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FX Monthly

2016, Issue VII: Are EM FX in a Sweet Spot?

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Key themes[1]

- First, US Fed timeline for eventual future rate hike remains data dependent. US growth recovery remains on track even as enhanced volatile market activity post-Brexit *remains likely. Still expect USD to be mildly positive with likely strength to emerge in Aug. We are now expecting a hike in 4Q 2016 (higher likelihood in Dec).*

- Second, the dateline for achieving Japan's 2% inflation target remains at 2H FY 2017 (by Mar 2018) 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. *BOJ's Jul meeting disappointed but the latest statement has new information that is interpreted by markets as a likelihood of a Sep easing move. On 2 Aug, we have the release of the details for the massive fiscal package promised by PM Abe. This will be followed by a cabinet reshuffle on 3 Aug. BOJ Deputy Governor Iwata speaks in Yokohama on 4 Aug. We have preliminary 2Q GDP print on 15 Aug. JGB auctions in Aug: 10-year (2 Aug), 30-year (9 Aug), 5-year (18 Jul), 1-year (17 Aug) and 20-year (23 Aug).*

- Third, post-Brexit, EU contagion risks remain and could weigh on the EUR but this appears to be a medium term issue for now. *Initial worry for European bank stress test results did not materialise as EBA findings (30 Jul) showed that EU banking sector remains resilient to an adverse scenario. With 1 less stress event (EBA banking stress test and stop-gap solution to Banco Monte Paschi), we revise upwards our near term outlook for EUR towards 1.11 in 3Q and 1.10 for 4Q 2016. Over the next 1-2 months, we expect the EUR to trade 1.0950 - 1.1350 range. There is no ECB meeting scheduled for Aug. Data/Events we are watching for the month ahead are Euro-area 2Q GDP (12 Aug); Aug ZEW survey (16 Aug); Jul CPI, ECB Minutes(18 Aug); Aug flash PMIs (24 Aug).*

- Fourth, China still has excess capacity, heavily indebted corporations and huge liquidity injections continue to add immense pressure on the economy and the yuan medium term. *PBOC continues to rely on SLF, MLF and PSL as liquidity tools rather than interest rate cuts and RRR cuts. The 6.70-level is seen as the line to be defended by PBoC for now, ahead of key events like the G20-Summit in Sep and the official SDR inclusion on 1 Oct. PBOC desires CNY to be more aligned with its "fundamentals" in the hopes that when markets start to price in a Fed hike, CNY would not come under as much pressure as before. BoP Current Account balance for 2Q is due on the 4th. Foreign reserves is scheduled for release on the 7th. Jul trade is due on the 8th. CPI and PPI on the 9th. Liquidity prints are due anytime from 10th-15th. Activity data is due on 12th. We also like to watch Jun industrial profits due on the 27th.*

- We could see some USD support as cautious risk sentiments may linger post Brexit. *In the lead up to Sep/Dec FoMC, USD could be more supported against G7 majors (i.e. GBP and EUR) than against AXJs. High yield plays may emerge, lending support to AXJs including AUD, IDR, INR, PHP. In current low rate environment and mildly supported risk sentiment, carry trades could outperform - Bias to Long AUD, MYR, IDR. We take opportunity to add hedges to our view by buying USD on dips. Given EU contagion risks, we continue to favor selling EUR and GBP on rallies.*

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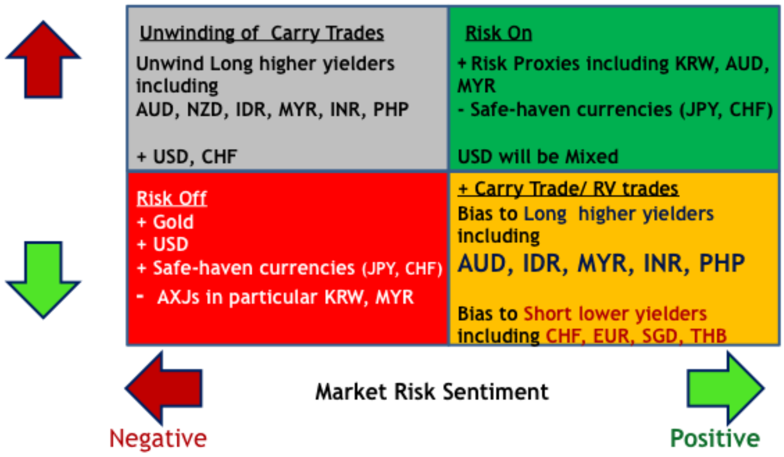
So what?



- **Macro Themes:** We have revised our view now in line with our Economics team that Fed will likely raise target rate in Dec 2016. However, we still see some risk of at least one 25bps move earlier in 4Q 2016. We anticipate occasional potential shifts towards the top left quadrant from the bottom right (yellow quadrant) in the 2by2 grid shown above as we proceed ahead to Sep FOMC.

- **Major Currencies:** Expect USD to see modest strength but not by the magnitude we seen last year. Risk aversion and re-pricing of Fed hike expectation could support the USD. GBP to see bearish bias, weighed by political/Brexit uncertainty, risk of BoP crisis and BoE easing. EUR is likely to be weighed by EU contagion risks (arising out of Brexit), European banking sector stress (Italian banking sector and Deutsche Bank) and ongoing risk of ECB easing. Higher yielding and good quality sovereign bonds benefit in low global rates environment, given AAA rating. Near-bottom commodity prices also protect the downside for AUD. NZD continues to be weighed by expectation for RBNZ monetary easing and macro-prudential policies. Yield differentials in favor of Kiwi could mitigate some of the negativity. Still expect further easing moves by the BOJ in Sep to complement fiscal stimulus should weigh on the JPY, though safe-haven flows could limit weakness in the JPY.

- **AXJs:** PBOC has allowed significant TWI depreciation in the absence of Fed hike expectations. Once markets start to price in a rate hike in the near future, TWI decline will stall or even reverse in the near term. Some weakness in the MYR in the short term but expected to see gains amid fund inflow, supported oil prices and positive risk appetite. Domestic and external headwinds continue to weigh on the SGD. Government spending and quasi-safe haven inflows though should be supportive. Risks of further MAS easing cannot be ruled out but is not our base case. SGD should remain weak. The improving economic fundamentals and introduction of reforms and economic liberalization (including the tax amnesty law) should continue to generate positive sentiments and encourage greater FDI and portfolio inflows. These should be IDR-positive. The Philippines economy should outperform its regional peers but implementation/execution risk under the new administration could weigh on the PHP for the next 3-6 month. Risks from regional geopolitical tensions arising from the South China Sea claims could undermine the economy. We remain bearish on the PHP. High yield, strong growth, recent policy reforms underpin the INR. We are wary of GST implementation uncertainties and the appointment of a new RBI Governor that can continue the works of Rajan. Cautiously optimistic to sell USDINR on rallies.

- We still see potential inflows into AXJs as markets search for higher yielding plays amid a near-zero rate environment (in the developed world). In the medium term, we favor IDR and INR.
- Risks to our view are further developments out of Eurozone in response to the Brexit that could potentially trigger a financial meltdown, sharp deterioration in China's growth, crude supply overhang that could drag on oil price and a Donald Trump Win.

G7 Global Overview

USD: Dollar Strength in the Making

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USD Index	98.52 (99.84)	98.91 (99.75)	99.84 (99.89)	99.04 (98.88)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We expect at least one rate hike in 4Q 2016, more likely in Dec after the US Presidential elections. We do caution that additional repricing of a surprise Fed hike earlier in Sep (due to market complacency over Fed rate hike trajectory) could continue to see UST yields higher in particular Treasuries 2y and below, and see **USD strength (buy the rumor) in the lead-up to the FOMC** meetings. At the same time post Brexit equilibrium, may lead to lower risk sentiment and rising risk premiums, before it affects global consumption, investment growth and then the real economy. During this transition phase and around FOMC announcements, we believe the **USD could still be mildly supported**.
- Recent economic data including home sales, retail sales, consumer sentiment, durable goods orders have remained generally firm but recent data have been mixed particularly. Labor market is at or near full employment and inflation progressing towards Fed's medium term objective of 2% but recent June FOMC statement indicates that pace of improvement in the labor market has slowed while growth in economic activity appears to have picked up. Although the unemployment rate has declined, job gains have diminished. Growth in household spending has strengthened. In the June post statement conference, Yellen highlighted the UK referendum as one potential reason why a Fed rate hike may need to delayed. The recent July FOMC statement provided a more positive outlook on the US economy and labor market but relatively unchanged view about the benign inflation outlook. What stood out was the reduced cautious stance about external risks to the US outlook, as it added a new statement that "Near-term risks to the economic outlook have diminished".
- Recent developments post Brexit, have led to increased risk aversion and concerns about impact on global growth. We do observe there have been ongoing adjustments with regards to Fed rate hike expectations - Implied probability of Fed hike in Sep, Nov and Dec have risen from lows only a month earlier.
- However, we think any moves on the dollar is conditional on upcoming FOMC statements and projections. We expect the Fed to acknowledge that recent economic data remains relatively resilient, continues to

reiterate gradual and cautious pace of tightening; economic/inflation projection have been revised lower from previous quarter's projection; but dots plot still signal at least one rate hike this year.

- **Growth and Inflation Outlook:** The US economy grew at a much slower pace than expected in the second quarter and GDP was revised down in 1Q 2016. US grew at 1.2% y/y 2Q below consensus estimates of 2.6%. 1Q growth was revised down from 1.1% to 0.8%. Conversely, consumer spending surged in the three months to June by an annual pace of 4.2% - the fastest pace since the fourth quarter of 2014. Although consumer spending grew, business investment, which includes stock, supplies, equipment and buildings, fell by 9.7% in the second quarter. Investment in business inventories fell by $8.1bn between April and June, the first decline since the third quarter of 2011. The US trade deficit had widened to $63.3bn in June from $61.1bn the month before. The latest GDP figures are the first estimate of growth for 2Q, and a second reading based on more data will be announced on 26 August. A separate report showed manufacturing activity in New York State slowed in early July, after a big gain in the previous month.
- In the June FOMC, Fed's forecasts for US GDP growth and inflation rate for 2016 were trimmed to 2.0% annual rate (from 2.2% annual rate) and 1.4% YoY from 1.2% YoY respectively, although the unemployment rate forecast remain at 4.7%. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2% over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further. The next FOMC projections will be released on 22 Sep.
- **US June CPI rose in June.** CPI rose 0.2% in June after a similar gain in May. YoY the CPI advanced 1.0 %, matching May's increase. The YoY increase is below the 1.7% average annual increase over the last 10 years. Numbers were below expectations for 0.3% m/m and 1.1% y/y. Core CPI, which strips out food and energy costs, also rose 0.2% in June, rising by the same margin for three consecutive months. That lifted the year-on-year core CPI gain to 2.3% from 2.2 percent in May. Fed's preferred measure of inflation – PCE core inflation for 2Q remains at around 1.7% y/y in June. While most survey measures of longer-run inflation expectations show little change, on balance, in recent months, financial market measures of inflation compensation have declined.
- **Monetary Policy Forecast:** Fed kept the target fed funds rate (FFR) at 0.25%-0.50% for the fifth consecutive FOMC meeting this year after the 25bps hike at the 15-16 Dec 2015's FOMC meeting. We are pricing in a 25bps hike at this year's final FOMC meeting on 13-14 Dec 2016 i.e. after US Presidential Election.
- The key changes in the latest FOMC statement is on the assessment of labour market condition and pace of economic activity i.e. the former "strengthened" (vs "slowing pace of improvement" previously) while the latter "expanding moderately"(vs "picked" up previously) as household spending "growing strongly" ("strengthened" previously), with the addition of "near term risk to the economic outlook have diminished" and the removal of "drag from net exports".
- Despite the more positive assessment on the labour market and economic growth conditions, we believe the Fed is "event-driven" than "data -dependent" at this juncture. This was exemplified by the no rate change decision at the 14-15 June FOMC meeting that came just before UK's EU referendum on 23 June 2016, and there is the upcoming US Presidential Election (8 Nov 2016) that is preceded by the FOMC meetings on 19-20 Sep 2016 and on 30 Oct –1 Nov 2016.

- Quick analysis of Fed's interest rate moves during the previous 10 US Presidential Election years suggests Fed is independent of the election cycle. However, Fed may have to factor in the political economy risk from the upcoming US Presidential Election, especially in view of the Republican's candidate Donald Trump's campaign rhetoric of getting tough on immigration and trade, to the extent of building walls at US-Mexican border, renegotiating existing free trade agreements (FTAs), and slapping heavy duties on imports from China and Mexico.
- The pause in FFR hike at FOMC meetings so far this year after the 25bps hike at the 15-16 Dec 2015's FOMC meeting underscores Fed's "data-dependent" and "event-driven" decision-making process.
- Our view is Fed will do a replay of 2015 i.e. another year of 25bps hike at the final FOMC meeting of this year on 13-14 Dec 2016 i.e. after US Presidential Election, especially if Democrat's Hilary Clinton wins. To note, within the context of Fed's dual mandate of maximum employment and stable prices, one of Clinton's expected key policies is the hike in Federal minimum wage.
- Under the outgoing President Obama, the proposal was for a hike to USD10.10 per hour (partially enacted for individuals working on new federal service contracts in 2014) from USD7.50 per hour (which was last increased in 2009 from USD6.55 per hour). If happened, the minimum wage hike could sustain the upward trend in wage growth since late- 2015 amid falling unemployment rate which can lifts inflation rate towards Fed's preferred 2% level.
- Interestingly, Donald Trump is now expressing support for minimum wage hike, although his view for this to be done at the discretion of the individual states instead of being mandated at Federal level.
- **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 Aug 2016:** Key US events: ISM Manufacturing Mar (1 Aug) (expected: 53.0); Factory Orders (4 Aug); NFP (5 Aug); July 27 FOMC minutes release (18 Aug); CPI (16 Aug); GDP 2Q (26 Aug); PCE Core (29 Aug). Fed Lockhart speaks in Knoxville (17 Aug); Fed Bullard speaks in St Louis (18 Aug); Fed Williams (19 Aug); Yellen speaks at Jackson Hole (26 Aug).
- **Technical Outlook:** Price action suggests a correction could be due for dollar index, post-FOMC meeting (28 Jul). This could come as soon as in the next few days. Daily momentum and stochastics are showing signs of turning bearish bias. Pullback could see the DXY visit 95.87 (50% fibo retracement of 2016 high to low) before 95 levels (38.2% fibo). Resistance at 96.5 (200 DMA), 97.96 (76.4% fibo). That said the underlying momentum on weekly chart remains intact; which suggests that a change of trend remains too soon to call.

EUR: Neutral

Forecast	3Q 2016	4Q2016	1Q 2017	2Q 2017
EUR/USD	1.1100 (1.0700)	1.1000 (1.0700)	1.0800 (1.0700)	1.1000 (1.0800)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Initial view for EUR weakness did not materialize as stresses on the banking sector appears mitigated by latest EBA stress test results and decision by the Board of troubled Italian bank Banca Monte Paschi to unload NPLs and raise fresh capital. 3m EURUSD basis spreads started to narrow, a reflection of receding credit risk and receding stress on USD funding. That said there remains political contagion risks and may pose downside risks to EUR, sometime in the future (likely to be in Oct which sees Austria's re-run of elections and Italy referendum on Constitution Reforms). With 1 less stress event (EBA banking stress test and stop-gap solution to Banco Monte Paschi), we revise upwards our near term outlook for EUR. Over the next 2 months, we expect EUR to trade in range between 1.0950 – 1.1350.

- EBA stress test results (30 Jul) demonstrates the resilience of the EU banking sector to an adverse scenario. According to EBA, the EU banking sector has significantly shore up its capital base in recent years, leading to a starting point of capital position for the stress test sample of 13.2% CET1 ratio at the end of 2015. This is 2% higher than in 2014 and 4% higher than in 2011.

- That said we continue to caution that vulnerabilities in the European banking sector remain and note that the EBA stress test was designed to support ongoing supervisory efforts to maintain the process of repairing the EU banking sector, and it does not contain a pass/fail threshold (unlike the recent US Fed banking sector stress test in Jun).

- Just before the EBA stress test results was released on 30 Jul, the board of Banca Monte Paschi approved a plan to unload EUR9.2bn of NPL to Atlante (a fund designed by the Italian government and financed by Italian banks, insurers, pension funds and other investors), and raise fresh capital of EUR5bn (6 times its current market capitalization) to rebuild its capital buffer. A consortium of banks led by JP Morgan and Mediobanca will underwrite the capital increase. This plan avoided a state rescue which otherwise would have led to potential face-off between Italian PM Renzi and European Commission (which bond holders to take a hit in the event of public bank bailout). These rules were designed to prevent taxpayers from paying the bill for bank rescues. But poses dilemma for PM Renzi as taxpayer bailout will irritate voters and could result in voters supporting anti-EU skeptics (5-Star Movement) while failing to protect bondholders would also backfire (as 1/3 of bank bondholders are household retail investors). This has now been avoided, for now.

- We had cautioned that there are many political events coming up including the Austrian Presidential elections (2 Oct), Italy referendum on constitutional reform (Late Oct/ Early Nov), Netherlands elections in Mar 2017, France elections in Apr 2017 and Germany is also scheduled to hold elections in Aug-Oct 2017, could add to uncertainty and weigh on recovery as risk of Far-Right parties stoking anti-EU sentiment is rising. These political events and the risk of "Leave EU" referendums (if held) could undermine the future of the Euro-club, create noises, heighten the level of market uncertainty, and weigh on the EUR.

- **Growth and Inflation Outlook:** IMF has lowered 2017 growth outlook for the Euro-area to 1.4% (from 1.6%), taking into consideration the negative impact of the UK referendum outcome. 2016 growth was still projected to firm (1.6% vs. previous projection of 1.5%) due to continuation of growth momentum. ECB staff revision of forecast will only be made available in Sep 2016. We believe the UK fallout should continue to cast a long shadow on Euro-area's recovery. From a trade perspective, UK represents 37% of EU's total trade and a number of European countries ran trade surpluses with the UK. Disruption to trade flow will have impact on growth prospects for the EU region. From a political standpoint, there are numerous political events coming up including the Austrian Presidential elections (2 Oct), Italy referendum on constitutional reform (Late Oct/ Early Nov), Netherlands elections in Mar 2017, France elections in Apr 2017 and Germany is also scheduled to hold elections in Aug-Oct 2017, could add to uncertainty and weigh on recovery as risk of Far-Right parties stoking anti-EU sentiment is rising. Not forgetting the timing of UK triggering Article 50. All these are medium term negative on Euro-area.
- 2Q Euro area growth will be released on 29 Jul (which our report would have been on the way for release). Euro-area 1Q GDP grew faster than expected at 0.6% q/q (vs. 0.4% previous print). On y/y terms, 1Q GDP grew 1.7% (unchanged vs. previous print). May IP fell by 1.2% m/m (vs. +1.4% in Apr). Decline was due to production of energy, durable consumer goods and intermediate goods. Euro-area composite flash PMI slip to 18-month low of 52.9 in Jul (vs. 53.1 in Jun). That said, the decline was better than expected and scores for composite, mfg, services remain in expansionary territories.
- **Euro-area inflation** unexpectedly returned to positive in Jun (+0.1% y/y vs. -0.1% in May). Core inflation also accelerated to +0.9% in Jun (vs. +0.8% in May). But this is likely to be short-lived as the recent UK fallout could lead to lower growth for the region and impact core inflation in the months ahead. For now, ECB currently forecasts 2016 inflation to average 0.2% before picking up to 1.3% in 2017.
- **Monetary Policy Forecast:** There is no ECB meeting scheduled for Aug. We believe ECB will continue to monitor financial conditions as a result of the UK fallout and not rush into adding more stimulus, unless necessary. ECB still have tools in its policy toolbox (OMT, LTRO, etc.) if need arises. We believe **ECB's top priority is to keep monetary conditions accommodative and ensure liquidity is ample to prevent any market disruption (i.e. funding stresses).**
- At the last ECB meeting (21 Jul), **ECB/Draghi comments were less dovish than expected.** ECB kept monetary policy status quo; noted that **initial assessment of *Brexit* impact of about 0.2-0.5ppts of GDP over 3 years**; reiterated its willingness, readiness and ability to act if need be. ECB's Draghi added that state-funded backstop would be useful in helping Italian banks sell down some of their bad loans, at times of exceptional circumstances (note that he does not have a direct say in this and still requires the European Commission to agree to this). The next ECB meeting is scheduled on 8 Sep when new ECB staff macroeconomic forecast will also be available then.
- **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.

- The current account of the euro area recorded a surplus of €30.8bn in May, reflecting surpluses for goods (€30.6bn), services (€5.9bn) and primary income (€3.2bn), which were partly offset by a deficit in secondary income (€8.9bn). 12-month cumulative current account surplus stood at 3.3% to GDP.
- **Key domestic events and issues to watch:** Euro-area 2Q GDP (12 Aug); Aug ZEW survey (16 Aug); Jul CPI, ECB Minutes(18 Aug); Aug flash PMIs (24 Aug).
- **Technical Outlook:** EUR fell to a low of 1.0952 (25 Jul) prior to the FoMC meeting but has since rebounded (as we write) into the month's close. Last seen around 1.1120 levels. Daily momentum and stochastics are now showing tentative signs of bullish bias. Price action suggests a potential falling wedge in the making - typically a bullish reversal. A move higher towards 1.1070 (50% fibo, 200 DMA), 1.12 (38.2% fibo) cannot be ruled out. Support remains at 1.0940 (61.8% fibo), 1.0780 (76.4% fibo).

GBP: Weighed by Imminent Easing, *Brexit* Uncertainty

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
GBP/USD	1.2500 (-)	1.3000 (-)	1.3000 (-)	1.3500 (-)

Previous Forecast are in parenthesis

- **Motivation for the FX View**: GBP found some comfort after PM Theresa May was appointed earlier than expected. But we see this as a short-term relief as the negative impact of the UK fallout on the real economy has yet to unfold. We believe the negative ramification is expected to persist for longer. Recent Jul flash PMIs already hinted at tough times ahead for the world's fifth largest economy. BoE's initial economic assessment also seems to suggest that economic activity is likely to weaken in the near term. Furthermore much uncertainty remains over the timing of UK's trigger of Article-50 (media noted that it will not be triggered in 2016), its exit strategy with EU, bilateral trade relationship with other nations, London's status as a financial hub, etc. We **believe a combination of persistent uncertainty arising out of *Brexit*, imminent BoE easing on 4 Aug (though we are not expecting a material easing) should continue to keep the GBP under pressure.** We maintain our GBP forecast over the forecast horizon, but could potentially lower it when there is more clarity on the negative impact on the real economy.
- **Risks to our forecast**: GBP could be in for a longer period of pain - further downside pressure beyond our forecast level and volatile swings in the event of a delay and tussle in the trigger of Article-50. The Labor party election (results likely to be announced on 24 Sep) between Jeremy Corbyn and Owen Smith could see some uncertainty especially if Corbyn wins as he lacks support among the parliamentary party.

- **Growth and Inflation Outlook:** IMF has cut UK growth outlook for 2016 and 2017 by -0.2 ppts and -0.9 ppts, to 1.7% and 1.3% respectively. IMF noted that the referendum will damage short-term growth prospects via lower confidence and investment but factored in favorable trade terms into its forecasts. Increase in uncertainty is projected to weaken domestic demand significantly. We had previously said that a *Brexit* outcome could adversely affect the UK via various channels including trade, balance of payment (already suffering from twin deficits), investment flows and jobs. This will be a concern for financial stability and growth, in the next few months. Questions remain whether London can still maintain it status as a financial hub, if MNCs relocate HQs. These have repercussion on capital flows and jobs. Much uncertainty remains and is expected to persist for longer.
- On recent flash PMI readings (from Markit) for Jul, UK economy appears to contract at its steepest pace since early-2009. Flash PMI composite fell to 87-month low of 47.7 (vs. 52.4 in Jun); services PMI plunged to 88-month low of 47.4 (vs. 52.3 in Jun) and manufacturing PMI fell to 40-month low of 49.1 (vs. 52.9 in Jun). Output and new orders both fell for the first time since end-2012 and service providers' optimism for next 12 months plunged to 7.5 year low.
- This echos the economic assessment in BoE's recent MPC statement - *"there are preliminary signs that the result has affected sentiment among households and companies, with sharp falls in some measures of business and consumer confidence. Early indications from surveys and from contacts of the Bank's Agents suggest that some businesses are beginning to delay investment projects and postpone recruitment decisions. Regarding the housing market, survey data point to a significant weakening in expected activity. Taken together, these indicators suggest economic activity is likely to weaken in the near term."*
- **On inflation outlook**, we expect the large decline in GBP exchange rate to exert upside pressure on prices (via the import price channel), given UK imports more than it exports. This should erode the purchasing power of the UK consumer and weigh on growth slowdown.
- Headline CPI rose by 0.5% in Jun (vs. 0.3% in May) as a result of the jump in airfares (possibly in relation to Euro-Cup last month). Core inflation was also firmer at 1.4% (vs. 1.2% in May).
- **Monetary Policy Forecast: We believe a 25bps cut at the Aug meeting is likely but material easing remains too soon to call.** Question remains if there will be asset purchases to accompany the rate cut, which we believe still requires further assessment of financial conditions, investor sentiment and potential impact of economic growth at this point. This is also in line with comments by BoE's Weale (18 Jul) - he sees weaker demand **but needs more evidence for rate cut; added that BOE shouldn't act because markets it to; BoE is not a nurse to markets.** This was in contrast with BoE Chief Economist Haldane's comments (15 Jul) that material easing is likely to be needed in Aug as one part of a collective policy response aimed at helping to protect the economy and jobs from a downturn.
- At the last MPC meeting (14 Jul), BoE kept policy rate unchanged at 0.5% (9by a vote of 8 – 1). The statement noted that "most members of the Committee expect monetary policy to be loosened in August. The Committee discussed various easing options and combinations thereof. The exact extent of any additional stimulus measures will be

based on the Committee's updated forecast (which will be out in the next MPC meeting on 4th Aug).

- **Latest Fiscal and External Balance Outlook:** UK government's borrowing fell to its lowest level since 2008 thanks to higher tax receipts from workers and businesses. The UK government borrowed £25.6bn in the three months to the end of June, £2.3bn less than it did during the same period last year.
- We believe the new chancellor, Philip Hammond is unlikely to meet the OBR's current deficit target of GBP55.5bn this year as *Brexit* vote could result in increase borrowing over the coming years.
- UK's 4Q current account deficit widened to record levels of 7% of GDP since data collection began in 1955. This was due to drop in exports and a rise in imports, large increase in primary deficit (lower returns to UK from investment abroad).
- **Key domestic events and issues to watch:** BoE meeting (4 Aug) will be closely watched – if BoE eases reduces policy rate. Jul CPI, PPI (16 Aug); Jun labor report (17 Aug); Jul retail sales (18 Aug); 2Q GDP (26 Aug).
- **Technical Outlook:** GBP slipped further, made multi-year low of 1.2798 (6 Jul) before rebounding higher. Last seen at 1.3220 levels. Underlying momentum remains bearish bias and we still see GBP trying to establish a new trading range and lower equilibrium post-Brexit. But daily technical shows signs of mild bullish bias. Key level at 1.3322 (23.6% fibo retracement of Jun high to Jul low). A break above could expose the pair to another squeeze higher in the short term especially against stretched short positions. Next resistance at 1.35 (Jul high) before 1.3650 (38.2% fibo). Support at 1.30 before 1.28 (previous low).

AUD: A Cut May Not Take AUD Very Far South

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
AUD/USD	**0.74** (0.72)	**0.76** (0.72)	**0.75** (0.72)	**0.76** (0.74)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** AUDUSD is poised to end the month back where it started, last seen around 0.7480. Higher iron ore prices lent much support in a month of little other distractions. The Coalition win provided some boost but rating agencies have flagged that a lack of agreement on policies may delay fiscal consolidation and jeopardize its AAA rating. No matter, there are only a few AA rated anyway and even fewer that provides yield that matches that of Australian bonds. 2Q core inflation crept higher, beating expectations and lowering bets on a rate cut. We had initially anticipated European banks to come under some stress post Brexit. However, the past few weeks have shown that there are just too many unknown unknowns for anyone to react at all. Hence, higher yielding, AAA rated AUD is still in favour in an environment of low global interest rates.
- We still see risk of a rate cut by RBA next Tue (2 Aug) but probability is lower at this point. As we have said before, the rate cut in May was

a pre-emptive move to stymie rising strength in the Australian dollar but further moves to weaken the currency is likely to have diminishing returns. In addition, AUD is underpinned by iron ore prices which has been rather supported. In the past five years, rate cuts that have been done in other months apart from May (save for one in Nov 2011) has had little success in depreciating the AUD. In the meantime, core inflation surpassed expectations for 2Q and Jun saw 38.4K full time hires. These indicators have weakened the case for a rate cut. However, with OIS indicating a 65% chance of a rate cut expected by the markets, a failure to do so may drive the AUD higher which could affect the services trade growth. Therein lies the possibility of the cut.

- Towards the end of 3Q, we anticipate focus to shift towards the US Presidential Elections. A tight race between Donald Trump and Hillary Clinton may weigh on sentiments as a Trump Win is seen as negative for Asia. We anticipate some retracements towards the 0.72-figure as global conditions start to favour safe havens like USD, JPY and CHF. We still think that there is a potential for AUD to revisit 0.78 but we have tweaked the year end forecast to 0.74 to make more room for USD resurgence. We hold our view that AUDUSD is likely near the bottom and that the 0.70-80 range could hold for the rest of the year.

- **Growth and Inflation Outlook:** Jun labor report has been one of the better ones of late with 38.4K full time hirers. Jobless rate inched higher to 5.8% from 5.7%, accompanied by the higher participation rate of 64.9%. That bodes well for retail sales which has been rather weak, eking a 0.2%n/n growth for May. However, job additions may still see much fluctuation as hinted by ANZ Job advertisements which rose 0.5%m/m in Jun.

- Capacity utilization rate in the manufacturing and construction sector kept a steady uptrend but the same cannot be said of the services sector which fell to 73.3% from previous 73.8%. However, the latter may not see further deterioration as long as job additions continue to hold up.

- 2Q Inflation rebounded by +0.4%q/q from -0.2%, buoyed by higher costs in food, transport and housing. Tradable inflation rebounded to 0.6%q/q from previous -0.1%, possibly due to exchange pass-through effects of the cheaper AUD. Non-tradables inflation steadied around 0.4%. Year-on year, inflation slowed to 1.0% from previous 1.3%. The trimmer mean version surprised with a firmer than expected print of 0.5%q/q vs. previous 0.2%, narrowing the chances of a RBA cut on 2 Aug.

- **Monetary Policy Forecast:** We still see risk of a rate cut by RBA next Tue but probability is lower at this point. The Australian dollar has risen from its May lows on a trade-weighted basis and further strength could affect the growth of its services trade that has been thriving on the cheaper currency. However, a cut at this point may not bring the AUD much lower anyway as AUD largely tracks the iron ore prices which have been rather supported. In the past five years, rate cuts that have been done in any other months apart from May (save for one in Nov 2011) has never been successful in bringing the AUD lower. In the meantime, core inflation surpassed expectations for 2Q and Jun saw 38.4K full time hires. These indicators have weakened the case for a rate cut. However, if RBA wants to cheapen the AUD with another rate cut as they have done before in May, a rate cut in Aug is unlikely to bring the same mileage. Given low inflation and slower building approvals which underscored the impact of tightened mortgage lending rules, RBA has the room to do so.

- **Latest Fiscal and External Balance Outlook:** During the elections, Coaliton announced plans to improve welfare payment that would supposedly save more than $2bn and lift the budget bottom line by over $1bn from the budget released in May.

- To recall, **t**he budget deficit presented in May for 2016 is expected to be A$37bn. The deficit is projected to exist for the next four years. The government expects to raise tax on tobacco and commit a record A$50bn in infrastructure investment between 2013-14 and 2019-20 for roads, rail, airports and dams. Fiscal deficit is estimated to be around -2.2% of GDP for 2016-2017 before gradually narrowing towards -0.1% by 2019-20. Real GDP is estimated to be 2.5% this year before accelerating to 3% for the next 3 subsequent fiscal years. One of the key plans is the Ten Year Enterprise Tax Plan meant to boost new investment, create and support jobs ad increase real wages. The Plan will see lower tax rates for small businesses first before progressively extending cuts to all companies by 2026-27. For personal tax, the government will also lift the tax threshold on the middle tax bracket to prevent average full time wage earners from moving into the second top tax bracket. This could serve to boost consumption in the long run.

- Current account deficit narrowed slightly to -A$20.8bn in 1Q from previous –A$22.6bn in 4Q (last available data). The improvement was due to narrower dedicit in the goods and services with services posting narrowest deficit since 4Q 2014.

- **Key domestic events and issues to watch:** Jul inflation estimates is due on the 1st. RBA decides on cash target rate on the 2nd along with the release of trade bal, building approvals for Jun. Retail sales is due on the 4th. The RBA Statement on Monetary Policy is released on the 5th. NAB business surveys will be released on the 9th before home loans is due on the 10th. Minutes of the Aug meeting is due on the 16th. Labour report is due on the 18th.

- **Technical Outlook:** Daily chart shows AUDUSD on its way to revisit the Jul highs. However, the current climb higher seems to lack momentum and a pullback towards the 0.7490-support is possible ahead of the next at 0.7330 (200-DMA). That said, in the medium term, downsides for AUDUSD is largely protected. Our view is underscored by the weekly and monthly charts which are bullish though with 100-WMA and 200-MMA capping topsides. 0.80 a key barrier.

NZD: RBNZ to Cut Rates

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
NZD/USD	0.6850 (-)	0.7000 (-)	0.6900 (-)	0.7200 (-)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We expect **NZD to face renewed downside pressure**, taking into consideration recent development which included persistently lower than expected 2Q inflation, potential RBNZ easing (we are calling for 25 bps cut) on 11 Aug and RBNZ's recent actions (tighten existing lending restrictions earlier than expected and holding an interim economic assessment update on 21 Jul). For the coming 2 weeks, we see **risk of NZD testing lower towards 0.68 levels, but favorable yield differentials** (over the US) **is expected to mitigate some of the downside.** We remain cautious of further implementation of macro-prudential measures (i.e. debt to income ratios) as it is expected to weigh on the NZD.

- In RBNZ's interim economic assessment update (21 Jul), it appears RBNZ is growing impatient and uncomfortable with a high exchange rate. RBNZ said that the **trade-weighted exchange rate is 6% higher** than assumed in Jun statement and **is notably higher than in the alternative scenario**. **Strong exchange rate is exerting downside pressure on dairy and manufacturing sectors** and is **making it difficult for RBNZ to meet its inflation objective.** RBNZ added that **decline in exchange rate is needed** and **further policy easing will be required to ensure future average inflation settles near the middle of the target range. We think the update is in a way preparing the markets for a 25bps cut to OCR, taking it down to 2%.** The earlier than expected tightening of existing lending restriction (to 40% from 30%) is also an act of impatience and discomfort over rising house prices. We believe the move paves the way for RBNZ to cut. Question is by what magnitude is the cut.

- Downside risk to our outlook – if RBNZ cuts by more than 25bps at the upcoming meeting – NZD could potentially test below its 200 DMA at 0.67 levels.

- **Growth and Inflation Outlook:** In the RBNZ Economic Assessment (21 Jul) update, RBNZ noted that domestic growth is expected to remain supported by strong inward migration, construction activity, tourism, and accommodative monetary policy. However, low dairy prices are depressing incomes in the dairy sector and weighing on farm spending and investment. 1Q GDP came in stronger than expected at +0.7% q/q but was slightly weaker on sequential terms as compared to previous quarter (+0.9%). On y/y terms, GDP expanded +2.8% (vs. 2.3% in 4Q 2015). Growth was underpinned by construction, tourism and healthcare services but partially offset by primary industries (including oil/gas extraction, coal mining) as well as manufacturing. 2Q GDP is expected to be released on 15 Sep.

- 2Q headline CPI rose 0.4% q/q (vs. +0.2% in 1Q) and 0.4% y/y (unchanged vs. 1Q). The latest set of inflation data was below market expectations. We reiterate that **NZ inflation remains well below RBNZ's 1-3% target range and is now at 16-year lows, due to continued NZ strength and the large decline in oil and commodity prices.** RBNZ in its economic update also noted that headline inflation is being held below the target band by continuing negative tradables inflation and that stronger exchange rate implies that the outlook for inflation has weakened since Jun RBNZ statement.

- **Monetary Policy Forecast:** We **expect RBNZ to cut OCR by 25bps to 2% at the upcoming RBNZ meeting on 11 Aug**, on soft inflation outlook and RBNZ's renewed discomfort for overly strong exchange rate. We **believe RBNZ is growing impatient over meeting its inflation objective, and rising house prices and is blaming the strong exchange rate** for so. RBNZ has also **introduced macro-prudential measures much earlier than expected.** RBNZ requires investors to have a deposit of at least 40% (up from 30% previously) for home loan, effective 1 Sep. This was announced on 19 Jul. We believe another set of macro-prudential measures (debt to income ratio) should not be ruled out in the coming months. These measures have the second order effect of weighing on the NZD via reduced investor participation in housing market.
- In the impromptu economic assessment update (21 Jul), RBNZ said that the trade-weighted exchange rate is 6% higher than assumed in Jun statement and is notably higher than in the alternative scenario. Strong exchange rate is exerting downside pressure on dairy and manufacturing sectors and is making it difficult for RBNZ to meet its inflation objective. RBNZ added that decline in exchange rate is needed and further policy easing will be required to ensure future average inflation settles near the middle of the target range.
- **Latest Fiscal and External Balance Outlook:** 1Q current account swung into surplus of NZ$1.3bn from deficit of -NZD2.61bn (in 4Q). 1Q 2016 current account deficit narrowed to 3.0% of GDP (an improvement from -3.1%). This was due to an increase in the services surplus (helped by tourism) and a decrease in the primary income deficit
- NZ government posted a larger-than-expected operating surplus of $2.3bn in the first 11 months of the financial year. This was above the $1.98bn forecasted in the Budget update and suggests that the forecast full-year surplus is likely to be achieved.
- **Key domestic events and issues to watch:** 2Y inflation expectation (2 Aug); 2Q unemployment rate (3 Aug); RBZN meeting (11 Aug); Jul trade (24 Aug). GDT auction on 2 and 16 Aug.
- **Technical Outlook:** NZD fell below 0.70-handle on rate cut expectation, before rebounding into end month. Last seen at 0.71 levels. Daily momentum suggests a continuation of rebound. We watch if Kiwi can break above resistance at 0.7160 levels (61.8% fibo retracement of 2015 high to low). A break above could see an extension towards 0.7390 (76.4% fibo). Otherwise look for a move lower. Support at 0.6990 (50% fibo), 0.6810 (38.2% fibo).

JPY: Hope Still Alive For Further Easing Measures

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USDJPY	110 (104)	112 (106)	112 (107)	114 (109)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The rumours that the BOJ would embark on helicopter money and the government would introduce a massive stimulus programme sent the USJPY rallying from the 100-levels back towards the 107-region. Though the rally was deflated somewhat by the BOJ governor who dismissed the possibility of helicopter money, the pair remained elevated on fiscal stimulus prospects. So far in Jul, the USDJPY has risen by around 2.0%. The JPY has remained the best performer among the G7 and Asian currencies, rising by 12.4% so far this year.
- After all the build-up in the lead-up to the policy meeting on 29 Jul, the BOJ disappointed when it failed to meet market and our expectations. The BOJ only chose to:

  (1) increase purchase of ETFs to JPY6tn from JPY3.3tn;

  (2) increase its USD lending program to USD24bn from USD12bn; and

  (3) establish new facility where the BOJ lends Japanese government securities to financial institutions.

  There was no change to the BOJ's pledge to expand its monetary base at an annual pace of JPY80tn and the purchase of J-REITs at annual pace of about JPY90tn and the policy rate at -0.1%.
- With expectations deflated, market unwound some of their short-JPY positions, leading to a rebound in the JPY. The USDJPY fell from 105.60-levels to below the 103-handle. However, the knee-jerk move towards 102.70 on 29 Jul was short-lived as market digested the monetary policy statement.
- This was because of a key inclusion in the monetary policy statement. The BOJ announced that it will be conducting "a comprehensive assessment of the developments in economic activity and prices under "QQE" and "QQE with a Negative Interest Rate" as well as these policy effects" at the next monetary policy meeting on 20-21 Sep.
- This promise of a review of the impact of BOJ policies keeps alive the prospects of further easing measures on 20-21 Sep. This hope/expectation provided support for the USDJPY and allowed the pair to rebound slightly to hover around 103.30 at the point of writing.
- Despite being disappointed by this round of easing measures, market continues to hold out hope for further easing measures to complement the JPY28tn fiscal package that PM Abe has promised (details are expected on 2 Aug). We believe that this fiscal package could include a combination of spending on big ticketed items like high-speed rail (maglev), ports and facilities; other infrastructure projects; and possibly even cash voucher handouts to spur consumer spending. This suggests then that the BOJ could still pursue measures we had expected.
- With the possibility that the BOJ could expand its easing measures in Sep to complement the massive fiscal program that PM Abe is

expected to unleash. This combination of fiscal and monetary policies working in tandem with each other could still provide the USDJPY with a lift towards 110 and 112 by end-3Q and -4Q 2016 and then towards 114 by end-2Q 2017. We still do not expect an overly aggressive USDJPY move higher towards the 120 levels as the fiscal and monetary measures are unlikely to be accompanied by any significant restructuring of the economy – the third arrow of Abenomics – to ensure the economy's medium- to longer-term growth prospects.

- **Growth and Inflation Outlook:** The fragile economy is bracing itself for a massive fiscal stimulus package that could be worth at PY28tn or around 2% of GDP. The stimulus package comes amid data that showed weak prospects for the economy. 2Q Tankan failed to dispel suggestions that no strong recovery in the economy is expected, only a moderate improvement. Meanwhile, industrial production remained weak, declining by 1.7% y/y in the first five months of the year. Similarly, core machinery orders – orders that exclude volatile orders for ships and power equipment – fell 4.9% y/y in the first five months of 2016. The external economy is also not expected to recover any time soon with exports and imports contracting by 8.7% and 17.2% y/y in 1H16. The passage of such a massive stimulus package would go a long way to reflate the economy in 2016 and into 2017.
- CPI fell 0.4% y/y in Jun, the same pace as in May, while core inflation slipped slightly further to 0.5% y/y vs. May's -0.4%. The lack of inflationary pressures weighs on the BOJ to act further especially since it has kept its timeline for achieving its 2% inflation target by Mar 2018. The BOJ's favoured gauge of inflation, core core inflation - which is CPI less fresh food and energy – rose by 0.8% in Jun, the same pace as in May. Still, the lacklustre inflation prints from the different gauges, especially core-core inflation, should be worrisome for the BOJ as they suggest that achieving the 2% inflation target remains a difficult task. Hopes for rising wages to spur inflationary pressures appear to be misplaced as labour cash earnings dipped 0.2% in May after flat growth the month before. Despite the weak performances so far, there is no change in the BOJ's forecast for core inflation, which is still expected to average 0.5% in FY 2016-17, 1.7% in FY2017-18, and to 1.9% in FY 2018-19.
- **Monetary Policy Forecast:** The BOJ disappointed when it failed to meet market and our expectations when it only chose to (1) increase purchase of ETFs to JPY6tn from JPY3.3tn; (2) increase its USD lending program to USD24bn from USD12bn; and (3) establish new facility where the BOJ lends Japanese government securities to financial institutions. There was no change to the BOJ's pledge to expand its monetary base at an annual pace of JPY80tn and the purchase of J-REITs at annual pace of about JPY90tn and the policy rate at -0.1%. This was far less than what the market had expected from the BOJ.
- Still, market hopes for further easing measures were not completely doused. This was because of a key inclusion in the monetary policy statement that saw the BOJ announced that it will be conducting "a comprehensive assessment of the developments in economic activity and prices under "QQE" and "QQE with a Negative Interest Rate" as well as these policy effects" at the next monetary policy meeting on 20-21 Sep. This promise of a review of the impact of BOJ policies keeps alive the prospects of further easing measures on 20-21 Sep.
- We continue to hold out hopes for the BOJ to expand its easing measures further in Sep. These measures could include expanding the

monetary base to JPY100tn from JPY80tn currently, increasing the purchase of ETFs to JPY10tn from JPY6tn and cutting interest rate further to -0.3%. Helicopter money – i.e. the BOJ directly underwriting the government's debt or manages monetary and fiscal policy as one – is unlikely at this point in time given the governor's disdain. Moreover use of this option would require not only the support of PM Abe and FinMin Aso, but also legislative changes to allow the BOJ to engage in 'helicopter money'. We believe that this 'nuclear option' could be used as a last resort should other measures fail to reflate the economy.

- **Latest Fiscal and External Balance Outlook:** PM Abe has announced on 27 Jul plans for a JPY28tn fiscal package. This amount was at the upper end of the JPY20-30tn programme that we had expected. The fiscal package though disappointed on a couple of fronts. First, no details were provided as to what the fiscal package entailed. Second, there was no information on what the net new spending would be for 2016 since the package would include longer-term spending as well. The net new spending for 2016 is important as it would determine the likely impact of further spending on the economy. We expect details of the fiscal package to be unveiled on 2 Aug before being debated in a special session of the Diet in Sep. The earliest the fiscal package will be operational will be in Oct.

- The current account surplus in May was little changed from Apr, rising to JPY1.81tn in May compared to Apr's JPY1.88tn. The surplus in May was due to a narrower surplus in the goods and services account of JPY0.16tn (Apr: JPY0.30tn) that was offset by the surplus in the primary account of JPY1.90tn (Apr: JPY1.78tn). The financial account surplus widened to JPY4.10tn in May from JPY1.48tn in Apr on the back of larger portfolio inflows (May: JPY6.68tn vs. Apr: -JPY5.30tn) that more than offset the dip in the other investment account of JPY3.08tn. The overall balance of payments surplus ballooned to JPY8.20tn in May as a result from the JPY2.96tn surplus in Apr.

- Key domestic events and issues to watch: On 2 Aug, we have the release of the details for the massive fiscal package promised by PM Abe. This will be followed by a cabinet reshuffle on 3 Aug. BOJ Deputy Governor Iwata speaks in Yokohama on 4 Aug. We have preliminary 2Q GDP print on 15 Aug. JGB auctions in Aug: 10-year (2 Aug), 30-year (9 Aug), 5-year (18 Jul), 1-year (17 Aug) and 20-year (23 Aug).

- **Technical Outlook:** USDJPY continued to trade with a bearish bias. Downtrend since beginning of 2016 and bearish momentum remain intact. Last seen at 102.50 levels. Support at 101.50 levels (50% fibo retracement of 2012 to 2015 high). Break below puts 95.80 (61.8% fibo) as next support. Resistance at 107.20 (200 DMA), 38.2% fibo).

CNY: Pausing In Its Decline

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USD/CNY	6.65	6.67	6.70	6.70
USDCNH	6.67	6.69	6.71	6.70

No Change From Previous Forecast

- **Motivation for the FX View:** We see further weakness in the CNY in the next six months notwithstanding its current rebound against the USD. In fact, against the CFETS basket, CNY has already resumed decline. Fundamentally, we see sub-par growth with China increasingly dependent on private consumption to propel the economy whilst excess capacity in the old economy weighs. Ongoing progress in the economic restructuring and reduction in excess capacity sectors could provide some comfort to investors. At the same time, high levels of corporate and government debt suggest that monetary policy will have to remain accommodative but credit-fueled expansion would see diminishing marginal returns until fresh growth engines have matured. That reinforces the fact that China will still see sub-par growth trajectory (L-shape) in the quarters ahead. July had been an interesting month for the CNY. We saw broad-based weakness in the currency. We even think PBOC is prepping the currency for the next wave of Fed rate hike by getting it to be more fundamentally aligned. One rule of thumb is to get its REER lower, something that has been mentioned by the PBoC on Aug 11 last year. Since Feb, China's REER has already corrected by 5.9% from 130 to 123 as of Jun. CNY weakened against its trading partners even more since Brexit but that could take a pause now. The 6.70-level is seen as the line to be defended by PBoC for now ahead of key events like the G20-Summit in Sep and the official SDR inclusion on 1 Oct. Hence, we hold on to our USDCNY forecast at 6.65 for 3Q before a creep back towards 6.70 by 1Q next year.

- What has PBOC been doing for the CNY – we think it has been getting CNY to be more aligned with its "fundamentals" in the hopes that when markets start to price in a Fed hike, CNY would not come under as much pressure as before. A more market-determined yuan would make room for capital account liberalization and eventual inclusion in global indices. With a sustained current account surplus, there is a reasonable buffer for CNY weakness against the USD.

- **China still has excess capacity, heavily indebted corporations and huge liquidity injections continue to add pressure on the yuan in the 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 focusing 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 channeled into building new growth engine but like in most countries, economic rebalancing efforts are likely to take time.

- In the near-term, industrial profits saw modest growth of 5.1%y/y in Jun versus previous 3.7%. We also see that 60% of industrial profits are contributed by non-overcapacity sectors. Growth trajectory is L-shaped, as widely acknowledged by top officials. We do not see a strong rebound in economic indicators in the near-term.

- **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 steadied at 4.7 (with 1 being the best and 9 being the worst).
- **Growth and inflation outlook:** China is still focused on achieving growth stability, yuan stability and deleveraging with stability. Private consumption is a key driver of growth now with services sector intact. However, high level of corporate and government debt suggest that monetary conditions have to remain accommodative. We have already started to see diminishing marginal returns on monetary stimulus and growth trajectory is likely to remain sub-par until fresh engines of growth mature. High frequency data paint a rather fragile picture. Jun PMI-mfg came in at 50.0 vs previous 50.1. Non-mfg also came in at 53.7 vs. previous 53.1. The Caixin version was also lower at 48.6 vs. previous 49.2. Growth of exports quickened to 1.3%y/y in Jun from 1.2% previously. Imports had a mild contraction of -0.4%y/y compared to Apr's -10.9%. Trade balance widened to CNY324.8bn from previous CNY298.00bn.

- Inflation softened to 1.9%y/y for Jun from previous -2.0% on lower food costs. With the flooding situation in China, food costs could see a resumption of an uptrend in the next few months. In fact, NDRC expects a modest rise in CPI that could temper the deline in PPI in 2H. Jun PPI saw a smaller contraction by -2.6%y/y versus previous -2.8% as purchasing prices of fuels saw a much smaller decline (-7.2%y/y vs. previous -8.3%). Industrial production bounced to 6.2%y/y in Jun, buoyed by a rebound in industrial profitability in non-overcapacity sectors. Retail sales quickened a tad to 10.6%y/y from previous 10.0%. Urban FAI extended its decline to 9.0%y/y from previous 9.6%, ties in with the story that investment remains crimped by overcapacity sectors.

- **Monetary Policy:** Weak economic outlook warrants further easing but its impact on the CNY is likely a constraint. We continue to expect PBOC to use adhoc measures like pledged supplementary lending, medium term lending facility and standing lending facility to supply credit to the targeted sectors that require more liquidity support. Broad based RRR cuts may risk generating flows to assets that are prone to bubbles (real estate in the tier-one property sectors), undoing deleveraging efforts in the economy and increase downside pressure on the CNY.

- In fact, PBoC has already started injecting a net CNY1600mn via SLF, CNY108nn of MLF and CNY171.9bn of PSL. CNY290bn was injected via OMO but we have seen around CNY375bn of drainage in Jul as of 24 Jul (last available data).

- **We continue to expect liquidity support for the old and new economies in China.** Home mortgage loans rose in 1Q on the back of easy monetary conditions (last available). Macro prudential measures should remain in place in the tier-one cities. The growth in the real estate sector should continue to have positive spillover effects in mining, construction, consumer goods and real estate services.

- **Liquidity management has been smooth so far.** 7-day repo rate was last seen around 2.6%, rather stable, save for occasional spikes. 3M-SHIBOR has come off from 2.96% to levels around 2.85%. Risks of disorderly corporate defaults seem to have abated with the 5yr CDS lower at around 109 from its earlier highs of 120. We continue to expect PBOC to rely more on targeted liquidity measures such as open market operations, standing lending facility (SLF), medium term lending facility (MLF), pledged supplementary lending (PSL). Firmer industrial profits, output and retail suggest less need for a broad RRR and interest rate cut in the next half of the year.

- Supply side reforms imply changes to its monetary policy as well. PBOC is in the midst of establishing an interest rate corridor and has looked into using the SLF rates as the ceiling of the interest rate corridor. The overnight lending rate has so far been steadied at 2.75% whilst that of the 7-day is at 3.25%. However, with the focus still on yuan stability and getting yuan to an “equilibrium” level, expect monetary reforms to be put on the back burner.

- **Latest Fiscal and External Balance Outlook:** There has been some estimates floating around that the budget deficit for 2015 was three times the official print at 10% of GDP in 2015. Offical statistics have shown that growth of government expenditure is still likely to head higher as the government works to pump prime the economy with infrastructure investment. The recent tax overhaul which moves construction, property, finance and consumer service sectors under the value-added structure could mean less revenue for the local governments. The central government plans to increase budget deficit to redistribute the VAT revenue back to provinces. Small businesses with less than CNY500,000 in annual sales will drop to 3% from 5%.

- The 1Q current account surplus was revised lower to US$39.3bn. a sharp contrast to the quarter prior that saw a US$91.9bn in 4Q15. The outflows via its financial accounts was much lower at U$48mn vs the previous U$50.6bn amid capital account controls. The latest release of BOP for 4Q 2015 suggests that the capital outflow via trade, deposit and currency, loans have peaked in 3Q last year. The option market suggests that a strong majority of investors still expect CNY to weaken and that should also mean outflow pressure will persist but existing capital account management as well as RMB management suggest that yuan capital outflow could remain at an orderly pace.

- **Key domestic events and issues to watch:** Jul PMI-mfg and non-mfg are due on 1 Aug along with Caixin PMI-mfg. BoP Current Account balance for 2Q is due on the 4th. Foreign reserves is scheduled for release on the 7th. Jul trade is due on the 8th. CPI and PPI on the 9th. Liquidity prints are due anytime from 10th-15th. Activity data is due on 12th. We also like to watch Jun industrial profits due on the 27th.

- **Technical Outlook:** The daily chart shows USDCNH rapidly accelerating in its bearish momentum and the 6.64 is breached on the last day of July which was marked by the 50-DMA. Expect this pair to remain heavy now with risks extending towards the 6.60-figure which is marked by the 50% Fibonacci retracement of the Jan-Mar rally. The weekly chart also shows double top formation which is also bearish for this pair so risks are to the downside for the pair. However, monthly chart still flags upside momentum for this pair and that could lift the pair back towards 6.70.

KRW: Still Weighed by Domestic and External Risks

Forecast	3Q 2016	4Q2016	1Q 2017	2Q 2017
USD/KRW	1165 (1185)	1170 (-)	1180 (-)	1180 (-)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Post-*Brexit* fears did not materialize as KRW gained nearly 5% vs. the USD since end-Jun. USDKRW's move lower came amid supported risk sentiment due to coordinated effort from central banks around the world to ensure that liquidity measures are in place and rates could stay low for longer. Some central banks in the region including Taiwan's CBC, Malaysia's BNM have already cut rate post-*Brexit*. To be sure, we did caution for the risk of USDKRW long unwinding in our last monthly. But the move lower, more than met our objective of 1150 support.
- We think this 'goldilocks' environment (subdued global growth environment, low inflationary expectation, *Brexit* fear, low rates for longer) may keep sentiment supported and could lead to further downside in the USDKRW over the next few sessions. But downside is likely to be limited towards 1120 levels as it remains our assumption that Fed could still raise rates this year and US elections in Nov (political uncertainty) could still lead to USD strength. At home, Korea's domestic pains are far from over KRW-negative).
- Domestic growth outlook is expected to be lower due to sluggish external demand and slowing recovery in domestic demand. Government's effort to push through corporate restructuring (as announced 8 Jun) is a medium term positive but a short term pain (job cuts, negative impact on growth). Fiscal stimulus support is only expected to cushion some of the negative impact.
- We noted that the Cabinet has approved an KRW11tn supplementary budget to fund the government stimulus measures (as of 21 Jul). This will be submitted to the National Assembly on 26 Jul before being put on the plenary session scheduled on 12 Aug. Of the KRW11tn, KRW1.2tn will be used to repay government debt and the remainder will be used for government spending. The government estimates that 68,000 new jobs will be created.
- This is on top of the KRW11tn recapitalization fund (approved by BoK on 30 Jun) for corporate restructuring of state-run banks and shipbuilders
- In sum, we keep our USDKRW trajectory over the forecast horizon and revised 3Q forecast lower to reflect the recent pullback; caution for

short term downside risk but limited towards 1120. Bias remains to buy on dips. We will re-assess our calls and levels should the pair breaks decisively below 1200-support on monthly close basis.

- **Our monthly Maybank Vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for S.Korea held steady at 6.6.
- **Growth and Inflation Outlook:** 2Q GDP accelerated +0.7% q/q; +3.2% y/y, better than previous quarter of +0.5% q/q and +2.8% y/y. Expansion was helped by private consumption and construction. We believe the growth momentum for 2H may slow on corporate restructuring plans which are expected to see some short term pain due to job cuts, impacting growth.
- BoK had earlier lowered 2016 GDP growth to 2.8% (from 3%) and inflation forecast to 1.2% (from 1.4%), due to weaker than expected domestic economic growth in 1Q 2016 and downward revision to global economic growth. We retain our bearish bias on the economy against a backdrop of ongoing sluggish external demand (17 consecutive months of decline), rising risks of slowing recovery in domestic demand, benign inflation outlook and ongoing geopolitical tension.
- **Jun headline inflation held steady (**+0.8% y/y unchanged from previous month), while core inflation was slightly higher at +1.7% y/y (vs. +1.6% in May). **BoK lowered inflation outlook for 2016 to +1.1% (vs. +1.2%). The downgraded outlook was due to sluggish global demand and weak domestic demand.**
- **Monetary Policy Forecast: We expect BoK to keep policy rate on hold at record low of 1.25% at the 11 Aug meeting.** We believe the pre-emptive cut of 25bps back in Jun (which caught the market by surprise) is already complementing the fiscal stimulus and structural reform (announced in Jun). We **believe BOK will wait and hold for the stimulus effects to work its way into the real economy,** before deciding whether it is necessary to cut rate so aggressively.
- **Latest Fiscal and External Balance Outlook:** Current account surplus widened to $10.36bn in May, from $3.37bn in Apr due to the jump in trade surplus. This was the largest surplus in 2016 and Korea has posted its longest monthly current account surplus for 51 months.
- According to the Public Finance 2015 report issued by National Assembly Budget Office, fiscal deficit for 2016 is expected to widen 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 Jul exports (1 Aug) and CPI inflation (2 Aug); BoK meets (11 Aug) and Jul IP (31 Aug).
- **Technical Outlook:** Indeed USDKRW traded lower, as suggested in our tech section in the last monthly. Pair was last seen at 1110 at time of writing. Weekly/daily technical continues to point to further downside. A close below 1126 on weekly close basis last week suggests the pair may have further downside towards 1100 (200 WMA, 61.8% fibo of 2014 low to 2016 high) before 1064 (76.4% fibo). Resistance at 1126 (50% fibo).

SGD: Still Biased To The Downside

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USDSGD	1.3600 (1.3750)	1.3750 (1.3850)	1.3900 (-)	1.4000 (-)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The FX markets calmed down post-UK referendum, supporting risk sentiments and allowing the USDSGD to slide lower toward key-support around the 1.34-handle. However, pair is back on the uptick, lifted by expectations of further easing measures in Japan that has weakened the JPY as well as increasing risk that the US Fed could resume hiking interest rate sometime this year. These have reversed some of the gains in the SGD though the SGD is still up 1.4% against the USD as of 22 Jul. Even on a year-to-date basis, the SGD has climbed around 4.2% against the USD.
- We expect a less aggressive climb in the USDSGD than envisioned earlier given the recent inflows due to the country's triple-A status post-Brexit vote. Falling yields of 2.35-14.26bps across most tenors except for the 1M and 6M suggest foreign and domestic demand for government debt remains intact. At the same time, demand for domestic equities also rose as reflected in the 3.7% climb in the stock index so far in Jun. Further inflows should help to moderate the rise in the pair. The strong persistent balance of payments surpluses should also see the pair rise only gradually towards the 1.38-levels by the end of the year from its current levels around the 1.36-region. Likely to cap the pair's rise as well is some dollar weakness in 3Q as a Fed fund rate hike is not expected.
- While there is the possibility of a MAS move in Oct, this is not our base scenario for now. We expect the current neutral policy stance of the MAS to be maintained for the rest of the year, unless there is a significant deterioration in the global economy or shift to the inflation outlook. Standing pat on policy should be supportive of the SGD and keep the USDSGD from rising too rapidly.
- The SGD though remains weighed by domestic and external challenges. Domestically, the economy is underperforming due to ongoing economic restructuring, shifting away from a reliance on foreign workers towards more productivity-driven growth. Reinforcing the domestic challenges is external headwinds, including the sluggish global growth outlook amid a restructuring China and concerns how a disorderly Brexit could impact the global economy. The possible softening risk appetite, especially for riskier assets like equities, could result in greater volatility in the FX markets and weigh on the SGD.
- The risk to our forecast is that the US Fed could resume its fund rate hike this year, most likely in Dec. This means the dollar could firm in the lead-up to the FOMC meeting in Dec and into 2017. In addition, the lift from the USDJPY upmoves back above the 110-handle at 112 by the end of the year and beyond should be supportive of the USDSGD (given the positive correlation between the USDJPY and the USDSGD). As well, a relatively firmer MYR as a result of firmer global

oil prices and stable domestic political environment could push the SGDMYR lower and put downward pressure on the SGD.

- Thus a combination of external influences and domestic factors should keep the USDSGD elevated for the rest of the 2016 and into 1H 2017 at least. The uptick though should be tempered by some dollar weakness and lead to the USDSGD ending 3Q-2016 at 1.3600 (from our previous forecast of 1.3750) before 1.3750 by the end of the year (from 1.3850 previously). The pair's climb should remain intact into 1H 2017 with the pair ending 1Q and 2Q at 1.39 and 1.40 respectively still.

- **Our monthly Maybank Vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Singapore was unchanged from the previous month at 4.4. This should be supportive of the intrinsic value of the SGD. Our model shows that the SGD NEER was last seen 1.13% above the mid-point implied at 1.3552. Upper bound is implied at 1.3284 while lower bound is now at 1.3820.

- **Growth and Inflation Outlook:** After rising by a revised 2.1% (from 1.8%) in 1Q, the economy climbed by a slightly faster 2.2% y/y in 2Q. On a seasonally-adjusted q/q annualized basis, GDP rose by 0.8% in 2Q from 0.2% in 1Q. This was due to a rebound in services, which rose by a seasonally-adjusted q/q annualized 0.5% in 2Q from -4.8% in 1Q. However, manufacturing and construction weakened to 0.3% and 0.6% from 18.4% and 3.5% respectively. All of these suggested that this recovery might not be sustainable amid increasing risks to global growth. On the external front, exports fell by 2.3% y/y in Jun after jumping by 11.6% in May, dragged lower by both non-electronics and electronic NODX. The government's full-year growth forecast remains at 1-3% for 2016 for now, though this forecast is currently being reviewed by MTI and MAS together. Our economics team continues to project 2016 growth at 1.7% on the back of a moderation in 2H growth amid heightened domestic and external headwinds and uncertainties.

- Inflation fell by a more moderate 0.7% y/y in Jun from May's -1.6% due to the drop in accommodation cost by a smaller 3.5% vs. 6.0% in May as there was no government rebates to household in Jun. MAS core inflation (CPI ex-accommodation and private transport) edged higher to 1.1% y/y in Jun from 1.0% in May, lifted by higher services inflation (1.6% y/y in Jun vs. 1.5% in May) again due to higher holiday costs and telecommunication services fees. The MAS outlook for headline and core inflation was maintained with the former expected to come in at -1.0-0.0% in 2016 and the latter to average around 1.0%. According to the MAS MD Revi Menon, core inflation has bottomed and will trend towards its historic average of close to 2.0% over the course of 2017. MAS was similarly sanguine about headline inflation prospects, expecting it to climb out of negative territory and more towards 1.0% in 2017. Our economic team expects headline inflation to average -0.4% still in 2016 but have lifted its core inflation to +1.0% (from +0.5%) in 2016 as disinflationary effect of oil and budgetary and other one-off measures fade.

- **Monetary Policy Forecast:** The weak outlook for growth in 2H has lifted expectations among some market participants that the MAS could ease policy lower at its Oct meeting. While we acknowledge that the risk to an Oct move by the MAS has increased, our base scenario remains for the MAS to maintain their "zero appreciation of the SGD NEER" stance. MAS had progressively removed the crawl because the economy did not see the need for an appreciation path for balance and the medium term path is closer to a constant now than upward sloping given current domestic and external conditions. Unlike past occasions when the slope was flattened swiftly, the recent change in the slope was in response to the slow drift to inflation. In the short term, in absence of significant shocks, an adjustment to the NEER band would be unnecessary.

- There have so far been no significant changes to the MAS' expectations for growth and core inflation as discussed above and the likelihood that the MAS would contribute to financial market volatility by creating any policy-driven volatility. Aside from global growth concerns, post-Brexit concerns form the bulk of the headwinds to domestic growth uncertainties. However, MTI expects the Brexit impact on the domestic economy to be modest in the medium- to long-terms. Moreover, Deputy PM Tharman noted that Brexit is not expected to result in a significant reduction in Singapore's growth in the next few years, but he did flag that there could be a "more major impact" if events in Europe coincided with a sharp slowdown in China and the US. Thus, there is unlikely any significant external risk events to trigger a MAS response in Oct at the moment. With MAS standing ready "to curb excessive volatility", a widening of the policy band does not appear to be in the card at the moment as well.
- The risk of another move in Oct is likely to increase should disappointing data, especially those for 3Q (including revisions to 2Q GDP and Jul industrial production print), threaten the MAS' assumption for growth and core inflation. In the unlikely event that these risks materialize, we could expect the next move by the MAS to be a downward re-centering of the SGD NEER. Thus, while the hurdle for further policy adjustments have been lowered with the policy adjustment in Apr, we expect the MAS to stand pat at its Oct meeting unless risks to its assumptions for growth and core inflation materialize.
- Since our last report, the USDSGD has climbed higher towards the 1.36 levels but this has not resulted in large swings to domestic interest rates. In fact, domestic interest rates have been on the slide. 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 0.9% levels currently. The more gradual pace of rate increase should also moderate the rise in mortgage rates for now. Deposit rates (for 12-month fixed) have not risen since end-Jan and remains at around 0.35% currently. This continues to suggest that risks related to interest rate increases affecting financial and economic stability, particularly in interest rate- and property-related sectors, seems limited for now. We continue to expect the 3MSIBOR and 3MSOR to end 2016 and 2017 at 1.03% and 0.84% and 2.00% and 1.81% respectively.
- **Latest Fiscal and External Balance Outlook:** The current account surplus narrowed to SGD17.77bn in 1Q 2016 from SGD20.71bn in 4Q 2015. The narrowing current account surplus could be primarily attributed to the smaller surplus in the goods and services account, which came in at USD26.19bn in 1Q 2016 vs. 4Q's SGD29.20bn in 4Q even as the deficit in the primary balance account narrowed to SGD4.43bn (from -SGD5.26bn in 4Q). The financial account surplus widened to USD25.88bn due to a larger 'others' segment (1Q: SGD38.53bn) that offset the outflow of portfolio investment (1Q: -SGD14.95bn) and more moderate direct investment outflows (1Q: -SGD4.61bn). The overall balance of payments deficit widened to SGD8.88bn in 1Q 2016 from 4Q's deficit of SGD0.35bn.
- **Key domestic events and issues to watch:** Final estimates for 2Q16 GDP will be released sometime 10-25 Aug, though headline number

will probably be released on 9 Aug in time for the National Day celebrations.

- **Technical Outlook:** USDSGD continues to trade with a bearish bias, post-FOMC, BoJ meeting and weaker than expected 2Q US GDP. Pair was last seen at 1.3390 levels. Weekly/ daily momentum indicators are bias to the downside. Key support at 1.3350 (interim double bottom formed in Apr and Jun). Break below puts 1.3160 support in focus (61.8% fibo retracement of 2014 low to 2016 high). Resistance at 1.3650 (38.2% fibo).

MYR: Extended Weakness before Strength

Forecast	3Q 2016	4Q 2016	1Q2017	2Q2017
USD/MYR	4.0000 (4.1000)	4.0000 (-)	3.9500 (-)	3.9500 (-)

Previous forecast in parenthesis

- **Motivation for the FX View:** Over the past 1 month, MYR faced some downside pressure due to renewed oil price weakness, USD strength, BNM surprise rate cut and somewhat cautious domestic sentiment arising out of media reports (NYT, Bloomberg) that the US government planned to seize more than $1bn of assets tied to 1MDB.
- USDMYR traded as high as 4.0880 (27 Jul). This was well within the range of 3.98 – 4.14 we called for, in our last monthly. And we think this weakness could still persist in the short term on the abovementioned factors but solid underlying fundamentals and policies {backed by domestic demand, re-calibrated budget (on a lower oil price assumption suggests flexibility in the fiscal space), relative stability in oil prices though some downside pressure, relative attractive yields in the MGS, stabilizing FX reserves to retained imports & short-term debt, accommodative monetary conditions to support businesses} remain intact and should provide an anchor for MYR stability once short-term noises subsided. We note that **oil prices may face some downside pressure in the near term as refiners have already finished stocking for the summer (now to Oct) season. On the big picture, oil supply-demand is projected by EIA to rebalance further over the next 1 year. Oil surplus supply is also winding down due to the lack of capex in the last 18 months while seasonal demand for Winter in 4Q should see oil prices picking up.** We still expect oil prices to see support around $40-42/bbl. Hence it is **not our baseline scenario to see MYR suffer another round of high-single digit rout** (in 3Q 2015 – end-2015).
- We do expect to see broad but modest USD strength into 2H 2016, as we head into US Presidential Elections in Nov (which typically saw USD strength in the lead-up and post-Elections). Some post-*Brexit* uncertainty (on timing of trigger of Article 50, trade talk negotialtions with EU and other trade partners) is also expected to weigh on sentiment and keep the USD modestly supported. Risk of potential Fed rate hike in Dec 2016 (now our base case scenario) could also see a firmer USD in the lead up to FoMC meeting. While all the above

factors (Presidential Elections, *Brexit uncertainty and Fed rate hike)* may keep the USD supported, investors' hunt for attractive yields could continue to see inflows into local bond markets and counteract to support the MYR, mitigating the upside pressure in the pair.

- We continue to caution for USDMYR to trade in wide ranges. 4.15/4.20 should keep the lid on USDMYR (assuming that oil prices do not fall more than 15%) while downside towards 3.95 should not be ruled out for the month. We maintain our FX forecasts over the forecast horizon, but slightly lower USDMYR forecast for 3Q to 4.00.
- **Our fair value estimate (which takes into account interest rate differential, inflation differential, current account differential and reflation variables) puts USDMYR at 3.55 levels.** We had previously said that Ringgit weakness was temporary and was not a reflection of underlying fundamentals (which remain intact). We still expect to see some stability returning to Ringgit as political/contingent liability risk subsides, fiscal consolidation/reforms gains traction, oil prices stabilize and uncertainty and likelihood of Fed rate hike subsides for the next 6 months.
- External reserves as at 15 July 2016 rose to USD97.3b (MYR390.8b) from USD97.2b (MYR390.4b) on 30 June 2016, equivalent to 8.2 months retained imports and 1.2 times short-term external debt.
- Latest data showed foreigners turned buyers of Malaysian debt securities in June 2016, reporting a net buy of +MYR5.7b compared with the net selling of –MYR3.4b in May 2016, underpinned by net foreign buys of +MYR5.0b in Malaysian Government Securities (MGS) and +MYR2.1b in Government Investment Issues (GII i.e. "Sukuk version" of MGS). Meanwhile for equities, foreigners reported a net buy of +MYR0.2b for period 1-15 Jul 2016 versus net selling in the preceding two months (May 2016: -MYR1.8b; Apr 2016: –MYR4.3b).
- The trends in external reserves and the **foreign net buying of Malaysian debts and equities are in line with the rebound in portfolio capital flows into the Emerging Markets (EM),** which jumped to +USD16.7b after slumping to just +USD1.2bin May 2016. This indicates return of "risk on "mode" following, among others, the US Fed's decision to leave its benchmark interest rate unchanged at the June FOMC, in contrast to the "hike rhetoric" that was prevalent during May 2016, followed by expectations that USrate hike is increasingly unlikely this year.
- **Our monthly Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Malaysia improved to 5.2 in Jun (vs.5.3 in May), due to owing to inflation while PE valuation offset some of the improvement.
- **Growth and Inflation Outlook:** 2016 growth slowed to +4.1% vs previous forecast of +4.3% (2015: +5.0%). The **downward revision mainly reflects the cuts in growth of exports** (2016E: +0.6% vs +2.4% previously) **and imports** (2016E: +1.7%vs +3.1% previously) of goods and services. This is in view of the virtually stagnant gross exports (Jan-May 2016: +0.8%; 2015: +0.9%) and gross imports (Jan-May 2016: -0.1%; 2015: +0.4%) so far this year, as well as the downward revision to global economic growth mentioned earlier. Consequently, net external demand is expected to be a bigger drag than previously expected (2016E: -7.8% vs -2.2% previously).
- Our Economists also **lowered private investment growth** (2016E: +2.0% vs +4.9% previously), in line with slowing investment activities. In 2015, approved investments fell -22.1% to MYR186.7b (2014:

MYR239.7b). The main drags were approved investments in the primary sector that is dominated by oil & gas (2015: MYR3.8b; 2014: MYR14.4b) and the real estate sector (2015: MYR26.9b; 2014: MYR88.6b), which offset the higher approved investments in manufacturing (2015: MYR74.7b; 2014: MYR71.9b) and services (2015: MYR81.3b; 2014: MYR64.9b). The trend continued into 1Q 2016 as approved investments slumped further by -34.9% YoY to MYR37.4b vs MYR57.4b in 1Q 2015. Primary sector remained weak as approved investment fell -41.7% YoY (1Q 2016: MYR0.9b; 1Q 2015: MYR1.5b), and compounded by the -73.5% plunge in approved manufacturing investment (1Q 2016: MYR8.9b; 1Q 2015: MYR33.6b), which offset the +35.7% YoY and +11.4% YoY increases in approved investment in services (1Q 2016: MYR15.5b; 1Q 2015: MYR11.4b) and real estate (1Q 2016: MYR12.1b; 1Q 2015: MYR10.9b) respectively.

- However, **mitigating the downside to growth are the upward revisions to private consumption** (2016E: +5.3% vs +5.1% previously) and Government consumption (2016E: +1.0% vs -0.8% previously). As mentioned above, consumers are showing signs that they are shaking off the effect of GST, coupled with the impact of consumer spending stimulus measures. However, limiting the upside to private consumption are the higher unemployment rate (Jan-Apr 2016: 3.5%; 2016E: 3.5%; 2015: 3.1%) and inflation rate (Jan-May 2016: 2.9%; 2016E: 2.8-3.0%; 2015: 2.1%). Meanwhile, the **outlook of a rise in Government consumption, as opposed to the drop previously, reflects the positive oil revenue effect from the better than expected crude oil price which provides the Government the room to increase its spending**.
- **Headline inflation rate eased further** to +1.6% YoY in Jun 2016 (May 2016: +2.0% YoY; Maybank-KE: +1.7% YoY; Consensus: +1.8% YoY), as expected. Nevertheless, the core inflation rate (excluding volatile and price-controlled/price-subsidised components of the CPI) was steady at +2.1% YoY in Jun 2016 (May 2016: +2.1% YoY). The moderation in headline CPI reflects base-effect from GST introduction in Apr 2015 amid the broad-based easing in major CPI components in Jun 2016as well as stable global crude oil prices and domestic policy/measure effects.
- Compared to May 2016, both headline and core inflation rates edged up by +0.2% MoM and +0.1% MoM respectively. Year-to-date 2016 (Jan-Jun) headline inflation rate is +2.7% YoY while core is at +2.8% YoY.
- BNM lowered its inflation projection for 2016 to 2 – 3%, from 2.5 - 3.5% earlier. Our Economists also revised their 2016 headline inflation rate forecast range to +2.3%-2.8% (from 2.8%-3.0% earlier). The basis for our Economists to lower their projection was due to GST base effects and subdued global inflation as well as domestic policy/measure effects. This is further supported by the slowing economic growth expected at +4.1% in 2016 (revised from +4.3%; 2015: +5.0%) that leads to negative output gap last quarter which helps to cap demand-pull inflation.
- **Monetary Policy Forecast:** At the last BNM MPC meeting on 13 Jul, the **BNM lowered OPR by 25bps to 3% while keeping the SRR unchanged at 3.5%.** We see this cut as a pre-emptive cut in light of BNM's concerns on possible downside risk to global and domestic growth. A moderation in CPI prices also provided a window of opportunity.
- In particular, BNM highlighted *"Global growth prospects have also become more susceptible to increased downside risks in light of possible repercussions from the EU referendum in the United*

Kingdom. International financial markets could also be subject to greater volatility going forward.”.

- Our Economics team interprets the MPS to be “dovish” in nature, as BNM sees (1) downside risks to global and domestic growth post-Brexit - in particular Malaysia exports are projected to remain weak following more subdued demand from key trading partners; (2) no upside risk to inflation, given that BNM lowered its inflation projection for 2016 and sees stable prices for 2017, implying no upside risk to inflation; (3) risk of destabilizing financial imbalances have receded as macro and micro prudential measures, as well as supervisory oversight, have resulted in more prudent lending.
- Our Economists wrote – “Granted that 25bps is not that much to move the needle, it **helps sentiment and confidence** by sending signal that BNM is “risk aware”. The immediate impact is to **provide some relief to businesses and individuals by lowering their debt-servicing costs**.”
- Our Economists are also pricing in the **possibility of another 25bps cut over the next 6 - 12 months,** but **do not expect rapid-fire OPR cuts over the next few meetings as BNM turns “risk aware”, “data-dependent” and “event-driven”.**
- **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 in May 2016 dropped -0.9% YoY (Apr 2016: +1.6% YoY) while imports rebounded by +3.1% YoY (Apr 2016: -2.3% YoY), resulting in the trade surplus narrowing substantially to +MYR3.26b (Apr 2016: +MYR9.05b).
- The outlook for external demand remain challenging, volatile and uncertain with Brexit being the latest headwind as the UK voted to leave to EU in a referendum on 23 June 2016. Malaysia’s exports to the UK so far in 2016 made up only 1.2% of total exports while Malaysia’s imports from the UK were 1.0% of total imports. Further breakdown of exports to the UK showed it consists mostly of manufactured-related items including ‘Machinery and Transport Equipment’ which made up the biggest portion at 55.8%, followed by ‘Miscellaneous Manufactured Articles’ at 24.2% and ‘Manufactured Goods’ at 9.5%.The risk is the knock on effect of Brexit onto the fragile growth of the whole of EU which accounts for 10.2% of Malaysia’s total exports. There is also the “political economy” risk to global economic and trade growth as Brexit is seen as a manifestation of people’s dissatisfaction with globalisation, hence free trade, which in turn could lead to “inward-looking” politics and policies.
- **Key domestic events and issues to watch:** Trade data (5 Aug); FX reserves (5 and 22 Aug); 2Q GDP (12 Aug); CPI Inflation (24 Aug).
- **Technical Outlook:** USDMYR continues to trade within its bearish trend channel formed since Jun 2016. Last seen at 4.03 levels. Weekly momentum provides little cues but daily momentum is showing signs of turning mild bearish bias while stochastics is also showing signs of

falling from overbought conditions. Key support at 3.9850 (23.6% fibo retracement of 2016 high to low). A break below that on weekly basis can see the pair push lower towards 3.85 levels (2016 lows). Resistance at 4.0720 (38.2% fibo), 4.1420 (50% fibo, 200 DMA).

IDR: Supported By Idiosyncratic Factors

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USDIDR	13200 (13400)	13300 (-)	13200 (-)	13200 (-)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The downswing in the USDIDR since the UK vote on Brexit appears to have stalled towards the end of Jul on the back of softer risk appetite. Even with this rebound, the IDR is still up by around 0.5% against the USD so far in Jul. Year-to-date, the IDR has gained around 4.7% vs. the USD as the search for yields raised demand for Indonesian equities and government debt amid a delay in further Fed fund rate hike.
- Keeping the IDR elevated against the USD is positive sentiments attributable to the tax amnesty law which came into effect on 11 Jul. The tax amnesty law is supposed to onshore funds parked overseas that could be used for capital investments domestically, and resolves some of the shortfall in government revenue, decreasing fiscal risk. Just as importantly, this law is seen as epitomizing the reform efforts of President Jokowi. The repatriated funds and the concomitant portfolio and direct investment flows should be positive for the IDR.
- However, whether the USDIDR will settle lower to around the 13000-handle would depend on how much of the estimated IDR560tn that the BI believes will be repatriated are actually brought back onshore. Should the actual funds repatriated fall significantly below that estimate, the gains in the IDR could be limited. However, should the estimate be met or exceeded, there could be downside risks to the USDIDR outlook with the possibility of the pair settling closer to the 13000-handle in 1H 2017.
- The tax amnesty bill aside, the IDR has several other positive factors in its favor, namely improving economic fundamentals (including narrower current account deficits), government commitment to reforms, fiscal stimulus packages, accommodative monetary policy and political stability. These have been key to risk-supported sentiments, and are IDR-positive. The 13 stimulus packages introduced to date by the government have not only encouraged greater foreign portfolio investment but FDI. This is corroborated by available data showing FDI rising by 17.6% y/y in rupiah terms in 1Q.
- Foreign investors have purchased USD695.42mn in equities so far in Jul (1-26 Jul) and at the same time, added IDR16.62tntn to their outstanding holding of government debt on 1-25 Jul (latest data available). So far in 2016, these foreign funds have purchased USD1.68bn in equities compared to the USD1.58bn sold off for the whole of 2015. They had also added IDR102.10tn to their outstanding holding of government debt so far this year, slightly more than the

IDR97.17tn accumulated for the whole of 2015. The foreign portfolio investment should continue as long as the infrastructure programme and economic reforms remain on track. These should cap USDIDR upside for the rest of the year and into 1H 2017, barring unforeseen risk events.

- The risk to our USDIDR forecast is that the US Fed could resume its fund rate hike this year, most likely in Dec. We cannot completely rule out Fed move in Sep but we place a very low probability of such an occurrence. Subsequently, we have adjusted our 3Q16 forecast for the USDIDR to reflect the resultant dollar weakness in the quarter. Dollar weakness together with the positive idiosyncratic factors discussed above should weigh on the USDIDR, pushing the pair towards the 13200 levels by end-3Q (from 13400 previously). Even the expected 25bp rate cut by BI in Aug or Sep is likely to weigh only temporarily on the pair before the boost to growth lifts the pair higher.
- Beyond 3Q, the firmer dollar in the lead-up to the FOMC meeting in Dec should lift the USDIDR higher, though the strong positive factors should continue to cap upside. We look for the pair to end the year at 13300 as a result. Going into 1H 2017, the positive factors, including the gains from the tax amnesty bill, should continue to weigh on the USDIDR. We expect the pair to settle lower and hover around the 13200 levels in both 1Q and 2Q 2017.
- **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Indonesia worsened to 5.7 from 5.6 and was due to the deterioration in yield risks. This should weigh on the intrinsic value of the IDR.
- **Growth and Inflation Outlook:** The central bank does not expect a significant improvement in GDP in 2Q after 1Q's expansion of just 4.92%. BI only sees a 'slight improvement' to GDP in 2Q as loans demand remain weak. The weak motorcycle sales numbers in Jun, where it fell by 9.7% y/y, appear to corroborate this. For the first half of the year, motorcycle sales dipped 6.7% y/y. However, car sales continue to pick up, rising by 11.3% y/y in Jun, almost the same pace as in May. This suggests that middle class confidence is recovering, and could underpin growth ahead. Despite still being on the decline, the pace of decline in exports has moderated. Exports fell by just 4.42% y/y in Jun compared to 9.73% in May. Imports though fell by a steeper 7.41% y/y in Jun vs. May's -4.12%.
- The Ministry of Finance though is more optimistic, expecting the economy to grow by 5.3% in 2H16, driven by infrastructure spending and gross fixed capital formation. Similarly, our economic team remains sanguine about growth prospects in 2016 and sees the economy expanding by 5.09% in 2016 on the back of the government's push for more infrastructure building and stronger investment, incentivized by government's offer of tax breaks, to drive growth. This growth projection is in line with BI's GDP growth forecast of 5.0-5.4% for 2016.
- The economic team in the Jokowi cabinet was revamped on 27 Jul. The new Dream Team includes Darmin Nasution, who remains as Coordinating Minister for the Economy, and Sri Mulyani, who takes over from Bambang Brodjonegoro as Finance Minister. The latter is now National Planning Minister. New members of the team include Enggartiasto Lukito at Trade and Airlangga Hartanto at Industry. Former Trade Minister Thomas Lembong is now Head of BKPM – the Board of Investment. The new cabinet not only reflects the

President's new found confidence but also provides economic policy-making with a new impetus.

- Headline inflation has been tamed so far this year. Headline inflation has been below the 4.0% levels for the past three months with Jun's print at 3.45% y/y. This was despite Jun being the month of Ramadan where prices, especially for food, typical spikes because of higher demand for goods and services. Coordinated efforts by the government and central bank appear to have ensured adequate supply of food stuff and liquidity in the system. Core inflation also inched higher, rising by 3.49% y/y in Jun from 3.41% in both Apr and May. With inflationary expectations well-anchored, and given the strengthening IDR strength and government policies to slow the pace of prices increases (most recently the decision to delay the planned hike in electricity tariffs for small household customers), consumer prices increases are likely to be more benign. Consequently, our economic team maintains its headline and core inflation at 3.53% and 3.48% in 2016 respectively. BI continues to expect inflation to average 3-5% for 2016.

- **Monetary Policy Forecast:** Against market but in line with our economic team's expectations, BI left its reference rate (as well as the 7-day reverse repo) unchanged at 6.50% (and 5.25%) after cutting the policy rate four times so far this year. The surprised decision suggested that the central bank was taking a prudent 'wait-and-see' approach to assess the impact of the previous cuts on the economy as well as evaluating the impact of the tax amnesty law on fund inflows. There could be some concerns that adding further monetary stimulus amid strong capital inflows could spur inflationary pressures, which could undo the reflationary efforts of the central bank. That said, the BI continues to see room for further easing ahead if the situation necessitates a move.

- Despite the pause by BI in Jul, further easing moves cannot be ruled out given the lackluster growth so far. With economic growth remaining the focus of policy amid a relatively stable IDR and benign inflationary environment, our economic team still expects another 25bp rate cut in Aug-Sep to spur growth beyond 2016. A rate cut in Aug-Sep would allow the pass-through to the economy to be felt by the last quarter of the year and into 2017. The economy will transition to the new benchmark rate – the 7-day reverse repurchase rate (currently at 5.25%) – and the re-adjusted interest rate corridor on 19 Aug. This move to a new policy framework is not expected to constrain any future BI action.

- **Latest Fiscal and External Balance Outlook:** Though it is still too early to gauge the progress of the tax amnesty law, early evidence suggests there is a measure of compliance. As of 26 Jul, Indonesians have declared nearly IDR1tn in assets under the tax amnesty law. According to the Ministry of Finance, a total of IDR989bn have been declared with IDR253bn are overseas assets and IDR735bn are domestic. As a result, the Finance Ministry has gained IDR23.7bn in tax revenue from the tax amnesty's redemption fees.

- The current account deficit (CAD) narrowed moderately to USD4.67bn in 1Q 2016 or 2.14% of GDP compared to USD5.07bn in 4Q 2015. This was better than the 2.20% BI was expecting and was just a tad off last year's full-year CAD of 2.06% of GDP for 2015. The moderation in 1Q 2016 CAD was due to the larger deficit in the primary income account (-USD7.55bn) that offset the larger surplus in goods and services account (USD2.78bn).The overall balance of payments slipped into a deficit of USD0.29bn in 1Q 2016 as the surplus in the financial account was more than offset by the CAD. The central bank continues to expect the CAD to come in at 2.5% of GDP in 2016, less than the 3.0% of GDP target. Meanwhile, our economic team maintains its 2016 CAD forecast at 2.45% of GDP.

- **Key domestic events and issues to watch**: 2Q GDP will be released sometime on 5-7 Aug. BI meets on 18-19 Aug to decide on monetary policy. Also on 19 Aug, the 7-day reverse repo rate will replace the BI reference rate as the policy rate and the interest rate corridor will come into effect.
- **Technical Outlook:** USDIDR continues to trade with a heavy bias. Last seen at 13060 levels. Underlying momentum remains bearish (as indicated on monthly and weekly charts). Next key support at 12984 (2016 low). A break below that could open way for further downside towards 12800 (lower band of the trend channel). Resistance at 13220 (23.6% fibo retracement of 2016 high to low).

PHP: No Duterte Effect Seen

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USDPHP	47.50	47.80	47.50	47.50

No Change from Previous Forecast

- **Motivation for the FX View**: Post-Brexit, the USDPHP has been see-sawing in a wide range within 46.670-47.560 as risk whipsawed in Jul. Having strong fundamentals, which provided a backstop to the PHP, did not prevent the pair fluctuating widely in the month. Among the ASEANs, the Philippines have gone from one of the outperformers in Jan-Jun to the worst performer in Jan-Jul. The PHP slipped 0.6% against the USD year-to-date. In Jul so far, the PHP has done better among the ASEANs except for the IDR and THB, gaining 0.1% against the USD.
- Jul has been kind to equities. So far in Jul, foreign investors have purchased USD400.6mn in equities compared to the USD311.9mn bought for the whole of Jun. This healthy inflow probably reflected the some renewed confidence foreign investors have in the economic policy direction of the new administration of President Duterte. Similarly, domestic and foreign demand for government debt appears to have picked-up in Jul with yields across all tenors lower by 18.9-155.4bp except for the 10Y. This is likely to have mitigated the long USDPHP positions taken by investors as hedge against global risk. Without these healthy inflows, USDPHP could be even higher now!
- As mentioned earlier, economic fundamentals remain strong to date with the economy enjoying a persistent current account surplus, outperformance in economic growth amid accommodative monetary policy. This should provide the backstop to any rapid bounce in the USDPHP. In addition, with US Fed likely to resume its rate hike only in Dec, the relatively higher yields in the Philippines vs. the UST could attract further portfolio inflows and be supportive of the USDPHP.
- The risk to the new Duterte administration is that the feel-good factor could fade especially after the honeymoon phase ends. The president might find that pushing his favoured key policies through

the Congress might not be easy as when he was mayor of Davao City. Moreover, his anti-establishment and anti-Manila outlook could also work against him. In addition, the vigilante killings against alleged drug pushers and criminals could galvanize opposition against him especially should the body count mounts and innocent bystanders become victims of the crossfire. We may thus still see political risks reemerge in the days ahead. These are some of the risks that we will be monitoring closely, and that could keep the USDPHP supported ahead.

- External factors also challenge the USDPHP. Despite its healthy fundamentals, the USDPHP remains highly susceptible to risk events externally. Risk events of note include the US presidential election in Nov, Fed fund rate hike risk in Dec and Brexit. The uncertainty in the lead-up to the US presidential election could pose upside risk to the USDPHP. Concerns about a “President Trump”, particularly his lower commitment to the security pact with Manila and to trade relations, could increase market volatility and spark safe-haven outflows from riskier assets including those from the Philippine. The USDPHP also faces risks from the US Fed resuming its fund rate hike this year, most likely in Dec. A Sep move cannot be ruled out for now but we place a very low probability of such an occurrence. Expectations of a Fed move this year could keep the pair elevated towards the year-end and into 2017. As well, concerns about Brexit remains and re-emerges of these concerns could also see the move to safer-havens. These are likely to lift the pair higher.
- We maintain our forecast for the USDPHP to end 3Q at 47.50 before edging higher towards 47.80 by year-end. We expect the healthy macroeconomic fundamentals to cap upside and keep the pair from hitting the 48-figure, barring a significant risk event. Thereafter, we expect the pair to settle lower to 47.50 by 1Q 2017 as the uncertainty surrounding these risks events dissipates.
- Our monthly **Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, worsened from 4.6 to 4.8. This was due to increase in inflation risks. This should weigh on the intrinsic value of the PHP.
- **Growth and Inflation Outlook**: Though growth is likely to outperform its regional peers, including China, the new Duterte administration is not leaving anything to chance. It is proactively creating an environment that will be conducive to accelerated growth in the medium term. In his first State of the Nation address on 25 Jul, President Duterte outlined policies that would boost growth, create jobs and alleviate poverty by relaxing economic restrictions and making it easier to do business, lowering personal and corporate income tax, and accelerating infrastructure spending (building more access roads, tourism gateways, providing inter-island transport links). Key to achieving these goals is his 10-point socio-economic agenda that will be the centerpiece of his economic policy direction.
- To this end, the Budget Department announced that it would boost infrastructure spending to 7% of GDP by the end of President Duterte’s term in 2022. For 2017, the government is planning to spend about PHP900b (or 5.2% of GDP) on hard infrastructure, out of the planned PHP3.35tn budget for 2017. The budget deficit will probably rise to 3% of GDP in 2017 from 2.5% in 2016 and help to drive growth towards 6-7% this year and 6.5-7.5% in 2017, a lower target than the 6.8-7.8% and 6.6-7.6% projected by the Aquino administration for 2016 and 2017 respectively. This accelerated spending should boost both

domestic consumption as well as investment spending, and mitigate any slowdown in remittances as a result of slower growth in the G3 and oil-producing Middle Eastern economies. Barring policy surprises from the new administration, our economic team continues to expect growth to come in at 7% for 2016.

- Headline inflation accelerated for the second straight month in Jun, rising by 1.9% y/y vs. 1.6% in May after hovering around the 1.1% levels in Mar and Apr. The rise in inflation was due to the uptick in food prices (2.9% y/y vs. Apr's 2.3%) once again and the much smaller decline in housing cost (-0.4% y/y vs. Apr's -1.2%). For 1H 2016, headline inflation averaged 1.3% y/y and remains well below the official 2-4% target for 2016. Much of this underperformance in inflation could be attributed to oil prices. Thus as global oil prices stabilize, inflation is expected to tick higher. Even the risks of El Nino and election spending are unlikely to lift inflation significantly higher. For now, the central bank expects headline inflation to come in around 2.0% in 2016 from 2.1% previously and maintained its 2017 and 2018 inflation forecast at 3.1% and 2.6% respectively. Our economic team continues to expect headline inflation to average 2% in 2016 based on sustained low fuel prices and modest impact from El Nino.

- **Monetary Policy Forecast:** We continue to expect the BSP to stay on hold at its next policy meeting on 11 Aug and for the rest of the year, barring a deterioration in the global economy. Growth remains on a healthy upward trajectory and inflation benign. Moreover, the new interest rate corridor (IRC) framework, in place since 3 Jun, with **the overnight borrowing rate at 3.0% (the policy rate) and the upper (overnight lending rate) and lower (overnight deposit rate) bands of the corridor at 3.5% and 2.5% respectively**, allows for the more effective transmission of the policy rate to market rates. Note that during the transition to the IRC, the overnight borrowing rate had been cut to 3.0% from 4.0% - a de-facto 100bp rate cut. Thus, further cuts should be unlikely for now. Instead of focusing on just the interest rate, macro-prudential tools could be loosened to provide the economy with an extra boost.

- Market whispers is that a RRR cut could be in the cards following comments by the central bank governor which suggested that he might reduce the amount of cash banks must set aside. The RRR is currently at 20% with the last adjustment in the RRR more than two years ago on 8 May 2014. A cut in the would release liquidity into the financial system, spurring yields and hence borrowing cost lower, and be supportive of domestic growth. Using macro-prudential measures to spur credit growth and support the economy would allow the central bank to save its ammunition for black swan events like Brexit.

- **Latest Fiscal and External Balance Outlook:** The administration of President Duterte will boost spending on infrastructure to 7% of GDP by 2022. For 2017, the government intends to spend PHP900bn (5.2% of GDP) on hard infrastructure. This comes in the wake of President Duterte's planned budget of PHP3.35tn for 2017 – up 11.6% from 2016. Part of the increase will fund social services, including cash handout program, education, health. Already in 1H 2016, the budget balance has swung to a deficit of PH120.32bn compared to PHP13.75bn surplus a year ago, helped by a 14% increase in expenditure. For the year, the Budget Department expects the fiscal shortfall to hit PHP388.87bn in 2016 (about 2.7% of GDP) – well above the 0.9% ratio of 2015 as the new administration accelerates spending to bolster growth.

- The overall balance of payments (BoP) almost doubled the USD241mn surplus recorded in May at USD418mn in Jun. This was the fourth straight month of BoP surplus. The increase was due to the surplus of the BSP's foreign exchange operations, income from the central bank's foreign investment and net USD deposits from the national government, though these were partially offset by payments for the government's foreign denominated debt obligations. In the first six months of the year, the overall BoP surplus was USD644mn, putting the BoP on track to attain the USD2bn projected for 2016.

- Key domestic events and issues to watch: The BSP will meet on 11 Aug to decide on monetary policy. This will be followed by 2Q GDP on 18 Aug.
- **Technical Outlook:** USDPHP traded sideways in wide range of 46.67 - 47.53 over the month of Jul. Last seen at 46.95 levels. Weekly/daily momentum suggests some signs of mild bearish bias. Pair could test lower towards 46.70 levels (38.2% fibo retracement of 2016 high to low), 46.40 (23.6% fibo). Resistance at 47.25 (61.8% fibo).

THB: Referendum Watch

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USDTHB	36.50	37.00	37.00	37.20

No Change from Previous Forecast

- **Motivation for the FX View:** Post-Brexit, the USDTHB has been on the downtrend, helped by portfolio inflow in the search for yields. However, some of this inflow has since reversed as investors sought higher yielding assets elsewhere and as a hedge against possible political uncertainty in early Aug. Similar to the previous month where the THB was one of the more resilient ASEAN currencies in the aftermath of the UK's Brexit vote, the THB is again outperforming the rest of its ASEAN counterparts ex-IDR. This was even as the THB rose by just 0.5% against USD in Jul so far. For the year-to-date though, the THB did not standout. It rose 3.0% vs. the USD but this only saw it outshine the PHP.
- Foreign funds continue to flow into Thai assets but not at the same pace as in Jun. So far in Jul, foreign investors have bought THB39.55bn and THB4.6bn in equities and government debt. This is in contrast to Jun where they purchased THB18.4bn and THB113.4bn in equities and government debt. Nevertheless, these inflows remain supportive of the THB in Jul. For the year so far, foreign investors have purchased THB76.06bn and THB298.67 in equities and government debt compared to the sell off of THB15.43bn and THB23.97bn for the whole of 2015. Continued inflows into Thai assets should keep the THB elevated and weigh on the USDTHB for the rest of the year.
- These positive sentiments so far could just as easily flip ahead, especially with the upcoming referendum on the draft constitution set for 7 Aug. The military government's attempt to solidify the military's role in the constitution and limit the role of civilians could galvanize the opposition. So far, the debate on the draft constitution has been muted given the military government's curbs on discussing the pros and cons of the draft constitution. Despite this ban, some politicians

have managed to get their message of opposition to the draft constitution to the public. Of note on this front is former PM Abhisit openly voicing his opposition to the draft constitution. As more political figures become emboldened to speak out, political tensions reignite in the run-up to the referendum. There are risks that as tensions intensify, there could be greater political uncertainty – more so if the draft constitution is rejected on 7 Aug. This could continue to weigh on investor sentiment and put downside pressure on the THB.

- Aside from domestic political risks, external challenges could also impact the USDTHB, particularly the US presidential election, the US Fed's resumption of its rate hikes and post-Brexit developments. The uncertainty in the lead-up to the US presidential election could pose upside risk to the USDTHB as a "President Trump" could increase market volatility and uncertainty, resulting in safe-havens flows and sparking another round of outflows from riskier assets including those from the Thailand. We could see similar consequences should the US Fed resume its rate hikes at the end of the year, prompting fund outflows as yields differentials narrow. In addition, Brexit concerns could spark another round of risk haven flows. Altogether, these risks are THB-negative.

- We continue to expect monetary policy to be accommodative but expect no further rate cuts for the rest of the year, barring unforeseen risks to the economy. Rate cuts would not solve the kingdom's export woes, while the policy rate is already at near historical lows and is unlikely to be effective in spurring further lending or investment activities. In addition, the central bank believes that fiscal policy should take the lead in bolstering the economy, while accommodative monetary policy should play a complementary and supportive role. Just as importantly, the central bank is likely to save its limited ammunition for even more adverse shocks to the economy. A possible risk to our policy rate outlook is a rate hike in 4Q 2016 as the economy rebounds by year-end and the US Fed restart its rate hike by the end of the year, but this not our base case for now.

- We maintain our USDTHB forecast as we expect USDTHB risks to remain on the upside in the lead up to the referendum, US presidential election and the resumption of US rate hikes by year-end. Thus, the climb in the USDTHB remains intact and should end-3Q still at 36.50 and then settle higher at end-4Q at 37.00 before creeping slightly higher to 37.20 in 2Q 2017.

- **Our Maybank vulnerability score** (using 9 economic and market variables: GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for Thailand rose to 3.9 from 4.0 due to the improvement in the PE valuation risks. This should continue to be supportive of the intrinsic value of the THB.

- **Growth and Inflation Outlook:** Despite the government's optimism, the economy remains fragile even as it appears to be showing signs of a nascent recovery. Already business sentiments have picked-up once again, having crossed the 50-threshold to 50.4 in Jun from 49.7 in May. We continue to expect domestic demand to underpin the recovery in light of the government's accelerated spending on infrastructure. In contrast, external demand should remain weak ahead. Exports fell 0.1% y/y in Jun, more moderate than the 3.7% drop in May, while imports declined by a steeper 10.1% y/y in Jun after rising by 0.5% in May. However, continued tourist arrivals should be supportive of growth ahead. Tourist arrivals rose by 7.2% y/y in Jun, an almost similar pace as in May. The Finance Ministry expects growth to expand by 3.3% in 2016 on the back of tourist arrivals and government spending. Our economic team remains optimistic about growth prospects and maintains 2016 growth projection at 4.0%, bolstered by government accelerated government spending and infrastructure projects.

- The rise in headline inflation in May proved to be short-lived. After rising by 0.46% in May, headline inflation moderated by 0.38% y/y in Jun. Headline inflation was weighed by softer food prices, which rose by 2.8% vs. 2.97% in May as the effect of the drought fade. As well, higher energy prices resulted in transport cost ticking slightly higher (Jun: -2.37% vs. May: -2.42%). Moreover, tobacco prices remain elevated as a result of the excise tax hike. However, lower energy prices and transport cost provided some mitigation to higher overall prices. The government expects inflation to pick-up towards the end of the year and is maintaining its inflation forecast at 0-1% for 2016. Our economic team is even more bullish about inflation, expecting low base effects, improving domestic demand, the impact of the drought on raw food prices, the firmer oil prices and the weak THB to lift headline inflation to 2.0% on average in 2016.

- **Monetary Policy Forecast:** The BoT has not adjusted its key rate since 29 Apr 2015. The policy rate is currently at 1.50%. The last time the policy rate was lowered was during the Great Financial Crisis in 2009-10. With the rate already at near historical lows, there is little need for the BoT to adjust the policy rate for now. Going forward, we expect the central bank to remain on hold for the rest of the year. Note though that this does not preclude the central bank from adjusting its policy rate if the situation calls for it. For now though, the BoT believes that fiscal policy should do the heavy lifting in boosting growth, with monetary policy playing a complementary and supporting role. Moreover, the concomitant weakness in the THB from a rate cut is unlikely to be a panacea for the kingdom's export woes. As well, pausing on policy would allow the central bank to keep its ammunition dry for black swan events. A risk to our policy view is the possibility of a rate hike by the BoT should the economy grow at a more rapid pace than expected by both the government and market as well as the possibility of a rate hike by the Fed at the end of the year could result in a 25bp hike at year-end.

- **Latest Fiscal and External Balance Outlook:** In an effort to inject capital into the economy in 2H, the government has accelerated disbursement of the budget. Success on this front could be seen in the disbursement of over THB2.0tn or 74.99% of total expenditure in the first nine months of FY2016. This exceeded the target of 73%. The revenue collected during the period amounted to THB2.34tn, a 10% y/y increase.

- The current account surplus narrowed to THB79.18nnm in May from THB111.02bn in Apr. This was the third straight month that the surplus has narrowed. The narrowing surplus can be attributed the deficit in the primary and secondary income accounts of –THB45.10bn that partially offset the stronger trade surplus of THB124.28bn. The overall balance of payments (BoP) surplus shrank to THB15.31bn in May compared to Apr's THB57.06bn. While no details were provided, the narrower BoP surplus was likely due to the continuing deterioration in the capital account.

- **Key domestic events and issues to watch:** BoT will kick off the month with its rate decision on 3 Aug. On 15 Aug, the government will release its 2Q GDP print. On the political front, Thais votes on 7 Aug in a referendum on the draft constitution.

- **Technical Outlook: Technical Outlook:** USDTHB maintains its drift lower in Jul. Last seen at 34.80 levels. Weekly momentum is showing mild bearish bias. Next support at 34.50 levels (50% fibo of 2015 low to high) before 33.98 (61.8% fibo). Resistance at 35.00 (38.2% fibo), 35.65 (23.6% fibo).

INR: Will Modi Garner Enough Support For GST?

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USD/INR	65.00 (68.50)	66.00 (69.50)	67.00 (70.00)	67.00 (70.00)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** Focus is still on the GST bill which the BJP has been trying to garner support for and the government seems to be showing more confidence in getting major opposition team including Congress on its side. The major parties of the Rajya Sabhar seems to be showing more support for the GST bill than before. Scrapping the additional 1% state tax have been in the talks to accede to Congress' request. The local press has indicated that the GST bill could be listed for discussion within the week after Finance Minster Arun Jaitley meets state finance ministers on 26 Jul. Passage of this bill may strengthen the rupee significantly in the near-term, perhaps towards the 58-level against the USD, as hinted by the monthly technical chart. Medium term impacts are still uncertain even though there has been much optimism about it simplifying the tax system to avoid double taxation, spurring better supply mobility across inter-state borders that could eventually boost India's GDP level by 1-2%.
- The rupee performed better than we had expected in Jul, with a gain of 1.2% clocked for the month as we write (on 25th Jul). Markets seemed to have momentarily ignored Rajan's imminent departure in Sep. PM Modi was able to release quite a few positive distractions including the approval of the 7th pay commission which recommended a pay hike of 23.55% in pay and allowances to be implemented from the start of this year, to be paid within the financial year 2016-17. Also, foreign investors are now able to have complete ownership of civil and defense aviation. Kerosene subsidy was also cut. These news signal that PM Modi still has the political will for reforms and foreign investors responded positively with an addition fo U$984.5mn purchase of equities as of 21 Jul.
- Beyond the monsoon parliament session, we are still wary of Modi and Jaitley's choice of RBI Governor. The list of potential successors to Rajan (including Arvind Subramanian, Shaktikanta Das, Urjit Patel, Rakesh Mohan, Arvind Panagariya. Subir Gokarn, Arundhati Bhattacharya) are slanted towards the dovish camp and chances of a rate cut seems to have increased but recent citings of top sources with the Finance Ministry has indicated the preference for central bankers which puts Urjit Patel (Deputy Governor), Rakesh Mohan and Subir Gokarn at the top of the list. In addition, the new Governor needs to press on with the urgent clean up of bank's balance sheet by Mar 2017. **Weaker risk appetite could spur more outflows out of the**

high-yielding domestic bond market and sentiment-sensitive equity markets. So while there is bullish risk for the INR in the near term and that has us tweaking our forecast lower to 66.00 for end-year, we see upside risks to the USDINR should choice of Modi and Jaitley choose a more dovish RBI Governor. That said, we are not naïve to think that RBI would stay out of the FX market. The central bank has amassed record amount of forex reserves, last registered at U$363.5bn as of Jun RBI stands ready to utilize it.

- **Our Maybank vulnerability score (using 9 economic and market variables:** GDP, Yield, Politics, Current Account, Inflation, Fiscal, Equity Valuation, Population, Reserves) for India improved to 4.6 (with 1 being the best score and 9 being the worst) from previous 4.7 due to a improvement in its yield score relative to its peers.
- **Growth and Inflation Outlook:** Industrial production rebounded to 1.2% from previous -1.3%, underpinned by stronger growth in manufacturing output. We could be looking at another set of good print in Jun as PMI-mfg for the month rose to 51.7 from 50.7 and the Markit report cited strong growth in new orders and output. While output growth for Jun is likely to its strongest in the past three months, the survey also highlighted that job creation was flat, suggesting that the slack in the labor force has only begun to tighten. We recall that RBI industrial outlook survey for 2015-2016 shows that capacity utilization seems to have improved the most amongst the medium sized enterprises, flat for large firms, and deteriorated for small and micro firms. The manufacturing sector is still very uneven with rising input costs and a lack of domestic and external demand that likely threatens profit margin for most industrial firms.
- While industrial output growth struggles, the agricultural sector may a key support sector for GDP growth in the months ahead. A good monsoon could boost farm growth to 6% this year and add 40bps according to our India analyst. So far, the monsoon has been pretty favourable with cumulative rainfall surplus of 1% above long period average (LPA) up to 20 Jul seen for the whole country with central India seeing the most surplus (13% above LPA). The India Meteorological Department also forecast near-normal to above normal rainfall for the whole of India in the days ahead. Rural productivity, farm income and rural demand could see a rise amid benign inflation trajectory. Household consumption will continue to be a pillar of support as the government and central bank strive to crowd in private investment with reform measures.
- Food inflation keep headline CPI elevated at 5.77%y/y for Jun, a little firmer than May's 5.76%. Wholesale prices also jumped to 1.62%y/y from previous 0.79% and we look for this print to remain elevated after the government raises kerosene prices in Jul. In addition, a pay hike for central government employees that would be implemented within the financial year 2016-2017 may also fan demand-led price pressures.
- **Monetary Policy Forecast:** The Reserve Bank of India will make its next rate decision on 9th Aug. We continued to anticipate an extended pause by the central bank even as current monsoon conditions seem to be favourable for the kharif crops. With upside surprise for a number of inflation print, a recent kerosene price hike and a recent pay hike for central government employees, we think the best gift for Rajan to leave India as a central bank governor is to leave leave repo rate at 6.50% for his final central bank policy meeting.
- Looking ahead, Modi and Jaitley's choice of RBI Governor would be key to the future policy stance of the central bank. Local press had

stated sources close to the MOF that central bankers are preferred and that puts Urjit Patel (Deputy Governor), Rakesh Mohan and Subir Gokarn (former Deputy Governors) at the top of the list. Urjit Patel is seen as a hawk while Subir Gokarn and Rakesh Mohan are seen as neutral or holding a balanced view for growth vs inflation targeting when it comes to monetary policy.

- **Latest Fiscal and External Balance Outlook:** Foreign investors bought USD984.5mn of equities and USD1109mn of bonds in Jul as of 21 Jul. On the other hand, the recent allowance for foreign investors to own 100% of civil and defense aviation in India buoyed stocks at home. In addition, the government is considering to ease foreign investment in pharmaceuticals.
- 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. The plans outlined should work to improve inflation expectations via the supply side measures whilst boosting rural demand.
- As of last release, the current account deficit narrowed to just $0.3bn in the quarter ending Mar from the previous $7.7b 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. Current account deficit may deteriorate in 2Q as we witnessed a stronger improvement in imports that surpassed that of exports, causing the trade deficit to widen considerably in Jun. That said, its balance of payments position is likely to be buffered by steady equity inflows seen in the past three months.
- **Key domestic events and issues to watch:** India has Jul PMI-mfg due on the 1st, RBI rate decision on the 9th. Jul trade is due anytime within 10th-16th. Jun industrial production and Jul CPI are due on the 12th, WPI on 15th.
- **Technical Outlook:** USDINR gapped down under the 200-DMA this morning. Support is seen around 66.6840 (76.4% Fibonacci retracement of the Jan-Apr pullback). The monthly chart has been showing a bearish risk for a while with a double top seen around 68.70 which could bring the pair towards the 58-figure. MACD is bearish bias as well on the monthly chart.

VND: Steady For Now But Vulnerable

Forecast	3Q 2016	4Q 2016	1Q 2017	2Q 2017
USD/VND	22400	22600	22700	22800

No Change from Previous Forecast

- **Motivation for the FX View:** USDVND has been holding steady since Jun and was last seen around 22300. For much of this year, VND has been mainly underpinned by strong FDI inflows and trade surplus. That has allowed VND to remain strong in spite of occasional dollar resurgence and broad CNY weakness. However, pace of FDI has slowed since Jun and we anticipate slight dollar strength towards the end of the quarter to also lift the USDVND towards our forecast of 22400. Towards the end of the year, we see USDVND at 22600, guided by broad USD strength. Our forecast also assumes Japan fires enough monetary and fiscal stimulus to keep USDJPY within 100-110 for the rest of the year.
- Economic-wise, Vietnam has seen some challenges with its fishery and agriculture industry after the Formosa Vietnam Discharge killed more than 240MT of Fish. PM Thanh has ensured that the whole disaster was thoroughly investigated. Formosa is held to a U$500mn compensation and PM Thanh assures that the fund that is meant to improve offshore fishing and environmental protection will be transparent. This was done to regain investors' confidence in the country. Still, the supply-side disruption will weigh on growth. The drought has also crimped on the agriculture sector, causing a contraction of -1.1%y/y in 2Q. We expect some upside pressure on food costs into 2H. In fact, Head of National Assembly Economic Committee Vu Hong Thanh said that the 6.7% growth target for 2016 is "hard to reach" and that it is "not possible to loosen monetary and fiscal policies in the last 6 months (of the year)".
- Medium term, Vietnam's apparel, footwear, agro-forestry and seafood industry were meant to get the boost from the Trans Pacific Partnership. However, we are less sure of the seafood industry after the recent disaster especially as PM Thanh has planned for fishermen to find new employment. **Key risk to the medium term view is a surprise Donald Trump win at the Presidential Elections that may jeopardize the Trans Pacific Partnership and reverse the FDI flows that have benefitted Vietnam thus far this year.**
- **Growth and Inflation Outlook:** While the fishery and agricultural sectors were hit by man-made and natural disasters in the first half of the year, there are still a few bright spots in the economy. PMI-mfg slipped only a tad to 52.6 in Jun from previous 52.7 and that bodes well for factory output in the months ahead. In the meantime, services sectors fared well in the first half of the year including accommodation and food services. Retail sales for Jan-Jul only slowed a tad to 9.4%y/y from 9.5% for the first six months of the year. External demand seems to also favour Vietnam relative to its regional peers with exports growth for Jan-Jul at 5.3%y/y, albeit slower than the 5.9% seen in the first half of the year. Vietnam has to count on its manufacturing and services sector for growth for the rest of the year.

- Inflation came in at 2.39%y/y, steadying from Jun. The rise in CPI seen in 2Q was due largely to higher food costs, medical costs and fuel costs. We continue to expect inflation to remain on a gradual upward trend given supply side impact on agriculture and fishery.
- Our Vietnam team has highlighted that near term impact could be via a stronger Japanese yen as Vietnam's external debt/GDP stood at 41.5% as of end 2015. Strong relationship with Japan suggests that JPY-denominated debt could be at least 30% of total debt and a stronger JPY could weaken Vietnam's debt position. That said, given the threat of BOJ intervention and potential monetary and fiscal stimulus, we expect USDJPY to remain within 100-110 for the rest of this year. That should in turn alleviate pressure on Vietnam's debt.
- **Monetary Policy Forecast:** SBV has not moved policy rates for a while and we think the central bank could still find room to ease given inflation trajectory remains rather benign. With the growth target seemingly out of reach, SBV might need to ease rates (currently base rate at 9.0%, refinancing rate at 6.5% and discount rate at 4.5%) in order to nudge the growth engine a little by boosting domestic spending. That would take its credit growth above its annual target of 18-20%. FX-wise, the central bank has not been tweaking the USDVND reference rate much day-to-day despite broad yuan weakness. With exports growth decelerating and lean FX reserves-import ratio of around 2, any external shocks in the FX space could force SBV to devalue the dong. However, at this point, we do not see high probability of major risk events that could unfold as yet.
- **Latest Fiscal and External Balance Outlook:** Vietnam is running out of fiscal room to boost growth. The Ministry of Finance revised the fiscal deficit significantly higher to 6.6% of GDP in 2014 and 6.1% for 2015. Our equity analyst Le Hong Lian has pointed out that this release likely put credit rating upgrade on hold. We concur that investors would need time to regain its confidence in the data. We also see a need for the government to demonstrate stronger commitment to improving its fiscal balance and public debt.
- Whilst Vietnam's external balance is expected to weaken this year on weaker exports, growth of exports remain positive for the past five months at around 5.0%y/y and that speaks volume of its competitiveness given the high base and sluggish external demand that has impacted most of the region. Current account recorded a surplus of USD2.632bn in 1Q (latest data available), an improvement from U$1.08bn in 4Q on the back of larger exports of goods and lower decline in net services. Strong FDI and potential improvement on the external front could keep the VND stable.
- **Key Domestic Events and Issues to Watch:** Aug PMI-mfg is due on the 1^{st}. CPI is due on the 24th. Trade balance, retail sales and industrial production will be released anytime within $25\text{-}31^{st}$.

FX Forecasts

	End Q3-16 f	End Q4-16 f	End Q1-17 f	End Q2-17 f
USD/JPY	110	112	112	114
EUR/USD	1.11	1.10	1.08	1.10
GBP/USD	1.25	1.30	1.30	1.28
AUD/USD	0.74	0.76	0.75	0.76
NZD/USD	0.69	0.70	0.69	0.72
USD/SGD	1.3600	1.3750	1.3900	1.4000
USD/MYR	4.00	4.00	3.95	3.95
USD/IDR	13200	13300	13200	13200
USD/THB	36.50	37.00	37.00	37.20
USD/PHP	47.50	47.80	47.50	47.50
USD/CNY	6.65	6.67	6.70	6.70
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	32.40	32.40	32.80	32.80
USD/KRW	1165	1170	1180	1180
USD/INR	65.00	66.00	67.00	67.00
USD/VND	22400	22600	22700	22800
SGD Crosses	**End 3Q-16**	**End 4Q-16**	**End 1Q -17**	**End Q2-17**
100 JPY/SGD	1.236	1.228	1.241	1.228
EUR/SGD	1.510	1.513	1.501	1.540
GBP/SGD	1.700	1.788	1.807	1.792
AUD/SGD	1.006	1.045	1.043	1.064
NZD/SGD	0.932	0.963	0.959	1.008
SGD/MYR	2.941	2.909	2.842	2.821
SGD/IDR	9706	9673	9496	9429
SGD/THB	26.84	26.91	26.62	26.57
SGD/PHP	34.93	34.76	34.17	33.93
SGD/CNY	4.890	4.851	4.820	4.786
SGD/HKD	5.735	5.673	5.612	5.571
SGD/TWD	23.82	23.56	23.60	23.43
SGD/KRW	856.62	850.91	848.92	842.86
SGD/INR	47.79	48.00	48.20	47.86
MYR Crosses	**End Q3-16 f**	**End Q4-16 f**	**End Q1-17 f**	**End Q2-17 f**
EUR/MYR	4.440	4.400	4.266	4.345
JPY/MYR	3.636	3.571	3.527	3.465
MYR/HKD	1.950	1.950	1.975	1.975
MYR/CNY	1.663	1.668	1.696	1.696
GBP/MYR	5.000	5.200	5.135	5.056
AUD/MYR	2.960	3.040	2.963	3.002
NZD/MYR	2.740	2.800	2.726	2.844
MYR/IDR	3300	3325	3342	3342
MYR/INR	16.25	16.50	16.96	16.96
MYR/KRW	291.25	292.50	298.73	298.73
MYR/PHP	11.88	11.95	12.03	12.03

Source: Maybank FX Research as at 1 August 2016

*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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