within the upward sloping trend channel.

VND: More Action In A Range

Forecast	2Q 2016	3Q 2016	4Q 2016	1Q 2017
USD/VND	22300 (22600)	22600 (22800)	22400 (23000)	22800 --

Previous Forecast in Parenthesis

- **Motivation for the FX View:** True to the title of our last FX monthly for Mar, USDVND kept much of its action within a range. With SBV able to make daily adjustments to the USDVND, the pair seems to behave more market determined than before. While demand for dollars will still be there, there have been administrative cushions to prevent USD holding and that has ease the upside pressure on the USDVND. Into 2Q, action is likely to be choppy but limited dollar strength could mean upsides could remain capped.
- Medium term, Vietnam continues to 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 direct investment continues to surge (into Vietnam as foreign invested enterprises strives to raise their capital and production capacity. That could continue to strengthen the VND.
- Given our expectations for limited dollar strength, Fed hike in Jun, we revise our 1Q forecast lower towards 22300. We also take into account resilience exhibited by VND and less depreciation for VND towards 22800 by the end of this year.
- **Growth and Inflation Outlook:** Mar PMI-mfg improved slightly to 50.7 from 50.3. The month saw an acceleration in new business, new orders, and output. However, pace of expansion is still modest and there was a slight decline in employment. Input prices rose for the first time in nine-months along with higher crude. Mar industrial production also indicated a slower rate of 6.2%y/y growth compared to the previous 7.9%. Retail sales slowed to 9.1% in the first three months of the year from 9.7%. Trade surplus was maintained in Mar at U$100mn. Exports growth remained subdued, albeit gained pace from 2.9%y/y in Jan-Feb to 4.1%y/y for the first quarter. Imports bill shrunk less by -4.8%y/y (ytd) from previous -6.6% for Jan-Feb.
- CPI sped to 1.7%y/y in Mar from 1.3% in Feb, overshooting consensus once again. Higher price pressures in food, education and medical products/healthcare were the key components which boosted the headline. Despite the higher food costs which is not uniquely Vietnam and likely due to the strong episode of El Nino that just past, low energy costs have capped inflationary pressures and keep the CPI near historic low levels.
- **Monetary Policy Forecast:** 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.

- The SBV had been rather quiet in the past month. 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.
- **Latest Fiscal and External Balance Outlook:** 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 4% of GDP from 5% in 2015. Our analyst is also of the view that it is in the interest of the Communist Part of Vietnam to continue with the implementation of Vietnam's structural reforms.
- Vietnam's external balance is expected to weaken this year on weaker exports as external environment remains challenging. Current account recorded a surplus of USD0.655bn in 3Q (latest data available). The expected deterioration on the external front was a key reason for us to expect an approximate 3% depreciation in the VND. However, the amount of foreign direct investment has surpassed our expectations and we now expect less than 2% depreciation in the dong within the year.
- **Key Domestic Events and Issues to Watch:** Apr CPI is due on the 24th. Trade balance, retail sales and industrial production for the same month will be released anytime within 25-30 Apr.
- **Technical Outlook:** USDVND seems to have broken the 200-DMA. With the 50-DMA and the 200-DMA at the brink of a golden cross, downside pressure is strong. The clearance of the 22260-support could spur the pair towards the support at the next 22177-support (Jan low). On the daily chart, stochastics seem to be rising from oversold conditions and we see some short-term upside in the pair. The weekly and monthly charts are mixed. While weekly chart signals waning bearish momentum, monthly chart indicates some bearish bias. As such, we expect current consolidation within the 22200-22600 to continue until further cues.

2016 FX Forecasts

	End Q2-16 f	End Q3-16 f	End Q4-16 f	End Q1-17 f
USD/JPY	110	114	116	120
EUR/USD	1.1300	1.1100	1.1200	1.1100
GBP/USD	1.4000	1.4400	1.4800	1.4800
AUD/USD	0.7800	0.7500	0.7800	0.7500
NZD/USD	0.6800	0.6600	0.6700	0.6600
USD/SGD	1.3400	1.3600	1.3700	1.3800
USD/MYR	3.9000	3.9500	3.8500	3.9000
USD/IDR	13200	12950	12500	12400
USD/THB	35.50	36.50	37.00	37.00
USD/PHP	47.00	47.50	47.80	47.50
USD/CNY	6.50	6.55	6.50	6.55
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	33.40	33.40	33.50	32.80
USD/KRW	1180	1190	1170	1180
USD/INR	65.80	66.50	66.00	66.50
USD/VND	22300.00	22600	22400	22800
SGD Crosses	**End Q2-16 f**	**End Q3-16 f**	**End Q4-16 f**	**End Q1-17 f**
100 JPY/SGD	1.2182	1.1930	1.1810	1.1500
EUR/SGD	1.5142	1.5096	1.5344	1.5318
GBP/SGD	1.8760	1.9584	2.0276	2.0424
AUD/SGD	1.0452	1.0200	1.0686	1.0350
NZD/SGD	0.9112	0.8976	0.9179	0.9108
SGD/MYR	2.9104	2.9044	2.8102	2.8261
SGD/IDR	9851	9522	9124	8986
SGD/THB	26.49	26.84	27.01	26.81
SGD/PHP	35.07	34.93	34.89	34.42
SGD/CNY	4.85	4.82	4.74	4.75
SGD/JPY	82.09	83.82	84.67	86.96
SGD/HKD	5.82	5.74	5.69	5.65
SGD/TWD	24.93	24.56	24.45	23.77
SGD/KRW	880.60	875.00	854.01	855.07
SGD/INR	49.10	48.90	48.18	48.19
MYR Crosses	**End Q2-16 f**	**End Q3-16 f**	**End Q4-16 f**	**End Q1-17 f**
EUR/CNY	7.35	7.27	7.28	7.27
EUR/MYR	4.41	4.38	4.31	4.33
JPY/MYR	3.55	3.46	3.32	3.25
MYR/HKD	2.00	1.97	2.03	2.00
MYR/CNY	1.67	1.66	1.69	1.68
GBP/MYR	5.46	5.69	5.70	5.77
AUD/MYR	3.04	2.96	3.00	2.93
NZD/MYR	2.65	2.61	2.58	2.57
MYR/JPY	28.21	28.86	30.13	30.77
MYR/IDR	3385	3278	3247	3179
MYR/INR	16.36	16.46	16.87	16.84
MYR/KRW	303	301	304	303
MYR/PHP	11.34	12.05	12.03	12.42

Source: Maybank FX Research as at 1 April 2016. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

Disclaimers

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Saktiandi Supaat	Christopher Wong	Fiona Lim	Leslie Tang
Head, FX Research	Senior FX Analyst	Senior FX Analyst	Senior FX Analyst
saktiandi@maybank.com.sg	wongkl@maybank.com.sg	Fionalim@maybank.com.sg	leslietang@maybank.com.sg
(+65) 63201379	(+65) 63201347	(+65) 63201374	(+65) 63201378