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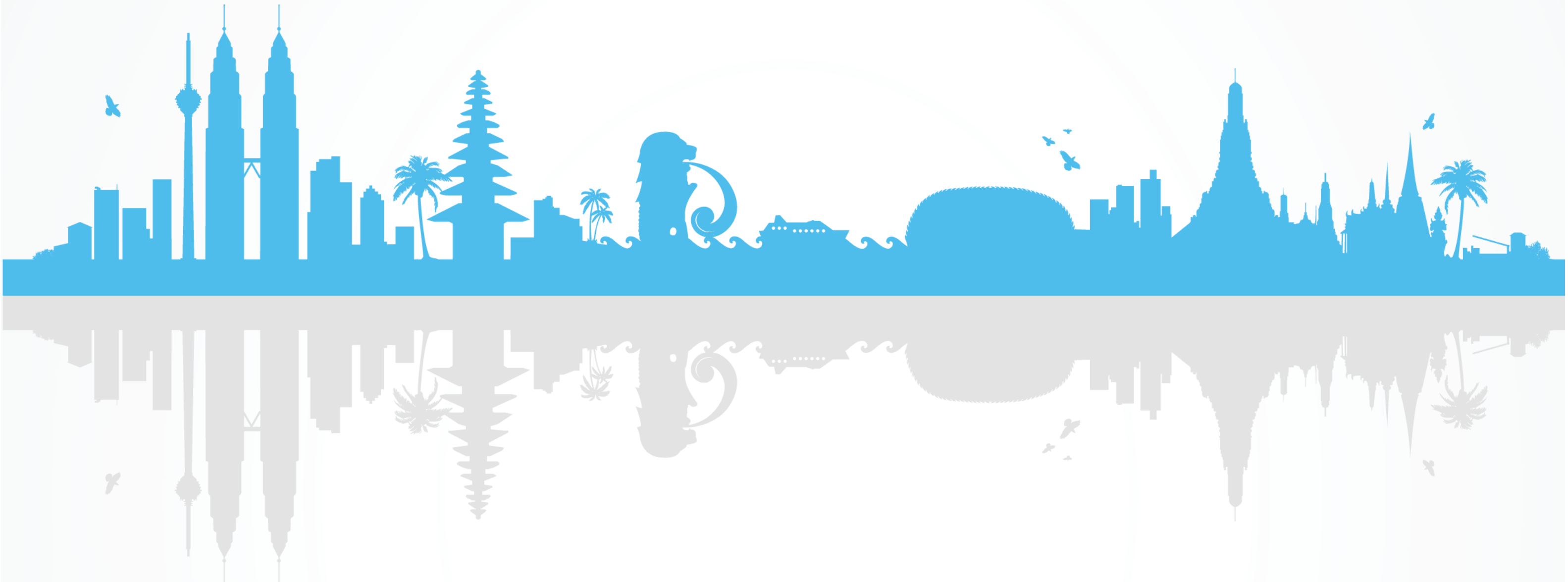

ECONOMICS SNAPSHOT
ASEAN FOCUS

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Special thanks to Benjamin Lee, Elisabeth Lucas, Marisha Naz and Mika Martumpal
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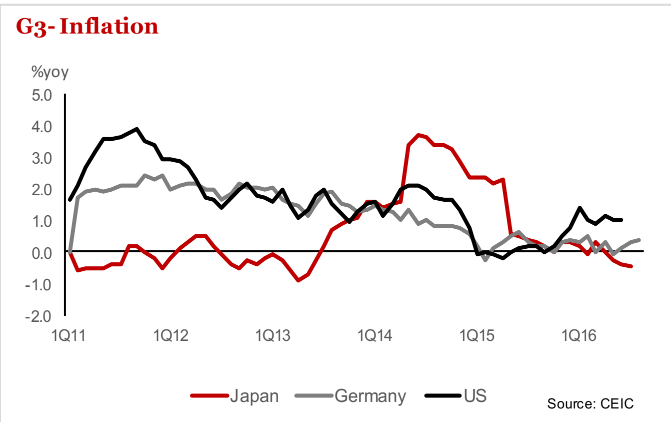
OUR VIEW

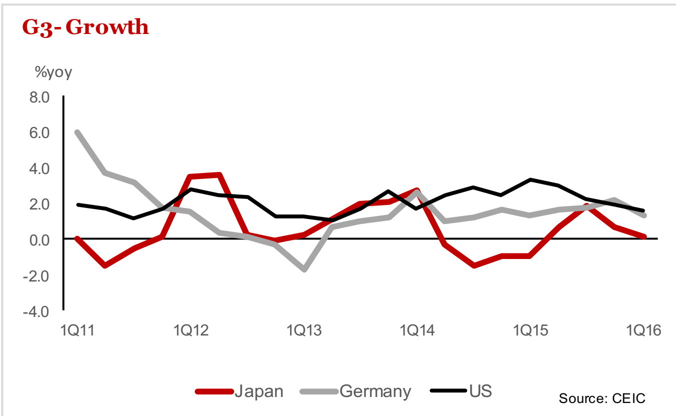
Déjà vu all over again[1]

For several years now, consensus forecasts for the global economy have followed a similar pattern. The year typically starts with a degree of optimism that this would be the year of economic recovery and the ghost of the global financial crisis (GFC) would finally be exorcised. Then, close to the end of the first quarter, that optimism starts to be reined in and by the end of the second quarter, sentiment is back to square one. Global economic growth is then expected to repeat the previous year's performance and the conversation moves from potential recovery to risks. And it stays that way until the cycle repeats. This year has been no different: Optimism in January; downgrades in June.

Our view remains that the GFC effectively put the global economy into balance sheet recession and it is currently in "secular stagnation"[2]. In simpler terms, the post-GFC crash in asset prices and the rise in debt has worsened household balance sheets. Hence, even as interest rates dropped to near zero, households increased savings to rebuild their finances. Similarly, corporations were reluctant to spend and largely retained their earnings, having faced a liquidity crunch after the crisis.

This combination of high savings rates, lower investment and increased risk aversion depressed the "natural" interest rate that would be consistent with full employment. In order to be effective as a tool for stimulus, that is to incentivise consumer spending and business investment, the real interest rate needs to be lower than this natural rate. However, this was not possible, with the zero lower bound on nominal rates. Under these circumstances, monetary policy is an extremely blunt instrument to use in attempts to revive economic growth. As such, any recovery was unlikely to be robust and would need a concerted application of fiscal stimulus.





[1] This phrase is attributed to Yogi Berra, professional baseball player and manager and amateur philosopher, well known for his witticisms.
[2] Koo, Richard, The Escape from Balance Sheet Recession and the QE Trap: A Hazardous Road for the World Economy, Wiley, 2011.
Summers, L. (2014), "U.S. Economic Prospects: Secular Stagnation, Hysteresis and Zero Lower Bound", speech delivered to the National Association for Business Economics, Economic Policy Conference, Feb 24, 2014.

Another year, another elusive recovery

This script is playing out in 2016. While the Brexit vote will undoubtedly be blamed for creating uncertainty, and the resulting hesitation in decision making, economic growth was lacklustre well before the Brexit referendum. The US economy grew by 1.2% yoy in 2Q16, while Japan grew by 0.2% and the Euro area by 1.6%. None of these growth rates could be characterised as strong. The US is structurally the best off but even there, demand has been lacking. Japan seems to be barely growing and Europe faces a host of issues, including concerns about the health of the banking sector in countries such as Italy.

While we await this elusive recovery, the structural side of economies has worsened. As the International Monetary Fund (IMF) noted[3,] labour productivity has declined since the GFC, there are high levels of private and sovereign debt, a chronic investment deficiency and skills have been eroded by long periods of unemployment.

As we have pointed out before[4], looking for any kind of energetic recovery may well be a fool's errand. The global economy is most likely to plod along in the near-to-medium term: a low growth and low inflation, and consequently a low rate, environment.

Our belief is that, despite negative rates, the Bank of Japan (BOJ) and European Central Bank (ECB) are likely to ease further in the coming months. Predicting the Fed's behaviour is trickier. We still believe that there will probably be one rate increase in 2016, probably in December. However, the balance of risks suggests that it may be implemented even later – US GDP growth is expected to a hardly-robust 2.0% in 2016 – and even that may be a stretch given the near 1% clip over the last 4 quarters -- inflation is still below the Federal Open Market Committee's (FOMC) target and risks abound.

China: a drag but posing limited risk

China does not alter the story. There was a small credit-fuelled bounce in GDP growth towards the end of the first quarter but that is unlikely to endure. There are simply too many structural impediments – growth rebalancing, declining productivity, worsening demographics, debt and capacity overhang – afflicting the economy and the long-term sustainable growth rate is likely close to 5%, well below the current clip of 6.7%.

The path to 5% long-term GDP growth is unlikely to be linear, in our view. While the structural pull is downward, policy stimulus provides cushion to ensure that the landing is soft. Getting the amount of stimulus exactly right at all times is almost impossible. As we saw recently, occasionally the stimulus will be overdone and with that will come sporadic bounces in growth. Unfortunately, debt will also bounce and that this will ensure that gravity reasserts itself.

The Chinese economy grew at 6.7% in both 1Q and 2Q but should slow over the rest of the year. We expect continued stimulus – both monetary and fiscal – to forge a non-linear path to a new trend rate. Consensus has come to accept this view and expectations about a really poor 2016 outcome in China have faded. However, China remains a negative influence on trade and commodity prices and retains the ability to have impact on capital flows by affecting risk premiums.

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[3] IMF, GLOBAL PROSPECTS AND POLICY CHALLENGES, G-20 Finance Ministers and Central Bank Governors' Meetings July 2016, China
[4] "Asian Economies in 2016: Resisting Gravity", January 2016, CIMB Research

Trade – Asia's bread and butter – is likely to continue hurting

What matters for Asia is not global growth per se but trade and financial flows. And here, the news is not good. Over the last 12 months, on a yoy basis, almost every country has posted negative growth in US$ terms. On a volume basis, the number is slightly better, reflecting a decline in the terms of trade.

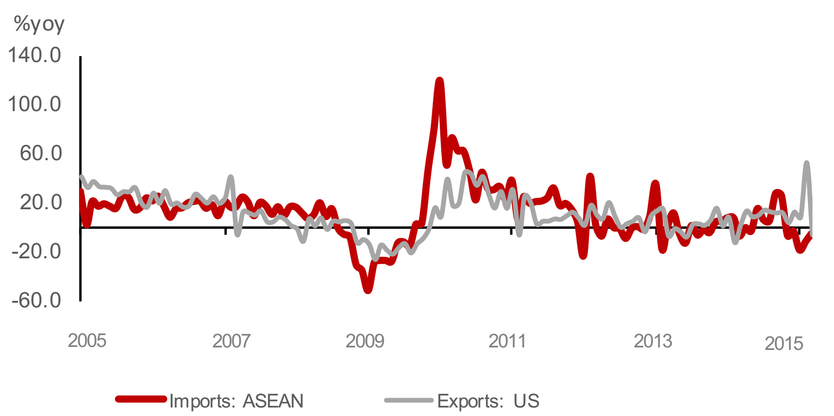
The reasons for trade slowdown are both cyclical and structural and, in our view, neither is likely to improve soon. On the cyclical side, the problem is the continued sluggishness of business investment, the more import-intensive component of GDP. Relief is not close, as a pick-up would require higher return to investment and that is unlikely to materialise until there is a sustained rise in other components of demand.

The structural side possibly poses greater danger. In the 1990s, a 1% rise in global income caused trade to increase by 2.2%; it is now close to 1%. As such, in G3 countries, the share of imports in GDP is declining. Thus, even if global growth picks up, trade may not pick up much.

Several factors have been identified but the most commonly-cited one, and the most likely cause, is the evolution of supply chains. In the 1990s, as global supply chains were being set up and industrial production was becoming more fragmented, there was a natural increase in trade flows, featuring raw materials and intermediate goods.

That has now changed and with supply chains maturing, trade elasticities have declined. Increased protectionism and squeezed trade finance are other possible causes of the decline. For Asia though, the main reason is China's declining need for imports.

China: Imports from ASEAN, Exports to the US



Source: CEIC

Firstly, Chinese economic growth is slowing and that means less imports. Secondly, it is rebalancing towards consumption demand and away from investment, as it is less import-intensive than investment. Thirdly, even within consumption, additional demand is increasingly directed towards services and that tends to be more domestically oriented.

However, we think the biggest change is yet to come – how China produces and trades. It established itself as the terminal point in a supply chain, where intermediate goods were imported, and things were assembled, packaged and shipped abroad. The domestic value added was low and the imported content was high.

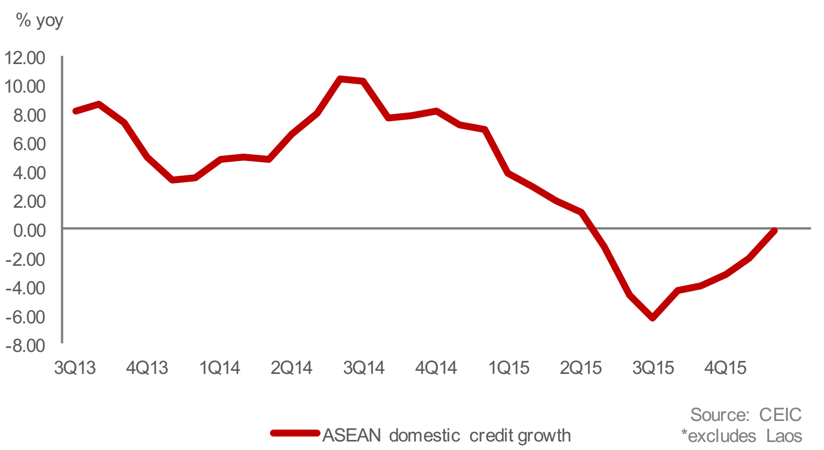
Two other things have changed: 1) China's production is moving up the value chain, and 2) domestic inputs are starting to substitute imports. Imported parts and components have become a much smaller share of Chinese merchandise exports, going from over 50% at the start of 2000 (and 60% at its peak) to close to 35% today. Domestic value added for Chinese exports is increasing and thereby, reducing trade flows.

Lower rates, weaker currencies

With little help from trade, the economic growth outlook for Asia will come down to domestic demand, which in turn will depend on how stimulative the government policy is. Our general belief is that equilibrium rates across Asia are lower than current values. Growth has been slowing for years. Any yoy bounce is statistical, rather than due to pick-up in momentum. Indeed, there are plenty of headwinds, especially externally. Inflation is coming off and global rates are likely to be low for a long time to come. There is a strong case for lower rates in Asia.

Rates are being reduced nearly everywhere. Indonesia has taken the lead with four cuts totaling 100 basis points. The Philippines has not changed stance but rates are operationally lower in its interest rate corridor. Singapore has moved its policy stance to neutral, which is loose by typical Monetary Authority of Singapore (MAS) standards. Recently, Bank Negara Malaysia (BNM) cut rates by 25 basis points and we believe the Bank of Thailand (BOT) should, though it may not, follow.

ASEAN* domestic credit growth



Source: CEIC
*excludes Laos

The more important question is, will these lower rates revive the economy? Our belief is that the impact is likely to be limited as the transmission mechanism is impaired. Credit growth has remained poor despite easing. To some extent this was due to sluggish economic activity. In other cases, consumer debt was the binding constraint.

This leaves fiscal policy, and we are likely to see the most action in Indonesia and Thailand, with the former being the most active. The Indonesian government has announced 12 policy packages aimed at economic restructuring and more are expected. Thailand has targeted infrastructure. However, both these countries (and Malaysia) are constrained in their use of fiscal policy, due to self-imposed limits on government debt or the fiscal deficit.

Externally, there have been four interrelated factors driving Asian currencies: the value of the US dollar versus other major currencies; commodity prices (affect commodity-based currencies such the ringgit or rupiah); the value of the renminbi; risk premiums or anything that affects capital flows. Beyond that, there are of course, domestic factors such as current accounts, bond yields, sovereign risk, etc.

We go into much more detail on our currency views in the "Currency Outlook" section that follows and will restrict ourselves to a brief synopsis here. We expect the US dollar to strengthen over the medium term, mainly as market expectations about the Fed's actions are likely to become more hawkish from now on. Currently, even going almost a year out, the Fed Funds futures do not signal a hike and that is unlikely to persist.

We expect the RMB to weaken under almost all circumstances. Markets will either worry about growth and that will affect capital flows or there will be stimulus and increased supply of RMB. A strong dollar and a weaker RMB would typically translate into weaker Asian currencies. The MYR and especially the IDR have some near-term support as the "search for yield" is likely to send inflows their way but in the end, too much strengthening versus the RMB would not be possible if they are to remain a part of various supply chains. Expect general weakness. The costs of a weak currency – imported inflation and higher external debt service – are really not issues at this stage.

Risks and Other Issues

In a way, there are no specific, clearly-identified risks. The Brexit vote has happened, Greece has worked out another debt deal and China is unlikely to land poorly. At least, not now. Yes, Italian banks are an issue but hopefully that will resolve itself.

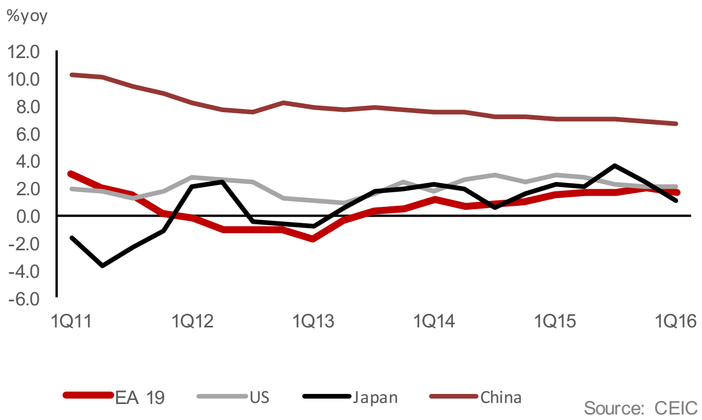
However, seen another way, the entire global economy is one huge risk. Growth has been slowing for years, interest rates have gone to zero and even negative in various parts of the world, and despite that, the global economy has not revived. Meanwhile, both private and sovereign debt has risen and markets are punch drunk on liquidity.

The geopolitics seem to be getting worse and there is a fair amount of policy uncertainty. The process of Brexit is just starting. And the US election outcome carries huge trade implications for Asia. Indeed, the future of the Trans-Pacific Partnership (TPP) appears to be on the line. These are uncertain times and that is likely to express itself in market volatility.

Lastly, there is the risk of policy failure. To us (and at least in the theory, the IMF)[5] it is clear the fiscal policy needs to step up, especially in current account surplus countries. Growth is faltering, monetary policy is not working, there is fiscal space, and so that space needs to be used or the problem gets worse. Will we see it?

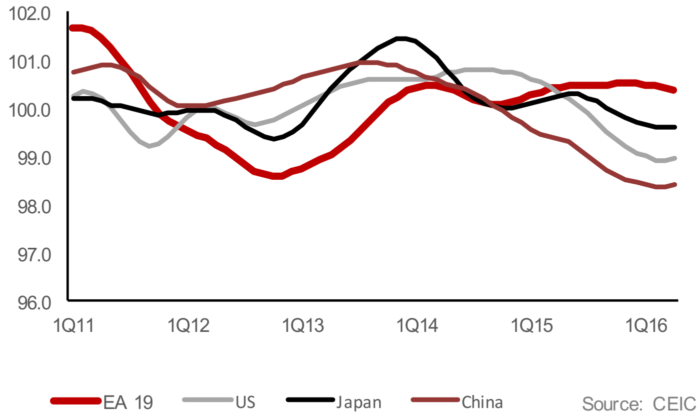
[5] http://www.imf.org/en/News/Articles/2016/07/25/22/35/NA072716-New-External-Assessments-Show-Larger-Imbalances-in-2015

Figure 1: GDP growth in selected countries



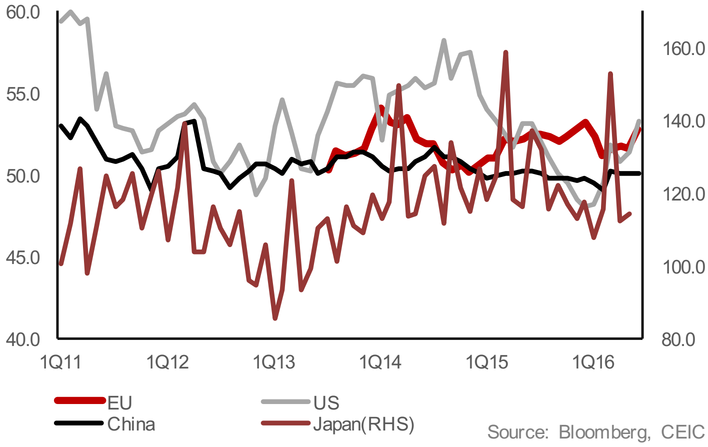
Source: CEIC

Figure 2: OECD Composite Leading Indicators



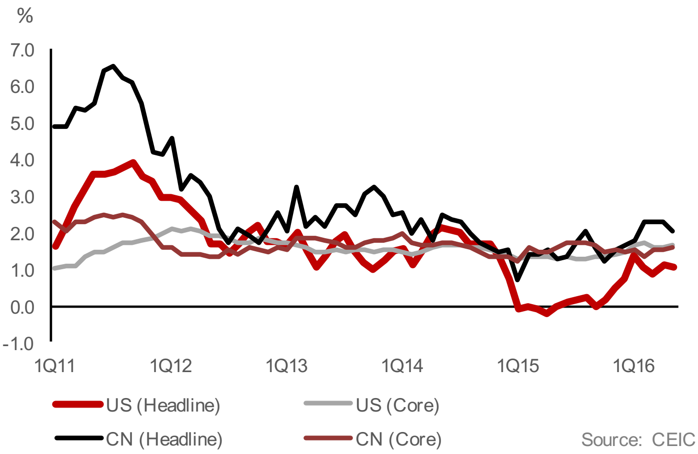
Source: CEIC

Figure 3: PMI for selected countries



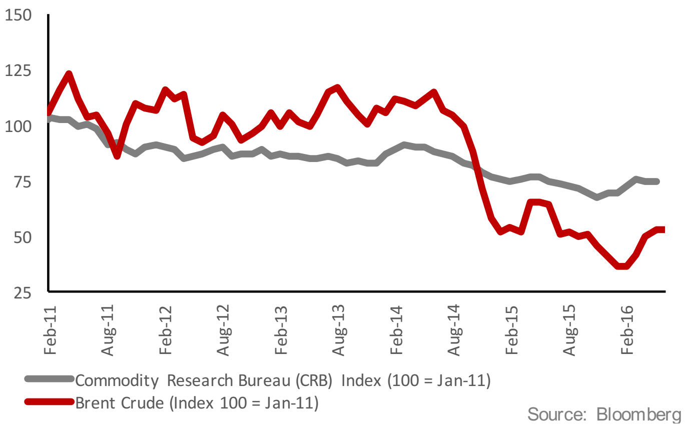
Source: Bloomberg, CEIC

Figure 4: CPI Core and Headline



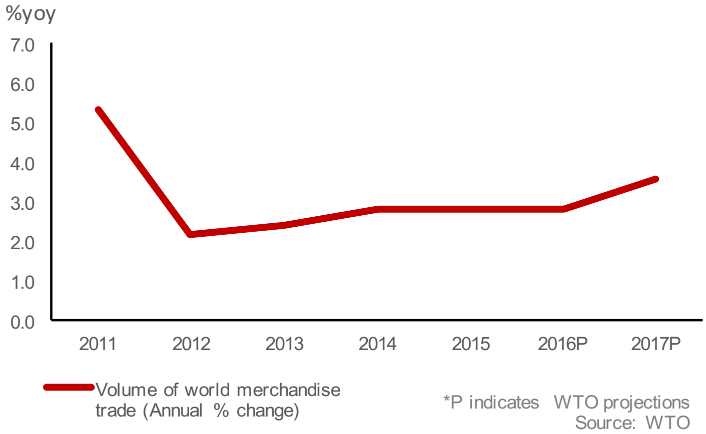
Source: CEIC

Figure 5: Commodity Performance



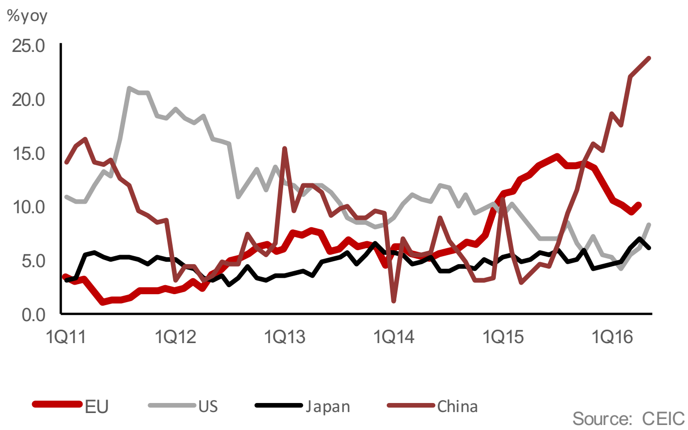
Source: Bloomberg

Figure 6: Global trade growth



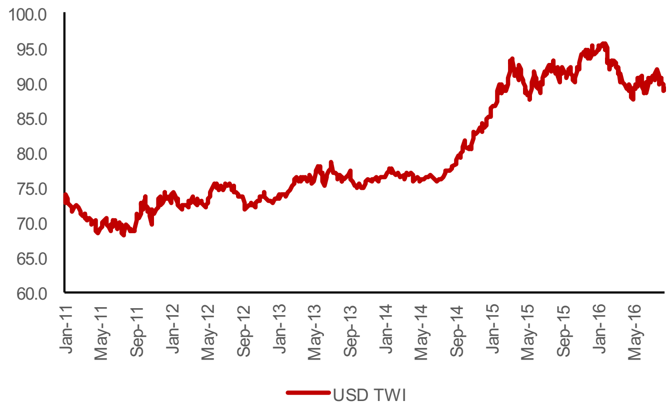
*P indicates WTO projections
Source: WTO

Figure 7: Narrow money growth in selected countries



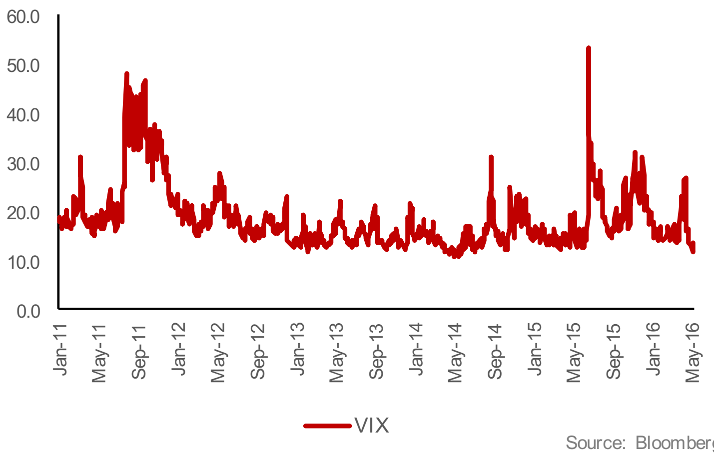
Source: CEIC

Figure 8: Trade Weighted USD Index



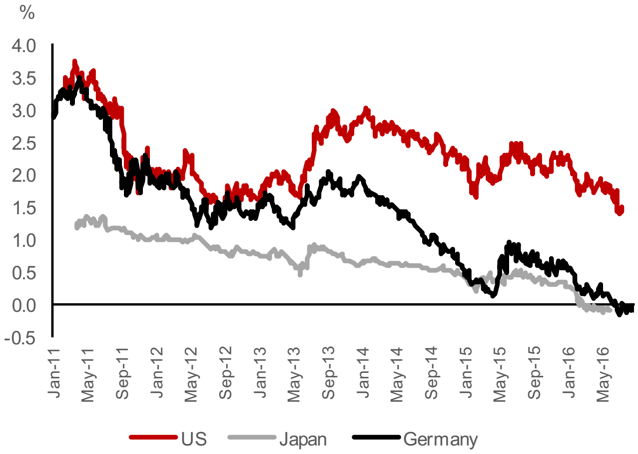
Source: Bloomberg

Figure 9: VIX



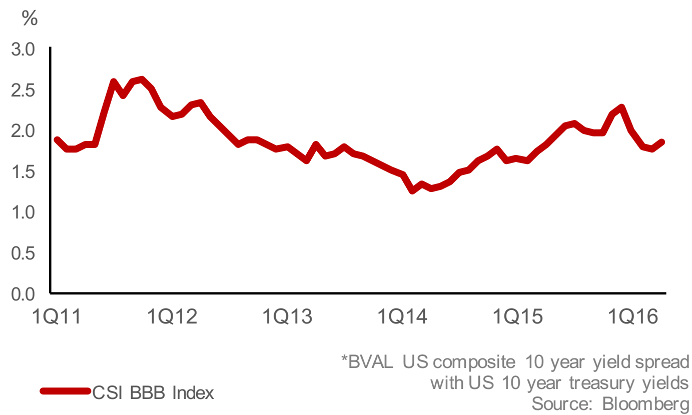
Source: Bloomberg

Figure 10: 10Y Govt bond yields



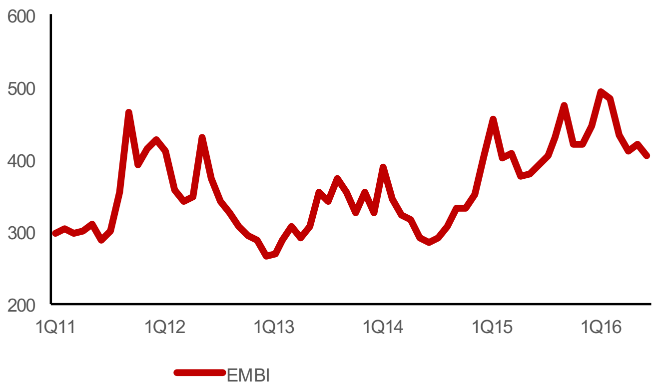
Source: Bloomberg

Figure 10: US corporate BBB bond spread over US treasury*



*BVAL US composite 10 year yield spread with US 10 year treasury yields
Source: Bloomberg

Figure 12: JP Morgan Emerging Market Bond Index



Source: Bloomberg

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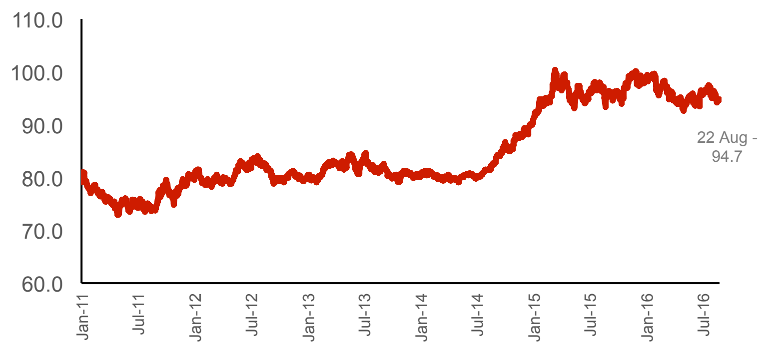
CURRENCY OUTLOOK

We think four factors will matter most in determining where Asian currencies are headed. These factors are the value of the US dollar in general, the value of the RMB versus the USD, the prices of some selected commodities, and lastly, domestic issues. The external factors are likely to dominate in the near term.

The Main Factor: The Dollar versus the Yen and Euro

At the time of writing, the USD (as measured by the DXY) is soft and market expectations are that it could go even softer. But go back a month and the opposite would have been true. It has been that kind of year. The USD started strong but began fading in mid- to late-January, and kept fading to a low in early May. It then started strengthening until the end of July, before reversing. To a large extent, these moves can be explained by how expectations of monetary policy have changed over time, in particular the thinking of the US Federal Reserve Bank (Fed), and to a lesser extent, that of the European Central Bank (ECB) and Bank of Japan (BoJ).

Figure 1: US Dollar Index (DXY)



Source: Bloomberg

When the Fed ended its zero interest rate policy in December, the consensus was that rates would probably rise by 50-75 basis points over 2016. The terminal Fed Funds rate was low and the glide path to it was shallow. But even the Fed, or pretty much anybody else, did not see then that nine months after that initial increase, there would be no further moves. A good case can be made that the initial move was premature.

Equity markets had a very poor January which coincided with worries about the Chinese RMB, and in hindsight, perhaps the peak in the USD as well. The markets saw it first, but the Fed also seemed to be coming around to another new normal; its guidance on "normalisation" became more dovish over time.[6] To some extent, international factors mattered and the counterbalance to a strong USD was that rates would need to stay lower for even longer.

Data mattered too and the prints from Europe, Japan and China were not helping their respective currencies. For Europe, even though growth numbers were not bad by its standards (EU28 2015 growth: 1.8%), there was the looming spectre of Brexit, Greek debt (again) and possibly some banking sectors. For Japan, the growth numbers were just poor and the success of Abenomics was being questioned even more than usual. And China was not just slowing, there were issues about debt and capital outflows.

[6] https://www.federalreserve.gov/newsevents/speech/yellen20160329a.htm

Even with a new normal of low rates, the US seemed like a pretty good place to be. Markets still expected reasonable growth from the US and for rates to rise, possibly in June but surely by September. The dollar regained some upward momentum.

That momentum ended with the release of the US 2Q GDP number -- the economy grew just 1.2%, bringing the four-quarter average to just 1%. Worse, there was a recognition that productivity had continued to decline. This was a longer-term issue. On cyclical grounds, we were looking at an economy displaying late-cycle behaviour -- hiring increases, declining profit growth, productivity faltering etc. -- without having really seen the growth rates typical during the early and mid-cycle stages. Either way, it didn't look good.

Former Fed Governor, Ben Bernanke, brings out the changes in Fed thinking in his blog, highlighting that there has been a downgrade in the Fed's estimate of the US long-term economic growth rate, a fall in the estimated natural rate of unemployment, and perhaps more importantly, a large drop in its estimate of the " neutral or natural " rate of interest.[7]

The fall in the natural rate of interest has also been taken up by John Williams, the President of the Federal Reserve Bank of San Francisco.[8] He looks at policy making under this new normal but that is another story. For currency markets, it suggests an adjustment to a softer dollar reflecting a recognition that the terminal Fed Funds rate is probably lower and it will also take longer than previously believed to get to that terminal rate.

Beyond this adjustment, future currency moves depend on how actual monetary policy differs from what the markets have discounted. For now, it seems that the greatest expectation is on the BoJ. The markets expect "helicopter money" or that at least part of the recently-announced 28 trillion yen fiscal package will be financed via borrowings from the central bank. With the finance ministry not very keen to monetise debt, it is likely that markets will be disappointed in the BOJ's actions and that will make for near-term appreciation pressure on the JPY. However, over the medium term, we know the JPY cannot appreciate beyond a certain point without effectively killing off the goals of Abenomics. Japan's 2Q GDP growth of 0.2% clearly shows the drag a strong JPY can exert on the economy. While it may not be through debt monetisation, we know the BoJ will resist currency appreciation beyond a point.

The ECB is expected to ease in September and perhaps even beyond that given its president Mario Draghi's statement that the ECB has the "readiness, willingness and ability" to stimulate the economy, if needed. Most of that is discounted but the Euro will likely be affected by how Brexit plays out. The Fed poses the most interesting case. The Fed Funds futures suggest that the probability of another rate hike only crosses 50% in March 2017. That most likely means that any shock – data or a speech -- is likely to move expectations to an earlier rather than later increase in rates, and that is bullish for USD.

Nonetheless, we do not expect a big breakthrough by the USD in either direction – either on the downside in the short term as markets adjust to lower rate expectations, or on the upside in the medium term once fundamentals re-assert themselves. This is a classic conundrum. A strong dollar means a hit to both growth and inflation in the US, and hence lower rates. But the expectations of lower rates mean a weak dollar, which in turn means expectations of higher rates, which then means a strong dollar. Back to square one. In

[7] https://www.brookings.edu/blog/ben-bernanke/2016/08/08/the-feds-shifting-perspective-on-the-economy-and-its-implications-for-monetary-policy
[8] http://www.frbsf.org/economic-research/publications/economic-letter/2016/august/monetary-policy-and-low-r-star-natural-rate-of-interest

practical terms, there is resistance on both sides to a USD move.

The RMB – weaker every which way

In structural terms, the RMB should be weaker. The RMB has been steadily appreciating in real terms ever since it first re-pegged to the USD in 2005. There is nothing wrong with an appreciation as long as it is due to productivity gains and that was the Chinese story for many years. But as productivity declined – demographics, over-investment, stage of development etc. – the real appreciation of the currency meant a loss of competitiveness. China's export structure started changing and there was pressure on overall growth.

With China's wages rising and its productivity declining, the RMB could not keep appreciating in real terms. The RMB needed to stay in line with productivity and cost-of-production differences with its trading partners. In other words, it would go with market forces and policy direction.

We expect modest RMB weakness to continue, regardless of what direction the policy takes. If the People's Bank of China (PBOC) resists the structural slowdown, it will need to continue easing and that means weakness for the RMB. If it does not resist, worries about growth and debt will cause outflows and hence RMB weakness.

Emerging Asia – Range-bound for now

The first stage in the "search for yield" led to the buying of dollar-denominated emerging market (EM) debt. The next phase has now started, with high-yielding local currency debt being bought; mainly in economies where depreciation risk is seen as low and there remains the possibility of interest rate declines. In ASEAN, the prime candidates for attracting inflows are Malaysia and Indonesia.

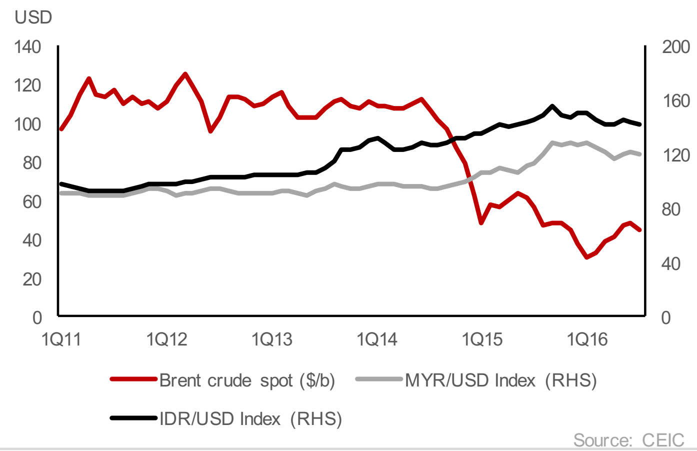
This inflow into local bonds should put upward pressure on these currencies though it is unlikely that either Bank Negara Malaysia (BNM) or Bank Indonesia (BI) will allow a meaningful appreciation. Exports are struggling and neither economy is particularly troubled by inflation or external debt service, issues that a strong currency could mitigate.

As such, one can expect these currencies to be range-bound, though with a bias towards weakness as they will need to track the RMB given its presence in China-centric supply chains. The wild card in both these cases are energy prices.

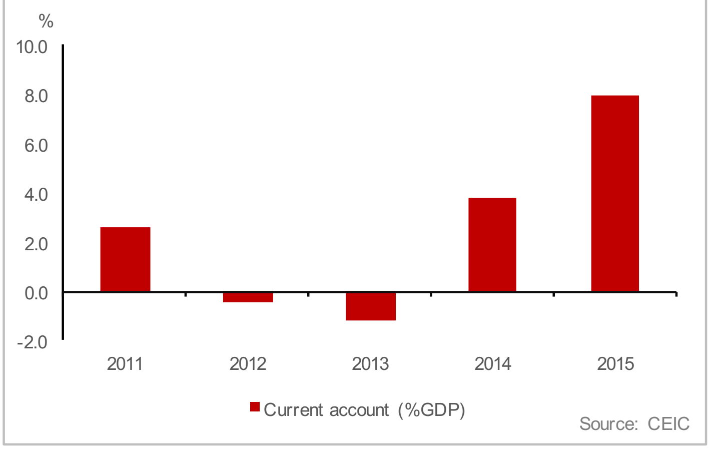
In the past, softness in commodity prices has taken these two currencies down. When coal prices fell from 2012 on, so did the IDR and when oil prices fell in 2014, the MYR followed. Crude palm oil (CPO) and liquefied natural gas (LNG) are important exports and have a strong correlation with the price of oil. But now, while still dependent, the two economies have become less vulnerable to commodity price movements and barring a serious breakout in one of these commodities – which neither we nor consensus expect – we would expect the values of the USD and RMB to carry a larger influence on these two currencies too. We expect relatively resolute IDR and MYR though with a bias towards weakness versus the USD. Our forecast is for the MYR to end 2016 at 4.20 to the USD and the IDR to reach 13.500.

The THB has been weakening in trade-weighted terms over the past few months after strengthening in 2015. We think this weakness is likely to persist though movements are likely to be modest. While growth has picked up, it is still sluggish. However, imports have slowed much more than exports and with tourism doing well, the Thai current account was estimated to be at a surplus close to 8% of GDP in 2015 and should be similarly positioned, if not larger, in 2016.

Oil price compared to MYR and IDR



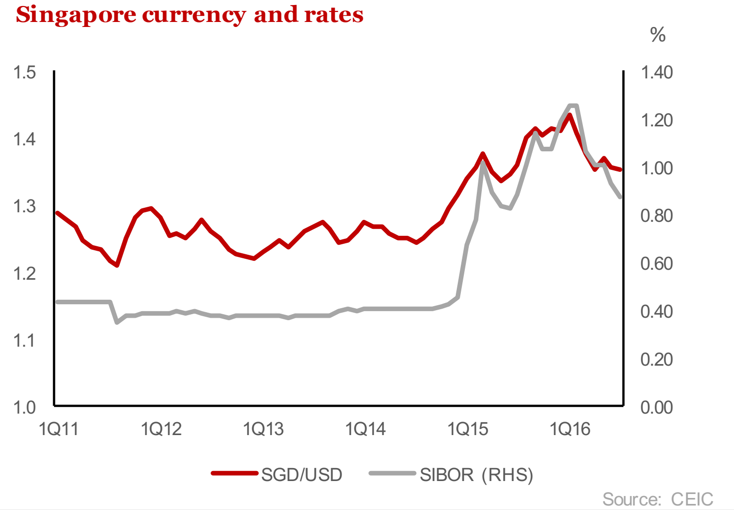
Thailand: Current account surplus (%GDP)



The Thai authorities are getting the right policy mix – low policy rates and fiscal stimulus. We expect the THB to also follow adhere to this looser policy setting and end this year at around THB36 to the USD.

In Singapore, the nominal effective exchange rate (NEER) is the intermediate target for monetary policy and settings are as loose – or "neutral" – as they have ever been. However, looser policy has typically meant higher Singapore Interbank Offered Rate (SIBOR) rates as there is uncovered interest rate parity with US rates. Essentially, policy must decide what the slowing economy is more sensitive to, rates or the currency. If it is rates that could cause the most damage, then policy needs to be "tightened" from here – allow NEER to appreciate so that rates can come down. If it is currency, the current stance will likely be maintained, where the SGD weakens in line with regional currencies and domestic rates go up.

Singapore currency and rates



Given Singapore's steady growth, and with the likelihood that global rates will stay lower for longer, we believe that the Monetary Authority of Singapore (MAS) can maintain a neutral policy rate stance without worrying too much about high rates. The SGD should end 2016 a tad weaker at about 1.38 to the USD.

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GLOBAL & REGIONAL FORECASTS

Growth outlook for selected economies

Country (% yoy)	2014	2015	2016F	2017F
US	2.4	2.4	2.0	2.2
Eurozone	0.9	1.5	1.5	1.6
Japan	0.0	0.5	0.6	0.8
China	7.4	6.9	6.7	6.4
Hong Kong	2.3	2.3 '	2.6	2.6
India	7.4	7.3 '	7.5	7.5
Indonesia	5.0	4.8	5.0	5.1
Korea	3.3	2.6	3.0	3.2
Malaysia	6.0	5.0	4.2	4.4
Philippines	6.1	5.8	6.5	6.5
Singapore	2.9	2.1	2.0	2.8
Vietnam	6.0	6.7	6.5	6.5
Thailand	0.8	2.8	3.3	3.5

Inflation outlook for selected economies

Country (% yoy)	2014	2015	2016F	2017F
US	1.6	0.1	1.2	1.5
Eurozone	0.4	0.0	1.0	1.1
Japan	2.7	0.8	1.0	1.1
China	2.0	1.4	1.5	1.6
Hong Kong	4.4	3.0	3.4	3.4
India	6.0	4.8 '	4.6	4.6
Indonesia	8.4	3.4	3.2	3.4
Korea	1.3	0.7	1.2	1.5
Malaysia	3.2	2.1	3.5	3.0
Philippines	4.2	1.4	3.0	3.1
Singapore	1.0	-0.5	1.2	1.0
Vietnam	1.8	0.6	4.0	4.0
Thailand	1.9	-0.9	1.0	1.5

Selected benchmark policy rates

Country (%)	2015	Current	2016F	2017F
US	0.25-0.50	0.25-0.50	0.50-0.75	1.25
Eurozone	0.05	0.00	0.00	0.00
Japan	0.0-0.1	-0.1-0.0	-0.2-0.1	-0.20-0.1
China	4.35	4.35	3.85	3.50
Hong Kong	0.75	0.75	1.00	1.50
India	6.75	6.50	6.25	5.75
Indonesia*	7.50	6.50	4.75	4.50
Korea	1.50	1.25	1.00	1.00
Malaysia	3.25	3.00	2.50	2.25
Philippines**	4.00	3.00	3.00	2.75
Vietnam	6.50	6.50	6.50	6.50
Thailand	1.50	1.50	1.50	1.25

*Effective 19 August, the 7-day (reverse) repo rate replaced the BI policy rate
** Introduction of the Interest Rate Corridor in June 2016

Selected currency outlook

Exchange rate vs US$	2015	Aug 12, 2016	2016F	2017F
			(End year)	
Euro dollar	1.09	1.11	1.08	1.05
Japanese yen	120.20	102.0	110.0	115.0
Chinese renminbi	6.49	6.63	6.75	6.90
Hong Kong dollar	7.75	7.76	7.8	7.8
Indian rupee (INR)	66.15	66.76	70.00	75.00
Indonesian rupiah	13,788	13,118	13,500	14,000
Korean won	1,175	1100	1,200	1,250
Malaysian ringgit	4.29	4.00	4.20	4.35
Philippine peso	46.90	46.79	47.00	48.00
Singapore dollar	1.42	1.34	1.38	1.40
Vietnam Dong	21,692	22,300	22,100	22,500
Thai baht	36.00	34.76	36.00	37.00

RATES STRATEGY

Threat of tight financial market conditions

Global financial market conditions tightened amid volatility in 4Q15 and into 2016. Fears of tightening conditions have persisted post-Brexit vote even though markets have generally recovered since the referendum. Policy response of global central banks to lower interest rates (indeed negative interest rates in certain markets), which is basically designed to boost liquidity, has instead contributed to fears of financial market disruptions as flows went into safe haven yet higher yield US government treasury papers. Even in Asia, the Bank of Japan (BoJ) introduced a negative rate on marginal excess reserves. Other central banks such as the European Central Bank (ECB), People's Bank of China (PBoC), as well as Bank Indonesia (BI), Monetary Authority of Singapore (MAS) and Bank Negara Malaysia have announced easing measures as growth risks increased. Before the Brexit vote, the 10-year treasury yields fell to 1.65% and crude oil price dipped below US$30 per barrel.

We think capital inflows into EMs are sustainable

However, we think the outlook for EM bond markets remains firm. Net inflow into EM is down compared to prior years but has recovered from 2015 lows and is likely to show improvement this year. According to the data compiled by the Institute of International Finance (IIF), net non-resident private sector capital inflows into EM (equity and debt markets) up to Jun 2016 was US$170bn (comprising US$122bn in 2Q16 after the low US$48bn in 1Q16). IIF indicated that the recovery was supported by a revival of portfolio inflows and reduced bank-related outflows from China. IIF has projected 2016 private non-resident inflows of US$550bn, which is about twice the amount recorded in 2015, albeit still well below the pre-2015 trend.

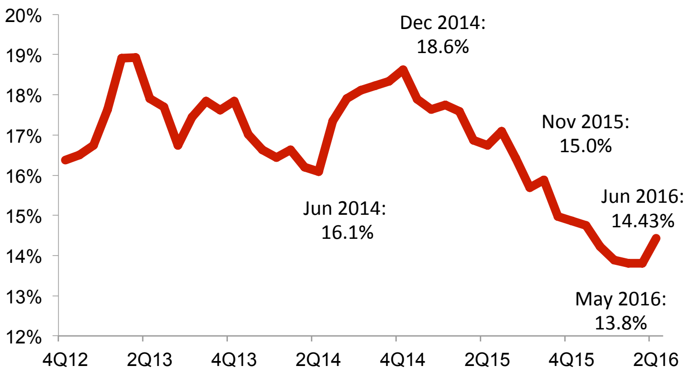
In terms of structure and policy, EMs have improved

We cite the IMF study released in April[9] this year that indicated EM economies have weathered the recent slowdown in capital flows better than in previous cycles. It cited improvements in structure and policy frameworks, for instance the implementation of flexible exchange rate regimes that facilitate more orderly depreciation in currency values. Plus, there has been improvement in debt management strategies and 'macroprudential' policies (to manage currency mismatch), leading to changes in the currency composition of public and private debt.

As a result, EM economies have been less vulnerable to abrupt currency depreciation, which could raise the foreign debt burden. Over the years, EM economies have increased their integration with global capital markets, while raising their foreign assets, including foreign exchange reserves that we have seen used to exert some control over domestic liquidity

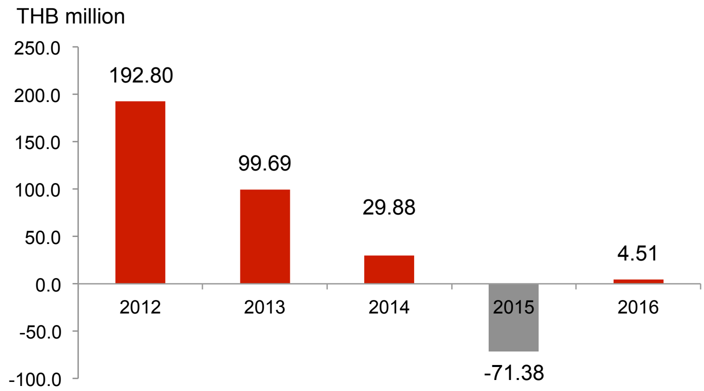
[9] IMF World Economic Outlook April 2016

Foreigners' share of Thailand's outstanding government bonds



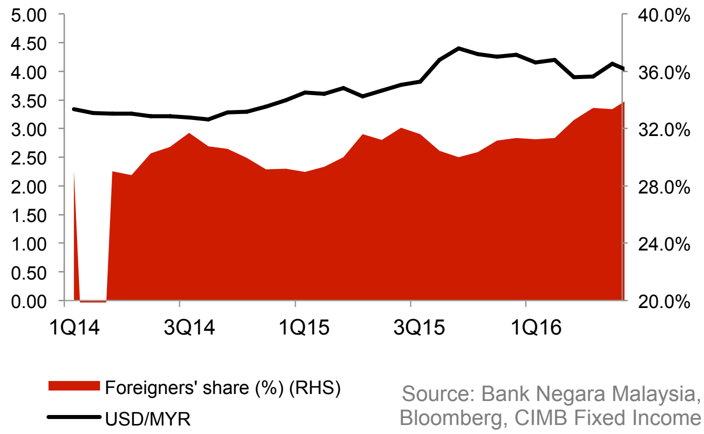
Source: Bank of Thailand, CIMB Fixed Income Research

THB government bond market: Net inflow/ outflow



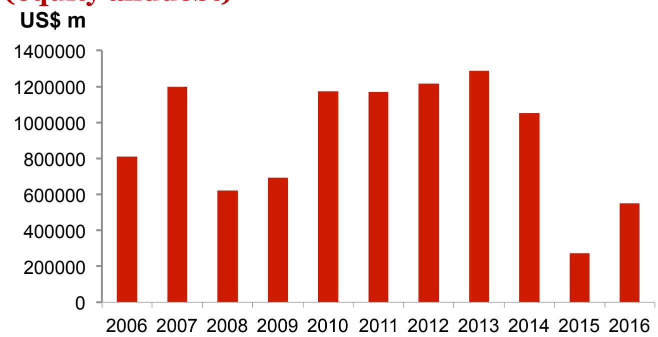
Source: Bank of Thailand, CIMB Fixed Income Research

Foreigners' share of RM government bonds vs. US $/RM



Source: Bank Negara Malaysia, Bloomberg, CIMB Fixed Income Research

Non-resident private sector capital net inflows into emerging markets (equity anddebt)



Source: International Institute of Finance

Yield disparity remains to EMs' advantage

Globally, investors remain on the lookout for returns. In the currrent environment of low yields, returns found in the EM bond markets remain favourable compared to the developed markets, especially post-Brexit vote, when developed economies' central banks continue to implement measures to loosen monetary policy via lower interest rates and asset purchases (which boost global liquidity). This remains the case even as EM central banks are cutting rates themselves. Looking closer at ASEAN, specifically the Indonesian and Malaysian bond markets, even though spreads against US dollar safe assets have tightened compared to 6-12 months ago, the yield disparity remains large

Bond market spreads against US dollar safe assets				
Country	10y government bond yield (%) (12 Aug)	Spread vs. 10y US Treasury (bps) (12 Aug)	6 month ago 10y government bond yield (%)	6 month ago Spread vs. 10y US Treasury (bps)
US	1.54	0	1.75	0
Japan	-0.10	-164	0.09	-166
Singapore	**1.79**	**25**	**1.98**	**23**
Thailand	**2.04**	**50**	**1.98**	**23**
China	**2.68**	**114**	**2.89**	**114**
Malaysia	**3.61**	**207**	**3.90**	**216**
Philippines	**3.24**	**170**	**3.82**	**207**
Indonesia	**6.79**	**525**	**7.97**	**622**
UK	0.55	-99	1.41	-33
Germany	-0.10	-163	0.26	-149
Spain	0.94	-60	1.74	-1
Portugal	2.74	120	3.73	199
Greece	8.15	661	11.52	977
Source: Bloomberg, CIMB Fixed Income Research				

Hopeful signs of improvement in (China's) credit

We think there are hopeful signs of improvement in credit conditions. Selected EM indicators have shown improvement, although there was some deterioration in Jul 2016 on the heels of the Brexit vote. For instance, China's GDP growth trajectory appears to be stabilising, resulting in a more stable trend in RMB currency movement and balance indicators such as an increase of about US$14bn in foreign exchange reserves in June (but there was a slight drop of US$4.0bn in July).

Meanwhile, the US$/RMB rate came back down from the YTD high of around 6.7030 in mid-Jul to around 6.6500 currently. IIF reported notable decline in outflows from China in 1H16, aided by reduction in bank-related outflows, as balance of payments (BOP) data suggest that there was improvement in terms of non-residents' deposit withdrawals from Chinese banks during the period. On the flipside, Chinese default risk remains heightened. Although the pace of Chinese corporate bond offering has remained strong, there was news that more than 150 companies have delayed or cancelled planned debt offerings in 2Q16.

We think that this is a positive development, as the primary bond market is still active but the fewer number of new offerings (especially high-yield papers) would help to alleviate risk of further mispricing. There are also signs that Chinese debt would continue to be restructured towards lower interest rates and longer maturities, further alleviating short-term default risks. Moody's Investor Services came out with a report early this year that stated the Chinese government was increasingly serious about keeping this year's debt issuance below its self-imposed RMB16tr (US$ 2.5 tr) level. Moody's also estimated that about 54% of regional and local governments' direct debt would be shifted into bonds that pay lower interest and have longer maturities, away from bank loans and financing vehicles.

CENTRAL BANK WATCH

Selected ASEAN Economies	Indonesia		Malaysia		Philippines	
Policy tool	7 day repo rate*		Overnight policy rate		Overnight reverse repurchase rate (RRP)	
Current policy rates (%)	5.25% (Previously 6.50% as the BI rate)*		3.00		3.00	
Previous 6 monetary policy decisions (%)						
	16 Jun 16	6.50 (-0.25)	13 Jul 16	3.00 (-0.25)	03 Jun 16	3.00 (-1.00)**
	17 Mar 16	6.75 (-0.25)	10 Jul 14	3.25 (+0.25)	11 Sep 14	4.00 (+0.25)
	18 Feb 16	7.00 (-0.25)	05 May 11	3.00 (+0.25)	31 Jul 14	3.75 (+0.25)
	14 Jan 16	7.25 (-0.25)	08 Jul 10	2.75 (+0.25)	25 Oct 12	3.50 (-0.25)
	17 Feb 15	7.50 (-0.25)	13 May 10	2.50 (+0.25)	26 Jul 12	3.75 (-0.25)
	18 Nov 14	7.75 (+0.25)	04 Mar 10	2.25 (+0.25)	01 Mar 12	4.00 (-0.25)
Next 2016 Meeting Dates	22 Sept 16 20 Oct 16 17 Nov 16 15 Dec 16		7 Sept 16 23 Nov 16		22 Sep 16 10 Nov 16 22 Dec 16	

*Effective 19 August, the 7-day (reverse) repo rate replaced the BI policy rate
** Introduction of the Interest Rate Corridor in June 2016

Selected ASEAN Economies	Singapore		Thailand		Vietnam	
Policy tool	Singapore dollar nominal effective exchange rate (S$NEER)		1-day repo rate		Refinancing rate	
Current policy rates (%)	Neutral		1.50		6.50	
Previous 6 monetary policy decisions (%)						
	14 Apr 16	Neutral policy band	29 Apr 15	1.50 (-0.25)	18 Mar 14	6.50 (-0.50)
	2010	Gradual appreciation of policy band since April 2010	11 Mar 15	1.75 (-0.25)	13 May 13	7.00 (-1.00)
			12 Mar 14	2.00 (-0.25)	26 Mar 13	8.00 (-1.00)
			27 Nov 13	2.25 (-0.25)	24 Dec 12	9.00 (-1.00)
			29 May 13	2.50 (-0.25)	07 Jan 12	10.00 (-1.00)
			17 Oct 12	2.75 (-0.25)	06 Nov 12	11.00 (-1.00)
Next 2016 Meeting Dates	Oct 16		14 Sept 16 9 Nov 16 21 Dec 16		-	

COUNTRY PAGES

SUMMARIES

Cambodia

Amid a global slowdown, Cambodia continues to be one of Asia's fastest growing economies driven by its robust garment and footwear export industry. The expansionary fiscal policy in 2016 should provide further upside to growth. Falling commodity prices, in particular for oil, have kept cost-push inflationary pressures at bay since end-2014. However, the growing domestic demand-pull pressures and increasing food prices are likely to stall this trend in 2016. Cambodia's external position continues to improve on the back of a lower oil import bill, robust exports and strong FDI flows. There is much to be optimistic about the Cambodian economy, although downside risks exist from the strengthening of the USD in the context of a highly dollarized economy, the current rapid pace of credit expansion, possible labour unrest, and the concentration of its exports, both by products and markets.

Indonesia

After 5 years of declining growth, starting with the end of the commodity boom in 2011, the Indonesian economy appears to be on the road to recovery. Indeed, perhaps more than any other country in ASEAN, it has been aggressively using countercyclical policies to weather headwinds. Rates are being cut and fiscal policy is doing more than simply stimulating; it is restructuring. Household consumption and government expenditure are currently the main engines of growth. Investment needs to follow. In addition, a lower inflation rate, coupled with an improving current account balance, has allowed BI to cut rates 4 times for a total of 100 basis points. That should continue. The IDR is expected to be relatively stable. A stronger USD, a weaker RMB and soft commodity prices should take it lower, although FDI and portfolio flows will provide support. Global uncertainties are likely to be the main factor behind the rupiah's fluctuation.

Malaysia

Economic growth is starting to falter as a sluggish and uncertain global economy is buffeting the external sector. The domestic economy, particularly private consumption, has done better, but it remains to be seen how much longer that resilience can be sustained. We expect GDP growth to be close to 4.2% in 2016, and not much higher next year, at 4.4%. Meanwhile, inflation, currently at 1.6%, is heading lower and that, together with a dovish Fed Funds outlook, has allowed the central bank to finally cut rates. More cuts should follow; we expect the OPR to be at 2.50% by year's end. The currency should also trend modestly lower, its level driven by the outlook on the USD and oil prices. We expect the MYR to end the year at close to 4.20 to the USD.

Philippines

For the past few years, the Philippines has been one of ASEAN's best economic stories. It has moved towards macroeconomic stability, increased transparency, created fiscal space, and managed to grow at a healthy pace despite external headwinds. These trends should continue through 2017, barring any policy reversals under the new regime. We expect GDP growth of 6.5% in 2016 and for it to be mainly domestic demand led. The robustness of domestic demand, and hence strong import growth, together with declining export growth, means that the current account balance has shrunk though it still remains at a healthy surplus thanks to remittances. Inflation was down to a 20-year low of 1.4% at the end of 2015 but has inched up since to 1.9% in June. Nonetheless, it should stay well within the BSP's target range of 2% to 4%. The combination of strong domestic demand and controlled inflation means it is unlikely that the BSP will change monetary policy settings anytime in the near future. In our view, fiscal policy should be a lot more active and the PHP should track other regional currencies.

Singapore

The headwinds for the Singapore economy continue to be severe. From the demand side, it is reliant on trade and financial flows and both are in structural decline. Moreover, even though a cyclical pickup is possible, it is neither imminent nor is it likely to be particularly robust. From the supply side, the economy is buffeted by worsening demographics and low productivity. Labour costs are high and restructuring is underway. Despite all this, the Singapore economy still managed to expand an estimated 2.1% yoy in 1H16 vs. 2015's 2.0%. This was due mainly to stronger performance of the goods-producing industries, especially the manufacturing sector. But not much growth upside can be expected until the global economy recovers. In April 2016, the Monetary Authority of Singapore (MAS) moved to a rare neutral stance on monetary policy, citing an unfavourable external environment. We expect this stance to persist for some time. Given this stance, and our view that the Fed will likely move once this year, possibly in December, the USD/SGD pair should weaken to about 1.38 by the end of 2016 and the 3m SIBOR should be around 1.25%.

Thailand

The Thai economy appears to be rebounding. After growing 2.8% in 2015, 1Q16 recorded 3.2% growth yoy and recorded 3.5% in 2Q16. However, the pace of economic recovery appears to be slower than initially expected following shrinking exports and weakening sentiment for private investment. The main growth engines are likely to be tourism and public investment and GDP is projected to expand by 3.3% in 2016. The main challenges are delayed public investment, which could lower investor confidence, and weakening global demand, which may deter exports and tourism.

Vietnam

Cyclically, Vietnam's economy grew 5.5% yoy in 1H16, vs 6.3% yoy in 1H15 as temporary factors constrained growth. The El Nino weather phenomenon was responsible for the worst drought in years, affecting agricultural output and incomes. With this effect now subsiding, we expect constructive medium-term influences – credit growth, infrastructure investment – to be more dominant and GDP to grow by 6.5% for the year. Weak commodity prices are still a drag on the economy but to some extent, that is being mitigated by robust capital inflows. Both policy rates and the value of the currency have been stable and are likely to stay that way.

CAMBODIA

Amid a global slowdown, Cambodia continues to be one of Asia's fastest growing economies driven by its robust garment and footwear export industry. The expansionary fiscal policy in 2016 should provide further upside to growth. Falling commodity prices, in particular for oil, have kept cost-push inflationary pressures at bay since end-2014. However, the growing domestic demand-pull pressures and increasing food prices are likely to stall this trend in 2016. Cambodia's external position continues to improve on the back of a lower oil import bill, robust exports and strong FDI flows. There is much to be optimistic about the Cambodian economy, although downside risks exist from the strengthening of the USD in the context of a highly dollarized economy, the current rapid pace of credit expansion, possible labour unrest, and the concentration of its exports, both by products and markets.

Exports and government spending to lead growth

- At an expected 7.2% growth clip in 2016, the Cambodian economy is expected to remain robust despite a tapering-off of momentum (2013: 7.5% 2014: 7.1% 2015: 7%). Growth is being driven by a rebound in the garment industry, sustained construction activity and an increase in government spending.
- While garment and footwear exports are expected to continue to drive growth in 2016, the medium-term outlook is susceptible to developments in the EU and the US (about 40% of garment exports are to the EU and 22% to the US). However, in the immediate term its pace of activity should be sufficient to compensate for a persistently underperforming agricultural sector and a sluggish tourism sector.
- Government spending is budgeted to increase by 3.6% of GDP in 2016 (estimated at 22% of GDP), of which close to 1.4% is allocated for an increase in the wage bill which should provide support to income growth and consumption demand.
- While construction activity provided much growth momentum in 2014 and 2015, we expect this to moderate slightly. Early easing signs include a decrease in growth of permit approvals last year (2015: 2.3% yoy, 2014: 17.5% yoy). Mainly FDI and credit led, the sustainability of construction as a growth engine in the long run is questionable. In short, there is no doubt Cambodia will continue growing at a healthy pace in 2016 though the sustainability of its growth engines needs to be closely monitored.

Improved external position from FDI and export performance

- The current account deficit is expected to continue to narrow (2013: -13.0%, 2014: -9.8%, 2015: -9.3%), mainly driven by a lower oil import bill and improved export performance. With the completion of import-intensive projects in 2020, the deficit should reduce further.
    - While operating at what would traditionally be considered a high current account deficit, it has not reflected in currency weakness or capital flight as the deficit is funded by non-price sensitive flows (funds, grants) which are aimed at long-term investments.
    - FDI flows mainly from Asian countries are currently supporting the deficit.

While these flows are presently strong, this situation may change rapidly if the global economy worsens.

- While strong FDI and export performance have increased international reserve levels to US$5.2bn (2014: US$4.6bn, 5.4 months of imports), IMF projections suggest that in view of the high dollarization of the economy, the current reserve coverage, which now covers a lower amount of foreign currency deposits, may be insufficient to buffer against downside risks.

Inflation edging upwards

- We expect slightly higher inflation from a rise in food prices. We expect inflation to be 3% by end-2016. The low inflation has also helped to maintain the stable exchange rate of Cambodian Riel against the USD.

Expansionary fiscal budget planned amid improvement in revenue collections

- Fiscal policy is the main demand side policy tool in Cambodia given the limited scope of monetary policy in a highly dollarized economy.
- Revenue collection in the last few years (approx. 2010: 13% of GDP, 2015: 17% of GDP) helped to bring the fiscal deficit (including grants) down to 0.8% of GDP in 2015 (2011: 4.6%); however, the 2016 budgeted expenditure is projected to increase by 3.6% of GDP (which will bring the fiscal deficit to 4.1% of GDP).
- According to World Bank estimates[10], the breakdown of the budgeted increase in government spending is: 1.4% increase in the wage bill, 1.7% increase in operating expenses and 0.5% increase in capital expenditure. The increase in non-discretionary wage bill (budgeted to reach 7.2% of GDP) may act as a drag on the government's finances in future years if revenue collection is not sustained.

Risks and Other Issues

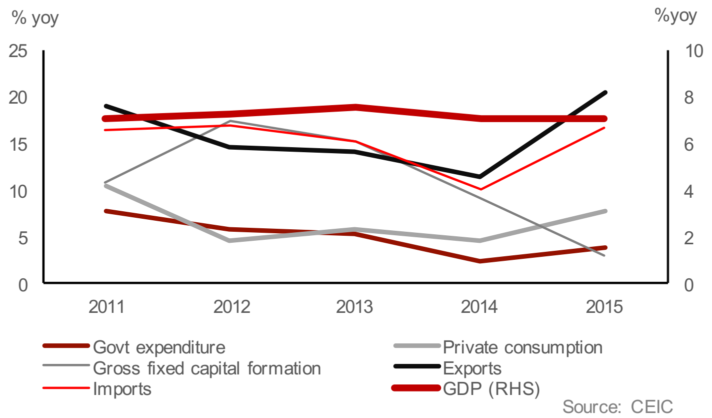
- Private sector credit growth (averaging 28% yoy over past 3 years) has pushed the credit-to-GDP ratio to 63%, with the bulk of the credit channelled to trade (roughly 34% of credit), and construction and real estate (roughly 20% of credit). Credit concentration in real estate and construction sectors may give rise to macro-financial stability risks; however, the National Bank of Cambodia's recent liquidity and minimum capital requirements for financial institutions provide some comfort.
- Cambodia's highly open economy (140% trade-to-GDP) makes it susceptible to external developments. The key to maintaining a vibrant export sector rests in its competitive advantage of low-cost labour. However, this is likely to be challenged given the competition from countries such as Myanmar, and the FTA agreements between Vietnam and the EU. In addition, uncertainty related to labour disputes and the increase in the minimum wage may disrupt the labour market conditions.
- Some upside is expected from structural reforms pertaining to human development and infrastructure; although historically, reforms infamously stop at the regulatory stage. Consistent enforcement will be needed to put plans into action.

[10] Cambodia Economic Update April 2016

CARI

Robust economic growth driven by rebound in exports

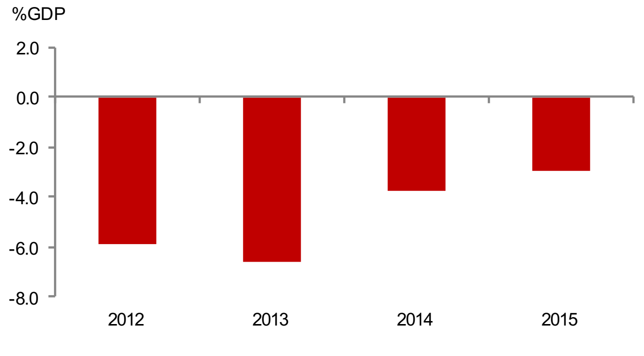
Figure 1: GDP and components growth



Source: CEIC

Improvement in revenue collection has helped the fiscal position

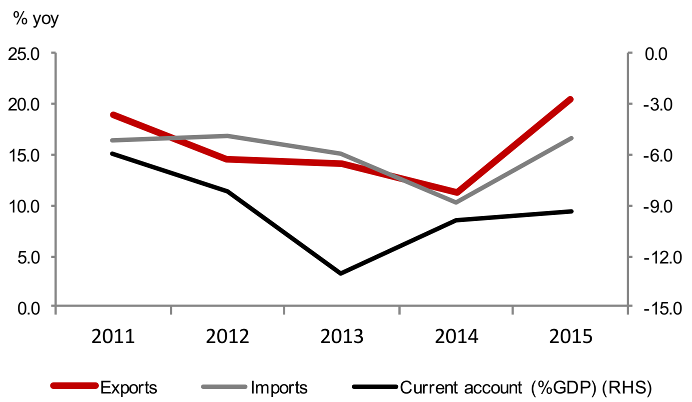
Figure 2: Fiscal balance (% GDP - excluding grants)



Source: World Bank

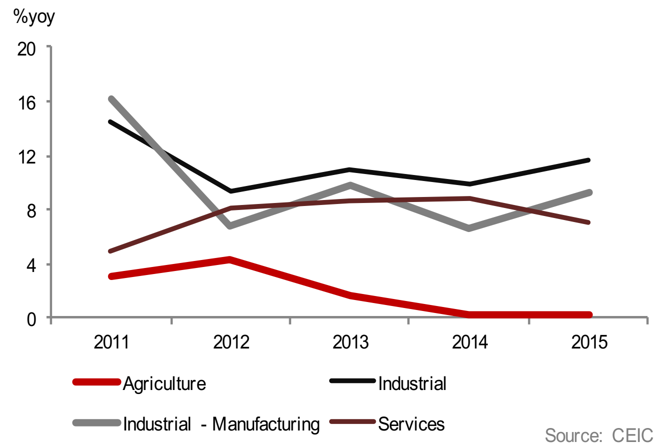
Recovery in exports and a lower import bill has helped improve the current account deficit position which is currently funded by a healthy inflow of FDI

Figure 3: Trade growth and current account



Source: CEIC

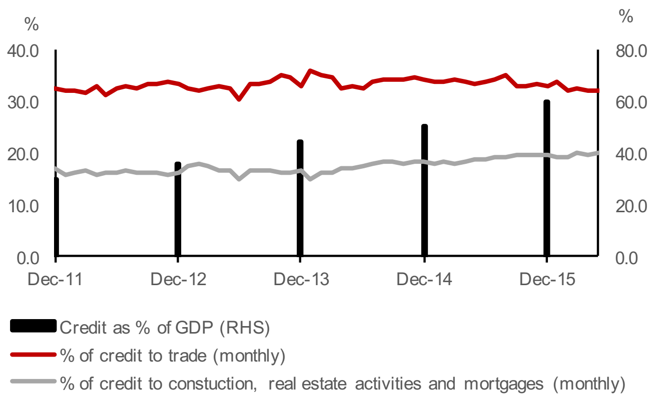
Figure 4 : GDP growth by supply components



Source: CEIC

Strong credit growth, especially to construction related sectors

Figure 5: Components of credit



Source: CEIC

Inflation edging upwards due to a rise in food pries

Figure 6: Inflation

Source: CEIC

Annual Data

	2015
Nominal GDP (USD bn)	18.2
GDP per capita (USD)	1,218
Population (mn)	15.6

	2012	2013	2014	2015	2016F	2017F
Real GDP growth (%yoy)	7.3	7.5	7.1	7.0	7.2	7.2
Real consumption growth (%yoy)	4.7	5.7	4.3	7.5	-	-
- Public consumption (%yoy)	5.7	5.2	2.4	4.0	-	-
- Private consumption (%yoy)	4.6	5.8	4.5	7.8	-	-
Real gross fixed capital formation growth (%yoy)	17.4	15.3	9.1	2.9	-	-
Real export growth (%yoy)	14.4	14.0	11.3	20.3	-	-
Real import growth (%yoy)	16.9	15.1	10.1	16.5	-	-
Nominal export growth (%yoy)	11.1	15.9	13.7	14.8	11.0	10.8
Nominal import growth (%yoy)	12.6	19.6	9.2	12.9	7.9	8.9
Trade balance (USD bn)	-0.8	-1.2	-1.3	-	-	-
- % of GDP (%)	-5.7	-8.1	-7.7	-	-	-
Current account balance, (USD bn)	-1.2	-2.0	-1.6	-1.7	-2.4	-2.4
- % of GDP (%)	-8.2	-13.0	-9.8	-9.3	-10.6	-10.0
Reserves, end of period (USD bn)	3.3	3.7	4.6	5.2	-	-
- foreign reserves to months of imports	5.7	5.0	5.4	6.1	-	-
- short term debt (% of total reserves)	21.0	24.1	18.4	-	-	-
Fiscal balance (% GDP)	-5.9	-6.6	-3.8	-3.0	-4.8	-4.5
Narrow money (M1) growth, average (%yoy)	10.5	17.7	18.4	17.7	-	-
Broad money (M2) growth, average (%yoy)	20.9	16.3	24.6	19.9	23.1	-
Domestic credit to private sector (% GDP)	38.8	44.7	54.1	63.1	-	-
Consumer Price Index (CPI), end of period (%yoy)	2.6	4.6	1.1	2.9	3.0	-
Exchange rate vs. USD, end period	3,995	3,995	4,075	4,050	-	-

SOURCE: CEIC, World Bank, IMF estimates

INDONESIA

After 5 years of declining growth, starting with the end of the commodity boom in 2011, the Indonesian economy appears to be on the road to recovery. Indeed, perhaps more than any other country in ASEAN, it has been aggressively using countercyclical policies to weather headwinds. Rates are being cut and fiscal policy is doing more than simply stimulating; it is restructuring. Household consumption and government expenditure are currently the main engines of growth. Investment needs to follow. In addition, a lower inflation rate, coupled with an improving current account balance, has allowed BI to cut rates 4 times for a total of 100 basis points. That should continue. The IDR is expected to be relatively stable. A stronger USD, a weaker RMB and soft commodity prices should take it lower, although FDI and portfolio flows will provide support. Global uncertainties are likely to be the main factor behind the rupiah's fluctuation

Domestic consumption, both private and government, is driving growth

- Good policy management, plus some element of luck in terms of lower energy prices, has allowed inflation to come down and also provided some stability to the IDR. This has supported real income (more on the higher end of the income scale than lower) and hence consumption demand, which, along with government expenditure, have been the main drivers of growth.
- In 1Q16, growth slowed to 4.9% yoy due to limited private investment and government consumption. In 2Q, the economy rebounded to 5.2% growth but its composition still left much to be desired. The main driver was government consumption, which rose by 5.3% versus 2.9% in 1Q. Private consumption growth also held up at 5.1% (modestly up from 5% in 1Q). However, growth needs to become broader-based to be sustainable. Specifically, private investment needs to rise and that is probably a few quarters away.
- Public investment is expected to increase, led by an acceleration of government spending on infrastructure development. However, budgetary constraints are likely to keep it restricted. Furthermore, the time frame within which it can 'crowd in' private investment is probably a 2017 story. For now, we see limited upside to private sector investment.
- Indonesia's exports are not insulated from China's slower economic growth, with coal and mining exports being particularly vulnerable. However, agricultural and manufacturing exports, especially fisheries, are showing positive signs.
- Based on these factors, while a rebound in economic growth is expected, its magnitude is likely to be limited. We project 5.0% growth in 2016 and 5.1% in 2017. The tax amnesty programme provides a wildcard, which, if successful, could add 0.2% pts to the economic growth in 2016.

Trade surplus maintained despite slower global demand

- The trade picture is mixed. Cumulatively, from Jan – June 2016, Indonesia's trade balance was in surplus of US$3.6bn. However, both exports and imports declined in both volume and value terms. Despite a trade surplus, the current account was in deficit and the overall balance of payments was modestly negative. The capital account has stayed positive, with inflows to equity and bonds markets of around US$9bn until the end of July.

- The outlook is more of the same, with export growth being weak – we project 2.2% growth in 2016 -- but imports more so, at 0.7%. The current account deficit is expected to narrow to 2.3% of GDP in 2016 but, as public expenditure increases, import growth should do better, worsening the deficit to 2.5% of GDP in 2017. It should be well funded with flows into government bonds from investors searching for yield.

Loose monetary policy on the back of slower inflation rate

- Headline inflation was 3.2% yoy in July 2016, down from 3.5% in June. Inflation in June reflected price pressures toward the end of the Muslim fasting month. The overall trend in inflation is downward; in July 2015, inflation was 7.3%. Largely due to the decline in energy prices, core CPI was steady at 3.5% in July, although this masked high food prices. In any case, inflation is likely to remain within the government's 3-5% target, allowing for further loosening of the monetary policy.
- Lower inflation and a stable rupiah have allowed Bank Indonesia (BI) to cut the policy rate four times for a total of 100 basis points in 2016 so far. Real rates are still much too high and we can expect more cuts in the policy rate (now the 7-day repo rate with the 12-month BI rate being retired), possibly twice more this year. Despite the reductions in the policy rate, lending rates have not declined in tandem, affecting the transmission of monetary policy and drawing attention to the banks' cost of intermediation.

Fluctuation of IDR on the back of increasing global uncertainties

- Perceptions about the IDR have come a long way from the volatility we witnessed during the taper tantrum in 2H13. At that time, the economy was considered one of the fragile five and the markets treated it accordingly as fears of US monetary tightening grew. Now, there is significant inflow to the local bond market from investors who are looking for yield and safety. The short-term pressure is on IDR appreciation but it is hardly in the interest of the authorities to have a strong currency when exports are struggling and inflation is declining. As such, the policy space created by inflows is likely to be captured via lower rates, rather than a stronger currency. We project modest weakness against the USD to Rp13,500 at the end of this year

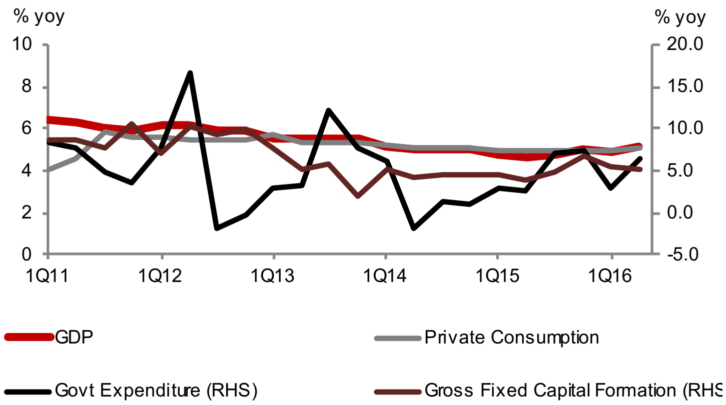
Risks and Other Issues

- With a current account deficit, Indonesia is still exposed to external risks but the main challenge appears to be domestic, particularly on the fiscal side. The government has indicated a revenue shortfall, with a new deficit targeted at 2.5% of GDP versus the earlier projection of 2.35% of GDP; the deficit at the end of June was already 1.8% of annualised GDP. While the deficit is well contained below the mandated 3% of GDP ceiling, the main risk emanating from revenue shortfalls is possible expenditure cutbacks and its impact on growth. The 2017 budget expects a deficit of 2.41% of GDP.
- Revenue projections from the tax amnesty programme may turn out to be too optimistic. The targeted collection over a nine-month period is Rp165tr but only Rp98.4bn was collected between 18 July and 1 August. Indonesia is viewed as one of ASEAN's best stories right now, in large part because policymakers are being proactive. While that is welcomed, the risk for investors could be that the optimism

may be overdone and revenue shortfalls could affect government expenditure and consequently growth.

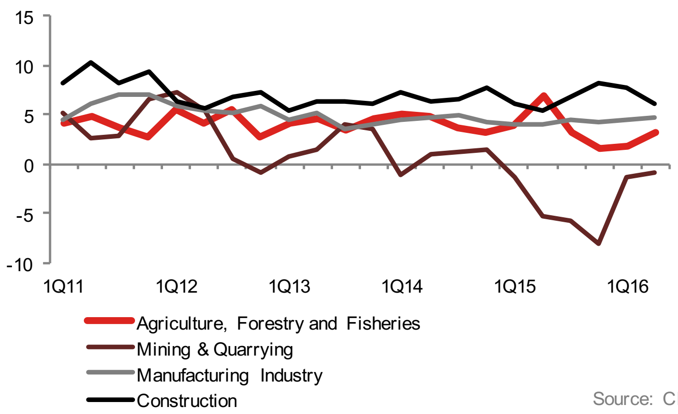
Uptick in 2Q growth driven by government consumption. While private demand remains an engine of growth, private investment growth is likely to be limited in the near future

Figure 1: GDP Growth by domestic demand



Source: CEIC

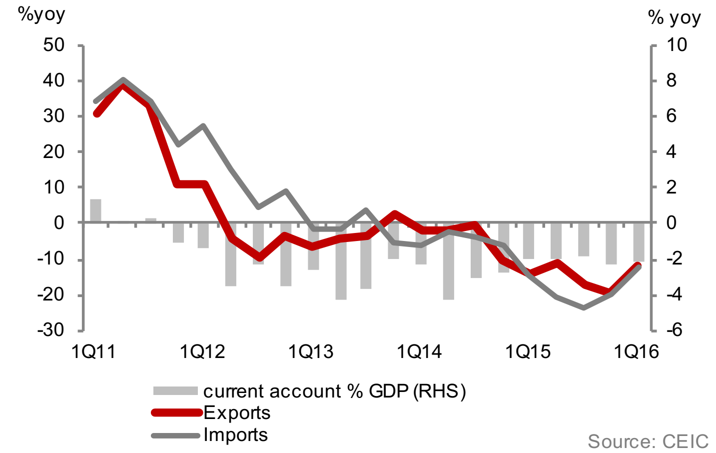
Figure 2: GDP growth by supply components



Source: CEIC

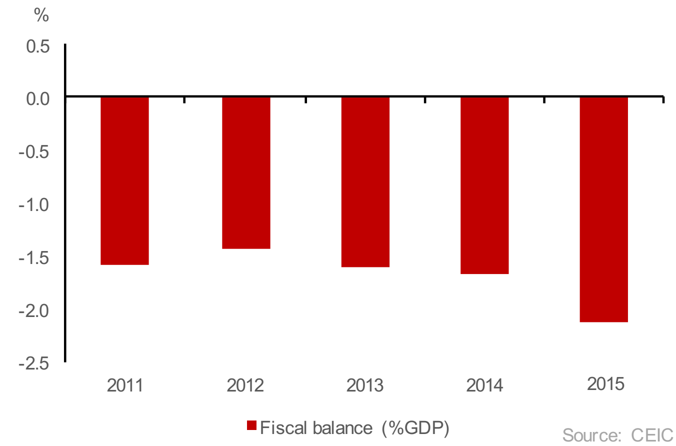
Current account deficit narrowing , but as public expenditure increases demands for imports, the current account deficit is expected to widen in the medium term

Figure 3: Trade and current account balance



Source: CEIC

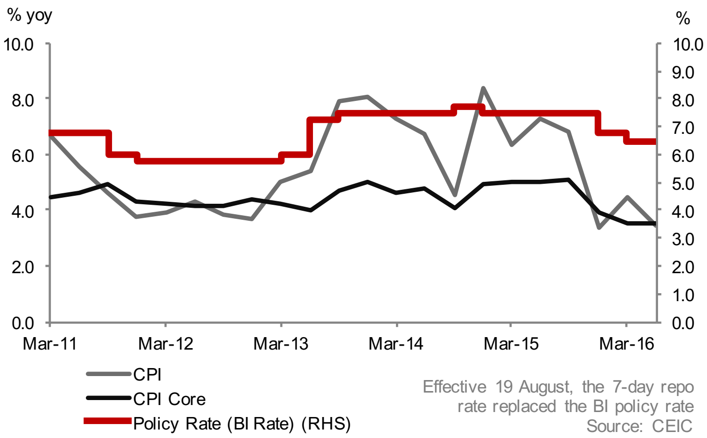
Figure 4: Fiscal deficit to GDP



Source: CEIC

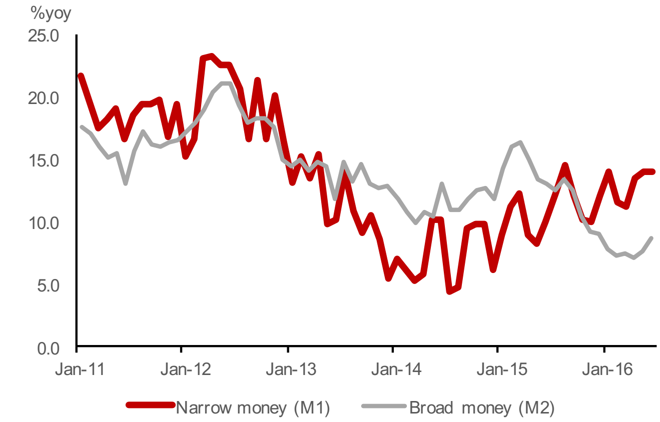
Low energy prices will keep inflation between 3%-5%, allowing for further loosening of the monetary policy

Figure 5: Inflation and policy rates



Effective 19 August, the 7-day repo rate replaced the BI policy rate
Source: CEIC

Figure 6: Monetary Data



Source: CEIC

Annual Data

	2015
Nominal GDP (USD bn)	862
GDP per capita (USD)	3,374
Population (mn)	255.5

	2012	2013	2014	2015	2016F	2017F
Real GDP growth (%yoy)	6.0	5.6	5.0	4.8	5.0	5.1
Real consumption growth (%yoy)	5.4	5.7	4.7	4.9	4.9	5.3
- Public consumption (%yoy)	4.5	6.7	1.2	5.4	5.0	5.2
- Private consumption (%yoy)	5.5	5.4	5.2	5.0	4.2	5.6
Real gross fixed capital formation (%yoy)	9.1	5.0	4.6	5.1	5.0	5.2
Real export growth (%yoy)	1.6	4.2	1.0	-2.0	2.2	3.0
Real import growth (%yoy)	8.0	1.9	2.2	-5.8	0.7	4.8
Export growth, balance of payments (%yoy)	-6.6	-3.9	-3.6	-14.6	3.0	5.0
Import growth, balance of payments (%yoy)	8.0	-2.6	-4.5	-19.9	6.0	5.0
Trade balance (USD bn)	-1.7	-4.1	-2.2	7.7	3.5	5.4
- % of GDP (%)	-0.2	-0.4	-0.2	0.9	-	-
Current account balance (USD bn)	-24.4	-29.1	-27.5	-17.7	-22.0	-17.7
- % of GDP (%)	-2.7	-3.2	-3.1	-2.1	-2.3	-2.5
Reserves, end of period (USD bn)	112.8	99.4	111.9	105.9	115.0	125.0
- foreign reserves to months of imports	5.6	5.0	5.7	5.3	-	-
- short term debt (% of total reserves)	39.2	46.4	41.6	-	-	-
Fiscal balance (%GDP)	-1.44	-1.60	-1.66	-2.13	-2.50	-2.40
Retail Sales Index growth, average (%yoy)	14.5	12.9	14.5	13.3	15.0	17.0
Industrial production growth, average (%yoy)	4.1	6.0	4.8	4.8	-	-
Narrow money (M1) growth, average (%yoy)	19.5	11.1	7.4	10.9	14.0	15.0
Broad money (M2) growth, average (%yoy)	18.5	13.8	11.5	12.8	8.0	10.0
Domestic credit to private sector (%GDP)	33.4	36.1	36.4	39.1	-	-
Consumer Price Index (CPI), end of period (%yoy)	3.7	8.1	8.4	3.4	3.2	3.4
Consumer Price Index (CPI), average (%yoy)	4.0	6.4	6.4	6.4	-	-
Policy rates, end of period (%)	5.75	7.50	7.75	7.50	4.75	4.50
10Y government bond yield, yearly average (%)	5.90	6.97	8.29	8.25	6.25	6.00
Exchange rate vs. USD, end period	9,646	12,087	12,438	13,855	13,500	14,000

Quarterly data

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP (%yoy)	4.7	4.7	4.7	5.0	4.9	5.2
CPI, average (%yoy)	6.5	7.1	7.1	4.8	4.3	3.5
Policy rates, end of period (%)	7.50	7.50	7.50	7.50	6.75	6.50
10Y government bond yield, quarterly average (%)	7.38	8.01	8.83	8.81	8.39	7.73
Exchange rate vs. USD, end period	13,067	13,313	14,396	13,855	13,193	13,355

SOURCE: CEIC, CIMB Research

Effective 19 August, the 7-day repo rate at 5.25% replaced the BI policy rate (6.5%)

MALAYSIA

Economic growth is starting to falter as a sluggish and uncertain global economy is buffeting the external sector. The domestic economy, particularly private consumption, has done better, but it remains to be seen how much longer that resilience can be sustained. We expect GDP growth to be close to 4.2% in 2016, and not much higher next year, at 4.4%. Meanwhile, inflation, currently at 1.6%, is heading lower and that, together with a dovish Fed Funds outlook, has allowed the central bank to finally cut rates. More cuts should follow; we expect the OPR to be at 2.50% by year's end. The currency should also trend modestly lower, its level driven by the outlook on the USD and oil prices. We expect the MYR to end the year at close to 4.20 to the USD.

External sector dragging growth prospects

- The trend is unmistakably downward with GDP expanding at 4% yoy in 2Q16 (4.2% in 1Q16; 5% in 2015, 6% in 2014). The declining performance is mainly driven by the external sector, due to a sluggish global economy and a sharp slowdown in commodity demand.
- Domestic demand has been more resilient (up 6.3% yoy in 2Q16; 1H16: 5%) especially private consumption (2Q16: 6.3%; 1H16: 5.8%), which has partly benefited from the boost to disposable income due to cash transfers from the government. Private investment picked up in 2Q at 5.6% (1Q16: 2.2%, 2015: 6.4%), mainly due to reductions in the oil and gas sector.
- The softening of economic activity is likely to continue until external demand picks up. That appears to be some way off, especially as it is not even global growth per se, but the more import-intensive part of global growth - business investment - that needs to rise.
- The demand for commodities from China is likely to remain poor. Brief credit-fueled spurts aside, China is in a structural slowdown that is likely to unfold over several years. Moreover, China's domestic value added in its exports is rising, thus reducing the need for imports.
- The burden of delivering growth will likely rest on domestic demand, and the outlook is not particularly strong. Private consumption demand, which grew at 5.8% in 1H16, has provided the most support but is likely to soften. While there are positives for real income growth – civil service pay increments, BRIM payments – the downward pull is greater.
- The labour market is showing signs of softening, (unemployment rate 2015: 3.2%, up from 2.9% in 2014; average job vacancy growth 2016: -37.9%) the cost of living has increased and household debt is high (89.1% GDP in 2015).
- The upcoming budget is likely to protect the "rakyat", or common person, and cushion a downturn, but given budgetary considerations and that government debt-to-GDP has a ceiling of 55% (currently at 54.5%) and development expenditure is likely to be maintained, any upside to growth is limited.

External accounts remain resilient

- In US dollar terms, export growth has been negative for close to 12 months, averaging minus 13%. In volume terms they have done better, being modestly positive implying a deterioration in the terms of trade (export-to-prices). This decline, averaging at -2.2% (ytd until June), is effectively a real income shock, which should affect consumption demand.

- Given the global economic environment, the outlook for exports is not constructive. Yet, Malaysia should do better than its neighbours given its diversified export base. Indeed, Electrical and Electronics (E&E) exports growing at 7.9% on average for the past 12 months have, to some extent, cushioned the downturn in commodity exports.
- Despite the downturn in exports, a current account surplus of MYR6.9 billion (1.2% of GNI) for 1H16 has remained, as import growth has been almost as poor. The decline in import growth has not been due to softening domestic demand but due to reduced supply chain requirements for exports. The current account surplus has provided a buffer against external shocks, but it also allows domestic policy the space to provide stimulus without undue concerns about pressure on currency.
- The capital account has also been stable. Indeed, reserves have been added over the last few months (August 2016: USD97.5 billion). In the early part of the year, there were outflows from the equity market but that was compensated by inflows into short-term debt securities. FDI flows have targeted the services and finance sectors.

No inflationary concerns for now

- It is clearly not a concern at this point in the cycle. After peaking in February after the increase in electricity tariffs, the latest data print as of June is at 1.6%. A further decline is expected in July. The decline in inflation is largely attributable to the fall in commodity prices but perhaps, more importantly, to a slowing economy and a reduction in demand pull pressures. Moreover, the effect of the GST which was implemented in April 2015 should no longer add to base effects.

Expect lower rates and a weaker MYR

- A slowing economy with falling inflation has made the case for a reduction in policy rates for some time. Yet, the external environment, in particular the outlook on US rates and possible volatility from other events such as Brexit, was holding BNM back.
- But with the futures market pricing in a stable Fed Funds rate, global bond yields signaling that global growth may be even more lackluster than expected, and the limited impact of BREXIT, BNM cut rates by 25 bps in July to 3%. Barring any-unforeseen external volatility and with current trends holding, the OPR will likely end the year at 2.50%.
- The MYR is driven by a variety of influences, principal among them being the direction of the USD, the RMB and oil prices. With the USD expected to strengthen, the RMB expected to weaken, and oil prices to be largely range bound with a bias towards softness, the MYR should trend softer – we expect a year-end value of 4.20 to the USD.

Risks and Other Issues

- The economy has weathered external shocks well: having a well-diversified base of activity, as well as exports, helps. Moreover, the GST has compensated for the loss of fiscal revenues that came from a decline in oil prices and the fiscal deficit actually fell to 3.2% of GDP in 2015, from 3.4% in 2014.
- A key question is the direction of fiscal policy and how much space actually exists with a government debt-to-GDP ceiling of 55%. With significant headwinds, fiscal policy could play a more counter-cyclical role.
- Household debt at 89.1% of GDP is high and likely to be vulnerable to changes in real

estate prices.

Bleak global growth weighs on growth prospects. Private consumption to continue driving growth but constrained by indebtedness and rising costs of living.

Figure 1: GDP growth by domestic demand

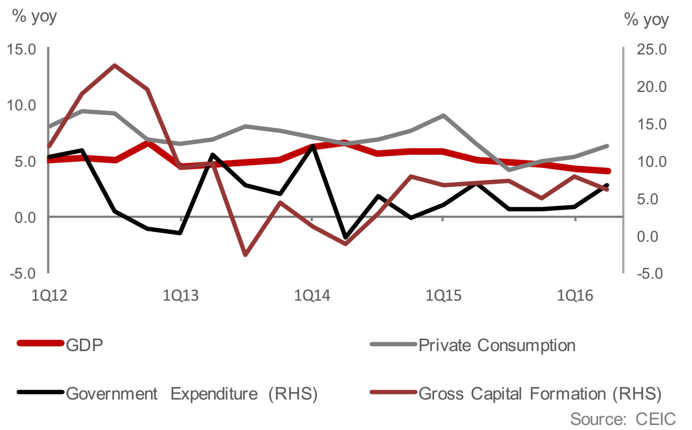
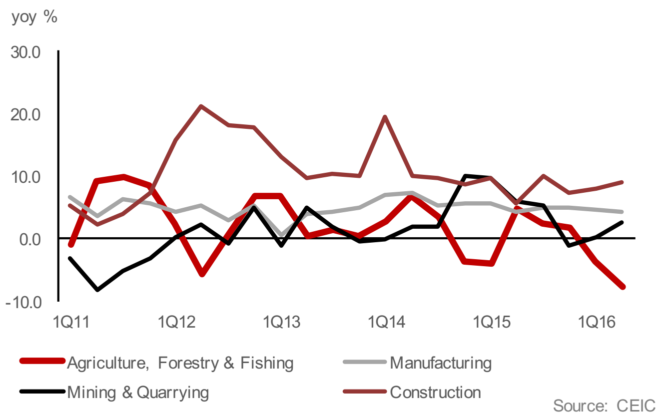
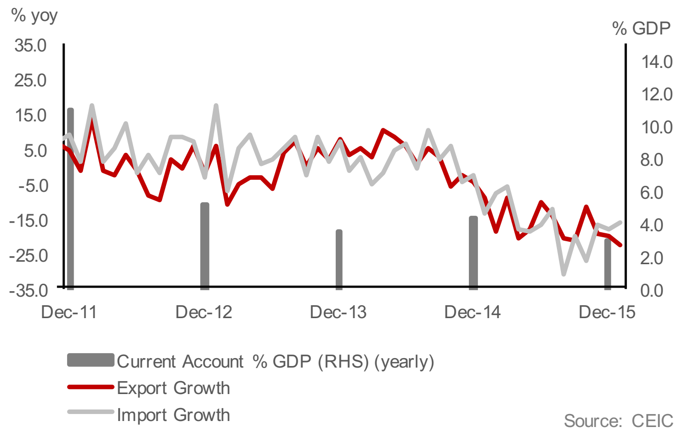


Figure 2: GDP growth by supply components



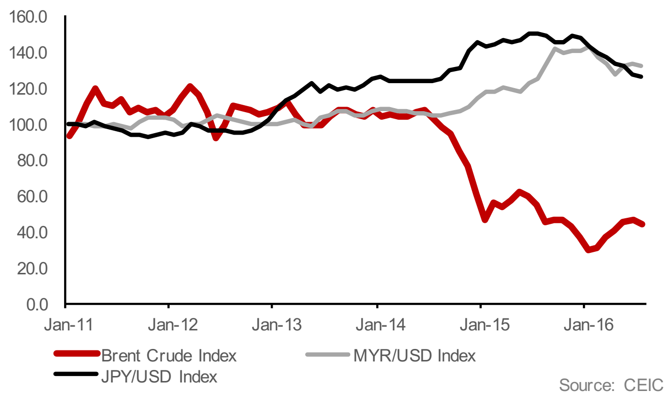
Current account surplus maintained despite downturn in exports due to poor import activity

Figure 3: Trade and current account balance



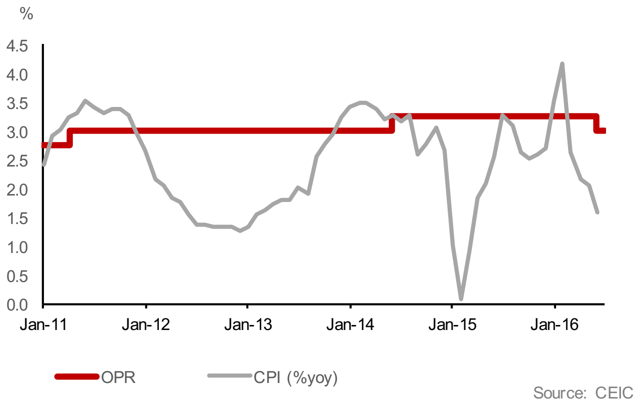
Subdued oil prices and USD strengthening to continue – MYR to trend lower

Figure 4: Changes in oil price and currency



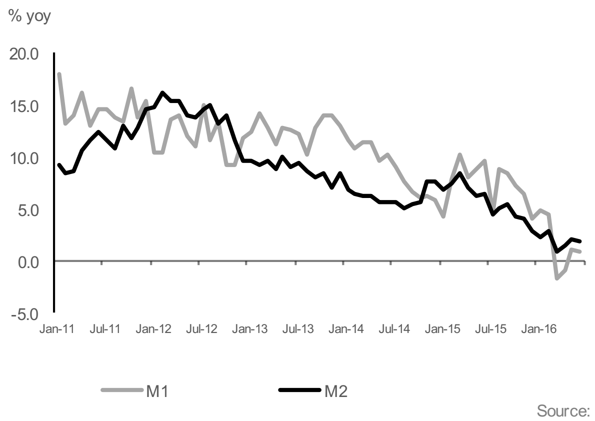
Lower inflation and money supply growth, signaling a slowing economy - further OPR cuts expected

Figure 5: Inflation and OPR



Source: CEIC

Figure 6: Monetary Growth



Source: CEIC

Annual Data

	2015
Nominal GDP (USD bn)	297.2
GDP per capita (USD)	9,504.2
Population (mn)	31.2

	2012	2013	2014	2015	2016F	2017F
Real GDP growth (%yoy)	5.5	4.7	6.0	5.0	4.2	4.4
Real consumption growth (%yoy)	7.7	6.9	6.4	5.7	5.5	5.3
- Public consumption (%yoy)	5.4	5.8	4.3	4.4	-	-
- Private consumption (%yoy)	8.3	7.2	7.0	6.0	5.9	5.3
Real gross capital formation growth (%yoy)	18.3	4.9	2.6	6.4	4.5	3.9
Real export growth (%yoy)	-1.7	0.3	5.0	0.6	1.7	2.5
Real import growth (%yoy)	2.9	1.7	4.0	1.2	-0.5	0.0
Nominal export growth (%yoy)	0.7	2.5	6.3	1.9	-5.4	2.5
Nominal import growth (%yoy)	5.8	6.9	5.3	0.4	-5.1	0.0
Trade balance (USD bn)	31.1	22.6	25.2	24.2	26.1	27.3
- % of GDP (%)	9.9	7.0	7.5	8.2	8.4	7.9
Current account balance (USD bn)	16.3	11.3	14.8	8.9	7.2	6.6
- % of GDP (%)	5.2	3.5	4.4	3.0	2.3	1.9
Reserves (USD bn)	136.2	137.9	129.1	101.0	99.8	112.2
- foreign reserves to months of imports	7.0	6.7	5.7	5.4	6.3	6.6
- short term debt (% of total reserves)	66.3	76.2	89.5	83.3	78.0	85.0
Fiscal balance (% GDP)	-4.5	-3.9	-3.4	-3.2	-3.1	-2.8
Retail sales growth (%yoy)	7.4	8.9	11.1	8.1	-	-
Industrial production growth (%yoy)	4.2	3.4	5.1	4.5	-	-
Narrow money (M1) growth (%yoy)	12.2	13.0	5.8	4.1	-	-
Broad money (M2) growth (%yoy)	9.8	8.4	6.9	2.8	-	-
Domestic credit to private sector (% GDP)	114.1	119.9	120.6	125.2	-	-
Consumer Price Index (CPI), end of period (%yoy)	1.2	3.2	2.7	2.7	3.5	3.0
Consumer Price Index (CPI), average (%yoy)	1.7	2.1	3.1	2.1	-	-
Policy rates, end of period (%)	3.00	3.00	3.25	3.25	2.50	2.25
10Y government bond yield, yearly average (%)	3.52	3.72	4.01	4.04	-	-
Exchange rate vs USD, end year	3.06	3.28	3.50	4.29	4.20	4.35

Quarterly data

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP (%yoy)	5.7	4.9	4.7	4.5	4.2	4.0
CPI, average (%yoy)	0.7	2.2	3.0	2.6	3.4	1.9
Policy rates, end of period (%)	3.25	3.25	3.25	3.25	3.25	3.25
10Y government bond yield, end period (%)	3.87	4.01	4.14	4.19	3.78	3.75
Exchange rate vs USD, end period	3.72	3.79	4.45	4.29	3.92	4.02

SOURCE: CEIC, IMF estimates

PHILIPPINES

For the past few years, the Philippines has been one of ASEAN's best economic stories. It has moved towards macroeconomic stability, increased transparency, created fiscal space, and managed to grow at a healthy pace despite external headwinds. These trends should continue through 2017, barring any policy reversals under the new regime. We expect GDP growth of 6.5% in 2016 and for it to be mainly domestic demand led. The robustness of domestic demand, and hence strong import growth, together with declining export growth, means that the current account balance has shrunk though it still remains at a healthy surplus thanks to remittances. Inflation was down to a 20-year low of 1.4% at the end of 2015 but has inched up since to 1.9% in June. Nonetheless, it should stay well within the BSP's target range of 2% to 4%. The combination of strong domestic demand and controlled inflation means it is unlikely that the BSP will change monetary policy settings anytime in the near future. In our view, fiscal policy should be a lot more active and the PHP should track other regional currencies

Domestic demand to the fore ›

- Like other ASEAN economies, the Philippines has faced significant external headwinds and export growth, in US dollar terms, has been negative for months. But where the Philippines differs is that domestic demand has been unusually strong with both government spending and private consumption providing support. The Philippines' GDP increased 6.8% in 1Q16 and by an ASEAN-leading 7% in 2Q16 (by comparison, Vietnam grew at 5.6; Indonesia: 5.2%; Malaysia: 4.2%; Thailand 3.5%) making it a 6.9% clip in 1H16.
- 2Q GDP growth numbers were in line with regional trends where we have seen a small pick-up in many ASEAN countries. But the magnitude is entirely different in the Philippines. Private consumption rose 7.3% yoy, government expenditure at 13.5%, and investment at 27.2%. For three quarters now, investment has been growing at an overall 25% clip largely reflecting the Aquino government's commitment to building infrastructure.
- The Duterte government is doubling down on that commitment, expecting to raise infrastructure spending to 5% of GDP from the 2.2% average during the Aquino years. As a percentage of GDP, investment is around 25%, meaning that there remains significant scope for expansion.
- Private consumption has been strong for a variety of reasons, though mainly due to the rise in real incomes. Nominal incomes have risen due to overall growth and a steady labour market, while a decline in fuel prices and the overall inflation rate have allowed it to be captured in real terms. This trend should continue into the second half of the year.
- However, government expenditure is likely to slow down as the current rate reflects pre-election spending. As such, the pace of expansion is likely to slow in 2H and we expect GDP growth for the year to be 6.5%, though it does carry upside risk.
- From the supply side, the services sector has been strong, expanding 8.4% yoy in 2Q. Industrial output rose 6.9% yoy, while agricultural output fell 2.1% largely due to El Niño effects.

Trade: Poor exports but imports are robust

- In US dollar value terms, exports ell 11.4% yoy in June, the 15th straight month of decline. Agriculture and forestry products posted large declines, while petroleum products fell by 10.6% in value terms despite a large increase in volumes. Manufacturing also fell by 9.6%.
- This decline in exports is largely in line with regional trends though the Philippines also suffers from a poor product mix. Where the Philippines differs is in the strength of its imports, which grew at 39.3% in May on the back of 29% growth in April. The combination of faltering exports and strong imports led to a sharp deterioration in the trade balance, a trend markedly different from countries such as Thailand and Indonesia where trade balances have improved despite weak exports.
- However, while the trade balance moves deeper into negative territory, the current account still maintains a strong, though diminished, surplus. This is largely due to the continued strength of remittances, which grew 4.8% in June. For the first half of the year, overseas remittances were at US$13.19bn, up 3.2% yoy. BSP projects a growth rate of 4% this year, vs. 4.6% in 2015.
- We think that the current trends in the external accounts should persist, though with some moderation. Exports are unlikely to regain strength any time soon given our expectation of continued sluggishness in the global economy, but the pace of decline is likely to be arrested. Similarly, imports should remain strong but their pace of increase should moderate. Together with a healthy inflow of remittances, this should allow the current account to maintain a surplus of 2.1% of GDP in 2016, though down from 2.9% in 2015.

Stable inflation implies stability on rates and the PHP

- Inflation slumped to a 20-year low of 1.4% at the end of 2015 but has inched up since to 1.9% in June 2016. The main cause for the increase was food prices. Even with the latest print, inflation should stay well within the BSP's target range of 2% to 4%. The combination of strong growth and controlled inflation means it is unlikely that the BSP will change monetary policy settings anytime in the near future, even though growth should slow in 2H16.
- The currency should be stable. Exports have slowed not because of a lack of competitiveness but because of a lack of demand. A weaker currency is unlikely to help very much. Yet, due to supply chain dynamics, the currency needs to move in step with regional currencies and that is what we expect; a stable real trade-weighted rate which means modest weakness versus the US dollar in nominal terms.

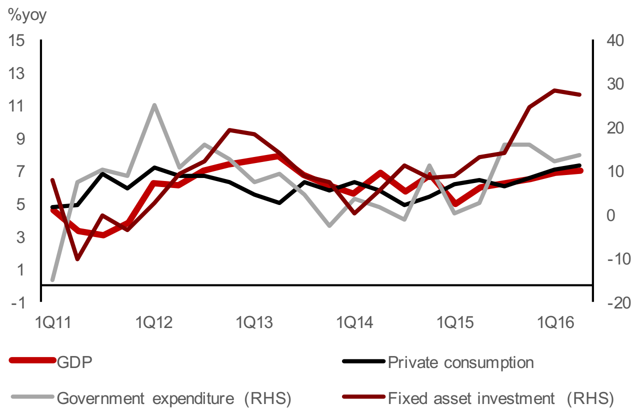
Risks and other issues

- The main risk is political. Although the new government has pledged to maintain the economic policies of the previous government, it has not really been tested yet. While there is a commitment to infrastructure spending, the risk lies in implementation and transparency. Meanwhile, the "war on drugs" has manifested itself as street-style justice and is causing a fair amount of disquiet in the international media and subsequently, the investor community.

CARI

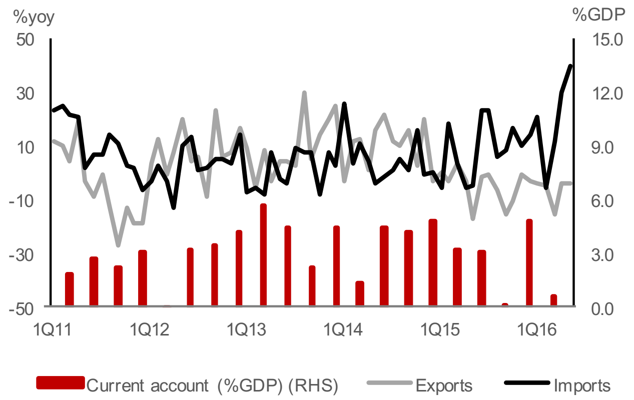
Despite headwinds in export growth, strong domestic demand from private consumption and government expenditure is driving growth

Figure 1: GDP growth by domestic demand



Source: CEIC

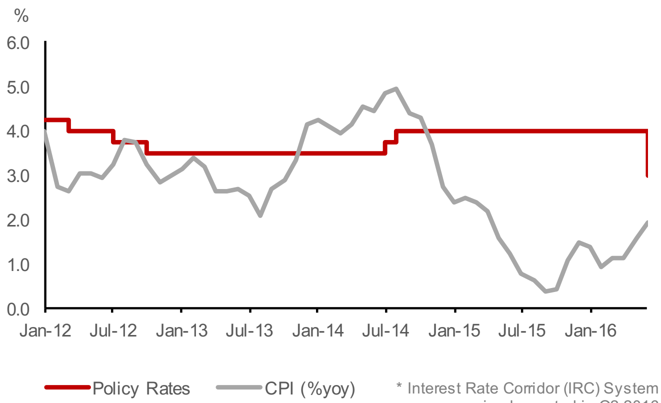
Figure 2: Trade growth and current account balance



Source: CEIC

Inflation has slumped to a 20-year low. The combination of strong growth and controlled inflation means it is unlikely that the BSP will change monetary policy settings anytime in the near future

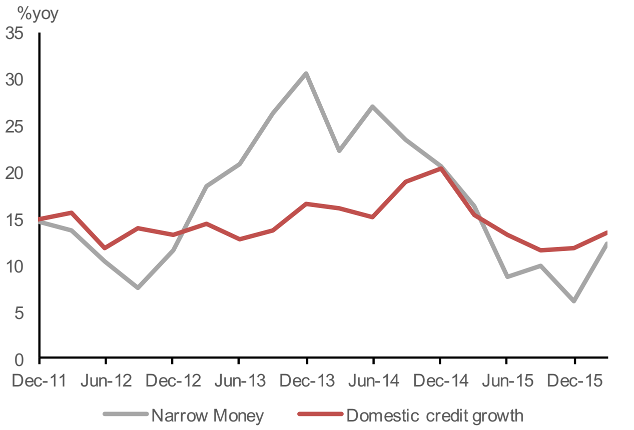
Figure 3: Inflation and policy rates



* Interest Rate Corridor (IRC) System implemented in Q2 2016

Source: CEIC

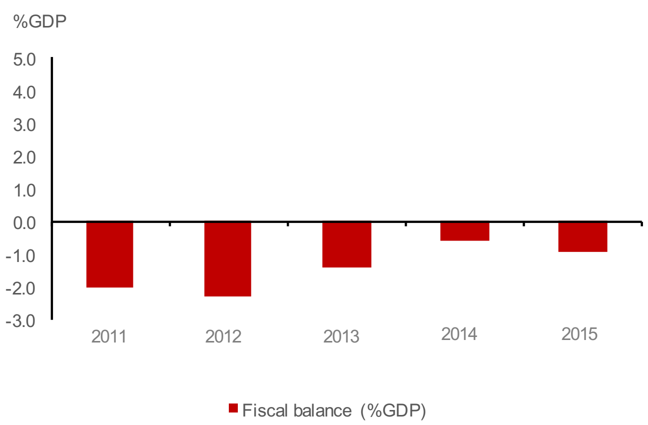
Figure 4: Narrow money and credit growth



Source: CEIC

Government spending is likely to slow as the current spending rate reflects pre-election spending

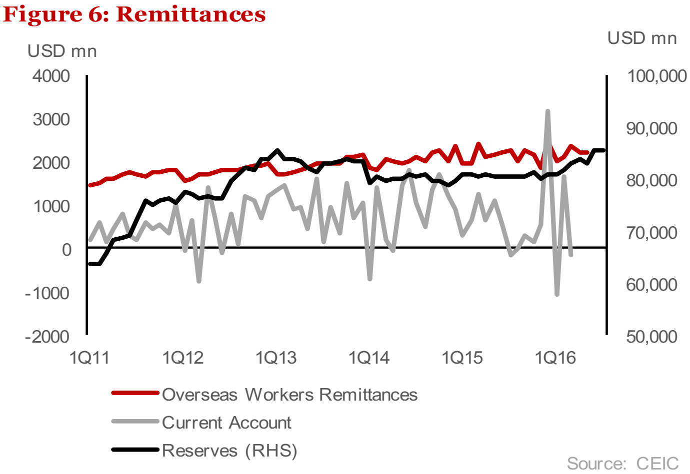
Figure 5: Fiscal balance (% GDP)



Source: CEIC

Strong flow of remittances has helped the current account position despite worsening balance of trade

Figure 6: Remittances



Source: CEIC

Annual Data

	2015
Nominal GDP (USD bn)	292.2
GDP per capita (USD)	2,878.7
Population (mn)	101.0

	2012	2013	2014	2015	2016F	2017F
Real GDP growth (%yoy)	6.7	7.1	6.2	5.9	6.5	6.5
Real consumption growth (%yoy)	7.7	5.5	4.9	6.6	6.3	6.5
- Public consumption (%yoy)	15.5	5.0	3.3	7.8	7.0	6.5
- Private consumption (%yoy)	6.6	5.6	5.5	6.3	6.2	6.5
Gross capital formation growth (%yoy)	-4.3	27.9	5.2	15.1	8.3	8.6
Nominal export growth (%yoy)	8.2	9.0	9.0	-5.1	-	-
Nominal import growth (%yoy)	2.6	0.5	3.1	3.6	-	-
Trade balance (USD bn)	-12.7	-10.6	-12.8	-17.5	-	-
- % of GDP (%)	-5.1	-3.9	-4.5	-6.0	-	-
Current account balance (USD bn)	7.0	11.4	10.8	8.4	6.4	8.3
- % of GDP (%)	2.8	4.2	3.8	2.9	2.1	2.0
Reserves, end of period (USD bn)	83.8	83.2	79.5	80.7	84.5	87.8
- foreign reserves to months of imports	11.5	11.6	9.9	10.1	-	-
- short term debt (% of total reserves)	19.6	20.3	20.4	-	-	-
Fiscal balance (% of GDP)	-2.3	-1.4	-0.6	-0.9	-1.4	-2.0
Retail Price Index growth, average (%yoy)	2.1	2.7	2.7	1.2	-	-
Industrial Production Index growth, average (%yoy)	7.0	5.4	6.3	-4.4	8.6	5.8
Narrow money (M1) growth, average (%yoy)	8.2	21.2	19.2	13.4	-	-
Broad money (M2) growth, average (%yoy)	7.0	24.1	23.1	8.2	11.7	-
Domestic credit to private sector (% of GDP)	33.4	35.8	39.2	41.9	14.9	15.4
Consumer Price Index (CPI), end of period (%yoy)	3.0	4.1	2.7	1.5	3.0	3.1
Consumer Price Index (CPI), average (%yoy)	3.2	2.9	4.2	1.4	3.0	3.1
Policy rates, (end of period %)	3.60	3.50	4.00	4.00	3.00	2.75
Exchange rate vs USD, end period	41.19	44.41	44.62	47.17	47.00	48.00
5Y government bond yield (%)	5.19	2.13	3.00	2.54	-	-

Quarterly data

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP (%yoy)	5.0	5.9	6.2	6.5	6.8	7.0
CPI, average (%yoy)	2.4	1.7	0.6	1.0	1.1	1.5
Policy rates, end of period (%)	4.00	4.00	4.00	4.00	4.00	3.00
Exchange rate vs. USD, end period	44.80	45.20	46.93	47.17	46.11	46.96
5Y government bond yield (%)	3.25	3.77	3.44	3.98	3.31	2.90

SOURCE: CEIC, IMF estimates, Oxford Economics, Philippines Bureau of the Treasury

SINGAPORE

The headwinds for the Singapore economy continue to be severe. From the demand side, it is reliant on trade and financial flows and both are in structural decline. Moreover, even though a cyclical pickup is possible, it is neither imminent nor is it likely to be particularly robust. From the supply side, the economy is buffeted by worsening demographics and low productivity. Labour costs are high and restructuring is underway. Despite all this, the Singapore economy still managed to expand an estimated 2.1% yoy in 1H16 vs. 2015's 2.0%. This was due mainly to stronger performance of the goods-producing industries, especially the manufacturing sector. But not much growth upside can be expected until the global economy recovers. In April 2016, the Monetary Authority of Singapore (MAS) moved to a rare neutral stance on monetary policy, citing an unfavourable external environment. We expect this stance to persist for some time. Given this stance, and our view that the Fed will likely move once this year, possibly in December, the USD/SGD pair should weaken to about 1.38 by the end of 2016 and the 3m SIBOR should be around 1.25%.

Slower growth to persist from weak global demand

- Revised data indicates that the economy grew 2.1% in 2Q16, making it a 2.1% clip in 1H16, largely due to the manufacturing sector, i.e. stronger demand for semiconductors and biomedical products including pharmaceuticals. However, the services-producing industries (68% of the economy) are on track for their slowest pace since the GFC with 1H growth of 1.6% yoy.
- Given Singapore's small and open economy, global growth has a more-than-proportional impact. The IMF has lowered its forecast of global trade volume twice this year since its first forecast in January[11], by a total of 0.7% pt to 2.7% for 2016 and by 0.2% pt to 3.9% for 2017 (2.6% growth in 2015).
- In early August, IE (International Enterprise) Singapore narrowed its 2016 total trade and non-oil domestic exports (NODX) forecasts from between -8.0% to -6.0% and -5.0% to -3.0to between -7.0% and -6.0% and -4.0% and -3.0% respectively (-9.1% and -0.1% respectively in 2015). NODX contracted 4.5% yoy in 1H16 vs. 2.7% growth for 1H15. As such, it is not a surprise that Singapore is experiencing slower growth in its services producing sector.
- Specific segments such as wholesale and retail trade, business services, finance and insurance sector all recorded slower growth, while demand for financial leverage has been affected by weak business sentiments including the on-going property cooling measures. On a quarter-on-quarter seasonally-adjusted annualised basis, the overall services sector contracted 0.6% in 2Q16 after a 4.9% decline in 1Q16.
- On a more positive note, the hospitality sector is seeing double-digit gains in tourist arrivals so far this year, especially from China, India and a handful of neighbouring ASEAN countries. However, this has not translated into higher overall spending because of cutbacks from businesses and in the MICE segment due to the subdued business sentiment.
- The goods-producing industries, i.e. Singapore's manufacturing sector led by the biomedical engineering and electronics clusters, is starting to see some signs of recovery, as the latest two quarters (1Q and 2Q 2016) registered sequential growth

[11] April and July World Economic Outlook

after four consecutive quarters of qoq contractions. While we are seeing green shoots in the tech and biomed clusters, other key manufacturing clusters such as transport engineering and chemicals are still facing weak demand.

- Given the transient manufacturing uptick and the weakness of the services producing industries in 1H16, the official government 2016 GDP growth forecast range was narrowed to 1-2% in early August from the previous range forecast of 1% to 3%. We are maintaining our 2016 GDP forecast of 2% given the relatively undemanding year-ago base of 1.8% growth in 2H15. Much will depend on the improving economic conditions in the US, a stable Europe and stabilising China.

Labour market conditions are holding up

- Despite the uneven performance of the economy, Singapore's domestic economic conditions remain relatively resilient, if the labour market conditions serve as a guide. The overall unemployment rate remains steady at around 2% although new job creations slowed sharply and consumers and businesses are more careful about spending. Reflecting the more cautious household and business sentiments, restaurants receipts, adjusted for price effect, fell nearly 8% yoy in 5M16 after a similar 8% drop in 2015.

Neutral monetary policy stance and weaker currency

- The Monetary Authority of Singapore (MAS) surprised the market by shifting to a neutral trade-weighted S$NEER appreciation stance in the April policy meeting citing the unfavourable external environment. For the foreseeable future, we think that the MAS will keep the current stance unchanged given that the GDP growth and core inflation outcome are within their forecast range and the external environment remains difficult.
- Given a neutral policy stance and the expectation that regional currencies will weaken vs. the USD, the SGD should follow suit. We expect the USD/SGD pair to weaken to 1.38 by the end of 2016. The 3m SIBOR is forecasted to reach 1.25% by the end of 2016, factoring in one interest rate move in the US.

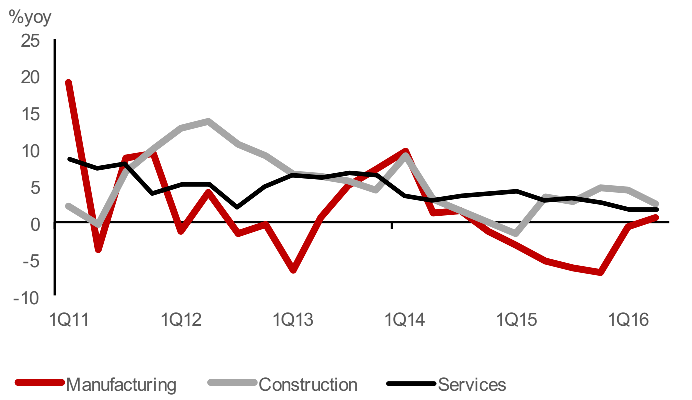
Risks and Other Issues

- There are clear downside risks to our 2016 and 2017 growth forecasts given uneven global growth amidst persistent geo-political risks. Although there is no immediate crisis, the direct financial impact of Brexit is unclear. The largest risk though is persistently sluggish global growth that is likely to be a huge drag on Singapore's economy.
- A persistent slow growth environment could worsen domestic conditions leading to a spike in unemployment rate and inhibit wage growth. The FX market is waiting for signs from the US Federal Reserve and expectations are dovish. Currency traders may overreact to a more hawkish-than-expected bias from the US Federal Reserve, and that may drive the SGD to a much lower level than anticipated.
- While a weaker Singapore dollar will be helpful for exporters, especially the service providers with a regional footprint as they have minimal imported content, the resulting impact could be higher domestic interest rates for both businesses and households. With headline deflation likely to persist into 2017, this may result in higher real interest rates and could discourage investment and consumption growth.

CARI

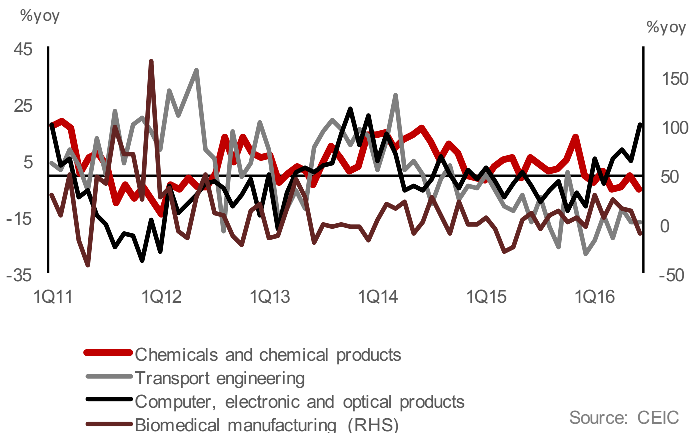
Another year of poor global growth weighs on Singapore's growth prospects. The small open economy leaves little room for Singapore government to pump prime.

Figure 1: GDP by components



Source: CEIC

Figure 2: Industrial output growth

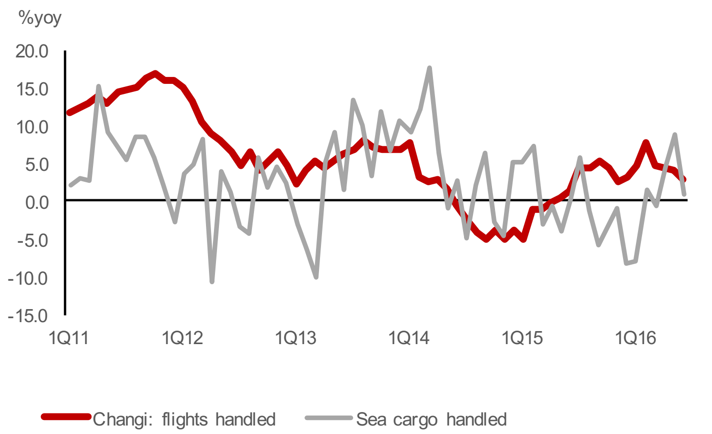


Source: CEIC

The pulse of Singapore's economy can be gauged from how busy the airports and seaports are

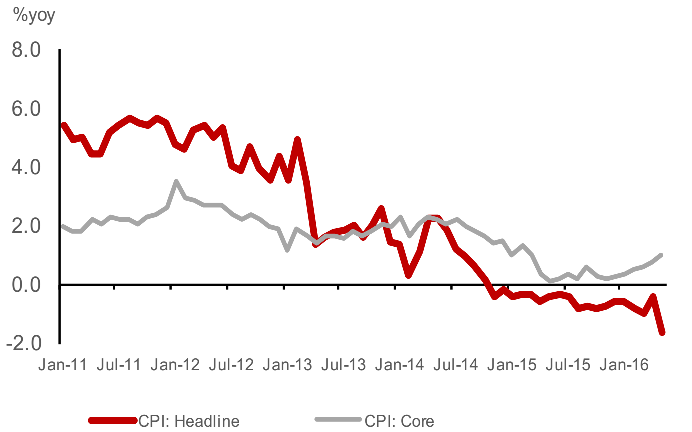
Headline and core inflation remain a non-issue for the central bank

Figure 3: Flights and cargo



Source: CEIC

Figure 4: Inflation

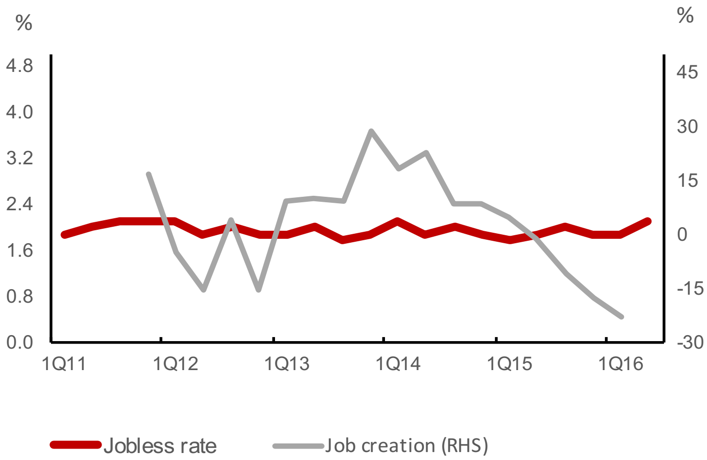


Source: CEIC

Labour market conditions have softened, but Singapore remains a full-employment economy

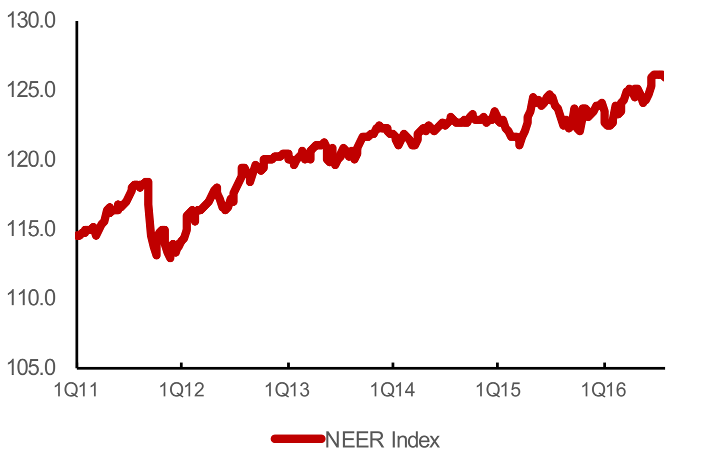
Full employment and mild core CPI means the central bank is unlikely to change its exchange rate policy

Figure 5: Labour market conditions



Source: CEIC

Figure 6: NEER index



Source: CEIC

Annual Data

	2016
Nominal GDP (USD bn)	292.8
GDP per capita (USD)	52,888
Population (mn)	5.5

	2012	2013	2014	2015	2016F	2017F
Real GDP growth (%yoy)	3.7	4.7	3.3	2.0	2.0	2.8
Real consumption growth (%yoy)	2.4	4.7	1.7	4.9	4.1	4.4
- Public consumption (%yoy)	-1.9	11.1	-0.1	6.6	8.1	7.3
- Private consumption (%yoy)	3.5	3.1	2.2	4.5	3.1	3.5
Real gross fixed capital formation (%yoy)	8.3	5.7	-2.6	-1.0	0.6	1.1
Real export growth (%yoy)	1.8	4.8	4.3	2.5	-	-
Real import growth (%yoy)	3.0	4.5	3.9	2.1	-	-
Nominal export growth (%yoy)	1.5	2.3	3.2	-4.7	-5.5	8.2
Nominal import growth (%yoy)	3.2	2.4	2.3	-7.5	-6.4	9.9
Trade balance (USD bn)	27.6	33.9	39.0	49.8	-	-
- % of GDP (%)	9.5	11.3	12.7	17.0	-	-
Current account balance (USD bn)	52.4	53.8	53.5	57.9	58.3	58.8
- % of GDP (%)	18.1	17.9	17.5	19.8	20.2	19.7
Reserves, end of period (USD bn)	26.1	18.2	6.8	1.1	-	-
- foreign reserves to months of imports	5.6	5.7	5.3	5.9	6.8	6.6
Fiscal balance (% GDP)	1.3	1.9	1.4	1.1	5.0	5.5
Retail Sales Index growth, average (%yoy)	2.3	-5.1	0.4	4.4	3.2	3.0
Industrial production growth, average (%yoy)	0.3	1.7	2.7	-5.1	1.3	2.5
Narrow money (M1) growth, average (%yoy)	6.1	14.8	4.2	1.2	-	-
Broad money (M2) growth, average (%yoy)	7.2	7.8	1.8	3.2		-
Consumer Price Index (CPI), end of period (%yoy)	4.3	1.5	-0.1	-0.6	1.2	1.0
Consumer Price Index (CPI), average (%yoy)	4.6	2.4	1.0	-0.5	-	-
Wholesale Price Index, average (%yoy)	0.5	-2.7	-3.3	-15.3	-	-
10Y government bond yield, yearly average (%)	1.46	2.06	2.36	2.44	-	-
Exchange rate vs USD, end period	1.22	1.27	1.32	1.41	1.38	1.40

Quarterly data

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP (%yoy)	2.7	1.7	1.8	1.8	2.1	2.1
CPI, average (%yoy)	-0.3	-0.4	-0.6	-0.7	-0.8	-0.9
10Y government bond yield, quarterly average (%)	2.13	2.45	2.67	2.52	2.13	2.05
Exchange rate vs USD, end period	1.38	1.35	1.43	1.41	1.35	1.35

SOURCE : CEIC, CIMB Research

CARI

THAILAND

The Thai economy appears to be rebounding. After growing 2.8% in 2015, 1Q16 recorded 3.2% growth yoy and recorded 3.5% in 2Q16. However, the pace of economic recovery appears to be slower than initially expected following shrinking exports and weakening sentiment for private investment. The main growth engines are likely to be tourism and public investment and GDP is projected to expand by 3.3% in 2016. The main challenges are delayed public investment, which could lower investor confidence, and weakening global demand, which may deter exports and tourism.

The Thai economy's two tales

- The Thai economy is expected to remain stagnant in the third quarter following weakening local demand as well as shrinking exports while the main growth engines are tourism and public investment.
- Private investors are likely to delay their investment plans while waiting for signs of political stability and public investment in mega-projects.
- Despite falling into a stagnant economy, there are some parts of the economy that are growing. Indeed, the Thai economy is seen as being divided into two parts. The first group is made up of SMEs and lower-income households, which are likely to be affected by the current economic slowdown, low farm prices, the drought, high household debt and low confidence .However, the second group, comprising corporates and higher-income households, is unlikely to be affected as much by the current economic situation. However, given the overall economic picture, their confidence remains low.

Slow recovery despite passing of referendum

- Even though the Thai people voted via referendum to pass the draft constitution, which is likely to pave the way to political certainty and an election next year, this does not necessarily mean that confidence will return soon.
- The economy has various structural issues. Household debt-to-GDP was close to 72% at the end of 2015 and this is one of the reasons that, despite policy rates being reduced to 1.5%, credit growth remained sluggish; in 1H16, it was 3.3% yoy.
- Private investment remains poor – it grew 0.1% yoy in 2Q16, down from an already weak rate of 2.1% in 1Q. Private construction was down 2.1%. Recovery is a long way away as it will require sustained demand, followed by a rise in manufacturing and then pressure on capacity utilisation.
- On the brighter side, tourism remains healthy, although the break-neck pace of 2015 is unlikely to be maintained. In 2Q16, arrivals rose 8.2%, largely due to a slowdown in Chinese tourists, which could have been expected as their arrivals increased 71% in 2015. Tourism is now 13% of the economy and likely to play an increasingly large role.

Global demand deters growth outlook

- The robust tourism numbers have helped add to a current account surplus that is already being boosted by a rising trade balance. Exports declined by 5.6% in 2015 but imports fell by 11.3%, resulting in a current account surplus of 8% of GDP. This large surplus is expected to persist even though the outlook for exports is not constructive. We expect exports to shrink 3.5% in 2016. However, with weak domestic demand, imports are also likely to fall and the current account is expected to be about 10% of GDP in surplus.

Rates to be held despite slow recovery

- One could make a strong case for reducing rates: Growth is poor, inflation was negative in 2015, private consumption remains weak amid high household debt, farm incomes have been falling on the back of weakening confidence and widespread drought. This opens up the debate about rate cuts in Thailand.
- However, we think the BOT may not move just yet. The MPC rate is expected to remain unchanged for the following reasons.
    - To maintain policy space, i.e. to hold back rate cuts to use in a time of crisis, such as a sharper decline in exports caused by economic slowdown in the EU created by Brexit or in the event of a hard landing in China. At 1.5%, the central bank already has less space than, say, in Indonesia or Malaysia.
    - With a high current account surplus, Thailand is not interested in large speculative capital inflows, which may happen if the markets believe rates are about to decline.
    - And perhaps the most important reason: It is not clear how effective lower rates will be given that credit expansion remains poor. Right now the onus for growth is on fiscal policy and that is starting to have some effect. Once there is traction, monetary policy could play a more constructive role.

THB to weaken

- The THB has been stronger than expected despite weakening in trade-weighted terms over the past few months after strengthening in 2015. To some extent, this has been driven by portfolio inflows given the expectations of a delayed rate hike by the Fed. However, the main reason for the THB's relative strength is the large current account surplus.
- We think the THB should weaken from here on, in line with regional currencies. The policy mix is now correct – steady monetary and looser fiscal policy. The current account surplus should decline modestly and, as investors search for yield, flows to Thailand should slow. We expect the THB to end the year close to 36 to the USD.

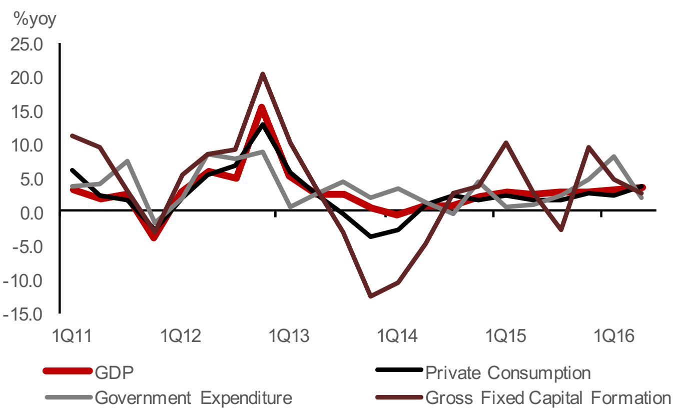
Risks and Other Issues

- A political roadmap and a clear signal for elections in 2017 are the major signs that investors are waiting for before resuming their real investment in Thailand. As such, FDI is likely to remain low for now.
- The structural challenges are significant – high household debt in a sluggish economy, an impaired credit transmission mechanism, exports that have fallen out of regional supply chains and excess capacity in manufacturing. There is a need

for strong demand stimulus or stagnation could persist.

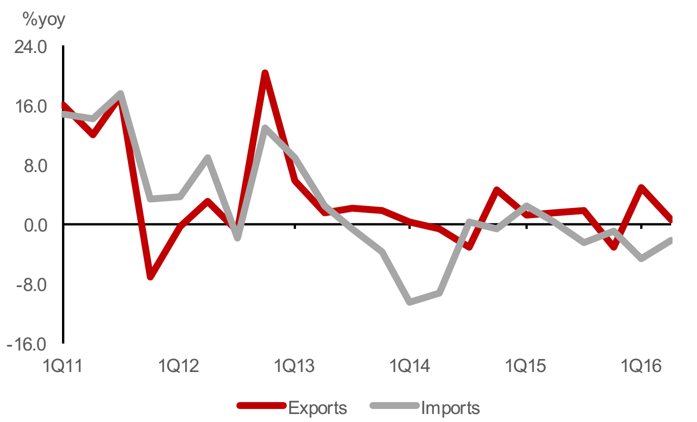
Weakening domestic demand and shrinking exports are weighing down growth prospects. Engines of growth are tourism and public investment.

Figure 1: GDP and components growth



Source: CEIC

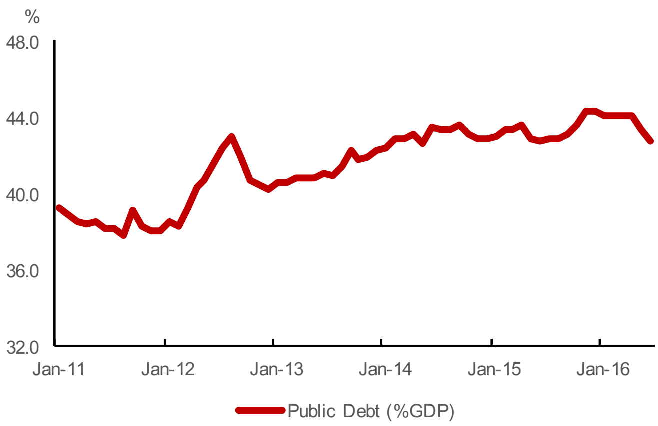
Figure 2: GDP - Trade components



Source: CEIC

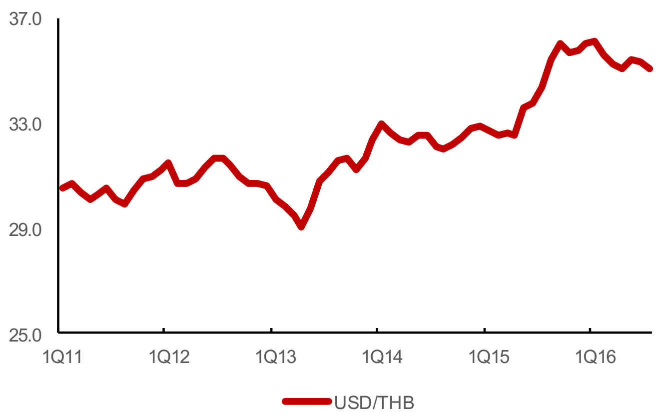
Stronger than expected currency driven by a large current account surplus - but likely to weaken

Figure 3: Public debt (% GDP)



Source: CEIC

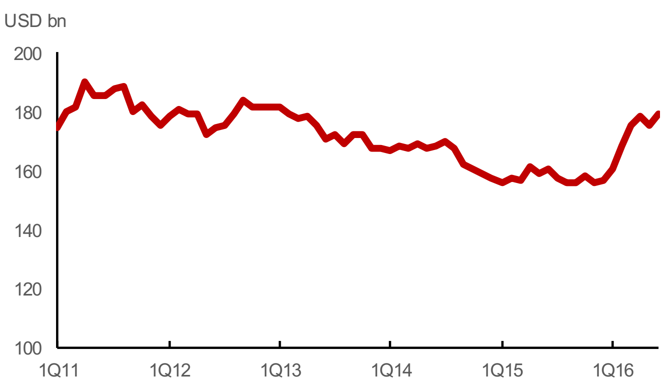
Figure 4: Exchange rate movement



Source: CEIC

Rising levels of reserves to provide buffer to the economy

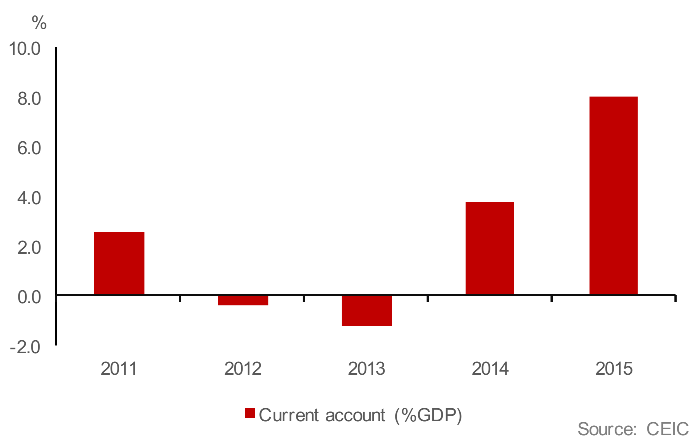
Figure 5: Official reserves



Source: CEIC

Large current account surplus from robust tourism and a rising trade balance

Figure 6: Current account surplus (%GDP)



Source: CEIC

CARI

Annual Data

	2015
Nominal GDP (USD bn)	395.3
GDP per capita (USD)	6,013.5
Population (mn)	65.7

	2012	2013	2014	2015	2016F	2017F
Real GDP growth (%yoy)	7.2	2.7	0.8	2.8	3.3	3.5
Real consumption growth (%yoy)	6.7	1.4	0.9	2.1	2.7	2.7
- Public consumption (%yoy)	6.8	2.5	2.1	2.2	3.5	3.0
- Private consumption (%yoy)	6.7	1.0	0.6	2.1	2.5	2.6
Real gross fixed capital formation growth (%yoy)	10.7	-1.0	-2.4	4.7	3.3	2.9
Export growth, balance of payments (%yoy)	3.0	-0.1	-0.3	-5.6	-3.5	-1.9
Import growth, balance of payments (%yoy)	8.4	-0.1	-8.5	-11.3	-9.0	-5.5
Trade balance (USD bn)	6.7	7.1	24.6	34.8	36.0	31.0
- % of GDP (%)	1.7	1.7	6.1	8.8	9.8	8.1
Current account balance (USD bn)	-1.5	-5.2	15.4	32.0	38.0	33.0
- % of GDP (%)	-0.4	-1.2	3.8	8.1	10.0	8.3
Reserves, end of period (USD bn)	181.6	167.2	157.1	156.5	175.0	180.0
- foreign reserves to months of imports	7.3	6.6	6.7	7.4	13.0	12.7
- short term debt (% of total reserves)	32.1	37.0	36.0	-	-	-
Fiscal balance (% GDP)	-2.3	-1.8	-2.3	-1.7	-2.4	-2.7
Manufacturing Production Index growth, average (%yoy)	10.6	2.3	-5.2	0.3	0.4	2.1
Narrow money (M1) growth, average (%yoy)	8.0	4.9	4.8	3.5	-	-
Broad money (M2) growth, average (%yoy)	11.8	8.8	5.1	5.6	-	-
Domestic credit to private sector (% GDP)	136.3	142.5	147.0	151.3	-	-
Consumer Price Index (CPI), end of period (%yoy)	3.6	1.7	0.6	-0.9	1.0	1.5
Consumer Price Index (CPI), average (%yoy)	3.0	2.2	1.9	-0.9	-	-
Wholesale Price Index (%yoy)	1.0	0.3	0.1	-4.1	-	-
Policy rates, end of period (%)	2.75	2.25	2.00	1.50	1.50	1.25
10Y government bond yield, yearly average (%)	3.53	3.80	3.57	2.73	2.12	2.20
Exchange rate vs. USD, end period	30.63	32.81	32.96	36.09	36.00	37.00

Quarterly data

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP (%yoy)	3.0	2.7	2.9	2.8	3.2	3.5
CPI, average (%yoy)	-0.5	-1.1	-1.1	-0.9	-0.5	0.3
Policy rates, end of period (%)	1.75	1.50	1.50	1.50	1.50	1.50
10Y government bond yield, quarterly average (%)	2.66	2.80	2.83	2.65	2.19	1.94
Exchange rate vs. USD, end period	32.56	33.78	36.37	36.09	35.24	35.18

SOURCE: CEIC, CIMB Research, IMF, Bank of Thailand

VIETNAM

Cyclically, Vietnam's economy grew 5.5% yoy in 1H16, vs 6.3% yoy in 1H15 as temporary factors constrained growth. The El Nino weather phenomenon was responsible for the worst drought in years, affecting agricultural output and incomes. With this effect now subsiding, we expect constructive medium-term influences – credit growth, infrastructure investment – to be more dominant and GDP to grow by 6.5% for the year. Weak commodity prices are still a drag on the economy but to some extent, that is being mitigated by robust capital inflows. Both policy rates and the value of the currency have been stable and are likely to stay that way.

Strength behind the headline GDP numbers

- Vietnam's 1H16 GDP growth was held back by an estimated 10% fall in oil production, and by a 1% yoy fall in agriculture output. However, oil production is now recovering (production costs are US$30/barrel), and the El Nino weather phenomenon, which caused Vietnam's worst drought in decades, has now subsided. The prospects for the four primary drivers of GDP growth this year (and next year) all look highly favourable: consumption, new housing starts, infrastructure development, and FDI-funded manufacturing output growth.
- In 1H, growth was also constrained by banks' reluctance to extend loans, due to the State Bank of Vietnam's (SBV) prior intention to clamp down on mortgage lending, following a 25% surge in outstanding mortgages last year. However, the SBV has backed away from proposed macro-prudential regulations that would have restricted credit as Vietnam's real estate market has not overheated.
- We expect 18% system-wide credit growth in 2016, which should drive a circa 25% increase in real estate investment this year; the high multiplier effect of that investment will also support growth.
- Looking behind the headline 1H GDP numbers, consumption (approximately 60% of GDP) grew by 8% in real terms, manufacturing grew 10%, and construction grew 9%, its fastest pace in five years – driven by vibrant housing starts, and by a surge in infrastructure construction from 2-3% of GDP four years ago, to 5-6% of GDP at present.
- Vietnam has one of the highest levels of consumer confidence in the world, so we expect a 9% annual consumption growth going forward. We also expect manufacturing output to accelerate slightly in the second half of this year due to an acceleration in FDI inflows, which fund a quarter of the economy's overall investment

Export growth deceleration driven by high base effects, weak commodity prices

- Vietnam's exports (85% of GDP) grew by 6% in 1H16, versus an 8% growth in 2015, and 14% in 2014. The growth in exports to the US (approximately 25% of Vietnam's overall exports), slowed from 17% in 2015 to 15% in 1H16. Nevertheless, this is markedly better than other ASEAN countries, largely because of the nature of Vietnam's exports to the US that cater more to the consumer than to industry. The former has been much more robust than the latter; US household consumption grew by 4.2% in 2Q16, while corporate spending on equipment, structures and intellectual property fell by 2.2% in the same period, both on an annualised basis.

- Technology-related items, such as cell phones, electronics, etc. now comprise 30% of Vietnam's overall exports, but the high base effect, following years of rapid growth, has made it more difficult for the country to achieve comparable rates of growth (high-tech exports grew 30% in 2015, but cell phone exports grew 18% in 1H16).

Loose monetary conditions, prompted by NPL clean-up

- Vietnam's consumer price inflation (CPI) rate is currently 2.4%, so policy interest rates are stable at 6.5%. But monetary conditions are loose, as evidenced by the 20% M2 growth at end-1H16. The central bank is maintaining a healthy flow of liquidity to the market in order to help the Vietnam Asset Management Company (VAMC) dispose of the US$10bn NPLs the nation's commercial banks have transferred to the VMC over 2014-15 (system-wide NPLs peaked at 17% in 2012, and currently sit at about 3%).
- As a result of the moderately high (4%) real interest rates, the Vietnam dong has only depreciated by 1% this year. The currency has also been supported by FDI and persistently high remittances by overseas Vietnamese. The current account currently stands at a surplus of 1% of GDP and we expect a 3% of GDP BoP surplus in 2016. The SBV's new "crawling peg" currency management regime is also providing stability

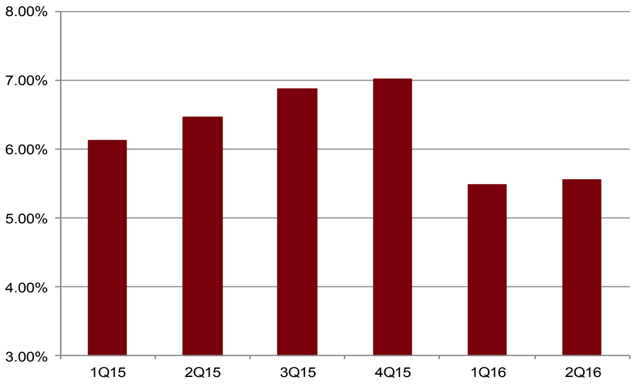
Risks and Other Issues

- Vietnam's government has been running budget deficits of about 5-6% of GDP for years, so the government debt-to-GDP ratio hit 62% in 2015. However, the country is not at immediate risk of suffering a debt crisis, according to the IMF, so the various credit ratings agencies all assign the country's sovereign debt a "BB-" rating, with a stable outlook (note that external debt/GDP has hovered around 40% of GDP for years). That said, Vietnam's National Assembly has imposed a 65% of GDP ceiling on government debt, which is likely to be approached this year.
- In our opinion, the government's budget deficit is a relatively straightforward problem to resolve, and can be fixed by a resumption of the government's stalled privatisation programme, and by the introduction of more private sector financing of infrastructure development via PPP and other similar schemes. Spending on infrastructure in Vietnam has surged from 2-3% of GDP four years ago, to 5-6% of GDP currently (which is, coincidentally, about the same magnitude as the government's budget deficit), and we estimate that Vietnam has assets amounting to about 20% of GDP that it can readily privatise (including telcos, national oil company, various consumer companies, mines, etc.).

CARI

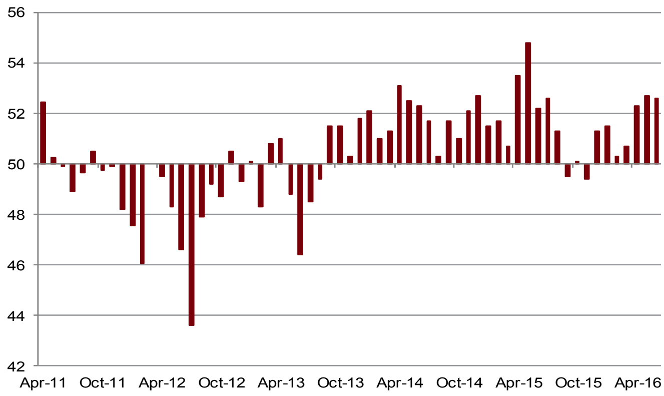
H1 GDP growth was held back by weak oil production and Vietnam's worst drought in decades…

Figure 1: Quarterly GDP Growth



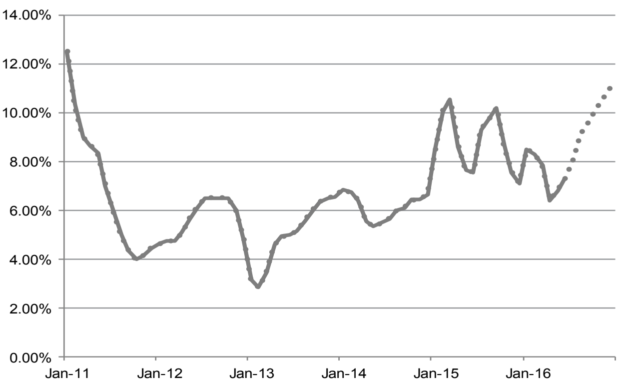
…but manufacturing output is growing 10%/annually (and electricity demand is growing 12%/annually).

Figure 2: Vietnam PMI



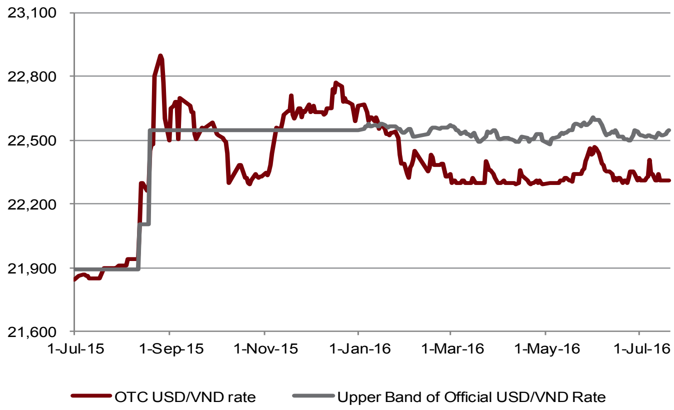
Vietnam's consumers are also helping to drive growth; real retail sales grew 8% yoy in H1

Figure 3: Real retail sales growth, 3month m/a, and forecast



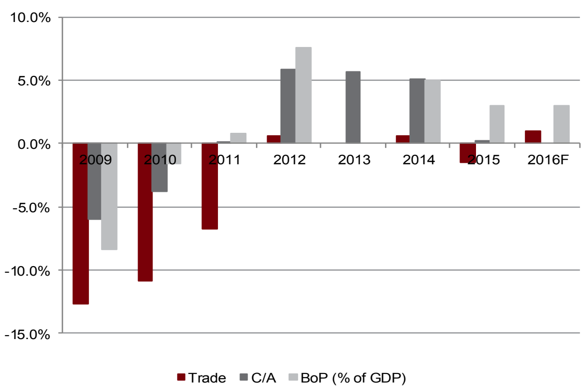
Exports grew 6% yoy in H1, so the country ran a small trade surplus. This, coupled with 6.5%/remittances, and 7%/GDP FDI inflows is supporting the C/A and BoP

Figure 4: VND Official vs unofficial Exchange Rate



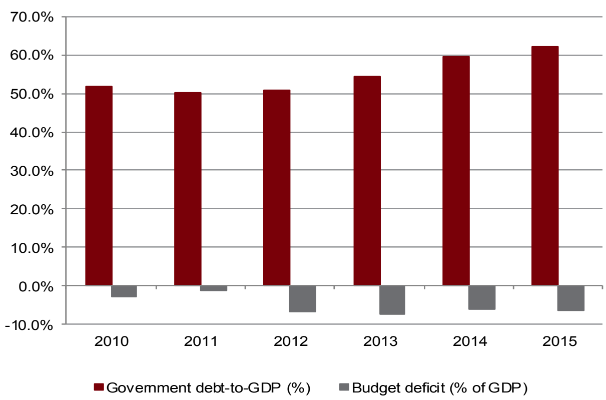
A balanced flow of money in-and-out of the country helped stabilize the VND exchange rate – as has the SBV's new currency management regime.

Figure 5: Trade, C/A Balances (% of GDP) and BoP (% of GDP)



The only real risk we see for Vietnam's economy is a rising government debt-to-GDP ratio, driven by an infrastructure spending boom and low oil price

Figure 6: Government Debt-to-GDP and Budget Deficit



Annual Data

	2015
Nominal GDP (USD bn)	193.4
GDP per capita (USD)	2,109
Population (th)	91,713

	2012	2013	2014	2015	2016F	2017F
Real GDP growth (%yoy)	5.2	5.4	6.0	6.7	6.5	6.5
Real consumption growth (%yoy)	5.1	5.4	6.2	9.1	7.0	9.0
- Public consumption (%yoy)	7.2	7.3	7.0	7.0	7.0	6.0
- Private consumption (%yoy)	4.9	5.2	6.1	9.3	7.0	10.0
Real gross capital formation (%yoy)	2.4	5.4	8.9	9.0	9.0	9.0
Real export growth (%yoy)	15.7	17.4	11.6	12.6	7.0	9.0
Real import growth (%yoy)	9.1	17.3	12.8	18.1	2.0	5.0
Nominal export growth (%yoy)	18.2	15.4	13.7	7.9	6.0	9.0
Nominal import growth (%yoy)	6.6	16.1	12.0	12.0	2.0	5.0
Trade balance (USD bn)	0.7	0.1	2.4	-3.6	-	-
- % of GDP (%)	0.5	0.0	1.3	-1.8	3.0	-2.0
Current account balance (USD bn)	-	-	9.4	0.9	-	-
- % of GDP (%)	-	-	5.0	0.5	0.5	-1.0
Reserves, end of period (USD bn)	26.1	26.3	34.6	28.6	-	-
- foreign reserves to months of imports	2.5	2.1	2.5	1.9	2.9	2.7
- short term debt (% of total reserves)	38.7	47.1	38.2	-	-	-
Fiscal balance (% GDP)	5.6	3.2	3.7	4.9	-8.0	-7.0
Retail sales growth (%yoy)	21.8	12.3	11.6	10.9	7.0	9.0
Industrial Production Index growth, average (%yoy)	-	7.7	7.5	11.7	9.0	11.0
Narrow money (M1) growth, average (%yoy)	15.2	22.0	24.5	19.7	20.0	20.0
Broad money (M2) growth, average (%yoy)	18.4	25.4	19.6	16.8	20.0	17.0
Domestic credit to private sector (% GDP)	94.8	96.8	100.3	111.9	18.0	15.0
Consumer Price Index (CPI), end of period (%yoy)	6.8	6.0	1.8	0.6	4.0	4.0
Consumer Price Index (CPI), average (%yoy)	9.1	6.6	4.1	0.6	2.0	4.0
Policy rates (end period)	9.0	7.0	6.5	6.5	6.5	6.5
Exchange rate vs. USD, end period	20,828	21,036	21,246	21,890	22,100	22,500

Quarterly data

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP (%yoy)	6.1	6.3	6.4	6.7	5.6	5.6
CPI, average (%yoy)	0.7	1.0	0.5	0.3	1.7	1.9
Exchange rate vs. USD, end period	21,458	21,673	21,890	21,890	21,857	21,873

SOURCE: CEIC, CIMB Research