QUARTERLY GLOBAL OUTLOOK

First Quarter 2017

ASEAN FOCUS
The Virtuous Cycle Between Infrastructure & Economic Growth

FX STRATEGY
Top FX Themes And Trades For 2017

CHINA FOCUS
Liquidity To Stay Tight In "New Normal"

RATES STRATEGY
Singapore And US Rates Outlook For 2017

CONTENT

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Information as of 09 December 2016

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EXECUTIVE SUMMARY

A Difficult Year Behind Us But More Challenges Ahead In 2017?

Looking back into the 12 months past, we posed this question: What were the three key events that defined 2016? Everyone will probably agree on two events: UK's Brexit vote in June and Mr Donald Trump's unexpected victory in the November 2016 US Presidential election.

But the third event is probably harder to pinpoint and agree on. We would like to think the concerns about a China-meltdown episode in late 2015/early 2016 seem a distant memory, but we see the risk that such worries may resurface in 2017, especially with attention shifting (again) back to debt and leverage. Specifically, there are concerns of the reliance on wholesale funding and proliferation of wealth management products (WMP), especially for the smaller financial institutions. A deceleration in headline economic growth in China and tighter liquidity/deleveraging could feed on each other, adding pressures on these financial institutions. While risks of high leverage are real, one should not underestimate the authorities' determination (and ability) to keep the system in balance, however fragile it may be to external observers.

Or what about crude oil prices? Crude price plunged below US$27/barrel, a 13-year low in early 2016 but has almost doubled, to above US$50/barrel following OPEC's decision in late November to cut crude output, joined by non-OPEC producers, notably Russia (as of 30 Nov 2016).

Perhaps it is wrong to call 2016 difficult, it may be more accurate to describe the year as unpredictable. Could we have foreseen the consequences of global trade, immigration, widening income wealth inequality leading to a rise of populism, rejection of establishment and what now looks like the embracement of inward-looking policies?

And that wave of change is certainly not stopping at UK, US and Italy. Indeed, **as we peer into 2017, geopolitical issues from Europe stare right back at us**. Major Eurozone countries will be holding general elections in 2017 including Holland, France and Germany. Italy is likely to see early elections sometime in 2017 following the fall of PM Renzi after a disastrous referendum (not unlike a certain former UK Prime minister). Some of these elections could well usher in the political leadership of the far right and transform the European political landscape to one that is inward looking. In the extreme case, it could put the European Union and the Euro at risk. That is not our base case scenario but it is a risk that can no longer be ruled out after what happened in 2016. And oops, did we mention about **the UK and the timing for the Brits to trigger Article 50 sometime in 2017** to begin the 2-year countdown to leave EU?

Beyond the uncertainties about European politics, the certainty in 2017 is that the **US will usher in an era of President Trump**. Trump is seen as a macro-shift and could very well be a positive stimulus for the US to finally bring the biggest economy in the world to above potential growth and above 2% inflation. To be clear, the US economy is not in crisis mode or even under the threat of recession. It is just stuck in a period of lackluster growth, absent productivity and seemingly no solution out of it for a long time, at least until now. That said, the Trump fiscal story may turn out to be over-promising, and end up with only short-term benefits and under-delivering on more material, permanent improvements.

But Trump also presents risks to the world, something not seen in a US president as far as anyone can remember. He had campaigned on a populist platform of anti-establishment, anti-free trade, anti-globalization, anti-immigration, imposition of trade tariffs and tax cuts, which is seen as protectionist and detrimental to global trade. His lack of foreign policy experience is also a worry on how US foreign policy will be shaped in the coming years and how that will impact the world geopolitically.

What **we are looking for is a "soft" or moderate Trump scenario** where he carries out some of his pledges, mostly non-radical ones. We will not know for certain until after he assumes office on 20 Jan 2017. And if it turns out to be a "hard" Trump scenario where he carries out most or all of his campaign pledges (such as threats to use taxes as "retribution" against US companies that move jobs overseas which will be seen as trade protectionism, punitive trade tariffs, etc), then that will carry far more risk to the world. We can only hope that Trump will be the President the US needs, not the one it deserves.

And where does all this leave the Federal Reserve? Expansionary US fiscal policies would reflate the US economy, unleashing stronger growth accompanied by higher inflation. These considerations will be sufficient for the Fed to accelerate their rate normalization path (even though nothing concrete has been put forth by Trump and his team yet). **A hike in December (2016) looks like a done deal but more importantly markets are pricing in a faster and steeper Fed rate hike trajectory in 2017.** While the Fed may come under increasing political pressure next year, we believe they will maintain their independence in 2017. The question of independence will be more relevant in 2018 when the terms of both FOMC chair and vice chair expire and the composition of the Fed Reserve could look very different by mid-2018.

What of Asian central banks' monetary policy in 2017? We initially had the view that to counter the impact of weaker growth as a result of increased trade friction with the US, it is highly likely that Asian central banks would adopt an easy policy posture, especially for those with head room to lower rates. But the flipside of further monetary easing from Asian central banks is that it will worsen the rate differential between the Fed Reserve and Asian central banks and thus, add to capital outflows pressure which in turn will weaken the Asian currencies.

A potential and unintended consequence of significantly weaker Asian currencies is these economies will face the higher risk that the Trump administration may label them as currency manipulators in the next US Treasury's Semiannual Report on International Economic and Exchange Rate Policies to the US Congress in April 2017. Thus, **Asian central banks' monetary policy outlook is challenging in 2017 to say the least and the most probable outcome is for many of the central banks to keep rates low for longer, or to stay on hold for now.**

One of the possible surprises for 2017 is the resurgence of inflation which had been quiescent and benign amidst a lackluster global growth environment in the last few years. The wild upswings in commodity prices starting in late 2000's with the Thomson Reuters/Core Commodity CRB Commodity Index peaking at 462.74 on 30 Jun 2008. Subsequently, after several lower spikes, the index hit a low of 155.01 on 11 Feb 2016 (due largely to the oil price crash) and has since stabilized below the 200-mark (as of 5 Dec 2016). While it is too early to conclude that commodity prices will rebound on a sustained basis from here on, the potential US reflationary fiscal policies (Trumpflation) could provide that boost. **In the event of an unexpected commodity-led inflation spike in 2017**, that presents a new dilemma for Asian central banks and possibly shifts them to a tightening bias instead. Again, this is not our base case but we highlight this as a potential risk in 2017.

Even as things look daunting in the coming year 2017, we like to offer an area of hope for tomorrow, **noting one key growth driver: infrastructure investment.** The US economy under Trump could see a big increase in US infrastructure spending which could unleash growth and employment, fuel demand for imports and related services, and inflation, higher US interest rates and a stronger US dollar. Trump's infrastructure investment promises may not pan out to its full glory but at least the hope is there. Closer to Asia, China's infrastructural investment plans that have been announced back in May 2016 could provide some support on domestic growth even though China's spending on infrastructure is unlikely to have as large an impact as the RMB4tn fiscal stimulus in 2008/09. More importantly for ASEAN, China will seek to extend its influence to the region and one of the channels will be through infrastructure investments and under the "One Belt One Road" initiative. Various public and private agencies estimated that Asia-Pacific will need trillions of dollars of infrastructure investments annually. That should keep the Asian and regional economies humming along in the years ahead provided the various agencies can get their act together. In this report, we present our key report on infrastructure spending developments in Asia and the outlook.

With that, we wish all our readers happy holidays and a good 2017 ahead!

ASEAN IN FOCUS: The Virtuous Cycle Between Infrastructure Investment & Economic Growth

Our analysis shows that the infrastructure development story in Asia will be the key spotlight in the longer term, where the various Asian countries are embarking on large scale infrastructure programs to boost long-term competitiveness and drive sustainable growth. As more countries in Asia move to fill up the gap in manufacturing (as production moves out from China), the urban population will balloon in size as more rural residents migrate into cities in search of better-paying, production jobs. The middle income class will grow quickly, and translating into a surge in consumption demand.

To cater for such massive demand in the future, Asia is doubling-up its efforts to reform their domestic economies, boost productivity, attracting investments and driving up economic growth. Within Asia, much of the growth will be coming from developing ASEAN economies such as Indonesia, Vietnam, Malaysia, Thailand, the Philippines, Myanmar, Cambodia, and Laos. Current infrastructure stock is much lower than their developed counterparts, with the Asian Development Bank (ADB) predicting that more than US$8tn worth of infrastructure investment will be required in Asia between 2010 and 2020, and over US$800bn of that in ASEAN.

CHINA IN FOCUS: Liquidity To Stay Tight In "New Normal"

Against a background of an already leveraged system (total debt to GDP more than 240% of GDP at end-2015, of which corporate debt is at 165% of GDP) and a built up of depreciation expectations on the domestic currency (as mentioned above), PBoC has responded with tightening of liquidity, instead of outright intervention to limit the depletion in foreign exchange reserves. This is reflected in the rise in short term market interest rates. And as China continues to deleverage and to prevent asset price bubbles, it is also sending a signal to financial institutions that days of "easy money" may be over in this new reality. In addition, the shift in expectations in favour of more aggressive US Fed policy actions ahead also means that Chinese interest rates would continue to face upward bias.

SINGAPORE SMEs: Emerging Signs Of Stress

SMEs are more vulnerable to the deterioration in business conditions given limited financial resources and weaker access to financing. Business sentiment has plunged to 7-year lows, while sales and profitability likely to stay under pressure as demand softens and business costs remain elevated amid ongoing restructuring. We note that financial stress among SMEs is spreading, reflected in the spike in firm closures, increasing corporate bankruptcies, deteriorating payment performance and rising NPLs. Our analysis of SGX-listed SMEs reveals that the number of companies in the red has overtaken 2008 GFC levels, with the largest percentage of losses in the Shipping, O&G, Materials, Construction and Consumer Discretionary sectors.

Debt servicing ability has seen a marked deterioration, and the share of firms with interest cover of >2x has fallen from 42% in 2011 to just 29% in 2015. While not immune to macro headwinds, the Real Estate, Healthcare, Financials & Consumer Staples sectors have held up better. The Singapore Government has made it a "clear priority" to help SMEs but most are still not heeding the call to innovate, enhance productivity and internationalise.

FX STRATEGY: Top FX Themes And Trades For 2017

Trump Presidency and more importantly his policies represent a **"macro shift"**, resulting in favourable conditions for **higher rates and stronger USD**. Within G10, the dollar index (DXY) is like to be supported at the key 100 level and touch a **new cycle high of 105.60** by end-Q3 2017. In Asia, we expect **USD/Asian FX to be higher in an orderly, gradual manner** and the rate of depreciation of Asian currencies would mostly **not exceed 5%** in 2017 under a **"soft" Trump** scenario. Putting it together, our top trades for 2017 include **long USD/JPY ("More Fiscal, Less Monetary"), long EUR/GBP ("Brexit to dominate over EU risks in Q1") and short SGD/IDR ("Regional EM relative value").**

RATES STRATEGY: Singapore And US Rates Outlook For 2017

Broadly speaking, our rates view has shifted from a case of the US policy environment largely stuck in a prolonged state of being wholly reliant on easy monetary conditions towards one that sees fiscal expansion taking over the reins. Prospect for FED rate normalization pace to pick up will improve through 2017. We see inflation expectations and term premium repricing trends which has been in effect since the middle of 2016 to continue to be sustainable going into 2017 and could even become accelerated when the new Trump administration takes over. SG rates can be expected to follow their US counterparts higher in terms of directional impulse, but a nativist US trade stance and SG domestic factors such as lackluster growth and benign bond supply are conducive for SGS to outperform UST on a relative basis.

Global FX

EUR/USD: We had adjusted our EUR/USD forecasts lower into 2017 to reflect the likelihood of additional ECB easing measures, as well as political event risks in the Eurozone. This stands against the Fed, set to raise interest rates. We thus look for a EUR/USD target of 1.04 for end-1Q17 and expect a continued decline towards 1.02 by end-2017. We are cautious about being overly bearish on the EUR/USD at this juncture, although it would be fair to say that volatility will persist and there are downside risks to our forecasts, especially if inflation does not pick up sufficiently and with Draghi making it clear that the QE programme is 'in effect open-ended'.

GBP/USD: The resilience in the GBP has been notable. In fact, since the flash crash from early October, GBP/USD has seen relative out-performance. Risks remain elevated though, as we look to uncertainty surrounding the Brexit process. Our call for a broadly weaker GBP is also on the back of a deteriorating macro backdrop. We are looking for GBP/USD to trade lower around 1.20 by end-1Q17 and 1.16 by end-2017.

AUD/USD: We think the outlook for AUD/USD remains clouded especially given the concerns surrounding the Australian economy. Furthermore, challenges remain for the global economy, and there is a risk that concerns over China could lift. This could result in further volatility in currency markets and the Australian dollar. On balance, we expect the AUD/USD to trade lower into 2017 – mid-2017 target of 0.730, with risks of overshooting lower.

NZD/USD: Further NZD depreciation is likely, and this is largely due to our view that the US dollar will be broadly stronger. We expect a 25bps Fed tightening in December to support the USD and a further increase in US rates to underpin broad gains well into 2017. That said, we do not see excessive weakness in the NZD. The case for further easing should remain low given the resilient domestic growth backdrop and stable global prices for New Zealand export commodities. We thus see NZD/USD hovering around the 0.68 region by end-1Q17.

USD/JPY: We initially expected the JPY to weaken due to expectations of Fed normalizing rates rather than the effect of BOJ easing measures. But the surprise election of US President Donald Trump has driven the US dollar broadly stronger along with higher inflation and interest rates expectations while along the way decimating safe haven demand and the USD/JPY is now trading well above the 110-mark (as of 7 Dec 2016). The yen weakness may well persist into 2017 and even accelerate early 1Q ahead of the US Presidential inauguration on 20 Jan 2017 as the Trump-effect may not dissipate anytime soon.

Asian FX

USD/CNY: YTD in 2016, the RMB has declined simultaneously against the USD and on a trade weighted basis. This is contrary to official stance of "no basis for depreciation" and "exchange rate to remain stable". This is likely to be PBoC's response to capital outflows and a stronger dollar, by slowing the depletion of FX reserve and regulating domestic liquidity, at the expense of a weaker RMB. Going into 2017, the USD strength is likely to remain supported with anticipation of US President-Elect Trump's fiscal stimulus and tax cut plans and a more hawkish US Fed. We expect the USD to strengthen by about 5% against most Asian currencies. As such, we still see further upside pressure on the USD/CNY, toward 7.00 by mid-2017 and at 7.16 by end-2017.

USD/SGD: The weak economic growth story will simply mean that the MAS will continue to keep to their current monetary stance of a "zero appreciation of the SGD NEER", possibly for the whole of 2017. Higher inflation expectations (a common theme globally, it seems now) will mean that the central bank's hands are tied when it comes to any further easing (via a shift in the midpoint). Factoring the inaction of the MAS in the upcoming meeting and our expectations of a single 25bps rate hike in the U.S. in December this year and three more 25bps rate hike in 2017, we maintain our forecast that the USD/SGD will trend towards the 1.48/USD level by end 2017.

USD/IDR: Before end-2016, IDR will find some support from delayed tax amnesty repatriations with BI expecting IDR 100tn (out of IDR 143 tn declared so far) to be sent back in Dec. Going into 2017, USD/IDR will be underpinned by US yields. Having peaked at IDR685 tn (US$52 bn) or 39.2% of total outstanding in September, foreign holdings of IDR-denominated government bonds had dropped by US$2bn in the last two months. Foreign holdings remain substantial at 37.0% at the end of November and any risks of capital flight from Asia will have a larger impact on the Indonesian assets and currency. The global uncertainties and expected slower tax amnesty flows in 1Q17 will likely see USD/IDR gravitating towards 13,800 by end-1Q17 and 13,900 by end-2Q17. Politics could also become more intense approaching Jakarta Governor's election on 15 February 2017, increasing the upside risk for the currency pair.

USD/KRW: Lesser domestic political tension will alleviate some pressure from the strong USD but weaker growth and prospect of US anti-trade measures will still keep USD/KRW bias to upside. We expect USD/KRW to trade 1,190 end-1Q17.

USD/MYR: Post US elections, USD/MYR gapped up above the stable 4.00-4.20 range to break above this year's high of 4.4250.The local currency has been under more pressure compared to its counterparts due to the higher risk premium attached from high foreign holdings of domestic debt securities, lower foreign reserves relative to Thailand and Indonesia, and BNM's intensified actions to curb speculative offshore NDF activity. The latest foreign exchange measures announced by BNM should help to buffer reserves and stablise the Ringgit. We expect USD/MYR at 4.35 by mid-2017.

USD/THB: Capital flow and exchange rate volatility would likely increase in the period ahead mainly due to external uncertainties, particularly the fragile global economic recovery and uncertainties in the economic and monetary policy directions of major advanced economies. We therefore view broad THB depreciation against USD going forward. Currently, we expect USD/THB at 37.0 at end of 2017.

USD/INR: In an unexpected move, the Reserve Bank of India (RBI) kept its key policy rate unchanged on 7 Dec. Market had expected a 25bps rate cut due to the short term negative impact on economic growth from the demonetization measures, as well as a more favourable inflationary condition. While still early to judge the overall impact of the demonetization, we expect 2 further rate cuts by the RBI in 1H 2017. Coupled with a more hawkish US Fed rate hike (we expect 3 times in 2017), we are likely to see the USD/INR trending towards higher grounds and end at 73.8/USD by end 2017.

USD/VND: The Vietnam's economy would still face more external uncertainties in the period ahead, particularly uncertainties in the direction of the US economic policies under the new administration and the fragile global economic recovery that might induce greater capital flow volatility. The SBV would likely depreciate the reference rate over the coming quarters to help support the economic expansion. For now, we expect VND to trade at 22,750 per USD at the end of next year.

USD/MMK: Despite improving investment climate and continued FDI inflows, the MMK is unlikely to buck the global trend of a stronger USD powered by higher US rate expectations and the Trump effect. Thus, while we keep our positive outlook for the domestic economy, we revised our outlook for the MMK to negative in 2017 and expect it now to be on a depreciation trend with the USD/MMK pair likely to hit 1,350 by mid-2017 and then weakening further to 1,400 by end-2017.

Global Interest Rates

Federal Reserve: The December 2016 FOMC rate hike looks like a done-deal and into 2017, we now expect a faster trajectory (3 hikes in 2017 instead of 2) and a higher terminal rate (3.5% by end-2019 instead of 3%), premised on the expectation that US President Trump's expansionary US fiscal policies would reflate the US economy, unleashing stronger growth accompanied by higher inflation. A Republican clean sweep of the Presidency & the Congress increases the possibility that a majority of incoming administration's proposals will eventually be enacted and this would be the catalyst for the Fed Reserve to follow through with their rate normalization objective earlier than previously thought. Fed Reserve's independence is likely to be maintained in 2017 but the composition of the Fed Reserve could look drastically different by mid-2018.

European Central Bank (ECB): The ECB will continue with its QE programme at the current monthly pace of EUR80bn until the end of March 2017. However, from April 2017, the monthly purchases would be reduced to EUR60bn until the end of December 2017. By choosing the longer duration, we think the ECB clearly wants to reassure market that it is determined to ensure the sustained transmission of its stimulus measures. It is also highly possible the ECB had taken the election calendar into consideration when making its latest decision, as the extension would take them past the crucial German election (expected sometime in the autumn) as well as elections in other European markets. But in short, the ECB has definitely bought itself more time, and from here, we look for it to remain status quo for some time.

Bank of England (BoE): What was surprising at the BoE's meeting in November was the change of course by the MPC, with members saying the BoE 'can respond in either direction'. Due to this shift, we have revised our BoE call. Before the November monetary policy decision, we had been looking for another 15bps rate cut by the end of this year. However, now that the BoE has shifted from an easing bias to a neutral bias, we no longer expect the BoE to cut the bank rate further.

Reserve Bank of Australia (RBA): It appears that new RBA Governor Philip Lowe has decided that any benefits to the economy from a further short term boost to housing and spending from even lower interest rates would not justify the potential risks around household debt that even lower interest rates might bring. Hence, we think the RBA sees fiscal policy as a more appropriate tool to boost demand and raise productivity than further leaning on household balance sheets. Whilst there is scope for lower rates into 2017, unless employment slows further and business conditions become weaker, we think the RBA prefers to be on hold for now.

Reserve Bank of New Zealand (RBNZ): At the November meeting, the RBNZ stated that monetary policy will continue to be accommodative, but it added that current projections and assumptions indicate that policy settings will see growth strong enough to have inflation settle near the middle of the target range. The near-term policy bias is, therefore, neutral, in contrast to the easing bias seen over the last few months. We had previously penciled in a further rate cut to 1.50% by early next year. We think the door is still open for further easing. But we now see the RBNZ on a wait-and-see approach.

Bank of Japan: We still expect the Bank of Japan (BOJ) to do more in 2016-2017. The BOJ surprised in Nov with its first operation to purchase an unlimited amount of JGB in a bid to re-assert the central bank's control of the yield curve further reinforced our expectations of more measures from the BOJ in the last 2016 MPM on 19/20 December. We expect the BOJ to push the Policy-Rate Balance rate to -0.2% (from -0.1%) by its Dec-2016 decision. With the 10-year yield expected to be targeted at around 0%, the BOJ would want to see a steeper yield curve. We also expect the BOJ to accelerate it asset purchase program and may even include buying of other instruments, either by end-2016 (19/20 Dec MPM) or in early half of 2017. We still believe the BOJ has not reached its limits of what it could do in terms of monetary easing, but the concern continues to be whether the BOJ's monetary policy is still effective.

Asian Interest Rates

People's Bank of China: Faced with depreciation expectations on the RMB against a strong USD dollar backdrop and the need to reduce domestic leverage/ debt, PBoC has very little headroom to ease policy. Domestic liquidity has also been tightened as a result with higher domestic interest rates, while capital outflows and decline in foreign exchange reserves further strained liquidity condition. We expect PBoC to maintain its current benchmark interest rates unchanged at 4.35% (1Y lending) and 1.50% (1Y depo), as well as the reserve requirement ratio (RRR) intact at 17.0% for now.

Monetary Authority of Singapore: Although economic growth was weak and is expected to continue to struggle in 2017, higher inflation expectations will mean that the central bank's hands are tied when it comes to any further easing (via a shift in the midpoint). On the other hand, our expectations of a single 25bps rate hike in the U.S. in December this year and three more 25bps rate hike in 2017 will mean an increasing trajectory for the USD/SGD towards the 1.48/USD level by end 2017, further pushing the 3m SIBOR to reach 1.35% by the end of 2017.

Bank Indonesia: BI has cut interest rates by 150 bps since start of 2016 on the back of softer growth outlook and benign inflation but more emphasis will likely be placed on financial market stability than on supporting growth in 2017 as capital outflow risks increase. Prospect of reflation in US triggered a sell-off in the global bond market, leading Indonesian government bond yields up by around 100bps. With market looking for a faster pace of rate normalisation in the US next year and greater uncertainties in the Eurozone, we believe BI will have limited opportunity to cut interest rates further. We expect BI to be on an extended pause in 1H17.

Bank of Korea: BOK cut its benchmark Base Rate once this year, by 25 bps to record low of 1.25% in June. We expect the central bank to remain on hold in 2017 as a result of global and domestic uncertainties, particularly as US Fed is likely to increase the pace of rate hikes. The household debt concern could ease as the government reverses its policy direction to tighten the property market but this is unlikely to drive BOK into further monetary easing unless growth tumbles.

Bank Negara Malaysia: BNM kept the policy rate unchanged at 3.00% in November with a neutral bias. We think BNM is likely to stay focused on managing growth risks next year. The pressure to ease rates are somewhat limited by the volatile financial markets and weaker Ringgit. Given the economy is on a stabilizing path, BNM can afford to stand pat on policy rates for now.

Bank of Thailand: The BoT kept the policy rate unchanged at 1.50% on 9 Nov 2016. The BoT will likely keep the policy rate on hold at 1.50% through 2017. Further monetary policy easing would provide limited support to economic growth as the economic slowdown is in part due to global and domestic structural problems.

Reserve Bank of India: The Reserve Bank of India (RBI) kept its key policy rate unchanged on 7 Dec, against market expectations of a 25bps rate cut due to the short term negative impact on economic growth from the demonetization measures, and more favourable inflationary condition. That said, we think that the RBI is waiting for more data (both Indian economic indicators and the realization of the 25 bps rate hike from the US Federal Reserve) to come in before deciding to adopt a more dovish approach. We expect 2 further rate cuts by the RBI in 1H 2017.

State Bank of Vietnam: The State Bank of Vietnam (SBV) is likely to remain in easing mode whilst economic growth is increasing to 6.3% next year. Headline inflation should rebound led by higher commodity prices, but remain manageable. We thus expect the SBV will likely maintain the policy rate at 6.50% in 2017, with the output gap not expected to close until 2018.

Real GDP Growth Trajectory									
y/y% change	2015	2016F	2017F	1Q16	2Q16	3Q16	4Q16F	1Q17F	2Q17F
China	6.9	6.7	6.6	6.7	6.7	6.7	6.7	6.5	6.5
Eurozone	2.0	1.6	1.1	1.7	1.7	1.7	1.4	1.3	1.4
Hong Kong	2.4	1.6	1.8	0.8	1.7	1.9	2.2	1.1	2.5
Indonesia	4.8	5.0	5.2	4.9	5.2	5.0	5.0	5.2	5.1
Japan	1.2	0.8	0.9	0.4	0.9	1.1	0.9	0.9	1.3
Malaysia	5.0	4.2	4.5	4.2	4.0	4.3	4.3	4.3	4.5
Philippines	6.3	6.8	6.4	6.8	7.0	7.1	6.4	6.5	6.3
India	7.2	7.1	7.2	8.0	7.1	7.3	6.0	6.6	6.8
Singapore	2.0	1.4	1.8	2.0	2.0	1.1	0.4	1.5	1.6
South Korea	2.6	2.8	2.6	2.8	3.3	2.6	2.5	2.5	2.4
Taiwan	0.7	1.3	2.0	-0.2	1.1	2.0	2.4	1.9	1.9
Thailand	2.8	3.2	3.3	3.2	3.5	3.2	3.1	3.3	3.2
US (q/q SAAR)	2.6	1.7	2.7	0.8	1.4	3.2	3.6	-1.0	4.4

Source: CEIC, UOB Global Economics & Markets Research

FX & INTEREST RATE OUTLOOK

FX OUTLOOK

	09 Dec 2016	1Q17F	2Q17F	3Q17F	4Q17F
USD/JPY	114.5	115	117	119	120
EUR/USD	1.060	1.04	1.03	1.02	1.02
GBP/USD	1.259	1.20	1.18	1.16	1.16
AUD/USD	0.746	0.73	0.73	0.72	0.72
NZD/USD	0.717	0.68	0.68	0.67	0.67
USD/SGD	1.424	1.45	1.46	1.47	1.48
USD/MYR	4.424	4.42	4.35	4.45	4.50
USD/IDR	13,329	13,800	13,900	14,100	14,300
USD/THB	35.65	36.3	36.5	36.8	37.0
USD/PHP	49.82	49.8	50.2	50.6	50.9
USD/INR	67.54	70.4	71.9	72.8	73.8
USD/TWD	31.84	32.5	32.9	33.3	33.7
USD/KRW	1,167	1,190	1,200	1,210	1,220
USD/HKD	7.76	7.80	7.80	7.80	7.80
USD/CNY	6.900	6.95	7.02	7.09	7.16
USD/MMK	1,330.5	1,325	1,350	1,375	1,400
USD/VND	22,583	22,700	22,700	22,750	22,750

INTEREST RATE TRENDS

	09 Dec 2016	1Q17F	2Q17F	3Q17F	4Q17F
US (Fed Funds Rate)	0.50	0.75	1.00	1.25	1.50
EUR (Refinancing Rate)	0.00	0.00	0.00	0.00	0.00
GBP (Repo Rate)	0.25	0.25	0.25	0.25	0.25
AUD (Official Cash Rate)	1.50	1.50	1.50	1.50	1.50
NZD (OCR)	1.75	1.75	1.75	1.75	1.75
JPY (OCR)	-0.10	-0.20	-0.20	-0.30	-0.30
SGD (3M SIBOR)	0.93	0.90	1.05	1.15	1.35
IDR (7-Day Reverse Repo)	4.75	4.75	4.75	4.75	5.00
MYR (Overnight Policy Rate)	3.00	3.00	3.00	3.00	3.00
THB (1-Day Repo)	1.50	1.50	1.50	1.50	1.50
PHP (Overnight Reverse Repo)	3.00	3.25	3.25	3.50	3.50
INR (Repo Rate)	6.25	6.00	5.75	5.50	5.50
TWD (Official Discount Rate)	1.38	1.38	1.38	1.38	1.38
KRW (Base Rate)	1.25	1.25	1.25	1.25	1.25
HKD (Base Rate)	0.75	1.00	1.25	1.50	1.75
CNY (1Y Benchmark Lending)	4.35	4.35	4.35	4.35	4.35
VND (Refinancing Rate)	6.50	6.50	6.50	6.50	6.50

Source: Bloomberg, UOB Global Economics & Markets Research

ASEAN FOCUS

The Virtuous Cycle Between Infrastructure & Economic Growth

State of Infrastructure Development in Asia/ASEAN: Is the Cup Half Full or Half Empty?

The cyclical slowdown in economic growth since 2014 had been fueling concerns of secular stagnation on a global scale. Moreover, rising trade protectionism and political isolation trends had caught many by surprise, prompting investors and common folks to worry about where the future economy could be headed if countries start to look inward and become trade-hostile.

Indeed, medium-term global outlook appears challenging as the inward-looking and protectionist policies of the developed world continue to unravel. As one struggles to find the catalysts of future economic growth, we may have one of the answers. We believe that the spotlight will remain in Asia where countries are embarking on large scale infrastructure programs to boost long-term competitiveness and drive sustainable growth.

As more countries in Asia move to fill up the gap in manufacturing (as production moves out from China), the urban population will balloon in size as more rural residents migrate into cities in search of better-paying, production jobs. The middle income class will grow quickly, and translating into a surge in consumption demand.

Rising Asian affluence will be a net positive for consumption-related sectors suc as the transport, logistics, utilities, ICT, healthcare and education sectors. To cater for such massive demand in the future, Asia is doubling-up its efforts to reform their domestic economies, boost productivity, attracting investments and driving up economic growth. Within Asia, much of the growth will be coming from developing ASEAN economies such as Indonesia, Vietnam, Malaysia, Thailand, the Philippines, Myanmar, Cambodia, and Laos.

The implementation of the ASEAN Economic Community (AEC) at the start of 2016 is an important milestone in the closer collaboration between ASEAN economies where the synergies from the differing comparative advantages can provide immense opportunities for both the domestic sectors as well as foreign investors.

Concerns over ASEAN's future have often stemmed from the severe lack of infrastructure development as the key bug-bear for economic development amongst ASEAN's poorer countries. Indeed, infrastructure stock is much lower than their developed counterparts, and the Asian Development Bank (ADB) predicts that more than US$8tn worth of infrastructure investment will be required in Asia between 2010 and 2020, with over US$800bn of that in ASEAN.

Exhibit 1 shows the state of infrastructure development in ASEAN compared with other developing regions of the world. The various metrics show the physical constraints that limit the developmental potential of ASEAN members.

Further, **Exhibit 2** shows the under-investment and lack of basic infrastructure across selected ASEAN economies (except Singapore) as well as the poorer quality of the existing infrastructure.

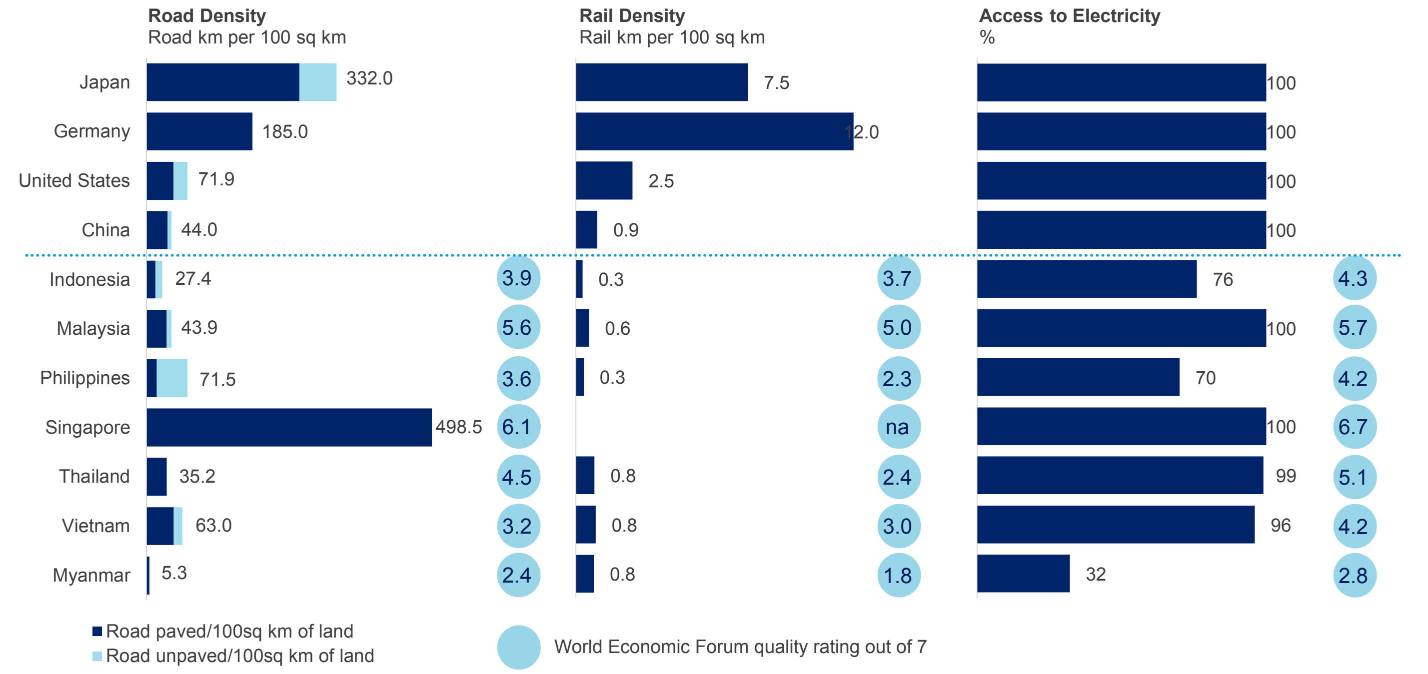
Exhibit 1: Infrastructure Development Among Developing Regions

Country	Roads (km)	Rail (km)	Phone (number)	Electrification	Clean Water
	Per 1,000 people			Percentage	
ASEAN	**10.5**	**0.27**	**3.5**	**71.7**	**86.4**
Asia	211.7	5.21	13.9	99.8	99.6
Latin America	14.3	2.48	6.1	92.7	91.4
Africa	n.a.	0.95	1.4	28.5	58.4

Source: IE Singapore

Exhibit 2: Uneven Infrastructure Development Amongst ASEAN Economies

Source: World Factbook (CIA), World Development Indicators (World Bank), International Renewable Energy Agency, IHS Global Competitiveness Report (2013-14), UOB Global Economics & Markets Research
Note: Split of paved and unpaved road unavailable for Germany, Singapore, Thailand and Myanmar



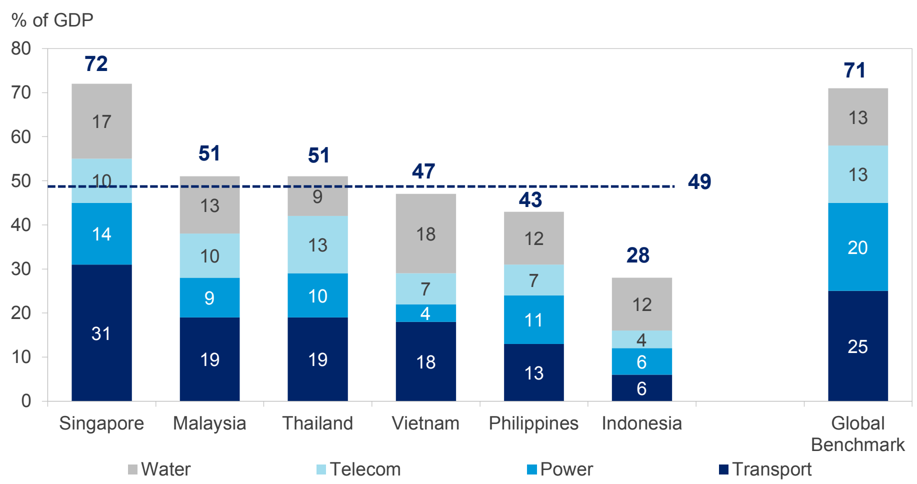
Using the investment in high-speed rail as a case study to compare the current situation in ASEAN vs China, we note that by 2020, investment in high speed rail in China is projected to reach US$300bn (the equivalent of Malaysia's nominal GDP in 2013), with total track length of 25,000km. In contrast, ASEAN's high speed rail ambitions are still very much in its infancy as the Bandung-Jakarta High Speed Rail had just broken ground, while Malaysia and Singapore are still in the finalizing phase of talks on the 350km Kuala Lumpur-Singapore line (of which 15km will be in Singapore). This project has an estimated cost of US$16bn and is expected to begin construction in 2018 and will be in operation in 2026.

Meanwhile, Thailand is also reportedly going ahead with its high speed rail project, where Prime Minister Prayut Chan-o-cha is likely to propose that both Thailand and Japan will invest in the 673km[1] high speed rail scheme (linking Bangkok and Chiang Mai) when he meets a special adviser to the Japanese prime minister in the middle of December 2016. Under the cooperation agreement, the high-speed rail project, the first of its kind in Thailand, will adopt Japan's shinkansen system with both countries expected to work on a basic plan next year after the Japan International Cooperation Agency (JICA) releases a final report on the results of the feasibility study tentatively in February 2017.

That was just for rail infrastructure. In terms of overall infrastructure needs, a recent study shows that other than Japan, the value of infrastructure stock (excluding housing) in most developed economies averages around 70% of GDP. If we take this percentage as a rule of thumb, we observe that the average infrastructure stock among ASEAN economies (49% of GDP) falls short of the global benchmark by a large extent (**Exhibit 3**).

Exhibit 3: Some Way To Go For ASEAN Economies In Building Up Infrastructure Stock

Source: International Transport Forum, Global Water Intelligence (IHS), McKinsey Global Institute
Note: Global benchmark derived based on a study of Canada, China, Germany, India, Italy, Poland, South Africa, Spain, United Kingdom, and United States. Estimated based on historical expenditure and using the perpetual inventory method. Transport infrastructure stock for Indonesia is understated, as expenditure for rail, ports, and airports is not available.



1 The Bangkok-Chiang Mai rail is 673km long with estimated investment costs of 546.7 billion baht. The 380km stretch between Bangkok and Phitsanulok is likely to be built first at an estimated cost of 277.4 billion baht, while the remaining stretch covers 293 km from Phitsanulok and Chiang Mai.

Exhibit 4: Strong FDI Inflows Into ASEAN Economies

Source: UNCTAD, UOB Global Economics & Markets Research

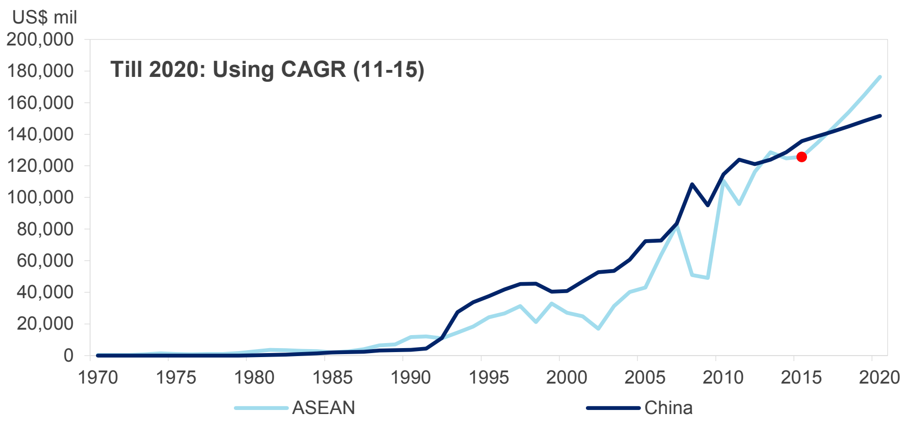
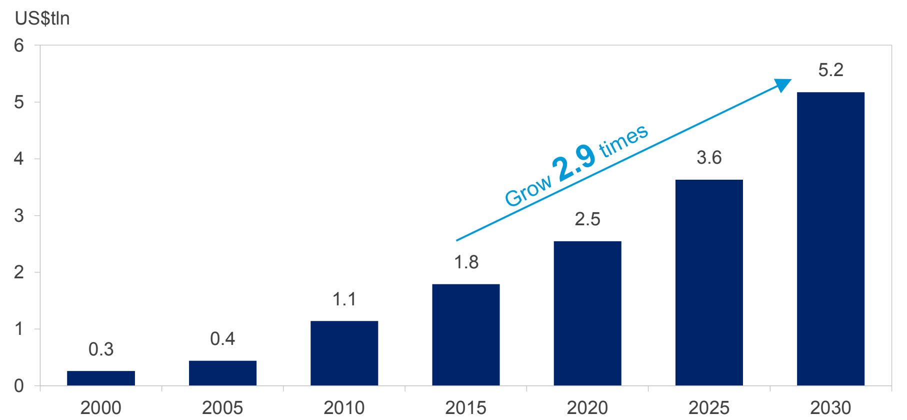


Exhibit 5: ASEAN FDI Stock To Triple To US5.2tln In The Next 15 Years

Source: UNCTAD, UOB Global Economics & Markets Research



However, we think that purely pointing out the inadequacy of infrastructure development in Asia/ASEAN and condemning future economic growth because of that is too drastic and unfair. Which country started its development path with all the infrastructure needs fulfilled on Day One? In fact, for a developed country like Singapore, infrastructure investment continues to be a constant affair as the infrastructure needs of the nation keep evolving with the shift in the structure of the economy across time.

In fact, we are of the opinion that the existing lack of infrastructure investment, as well as the opening up of frontier ASEAN economies such as Myanmar, presents huge opportunities for investors. The current predicament has already attracted foreign investors' attention and ASEAN has been experiencing increased foreign direct investment (FDI) inflows over the past few years. ASEAN has been so successful in its draw of FDI that we estimate that FDI inflows into ASEAN will surpass China for the first time in 2017, after falling behind for more than a decade (**Exhibit 4**).

We anticipate that the FDI flows into ASEAN will continue to gather momentum. The stock of FDI accumulation in ASEAN has been rising at a steady annualized rate of 15% since 1980. Even with a conservative assumption of about 7.3% in annual growth (i.e. half the growth rate between 2009 and 2013), we expect the stock of investment in ASEAN to nearly triple to US$5.2tn in 2030, from our estimates of US$1.8tn in 2015 (**Exhibit 5**).

Multilateral Efforts To Plug US$8Trillion Infrastructure Gap In The Region

Of the US$8tn infrastructure gap in Asia estimated by ADB, half of it is needed for energy infrastructure, a third for transport, 13% for ITC, and 3% for water and sanitation. World Bank statistics parks the spending on infrastructure investment in ASEAN at US$165bn since 2010, of which investments in telecommunications and energy take up the lions' share.

Of the US$800bn of infrastructure needs in ASEAN, Indonesia, Thailand, Vietnam, and Myanmar will take up the largest portion. However, fiscal constraints coupled with bureaucratic issues may cause delays and hiccups. **Exhibit 6** shows that India, Vietnam and Malaysia stand out with their high government debt, while Myanmar has the highest fiscal deficit amongst the ASEAN countries after Vietnam.

Moreover, domestic issues such as project planning, environmental analysis, and land acquisition may also slow project implementation. Nevertheless, investments from China will be positive. China's strong strategic interest in the region will show up in the form of multilateral G2G initiatives, while Chinese companies looks set to partner with local institutions. In fact, ADB estimated that China has contributed US$18.3bn or 18% of ASEAN's infrastructure spending since 2007, and the percentage is likely to go higher with the One-Belt, One-Road (OBOR) plans set in place.

Although a large part of China's investments in the region will remain focused on infrastructure, based on outward FDI investment data, we observe that Chinese companies are also focused on sectors like manufacturing, real estate, leasing and commercial services, wholesale and retail, finance, transportation and logistics, and technology.

China's OBOR initiative and Asian Infrastructure Investment Bank (AIIB) are seen as catalysts for further development, trade and investment in the region. The OBOR is expected to be armed with a total investment value of US$14tn, reaching 65 countries (40% of global GDP).

Indeed, China targets to achieve additional US$2.5bn in annual trade with OBOR countries, and has committed US$1tn financing to kick-start OBOR consisting of New Silk Road Fund (US$40bn), China Development Bank (US$890bn), Asian Infrastructure Investment Fund (US$50bn) and New Development Bank (US$20bn).

The **World Bank** will take the lead on initial projects jointly financed with China's AIIB. The two institutions said they had discussed nearly a dozen projects in sectors that include transport, water and

Exhibit 6: Private Sector And Multilateral Efforts Key To Drive Infrastructure Development In ASEAN Countries Laden With High Government Debt And Fiscal Deficits

Source: IMF, UOB Global Economics & Markets Research Forecasts

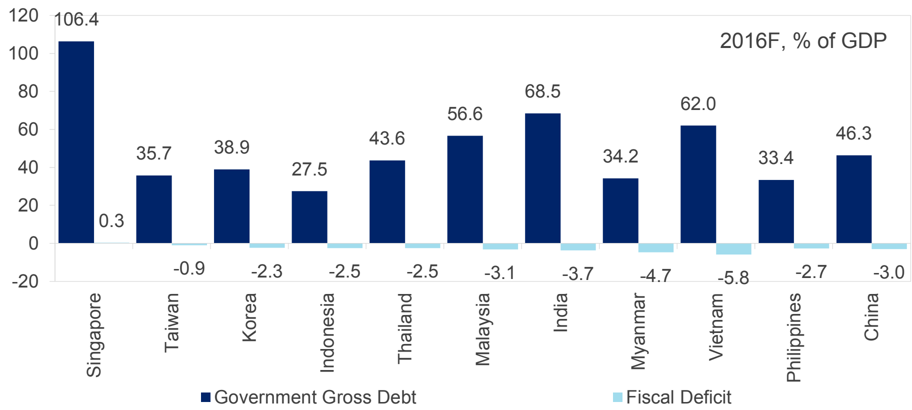


Exhibit 7: Amongst Asian Countries, China, Myanmar And Indonesia Have The Highest Fixed Investment Ratio

Source: CEIC, IMF, UOB Global Economics & Markets Research

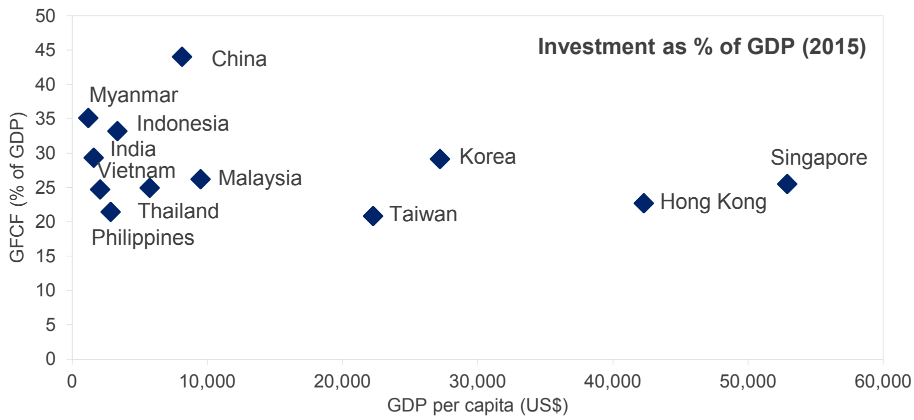
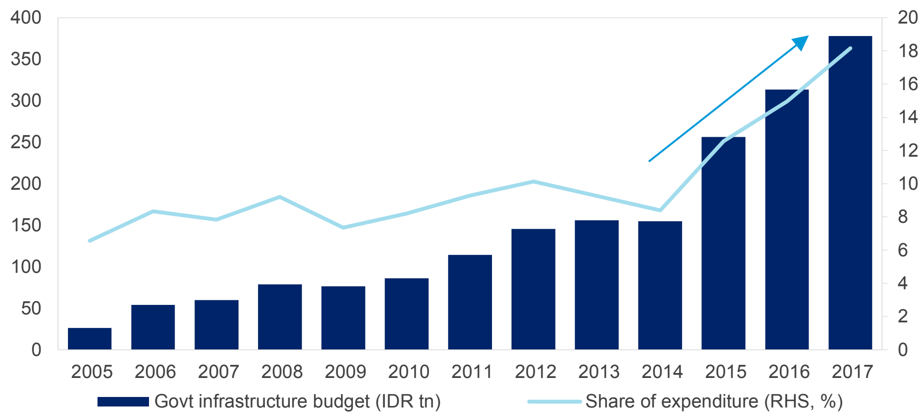


Exhibit 8: Indonesia's Infrastructure Spending Allocation Surges With Removal of Gasoline Subsidy

Source: Ministry of Finance, CEIC, IMF, UOB Global Economics & Markets Research



energy in Central Asia, South Asia and East Asia. The AIIB was formally launched in January 2016 with an approved US$1.2bn in financing.

The **ASEAN Infrastructure Fund (AIF)** was set up to plug the region's infrastructure gaps with Malaysia, Indonesia and the Asian Development Bank (ADB) as the major shareholders. As of June 2016, AIF has processed seven projects in Indonesia, Vietnam, Myanmar and Laos with a combined amount of over $300mn on co-financing with ADB.

Initiatives In The Individual ASEAN Countries

While it is a well-known fact that China has invested heavily in its production capacity, infrastructure and technology, it may be a surprise that developing ASEAN economies such as Myanmar and Indonesia are also doing the same (**Exhibit 7**), realizing its importance as the bedrock of sustainable growth. In 2015, China's fixed asset investment stood at 44.0% of GDP while Myanmar and Indonesia were not far behind at 35.1% and 33.2% respectively. As China trims excess capacity after years of heavy investment, we expect the focus to shift to the developing ASEAN economies and this should drive their infrastructure investment in the years ahead.

Malaysia. Since the launch of the Economic Transformation Program (ETP) in 2010, Malaysia has attracted over MYR219bn worth of investments with committed investments of MYR144bn under the ETP. Infrastructure projects under the Eleventh Malaysia Plan (11MP) is expected to support growth in fixed investments. Transportation projects are at the forefront of Malaysia's mega projects with the urban Mass Rapid Transit (MRT1) which cost MYR32bn (US$8bn) while other transport projects in the pipeline include MRT2 with an estimated cost of MYR28bn (US$7bn), Light Rail Transit (LRT) at MYR20bn (US$5bn), Sarawak's Pan Borneo Highway at MYR16.1bn (US$4bn), East Coast Rail Link at MYR55bn (US$13bn) and the KL-Singapore High Speed Rail (HSR) at an estimated MYR70bn (US$16bn). Meanwhile Malaysia and Thailand have initiated talks on the Bangkok–KL high speed rail with initial cost estimates of US$16bn. Other key mega projects include the Refinery and Petrochemical Integrated Development (RAPID) project, Petronas LNG Complex in Sarawak, Kuantan port, and Kuala Linggi port in Malacca.

The MYR29.7bn of infrastructure job awards in the first half of the year has exceeded the full-year total for 2015, with another MYR30bn more in the pipeline. Government estimates indicate every MYR1 spent in the construction sector will induce an additional MYR0.80 spent along the supply chain. As such the positive spin-off effects could be as large as MYR40bn across the entire supply chain over the next few years.

Indonesia. Indonesia targets IDR 5,519tn (US$409bn) of strategic infrastructure investment in 2015-2019 which include 15 new airports, 24 seaports, 2,650 km of road, 3,258 km of railway track, and bus rapid transit (BRT) development in 29 cities. The target translates to around US$82 bn of requirements for infrastructure investment per annum (9-10 % of nominal GDP) over the five years. The SOEs and private sector are expected to fund 59% of the infrastructure investments.

Infrastructure spending continues to be prioritized following the removal of the country's petroleum subsidy in January 2015 (**Exhibit 8**). However, there remains significant funding gap which calls for the heavy involvement of the private sector. Despite the doubling of the infrastructure budget from 2014 to 2016, the allocation in the state budget was only US$23.5 bn and US$28.0 bn in 2016 and 2017 respectively.

To facilitate stronger participation by the private sector investors, the government has relaxed the negative investment list (NIL) as part of the 10th stimulus package in February 2016, opening up business categories in infrastructure-related sectors to foreign investment including toll road concessions, land passenger transportation (up to 49%) and high voltage power utility installations (up to 49%). We believe the government's strong support for infrastructure investment will improve confidence and translate into stronger growth in the coming years.

The key concern for investors is still in the area of land acquisition despite measures to provide certainty which include the Land Acquisition Law in 2012 setting a maximum time frame to complete the land acquisition.

Thailand. To drive sustained economic growth, the Thai government is emphasizing development of transport infrastructure, moving ahead on megaproject investments that will total around 3 trillion baht. The launch of the AEC, with its emphasis on speeding up trade, has prompted the government to prioritize investment in connecting domestic transport network with those in bordering countries. The planned megaprojects integrate various modes of transportation including land (road and rail), air (airports), and water (seaports and river ports). Moreover, the government is committed to speeding up construction of the planned development projects under the Eastern Economic Corridor (EEC) during 2017-2018, which will form a high-tech industry cluster for ten targeted industries such as biotechnology, robotics for industry, biofuels and biochemical, and medical services.

Better transport infrastructure will also improve Thailand's competitiveness, and benefit important sectors like energy, technology and logistics. Public investment projects, as well as the private investment that will follow, will drive the economy further and have long-lasting effects. The Bangkok rapid mass transit systems will increase demand for electricity, while air and water transport projects will boost demand for fuel. As rail systems increase urbanization, workers would move out of agricultural sector and into service businesses to earn higher income, but farm labor shortages may worsen. More sophisticated transport systems will provide opportunities in information technology enhancing connectivity in transportation and logistics systems. Ultimately, the infrastructure projects will propel Thailand to become the logistics hub of the Greater Mekong Sub-region (GMS).

Vietnam. For Vietnam to maintain its status as "the Factories of Asia", the government is emphasising transport and power projects in industrial zones. There is to be an emphasis on developing transportation systems through connecting economic centres and large-scale production areas, by means of investments in public transportation infrastructure using modern technologies. Looking to the future, Vietnam will require USD25bn a year to invest in new roads, bridges, ports, water sanitation, power, and other infrastructure to sustain growth between now and 2020.

However, the Vietnamese government cannot fully finance this investment through its state budget or official development assistance loans, and that public-private partnerships (PPPs) offer a new alternative. Not only can the private sector offer financial resource, but also they can bring know-how and expertise to develop infrastructure projects led by the government. Although the government enacted a PPP office and inter-ministerial steering committee, PPPs are still at a very early stage of development in Vietnam. Korea and Singapore could provide learning points to Vietnam in using PPP to connect to international expertise.

Philippines. Budget allocations for infrastructure to the tune of 5% of GDP concentrated on roads, agriculture infrastructure, and schools. Several of the twelve public-private partnerships awarded since 2010 involving investments of US$4bn are underway. They include highways, railways, an airport terminal, and water supply facilities. Another 14 projects worth an estimated US$12bn are being prepared for bidding.

Myanmar. Demand for proper infrastructure is growing massively with number of vehicles on the roads doubling to 5 million from 2012 to 2015, and international air passengers more than doubled to 3.2 million from 2011 to 2014. Investments estimated at US$60bn are needed through 2030 to upgrade the transport systems.

Laos. Planned US$6.8bn railway from Vientiane to Yunnan Province in the PRC, funded entirely by China and to be completed in four to five years.

Cambodia. Japan is assisting to design, build and operate water infrastructure projects in 10 of its largest cities. South Korea has committed US$600m across 18 projects. Nine of the projects are related to road construction and improving rural road networks. New international terminals were officially opened in Phnom Penh and Siem Reap this year, built at a combined cost of US$100m. A US$23m contract has been awarded to build a new domestic terminal at the Phnom Penh Airport.

How US$50 Spent On Infrastructure Creates Additional US$5 In Demand

World Bank research shows that every 10% increase in infrastructure provision lifts output by around 1%. The final impact can vary between countries depending on degree of bottlenecks, leakages from graft and corruption, and growth negations from high imported services.

However in a nutshell the benefits generated extend far beyond just a cyclical cushion for growth. It can address structural issues including increasing productivity simply by reducing congestion costs that lead to savings of US$3bn-6bn (1.1%-2.2% of GDP) for Malaysia. It was estimated that Malaysia loses up to US$10bn (1.8% of GDP) from delays in traffic, US$0.6bn (0.2% of GDP) from fuel expenses, and US$0.7bn (0.2% of GDP) from environmental pollution of CO_2 and other emissions. For net oil importing countries, reduced fuel consumption will also generate resources to finance other efficient projects and reduce the strain on fiscal and current account balances.

It also improves connectivity that expands the common boundaries of living and commuting. This allows ease of labor relocation that can enhance resource productivity and growth. This helps to manage the costs of urban living where house prices in prime cities rose by more than 30% over the last three years. This also provides a solution for the problem of affordable housing and in countries where household debt is elevated due to housing-related liabilities. This frees up the availability of funds for other types of spending.

Higher internet penetration and faster connectivity also allows greater multiplier of technology to sales, capitalizing on the Internet of Things (IoT) and the growing presence of technology across every sector and our everyday lives. It will have positive spillovers to other areas in manufacturing, services, and agriculture. Foreigners will also be more willing to invest in areas that were previously unattractive due to poor infrastructure. This will have positive welfare effects and over time reduce economic disparities within the ASEAN region.

CHINA FOCUS

Liquidity To Stay Tight In "New Normal"

Tightened Market Liquidity And Higher Domestic Interest Rates

Since mid-Nov, China's domestic liquidity conditions have tightened graduallly and resulting in higher domestic interest rates. Among other things, this phenomenon is a result of reduced injection from PBoC, "passive" withdrawals due to capital outflows, and selloff in bond market in response to the global bond rout after the US Presidential Election on 8 Nov. The desire for authorities to contain and manage debt and leverage in the country is another factor constraining the ability of liquidity injection. This somewhat tightened condition is likely to persist beyond 2016, meaning that deleveraging and higher market interest rates will be the "new normal" in 2017 in China.

Net Withdrawals In Second Half And Higher Interest Rates

PBoC has reduced substantially its liquidity injection via open market operations (OMO) especially in Nov, which saw a net injection of RMB61bn during the month, compared to a monthly average of RMB260bn net in the Jun to Oct period (+RMB326bn In Oct and +RMB451bn in Sep). The week ended 2 Dec saw net injection via reverse repo at RMB70bn, slightly higher compared to RMB40bn in the prior week. For now this net withdrawal trend appears intact, as shown in the chart. Overall, PBoC's OMO in 2H of 2016 is on track for net withdrawal of -RMB640bn, compared to RMB590bn net injection in 1H 2016.

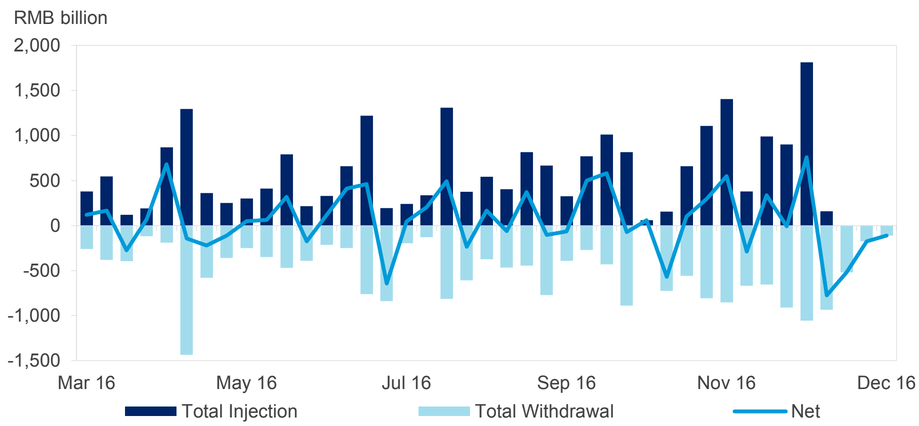
Short term interbank rates thus came under sharp upward pressure, with the 7D reverse repo rate hitting high of 3.24% at end-Nov, 44bps higher than at the beginning of the month. 3-month SHIBOR rose to 3.07% at 2 Dec, from 2.83% at the beginning of Nov, gaining for 32 consecutive trading days, the longest stretch since Dec 2012. China's government bonds follow the similar selloff in the global bond market, as China's 10Y government bond yield has remained above 3% since 25 Nov, from 2.76% just before the US Presidential Election on 8 Nov.

RMB And Asian Currencies Under Pressure On "Trump Rally"

The "Trump Rally" saw a strong USD rebound, and the RMB coming under pressure along with other EM currencies. Onshore CNY broke through the 6.70, 6.80, and 6.90 levels against the USD within a space of 2 months, compared to the 3 ½ months it took to get from 6.60 to 6.70. These currency levels may not be too meaningful, as China has shifted to a trade weighted RMB regime (which will be familiar for those used to the trade weighted S$ system). But for the man on the street, such rapid moves would be alarming, and suggest to them that RMB depreciation could continue to

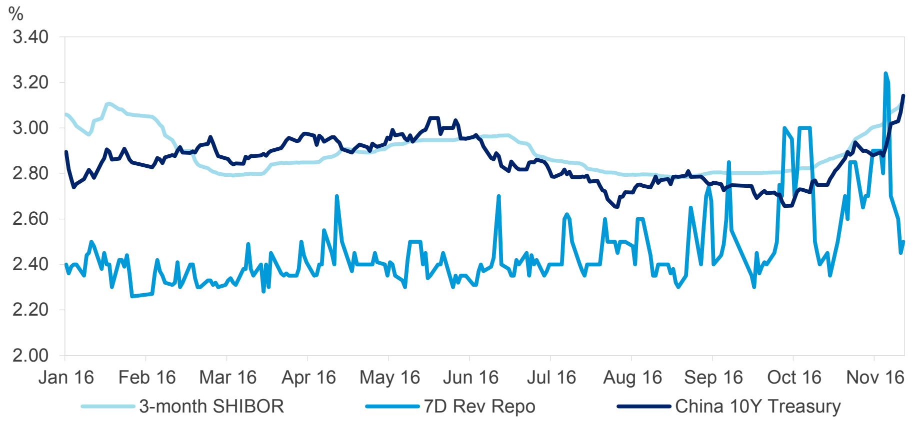
PBoC: Open Market Operations

Source: Bloomberg, UOB Global Economics & Markets Research



China: Interest Rates

Source: CEIC, UOB Global Economics & Markets Research



accelerate. So far this year, onshore CNY has weakened 6% against the USD, while the CFETS RMB index (i.e. trade weighted RMB) also fell by similar quantum YTD. In contrast, the broad Asian dollar index (ADXY) declined by just 2.5% YTD.

The sharp drop in trade weighted RMB index, compared to the drop in RMB itself and the decline of broader Asian currencies, reinforces the view that RMB would continue to depreciate. This development is thus inconsistent with what Chinese officials have been saying all this time of a "stable" currency and no basis for (prolonged) depreciation of the RMB. Adding to the jitteriness on RMB is the sharp US dollar rebound since Donald Trump was elected as US President on 8 Nov.

What's Next: PBoC To Keep Liquidity Conditions From Getting Too Loose

Against a background of an already leveraged system (total debt to GDP more than 240% of GDP at end-2015, of which corporate debt is at 165% of GDP) and a build up of depreciation expectations on the domestic currency (as mentioned above), PBoC has responded with tightening of liquidity, instead of outright intervention to limit the depletion in foreign exchange reserves. This is reflected in the rise in short term market interest rates.

And as China continues to deleverage and to prevent asset price bubbles, it is also sending a signal to financial institutions that days of "easy money" may be over in this new reality. In addition, the shift in expectations in favour of more aggressive US Fed policy actions ahead also means that Chinese interest rates would continue to face upward bias.

In PBoC's Third Quarter Monetary Policy Report (released 8 Nov), the central bank highlighted the need for the system to deleverage and to avoid excessive liquidity even in the short term, though it also recognizes that it is necessary to maintain balance and a stable environment to promote growth. For 2016, a growth rate of 6.7% is more or less "in the bag". **With growth rate in 2017 slower, at around 6.6%, the central bank is likely to lean towards tightened liquidity and more moderate loans growth/money supply growth in 2017.** The next key event to watch in China is the annual Central Economic Work Conference sometime in Dec, which would provide further signals for next year's growth direction.

For now, risks of PBoC interest rate cuts have reduced significantly and even reserve requirement ratio (RRR) reduction is unlikely to happen any time soon. As for the RMB outlook, we continue to see downwards pressure, as long as expectations of US interest rate hikes and Trump's fiscal stimulus continue to be intact. Our USD/CNY projections remain at 6.88 for end-2016 and 7.16 at end-2017. This is also similar with our view for the broader Asian currencies.

FX STRATEGY

Top FX Themes And Trades For 2017

Stay Long USD In 2017, Add On Dips

Trump Presidency and more importantly his policies represent a **"macro shift"**, resulting in favourable conditions for **higher rates and stronger USD**. Within G10, the dollar index (DXY) is like to be supported at the key 100 level and touch a **new cycle high of 105.60** by end-Q3 2017. In Asia, we expect **USD/Asian FX to be higher in an orderly, gradual manner** and the rate of depreciation of Asian currencies would mostly **not exceed 5%** in 2017 under a **"soft" Trump** scenario.

Q1-2017 should a volatile one as markets digest details of Trump's policies during his first 100 days in office. The Fed is likely to adopt a wait-and-see approach, holding rates in Q1 having already moved in Dec. By the end of the 1H-2017, Fed's inflation target would have been reached and the FOMC will accelerate its normalisation pace, **delivering three rate hikes of 25 bps each in 2H-2017**. In addition, **scarcity of USD will complement** a hawkish Fed to drive the USD higher as non-US borrowers rush to hedge their USD liabilities.

More Fiscal, Less Monetary

For most part of 2016, we have heard central bankers lament about the **limits of monetary policies on stimulating growth**, especially when even negatives rates in some parts of Europe and Japan are still not reviving growth. There has been **gradual calls for more fiscal policies** to be implemented alongside monetary policies and it would seems like we will get some of that **fiscal-monetary mix in 2017**, starting with Trump's infrastructure plans in the U.S.

Into 2017, currencies will be measured not only by monetary policy's yardsticks like rate hikes or cuts but could also be by the amount of fiscal spending (or the lack of). At this juncture, a trade exploiting on the possible **"fiscal divergence"** would be **entering a long position in USD/JPY**. President-elect Donald Trump's **pledge to spend $1 trillion** over ten years ($100 billion yearly) on infrastructure, coupled with expectations that Fed will normalize rates further in 2017, are **USD-positive** and is likely to fuel the next leg of the USD rally after a brief hiatus in Dec. Meanwhile, **Japan's fiscal packages are usually construed as JPY-negative**, given its elevated debt-to-GDP levels of over 230%, highest amongst developed economies. On a separate basis, speculators also **turned net short JPY** (CHART 1) in the week till 29-Nov, for the first time since late Dec 2015, a sign that USD/JPY can extend higher. Lastly, a forecast of the UST 10Y yield at 3.00% by end 2017 will also lends support to USD/JPY, which the latter is positively correlated to.

Chart 1: JPY Net Positioning (CFTC data)

Source: Bloomberg, CFTC, UOB Global Economics & Markets Research

Long USD/JPY via a bullish zero-cost seagull option structure (spot: 113.40, 5-Dec):

Buy 1-yr 113.00 USD call JPY put
Sell 1-yr 120.00 USD call JPY put
Sell 1-yr 104.00 USD put JPY call

Brexit To Dominate Over EU Risks In Q1

EUR/GBP has pulled back over 5% since the U.S elections on 9-Nov as Trump's win together with concerns over the Italian referendum weighed more on the EUR compared to the GBP.

Come Q1-2017, the **expected triggering of the Article 50** by end March will kick-start a 2-year negotiation for Britain to leave the European Union (EU). The talks will not be smooth and commencing in a year of many key European elections, EU is most likely to use the occasion to solidify the integrity of the Union and also to accord U.K a hefty price for abandoning the Union. The **uncertainties over a "hard Brexit" will return** and gradually get priced in a **lower GBP**. On the EUR side of story, Q1-17 is likely to present a vacuum for EUR specific concerns as the next elections within the bloc will only take place on 15-Mar-17, in the Netherlands. As such, we **expect a higher EUR/GBP in early 2017**, resuming the uptrend that has been in place since Dec 2015.

The surprising recovery in EUR/GBP immediately after the Italian referendum (5-Dec) amid a negative outcome is particularly symbolic, especially when the pair rebounded off the 200-DMA (**CHART 2**) and suggests that we are at a key inflexion point. To add, our economics team sees **EUR/GBP recovering towards 0.8800** by end Q3-17.

Long EUR/GBP at 0.8430 (6-Dec), targeting 0.8800, stop daily close below 0.8300.

To add, **selling GBP/USD is also on our radar**, especially where our economics team sees an **over 8% downside to 1.16** by end 2017, the most rewarding long USD trade within G10. However, expressing the view via spot can be tricky considering the resilience of GBP/USD of late. As such, an options strategy utilizing the current favorable risk reversals and reasonable vols (**CHART 3**) is preferred.

Short GBP/USD via a bearish zero-cost risk reversal (spot: 1.2665, 7-Dec):

Buy 6-mth 1.2350 GBP put USD call
Sell 6-mth 1.3000 GBP call USD put

Regional EM Relative Value

Although EM outflows concerns are likely to linger in 2017, the **varying degrees of regional currencies' sensitivity to Trump policies and their idiosyncratic factors** could make owning positive carry relative value (RV) structures within Asia appealing - buying more insulated currencies (IDR, THB) and selling more vulnerable currencies (SGD, INR).

The IDR is the best performing ASEAN currency year till date, still managing a 3.2% gain versus the USD amid aggressive rate cuts (150bps in 2016) by Bank Indonesia. Idiosyncratic factors acting in favor of IDR include tax-amnesty inflows, an over 60% surge in Indonesia coal prices since June and headline exports figure turning positive in Oct (+4.59% y/y) for the first time in 2 years. The resilience in IDR is further displayed through its recovery in Dec, with the currency already recouped 40% of its Nov's Trump-related losses, as at 7-Dec. Similarly, IDR NDF points are also in the midst of normalizing to pre-Trump levels after a brief spike in the aftermath of the U.S elections.

To be fair, **Indonesia is not without its own bag of risks** – a high foreign ownership of its government bonds (37% as of end-Nov) may exacerbate any capital flight effects on the IDR. However, other regional currencies are no better either. For one, the SGD is already feeling the weight of a sluggish Singapore economy, with the Monetary Authority of Singapore (MAS) stating as recent as Oct that the local economy "is not expected to pick up significantly in the near term".

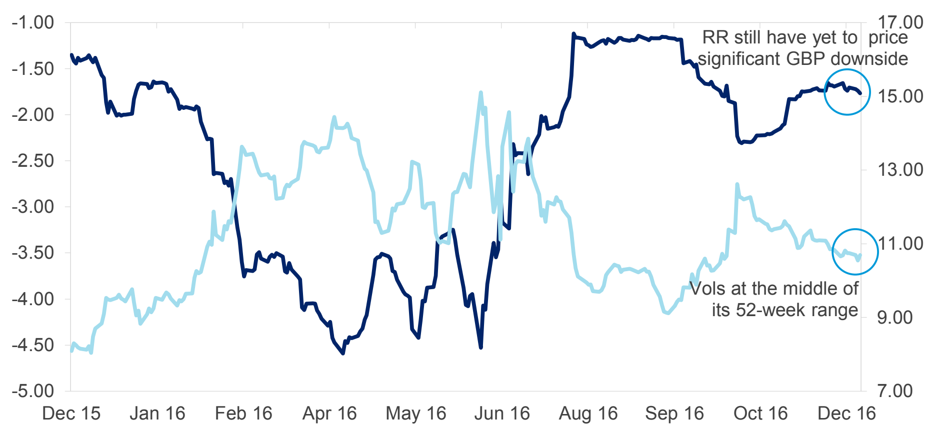
On a relative basis, we think that **SGD is likely to underperform IDR** as long as expectations of further easing for MAS

Chart 2: Daily Chart of EUR/GBP

Source: Bloomberg, UOB Global Economics & Markets Research

Chart 3: GBP/USD 6M Vols And Risk Reversals (RR)

Source: Bloomberg, UOB Global Economics & Markets Research

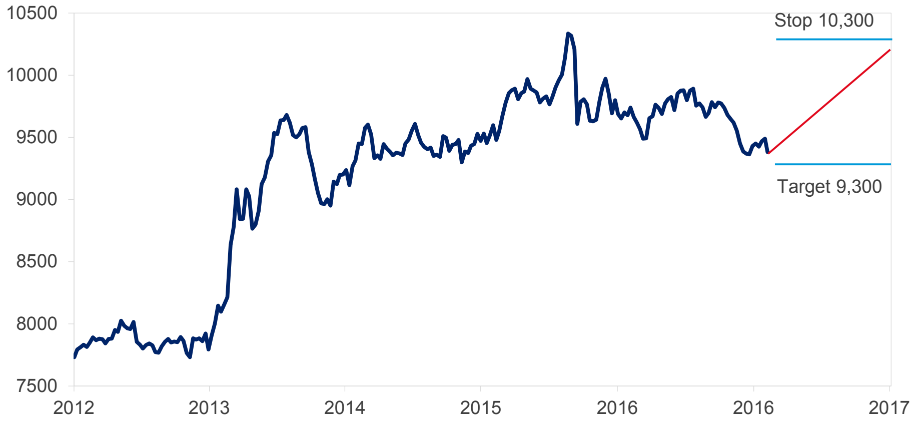


remain in place, vis-à-vis Bank Indonesia holding rates steady at 4.75% throughout 2017 (our view). Furthermore, SGD could be undermined serving as a proxy for other regional currencies with less flexible FX regimes (MYR, CNY etc). A short position in SGD/IDR also earns a net carry of 7.2% per annum, providing a decent cushion over the 12-mth rolling realized volatility, current around 5.5%.

Sell SGD/IDR, 12-mth outright at 10,030, target 9,500 and stop 10,300 (**CHART 4**) (ref as at 8-Dec: 12-mth USD/IDR NDF 14,200, 12-th USD/SGD forward 1.4155)

Chart 4: SGD/IDR Spot And Forward Curve

Source: Bloomberg, UOB Global Economics & Markets Research



RATES STRATEGY

Singapore And US Rates Outlook For 2017

Main Themes In A Nutshell

Trumpflation

We see inflation expectations and term premium repricing trends which has been in effect since the middle of 2016 will continue to be sustainable going into 2017 and could even become accelerated when the new Trump administration takes over.

Uplift For FED Rate Normalization Trajectory

Broadly speaking, our rates view has shifted from a case of the US policy environment largely stuck in a prolonged state of being wholly reliant on easy monetary conditions towards one that sees fiscal expansion taking over the reins. Prospect for FED rate normalization pace to pick up will improve through 2017.

SG Rates Differentiation

SG rates can be expected to follow their US counterparts higher in terms of directional impulse, but a nativist US trade stance and SG domestic factors such as lackluster growth and benign bond supply are conducive for SGS to outperform UST on a relative basis.

FED Funds Rate

%	1Q17F	2Q17F	3Q17F	4Q17F
US Fed Funds Target	0.75	1.00	1.25	1.50

We expect the FED to adopt a pragmatic approach towards the likely fiscal boost from the Trump administration, details of which will only gradually become available. Therefore, we see the FED remaining on hold in 1Q 2017 after December 2016's hike. We have also increased our 2017 rate hike count from 2 to 3 and steepened the FED rate trajectory culminating in a slightly higher terminal rate thereafter in the view that a Republican clean sweep increases the possibility that a majority of incoming administration's campaign proposals will eventually be enacted. This would create breathing room for the FED to follow through with their rate normalization objective earlier than previously thought possible.

Singapore Money Market Rates (SOR And SIBOR)

%	1Q17F	2Q17F	3Q17F	4Q17F
3M SGD SOR	0.80	1.00	1.15	1.35
3M SGD SIBOR	0.90	1.05	1.15	1.35

Our SOR and SIBOR forecasts have been updated for the higher base US rates as well as to account for the expected currency weakness into 2017. This results in higher SOR and SIBOR rates kicking in from the second half of 2017. For the first half of 2017, we expect SORs to remain mostly insensitive to US dollar strength driven changes in the USDSGD spot rate. This is due to the persistent demand for US funds despite US Prime money market funds asset size bottoming out after reforms were implemented in October 2016. We expect this asymmetric preference for USD funding over SGD funding to remain supported by adjustments necessitated by upgraded FED rate hike consensus, thus causing the correlation between USDSGD spot rate and SORs to remain poor in the short term.

US Treasuries (UST)

%	1Q17F	2Q17F	3Q17F	4Q17F
2yr UST	1.30	1.50	1.80	2.00
10y UST	2.50	2.75	2.80	3.00

The post US election repricing in global rates market has been driven by a better appreciation of duration risk by investors. We view this as desirable from a systemic risk point of view as well as sustainable given our assumptions on the incoming administration's policy prescriptions. Our rates forecast have therefore been upgraded compared to pre-election levels and the yield curvature outlook is also steeper in the first half of 2017 before flattening in the second half to reconcile between term premium richening and a pragmatic FED that is unlikely to overreact in the short term.

Singapore Government Securities (SGS)

%	1Q17F	2Q17F	3Q17F	4Q17F
2Y MAS Treasury	1.30	1.40	1.50	1.50
10Y MAS Treasury	2.50	2.50	2.70	2.70

We expect Singapore government securities (SGS) yields to be pulled higher together with US Treasuries yields and for this correlated relationship to also extend towards the SGS curvature. The more notable change for our 2017 outlook has been in terms of the relative performance between the two markets, i.e. US vs. SG interest rate spread convergence or divergence. We now expect to see earlier spread convergence (SGS yields to adjust below their US equivalent) since SGS is likely to exhibit a lower beta to the factors driving US yields higher. In addition, the domestic supply calendar for 2017 is relatively light on duration and that should provide better support for SGS over UST, the latter in contrast is likely to be weighed down by the new administration's expansionary fiscal plans.

How We See The Themes Playing Out In SG Rates Markets

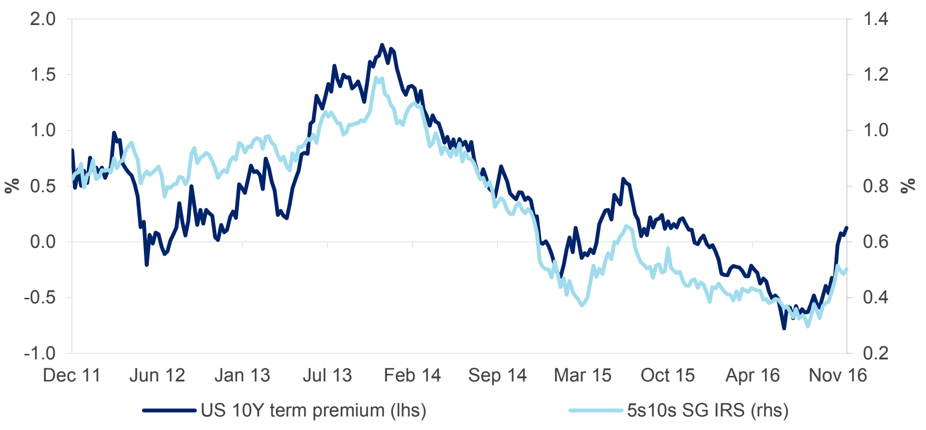
Trumpflation is expected to have negative implications on US deficit, which will drive a greater appreciation of duration risk and richer term premiums. For 2017 we expect to see the term premium repriced to a higher equilibrium level. From a SG rates market perspective, a steeper 5s10s IRS curve will be justified in the above scenario at least until the FED demonstrates a significantly more hawkish stance

Anticipated fiscal policy boost will contribute towards making the long espoused FED rate normalization a more credible objective in 2017. Rate hike expectations will likely shift in favour of a steeper rate hike trajectory when the new Trump administration announces their policy details. We expect to see the follow through repricing having a greater impact on the curve beyond 2018 since it is assumed that the FED will remain conservative and data dependent. The 2 year forward 1Y SG IRS will outpace the 1 year forward 1Y SG IRS when the aforementioned repricing in FED rate hike expectations takes place in 2017.

Arguments for higher yields into 2017 are predominantly US centric. This being the case and in combination with our macro team's lukewarm but not recessionary growth outlook for Singapore, conditions are supportive of a lower beta SG rates market response to US rates changes on average in 2017. Therefore we expect to see 10Y UST – SGS spread moving further into positive territory over the course of 2017.

Richening Term Premiums And SGD 5S10s IRS

Source: Bloomberg, UOB Global Economics & Markets Research

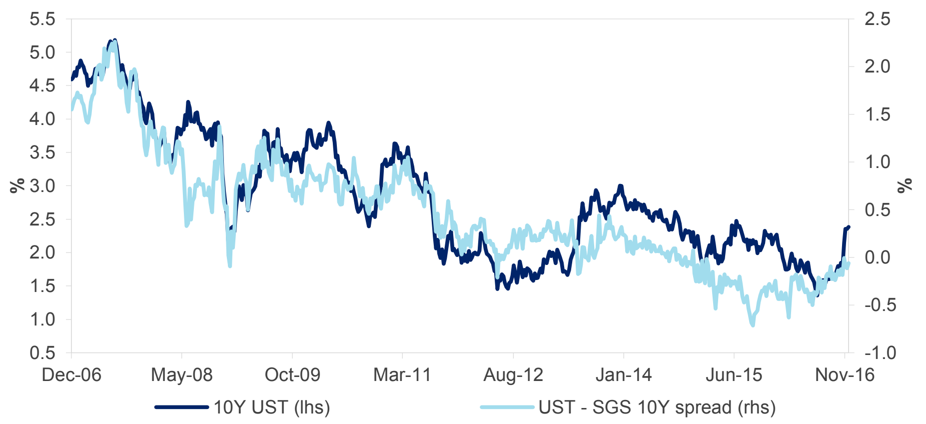


SG IRS 2F1Y v 1F1Y To Benefit From Expectations Of Steeper FED Hike Trajectory

Source: Bloomberg, UOB Global Economics & Markets Research

Room For Wider 10Y UST-SGS Spread In Rising US Rate Environment

Source: Bloomberg, UOB Global Economics & Markets Research



SINGAPORE SMEs
Emerging Signs Of Stress

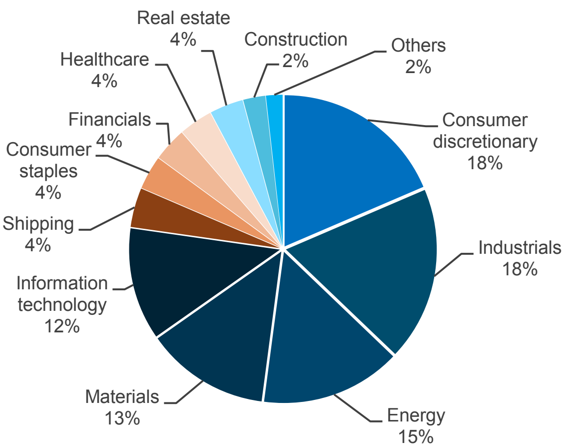
Small and Medium-sized Enterprises or SMEs (generally defined as companies with annual turnover <S$100m, or employ <200 workers) are a key pillar of Singapore's economy, contributing 48% of its GDP, employing about 65% of its workforce and constituting 99% of all its enterprises. While they play a vital role in sustaining economic growth, these 180,000 SMEs are however more vulnerable during economic downturns vis-a-vis large corporates.

- **SMEs** are more vulnerable to the deterioration in business conditions given limited financial resources and weaker access to financing
- **Business sentiment has plunged to 7-year lows**; sales and profitability likely to stay under pressure as demand softens and business costs remain elevated amid ongoing restructuring
- **Financial stress among SMEs is spreading**, reflected in the spike in firm closures, increasing corporate bankruptcies, deteriorating payment performance and rising NPLs
- Our analysis of SGX-listed SMEs reveals that the **number of companies in the red has overtaken 2008 GFC levels**, with the largest % of losses in the Shipping, O&G, Materials, Construction and Consumer Discretionary sectors
- **Debt servicing ability has seen a marked deterioration**; share of firms with interest cover of >2x has fallen from 42% in 2011 to just 29% in 2015
- While not immune to macro headwinds, the **Real Estate, Healthcare, Financials & Consumer Staples sectors have held up better**
- **Singapore Government has made it a "clear priority" to help SMEs** but most are still not heeding the call to innovate, enhance productivity and internationalise.

Where Are The Losses Concentrated?

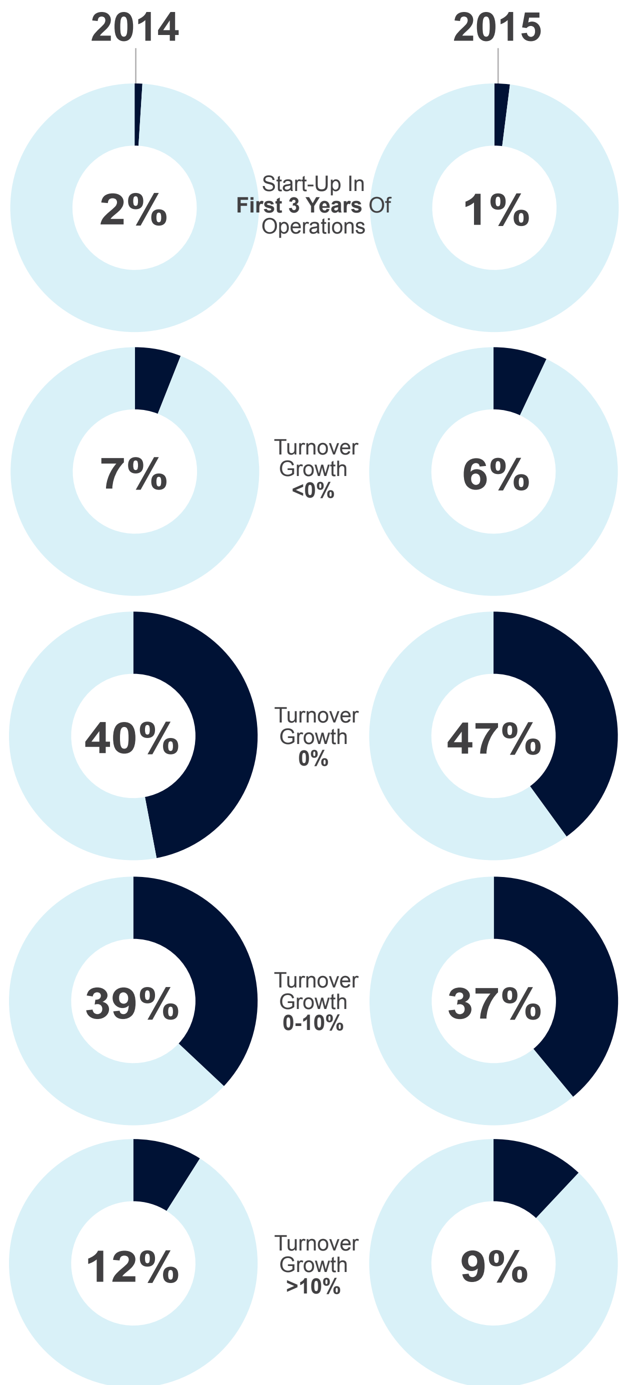
The sales and profit margins of SMEs listed on SGX (based on the sample of 327 companies) have come under pressure for most industries over the past few years.

The breakdown by number of companies show losses are concentrated in the Industrials, Consumer Discretionary, O&G and Materials industries.



SMEs Turnover Growth %

According to DP Information's 2015 SME Development Survey, **47% of SMEs recorded flat revenue growth in 2015**, up from 40% in 2014, while 6% saw a contraction.



This article is contributed by Elaine Khoo & Lloyd Chan from UOB Country and Credit Risk Management.
You can read the full article here.

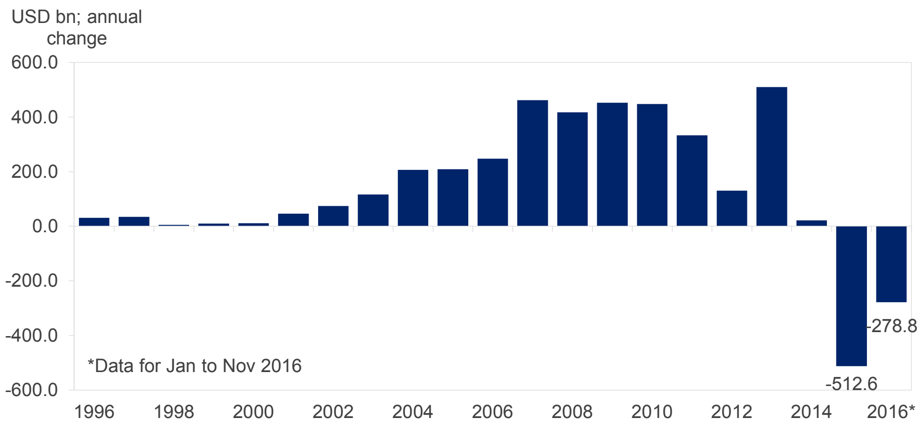
CHINA

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/CNY	6.95	7.02	7.09	7.16
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35

Economic Indicators	2014	2015	2016F	2017F
GDP	7.3	6.9	6.7	6.6
CPI (average, y/y %)	2.0	1.4	2.0	2.2
Unemployment rate (%)	4.1	4.1	4.1	4.1
Current account (% of GDP)	2.6	3.1	2.6	1.9
Fiscal balance (% of GDP)	-2.0	-3.5	3.0	3.0

Change In Foreign Reserves

Source: CEIC, UOB Global Economics & Markets Research



Interest Rate & RRR Forecasts	3Q16	4Q16F	1Q17F	2Q17F	3Q17F	4Q17F
1-year Benchmark Lending Rate %	4.35	4.35	4.35	4.35	4.35	4.35
1-year Benchmark Deposit Rate %	1.50	1.50	1.50	1.50	1.50	1.50
Reserve Requirement Ratio %	17.00	17.00	17.00	17.00	17.00	17.00

Expect Further Growth Moderation Into 2017

China's 3Q16 GDP headline rose as expected at 6.7%y/y, the same pace as in 1Q16 and 2Q16. While this is the slowest rate in more than 7 years, it is within official target of 6.5-7.0%. Notably, momentum remained respectable at 1.8%q/q from 1.9%q/q in 2Q16. In terms of sectoral performances, tertiary (services) again came up tops, with 7.6%y/y gain (7.5% in 2Q16), ahead of the secondary sector's 6.1% (2Q16: 6.3%).

Recent data continue to point to a largely stable growth environment. PMI reports for both manufacturing and non-manufacturing sectors in Nov are respectable, at above the 50-mark in the manufacturing sector and further expansion seen in services PMI, which will be the key economic driver ahead.

However, external sector remains challenging and more so in 2017. Our projections show that China's exports (USD terms) are unlikely to return to sustained growth until mid-2017, for a moderate +0.4% in 2017 after a projected -7% decline in 2016. Adding to the uncertainty is that China and other economies face the risks of US President-Elect Donald Trump's imposing trade tariffs and currency manipulator label.

Our base case remains for China to see slower expansion into 2017, after another 6.7%y/y growth in 4Q16 (6.7% headline for full year 2016). A combination of soft external demand, capacity rationalization, and tighter domestic liquidity would see overall activities slow to 6.6% in 2017, particularly in the first half of the year.

PBoC to Hold Policy Steady For Now

As noted back in Sep, risks of PBoC easing have reduced significantly with diminishing concerns of growth and ongoing focus on debt and leverage. More pertinently, the post-US election rise in US Treasury yields, a USD rally, and expectations of further Fed tightening ahead have further diminished PBoC's policy headroom.

RMB fell in rapid succession from 6.70 to 6.90/USD levels within a space of 2 months (Oct and Nov) as well as on a trade weighted (NEER) basis, which suggest that domestic liquidity may need to be tightened/interest rates higher to manage the depletion in China's FX reserves.

Indeed, domestic interest rates have spiked in response, with 3-month Shibor and reserve repo rates at highest levels since 2015. Similarly, China government bond yields have also risen in response to the global bond rout.

Taken together, we expect PBoC to maintain its current benchmark interest rates unchanged at 4.35% (1Y lending) and 1.50% (1Y depo), as well as the reserve requirement ratio (RRR) intact at 17.0% for now.

YTD, the RMB has declined nearly 5-6% against the USD at around 6.89-6.90 level (as of 7 Dec), last seen in 2008. RMB NEER fell by more than 6.5% YTD. This is contrary to official stance of "no basis for depreciation" and "exchange rate to remain stable". This is likely to be PBoC's response to curbing capital outflows and a stronger dollar, by slowing the depletion of FX reserve and regulating domestic liquidity, at the expense of downward pressure on the RMB.

China's FX reserves have fallen by about USD941bn from the peak of USD3.993tn, to USD3.051tn at end-Nov 2016. The decline is more than just FX intervention (selling dollars) and capital flight, as factors such as FX valuation impacts and bond prices, repayment of foreign currency loans, recapitalization of local institutions also play a part. Nevertheless, is China's FX reserve too little or too much? PBoC noted that the ability of financing 6 months of imports and to cover external debt would be a good yardstick. Foreign liability in the banking sector totaled USD1.31tn end-Jun 2016 while imports amounted to USD730bn in Jan-Jun 2016. This means that a "reasonable" FX levels would be in the region of USD2 to USD2.5tn, to buffer for increasing imports needs and slowing exports.

Going into 2017, the USD strength is likely to remain supported with anticipation of US President-Elect Trump's fiscal stimulus and tax cut plans as well as a more hawkish US Fed. We expect the US dollar to strengthen by about 5% against most Asian currencies. As such, we still see further upside pressure on the USD/CNY, toward 7.00 by mid-2017 and at 7.16 by end-2017.

HONG KONG

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	1.00	1.25	1.50	1.75

Economic Indicators	2014	2015	2016F	2017F
GDP	2.6	2.4	1.6	1.8
CPI (average, y/y %)	4.4	3.0	2.4	2.2
Unemployment rate (%)	3.2	3.3	3.0	3.0
Current account (% of GDP)	1.9	3.1	2.5	2.3
Fiscal balance (% of GDP)	1.1	1.9	0.8	0.8

Growth Stabilizing After Early 2016 Trough

Hong Kong's 3Q16 GDP headline figure came in at 1.9%y/y, in line with our expectation of 1.8% but surprised market expectation of 1.5% forecast. The growth figure was a slight improvement from 1.7% in 2Q16 and after hitting the trough of 0.8% in 1Q16. A rebound in investment at 6%y/y was the main driver in 3Q, after four consecutive quarters of y/y declines with the recovery in property market. Of note is that private spending was surprisingly subdued during the quarter, expanding 1.2%y/y compared to 0.5% gain in 2Q16 and at similar pace in 1Q16, and at the lowest amount spent in two years, suggesting poor consumer sentiment as well as from the impact of falling tourist arrivals. External demand also improved in 3Q, after languishing in the prior two quarters.

For now, we are keeping our HK's growth forecast at 1.6% for 2016, which implies 4Q16 headline at 2.2%. For 2017, we are also retaining our projection of 1.8% pending any potential impact from US President-Elect Trump, who had vowed to implement trade tariffs and "currency manipulator" label on countries engaging in "unfair" trade practices with the US, among others.

Watching Out For Risks In 2017

On the domestic front, the newly implemented property tightening measures earlier could crimp investment demand and private spending ahead. To recap, the government on 4 Nov announced additional property tightening measures, mainly targeting at investors. It raised total stamp duty payable for buyers without HK permanent resident status (including companies) to as much as 30%.

Also in the domestic front, visitor arrivals into HK remained lackluster and showing no clear signs of a recovery. This development has been weighing on the retail sector. While value of retail sales in Oct improved to -2.9%y/y from -4% in Sep and -10.5% in Aug, this is the 20th straight month of declines and the longest stretch since the 1997/98 Asian financial crisis when retail sales contracted 26 months. Note that the scale of declines is less vicious this time round, at an average of 6.3% decline, about half of the -11.6% in 1997/98.

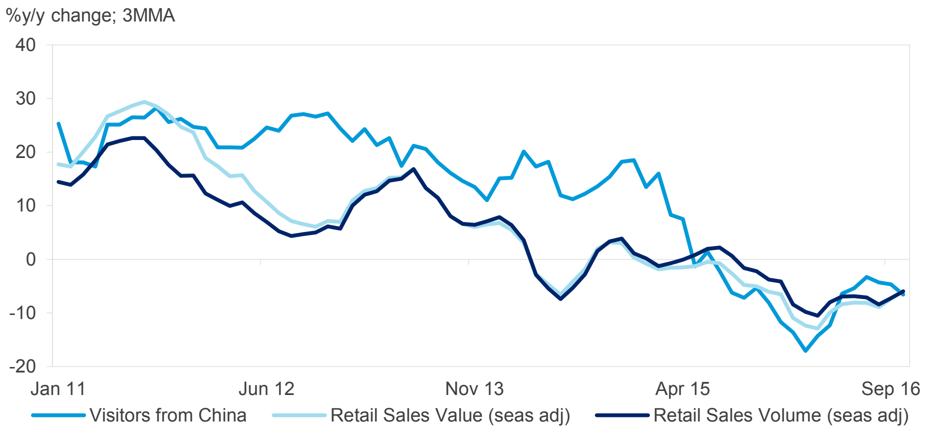
Externally, US President-Elect Trump has vowed to implement trade tariffs, aiming squarely at China as one of the countries with "unfair" trade practices. From 2013-2015, about HKD290bn of goods were re-exported annually from China to US via HK, or 8% share of total HK exports. The proportion is similar in the Jan to Oct 2016 period. If President-Elect Trump imposes a 45% tariffs on China's exports (from about 3.5% currently), the impact on HK's economy would be felt directly and significantly.

Interest Rate Likely To Track Higher

Hong Kong's interbank rates have responded – along with markets globally – since the 8 Nov US Presidential election, to the shift in US inflation expectations in anticipation of large fiscal stimulus in the US. The 3-month HIBOR rose from 0.64% to 0.72% on 5 Dec, at the highest since 2009, and the low and stable interest rate era from 2012 to 2015 is now over. Similar to market expectation, we expect a virtual certainty of US Fed rate hike in Dec 2016, and anticipating at least 3 times in 2017. This means for the 3-month HIBOR, our end-2016 forecast is at 0.82%, and to 1.6% by end-2017.

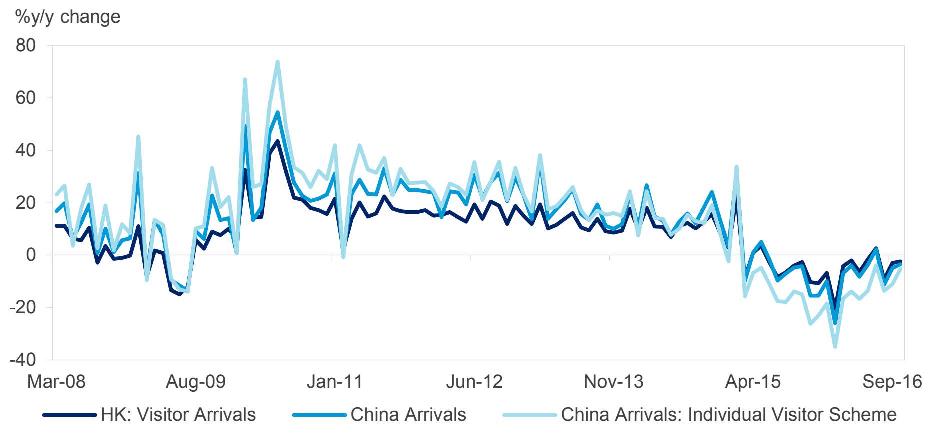
Visitors From China And Retail Sales

Source: CEIC, UOB Global Economics & Markets Research



Visitor Arrivals

Source: CEIC, UOB Global Economics & Markets Research



INDIA

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/INR	70.4	71.9	72.8	73.8
INR Repo Rate	6.00	5.75	5.50	5.50

Economic Indicators	2014	2015	2016F	2017F
GDP	6.6	7.2	7.1	7.2
CPI (average, y/y %)	6.4	5.9	4.9	4.8
Current account (% of GDP)	-1.4	-1.1	-1.0	-1.2
Fiscal balance (% of GDP)	-4.3	-3.5	-3.7	-3.5

Growth Continues To Slow On Weak Manufacturing & Investments

India's Jul-Sep (FY 2Q 2016) GDP grew 7.3% y/y, a slight pickup from the 7.1% y/y rate in FY 1Q 2016, as private consumption expenditure grew at a quicker pace of 7.6% y/y, from the 6.7% y/y growth in the previous quarter. However, investments contracted 5.6% y/y this quarter, worse than the 3.1% y/y rate a quarter ago. This is worrisome as it marks the third consecutive quarter of decline, and could continue for a few more quarters due to the demonetization measures, which will hurt business sentiments.

In fact, much of the FY 2Q growth was supported by government spending, which surged 15.2% y/y (although it slowed from an even higher 18.9% y/y in the previous quarter). The government's ability to stimulate investment going forward could also be limited, as India's budget deficit hit 79.3% of the full-year target in the first seven months of the fiscal year, compared with 74% the previous year. At the on-going rate, we doubt that GDP growth for FY 2016 will reach the government's growth target of 8%.

Another measurement of economic activity, gross value added[1] (GVA), showed that India's economy expanded 7.1% y/y in FY 2Q 2016, slower than the 7.3% y/y growth in the previous quarter. An analysis by industry shows that the slower growth in the manufacturing (+7.10% y/y, from +9.10% y/y), trade/hotels/transport/comms (+7.1% y/y, from +8.2% y/y), and financial/real estate/professional (+8.2% y/y, from +9.4% y/y) sectors was the main cause.

The 8 Nov move by Prime Minister Narendra Modi's administration to invalidate 86% of currency (both the Rs500 and Rs1000 notes) in circulation to curtail tax evasion and graft is an important move for the long-standing issues in India and will be growth-positive in the longer run as an estimated INR 5 trillion of undeclared monies enter into the official financial circulation. That said, shorter term impact could mean slower growth. Because of the short term impact, **we had reduced our GDP growth forecast for FY 2016 to 7.1% (from 7.4% previously), and FY 2017 to 7.2% (from 7.7% previously).** Growth forecast downgrades could hurt foreign investors' sentiments in India, as well as voters' perceptions of PM Modi before key state elections in 2017. But we think that it is too myopic as India still enjoys one of the fastest GDP growth rates in the world even at that slightly reduced rate.

1 GVA = GDP minus net indirect taxes, and net indirect taxes = gross indirect taxes minus subsidies.

In an unexpected move, the Reserve Bank of India (RBI) kept its key policy rate unchanged on 7 Dec. Market had expected a 25bps rate cut due to the short term negative impact on economic growth from the demonetization measures, as well as a more favourable inflationary condition. That said, a significant move by the central bank to ease liquidity conditions was by removing the incremental cash reserve ratio that amounted to INR 3.5 trillion. That move will help banks lower lending rates even without a cut in the policy rate, and allow banks to earn interest on these funds thereby improving their net interest margin. It is possible that such easing of liquidity will allow banks to cut lending rates by around 25-50 basis points over the course of the current fiscal year. While still early to judge the overall impact of the demonetization, we expect 2 further rate cuts by the RBI in 1H 2017. Coupled with a more hawkish US Fed rate hike (we expect 3 times in 2017), we are likely to see the USD/INR trending towards higher grounds and end at 73.8/USD by end 2017.

INDONESIA

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/IDR	13,800	13,900	14,100	14,300
IDR 7-Day Reverse Repo	4.75	4.75	4.75	5.00

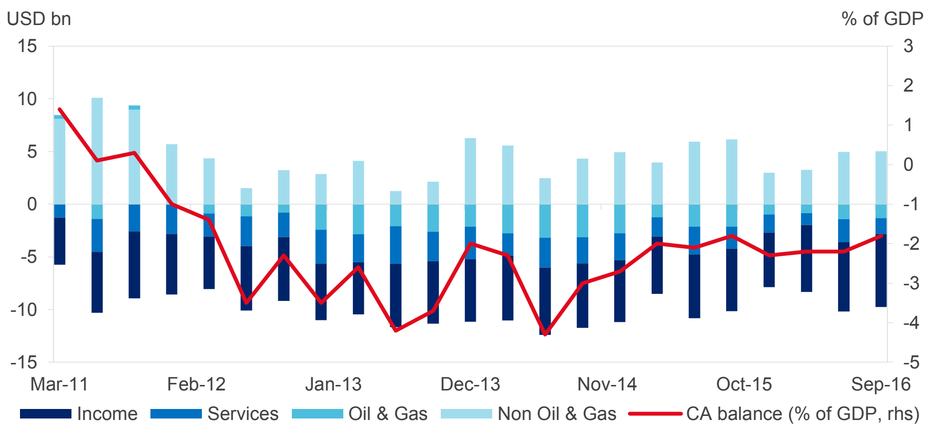
Economic Indicators	2014	2015	2016F	2017F
GDP	5.0	4.8	5.0	5.2
CPI (average, y/y %)	6.4	6.4	3.6	4.0
Unemployment rate (%)	5.9	6.2	5.6	5.3
Current account (% of GDP)	-3.1	-2.0	-2.1	-2.2
Fiscal balance (% of GDP)	-2.1	-2.6	-2.5	-2.4

Higher Indonesian Government Bond Yields Post-Trump Election

Source: CEIC, UOB Global Economics & Markets Research

Current Account Deficit Well-Contained, Narrowed In 3Q16

Source: CEIC, UOB Global Economics & Markets Research



The Indonesian economy grew by 5.0% y/y in the first three quarters of the year. Growth was weighed down by a decline in public consumption while fixed asset investment growth moderated and exports contracted by a larger pace in 3Q16. Despite the interest rate cuts, credit growth has remained weak thus crimping investments and the pass-through to lending rates has lagged due in part to higher credit costs from NPL increase. The cut in government's budget spending which was announced in August will continue to affect the growth outlook in 4Q16 but the stabilization of oil and commodity prices should bode well for the overall economy. We expect firm private consumption demand and some pick-up in fixed investment to drive growth next year, maintaining our 2016 and 2017 growth forecast at 5.0% and 5.2% respectively. BI expects the growth range to be 5.0-5.4% in 2017.

The key risk is likely to come from trade. While Indonesia has one of the lowest share of exports of goods and services to GDP amongst the Asian countries, it is unlikely to escape unscathed in the event of US trade restriction measures. US is the third largest export market for Indonesia, accounting for 11% of Indonesia's exports in 2015 while a slower growth in export-dependent Asia will also translate into weaker outlook for the country.

Headline inflation has recovered from 7-year low and is expected to inch higher to average 4.0% in 2017 (2016: 3.6%) which is still well-within BI's target range of 3-5%. BI expects the planned electricity tariff increases in 2017 (to be raised over three times) to increase the inflation rate by 0.95%, adding to the upside risk to inflation.

BI To Remain On Hold Amid Global Uncertainties

BI has cut interest rates by 150 bps since the start of 2016 on the back of softer growth outlook and benign inflation but more emphasis will likely be placed on financial market stability than on supporting growth in 2017 as capital outflow risks increase.

The prospect of reflation in the US triggered a sell-off in the global bond market, leading Indonesian government bond yields up by around 100 bps. With market looking for a faster pace of rate normalisation in the US next year and greater uncertainties in the Eurozone, we believe BI will have limited opportunity to cut interest rates further. We expect BI to be on an extended pause in 1H17.

IDR Biased Lower As Tax Amnesty Boost Fades

IDR is one of the outperformers in the Asian currency space in 2016. Despite the pullback post-Trump, IDR is still up by more than 3% against USD YTD. Before the end of 2016, IDR will find some support from delayed tax amnesty repatriations with BI expecting IDR 100 tn (out of IDR 143 tn declared so far) to be sent back in December.

Going into 2017, USD/IDR will be underpinned by US yields. Having peaked at IDR685 tn (US$52 bn) or 39.2% of total outstanding in September, foreign holdings of IDR-denominated government bonds had dropped by US$2bn in the last two months. Foreign holdings remain substantial at 37.0% at the end of November and any risks of capital flight from Asia will have a larger impact on the Indonesian assets and currency. The global uncertainties and expected slower tax amnesty flows in 1Q17 will likely see USD/IDR gravitating towards 13,800 by end-1Q17 and 13,900 by end-2Q17. Politics could also become more intense approaching Jakarta Governor's election on 15 February 2017, increasing the upside risk for the currency pair.

JAPAN

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/JPY	115	117	119	120
JPY Policy Rate	-0.20	-0.20	-0.30	-0.30

Economic Indicators	2014	2015	2016F	2017F
GDP	0.3	1.2	0.8	0.9
CPI (average, y/y %)	2.7	0.8	-0.2	1.0
Unemployment rate (%)	3.6	3.3	3.0	3.0
Current account (% of GDP)	0.5	3.3	3.8	3.5
Fiscal balance (% of GDP)	-7.1	-5.1	-6.5	-7.0

Low Growth Year In 2017 With A Twist

Japan's 2nd cut of 3Q 2016 GDP growth was revised lower to 1.3%q/q SAAR (from prelim estimate of 2.2%). The downward revision was due to a smaller contribution of external demand, a bigger drag from private inventories and a decline in private non-residential investment offsetting the gains from higher personal spending and an unexpected reversal of public investments. But if we look at the 1 year ago comparison, Japan's growth was markedly revised higher at least in the last few quarters. 3Q 2016 growth was revised higher to 1.1%y/y (from 1st prelim estimate of 0.9%y/y). The even more eye-catching revisions were on the full-year growth rates of which 2015 growth was revised markedly higher to 1.2% (from 0.5%). The reasons for the significant growth revisions was that the government adopted a new base year for the GDP calculations, changing the base year from 2005 to 2011, and more importantly, the government included the implementation of the UN's System of National Accounts (SNA2008) which takes into account of research & development (which Japan excluded previously) and also gave more weight to the service sector. Thus, these changes makes it difficult to compare between the 1st and 2nd preliminary 3Q 2016 estimates as we are "not comparing apples to apples" due to GDP methodology changes adopted by Cabinet Office.

Meanwhile, Japan's company profits unexpectedly soared 11.5%y/y after a disappointing decline of -10%y/y in 2Q even as company sales fell further at a slower pace of -1.3%y/y (from -3.1% in 2Q). Exports recorded yet another decline of -10.3%y/y in Oct (13th consecutive month), while import contraction was worse at -16.5 %y/y, 22nd straight month of decline. We initially expected that after 12 months of y/y declines, low base effect may work in favour of October exports while sustained smartphone demand may also further boost semiconductor exports, but that did not happen. Japan recorded a cumulative trade surplus of JPY3.3trn so far in the first ten months of 2016 and may still record trade surpluses in the subsequent months due to sharper import contraction. Japan remains on track to etch out a full-year trade surplus in 2016 but we expect it to come in less than JPY5trn, and this surplus unfortunately comes at the expense anemic on-shore demand & a weaker yen in 4Q 2016.

While the external demand outlook remains uncertain and likely to continue to be challenging for export-oriented Japan, the recent resumption of yen weakness (due to the Trump-effect) does provide the opportunity for better exports numbers into the final quarter of 2016. That said, we still have our concerns about domestic consumer weakness in Japan and the anemic business spending outlook. **Despite our concerns, we revise our 2016 growth forecast higher to 0.8% (from 0.6%) to reflect effects of the latest changes in statistical methodology.**

We expect GDP growth to be similar in 2017 at 0.9%, supported by export recovery that will have positive spillover to the manufacturing sector but the key risks ahead for Japan will be Trump's US economic & foreign policy and European political developments which may hamper business investment & trade outlook. An anchor for Japan's 2017 growth may also come from public sector investment via the effects of the fiscal boost from the stimulus package announced in August 2016.

Anemic inflation remains the bane of Japan despite the October CPI surprise. Japan's headline CPI unexpectedly returned to inflation at +0.1%y/y in Oct after 6 months of deflation while core-core inflation (which excludes food and energy) also climbed to 0.2% (from 0% in Sep) and the BOJ-calculated core CPI (which excludes food, energy and the 2014 sales tax hike) edged up to +0.3%y/y (from low of 0.2% in Sep). The BOJ further pushed out the 2% inflation target timeline in the Nov MPM, delaying again its forecast to achieve the 2% inflation to 2H FY2018 (from during FY2017). While inflation may increase on the back of higher commodity prices (barring another oil price correction), weaker yen driving up import costs & Trump's reflationary policies, it will still be a gradual climb before BOJ's 2% inflation target is reached. Chances are that it may still be below 2% even when BOJ Gov Kuroda's term expires in Apr 2018.

BOJ - More Easing Into 2017…

We still expect the Bank of Japan (BOJ) to do more in 2016 despite the 3Q GDP growth revision and recent yen weakness. The surprise announcement by BOJ in November on its first operations to purchase an unlimited amount of Japanese government bond (JGB) in a bid to re-assert the central bank's control of the yield curve further reinforced our expectations of more measures from the BOJ in the last 2016 MPM on 19/20 December. We expect the BOJ to push the Policy-Rate Balance rate to -0.2% (from -0.1%) by its Dec-2016 decision. With the 10-year yield expected to be targeted at around 0%, the BOJ would want to see a steeper yield curve. We also expect the BOJ to accelerate it asset purchase program and may even include buying of other instruments, either by end-2016 or in early half of 2017. We still believe the BOJ has not reached its limits of what it could do in terms of monetary easing, but the concern continues to be whether the BOJ's monetary policy is still effective.

Stimulus Package, Election In 2017?

Fiscal stimulus packages have been the norm under PM Shinzo Abe with the last three announced in 2016 (Jan, Apr and Aug). It is likely another fiscal package be announced in 1H 2017. On politics, although the 48th general election for Japan is due on or before 13 Dec 2018, there is speculation PM Abe may call for early elections in 2017. If he prevails, then Abe will extend his term till 2022. The concern is that 2017 is crowded with several European general elections, and if Japan joins the fray, then it will be another risk event which may create volatility. That said, the lack of credible opposition may mean a smooth passage for Abe in 2017.

…But Trump Effect May Play The Bigger Role To Push USD/JPY Higher

We initially expected the JPY to weaken due to expectations of Fed normalizing rates rather than BOJ easing measures. But the surprise election of US President Donald Trump has driven the USD broadly stronger along with higher inflation and interest rates expectations while along the way decimating safe haven demand and the USD/JPY is now trading above the 110-mark (7 Dec 2016). Yen weakness may persist into 2017 and even accelerate early 1Q ahead of the US Presidential inauguration on 20 Jan 2017 as the Trump-effect may not dissipate anytime soon.

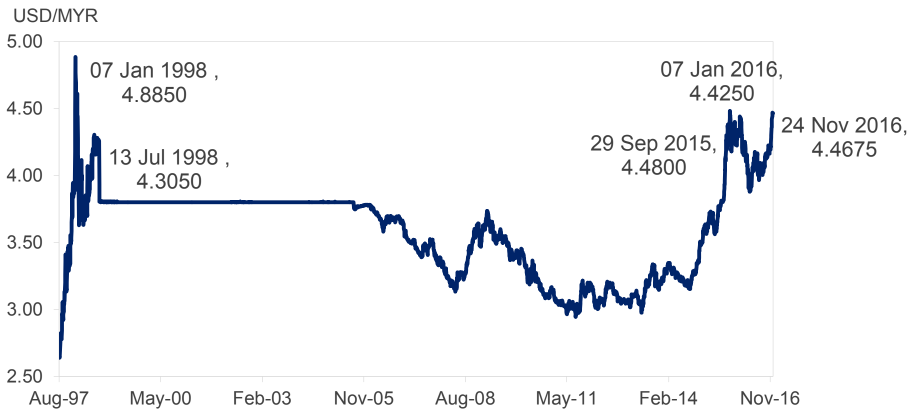
MALAYSIA

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/MYR	4.42	4.35	4.45	4.50
MYR Overnight Policy Rate	3.00	3.00	3.00	3.00

Economic Indicators	2014	2015	2016F	2017F
GDP	6.0	5.0	4.2	4.5
CPI (average, y/y %)	3.1	2.1	2.2	2.5
Unemployment rate (%)	2.9	3.1	3.5	3.4
Current account (% of GDP)	4.4	3.0	1.4	1.5
Fiscal balance (% of GDP)	-3.4	-3.2	-3.1	-3.0

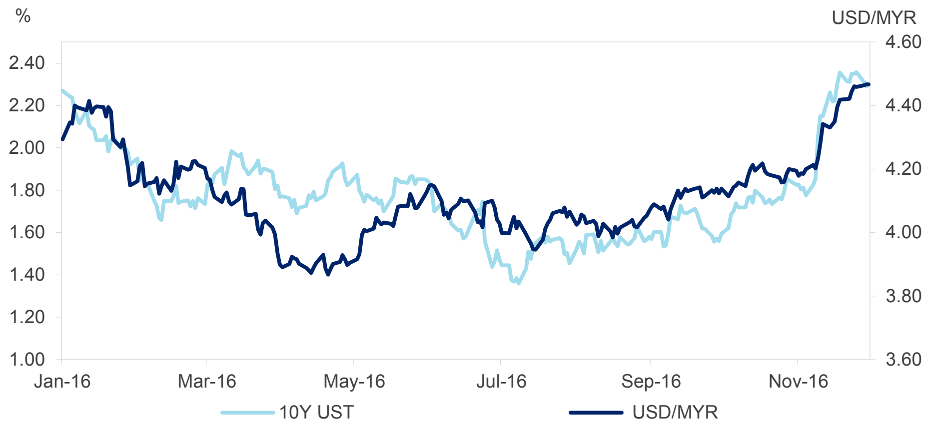
Historical USD/MYR Intraday Highs

Source: Bloomberg, UOB Global Economics & Markets Research



USD/MYR Tracking US Bond Yields

Source: Bloomberg, UOB Global Economics & Markets Research



Growth Stabilises

Malaysia's economy shows signs of stabilization in the third quarter as real GDP showed a small uptick of 4.3% y/y following five quarters of decelerating growth. Growth drivers were mixed with domestic demand showing fatigue while net exports buffered growth amid weaker imports. Given Malaysia's high trade dependence and strong financial linkages, heightened policy uncertainty from abroad will likely exert downside risks to growth. However the country will continue to derive support from favorable demographics and diversified export sector. There has been a raft of domestic support measures including big ticket infrastructure spending to spur growth in the short and medium term.

Private consumption will be held up by positive wage adjustments for minimum wages, civil servant salaries and higher government cash-handouts for the low-income groups. However spending is likely to be centered on necessities while consumers turn more cautious on discretionary spending amid concerns about rising cost of living and tighter finances.

The center piece of investments will be mega-project spending. Key projects include RAPID, Pengerang, Petronas LNG Complex in bintulu, Rawang-Salak Selatan line, Kuantan port, Pan Borneo Highway, MRT2, LRT3, East Coast Rail Link, and Kuala Linggi Port in Malacca. The MYR29.7bn of infrastructure job awards in the first half of the year has exceeded the full-year total for 2015, with another MYR30bn more in the pipeline. Government estimates indicate every MYR1 spent in the construction sector will induce an additional MYR0.80 spent along the supply chain. As such the positive spin-off effects could be as large as MYR40bn across the entire supply chain over the next few years.

Rates On Hold

Bank Negara Malaysia (BNM) kept the policy rate unchanged at 3.00% in November with a neutral bias. We think BNM is likely to stay focused on managing growth risks next year. The pressure to ease rates are somewhat limited by the volatile financial markets and weaker Ringgit. Given that the economy is on a stabilizing path, BNM can afford to stand pat on policy rates for now. While domestic liquidity is likely to remain sufficient, the excess liquidity will narrow with capital outflows and hence may tilt interbank rates upwards. However we think BNM will be on standby to manage domestic liquidity and ease the statutory reserve requirement (SRR) if necessary in order to keep rates steady.

Ringgit Loses Ground

Post US elections, USD/MYR gapped up above the 4.00-4.20 range to break above this year's high of 4.4250.The local currency has been under more pressure compared to its counterparts. Much of the weakness stems from dollar strength amid sharply higher US Treasury yields, as well as negative perception that Malaysia is more vulnerable due to its high foreign holdings of domestic debt securities, lower foreign reserves relative to Thailand and Indonesia, and BNM's intensified actions to curb speculative offshore NDF activity. We think there are valid reasons to suggest the Ringgit has been oversold going by estimated fair value of 3.90 and the country's stable fundamentals. Firmer oil price is positive for the Ringgit however has been overshadowed by prospects of higher US 10-year yields and charging dollar bulls. We project USD/MYR at 4.50 in 2017 though being a high beta currency would mean periodic retesting of recent highs.

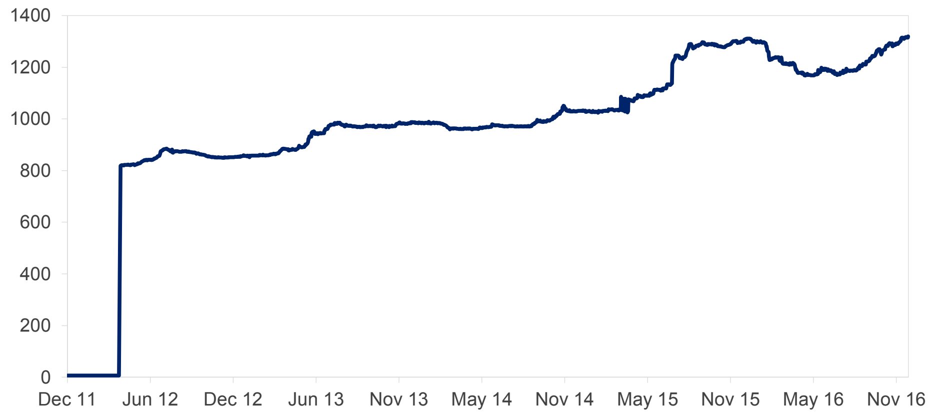
MYANMAR

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/MMK	1,325	1,350	1,375	1,400

Economic Indicators	2014	2015	2016F	2017F
GDP	8.7	7.0	8.1	7.7
CPI (average, y/y %)	5.9	11.4	9.8	9.1
Unemployment rate (%)	4.0	4.0	4.0	4.0
Current account (% of GDP)	-5.6	-7.6	-8.3	-8.1
Fiscal balance (% of GDP)	-0.6	-4.8	-4.6	-4.6

After Robust Appreciation In 1H 2016, Gains Rapidly Faded In 4Q16 & The USD/MMK Is Likely To Head Towards 1,400 In 2017

Source: Bloomberg, UOB Global Economics & Markets Research



Growth Outlook Stirred But Unshaken

The growth outlook for Myanmar remains robust and set to outperform the rest of ASEAN countries, underpinned by a positive investment outlook. In its WEO October 2016 report, the IMF estimates growth in 2016 to be 8.1% (lowered from 8.6% in WEO April 2016) while 2017 growth is still at an impressive 7.7% (unchanged from WEO April 2016), ahead of Vietnam and Philippines.

Positive investment sentiment on Myanmar are attributed to improvement in the political environment & continued economic reform which has attracted foreign direct investment (FDI) into various industries, especially oil and gas sector (1st), transportation and communication. Furthermore, the lifting of the US sanctions program against Myanmar on 7 October 2016 will boost US FDI into the country while Myanmar's apparels and agricultural exports also look set to benefit in the near term. In addition to the formal removal of US sanctions, Myanmar also passed a new investment law (20 Oct 2016) to provide a favorable investment environment for both local and foreign investors via tax incentives, measures to make it easier to lease land & repatriate profit, and encourage investment in the less developed parts of Myanmar. Furthermore, Myanmar is experiencing incredible growth in internet usage and mobile phone (specifically smartphone) penetration (expected 46 million subscribers by end-2016 in a country of 57 million population), which will drive very rapid telecommunication infrastructure rollout and provide opportunities for the economy to bypass traditional market development stages and leapfrog directly into mobile/digital/internet-enable businesses.

As we highlighted in earlier reports, there are several challenges for this fast growing economy. The domestic industries continue to struggle to improve competitiveness & productivity and the problem is very much linked to the challenge of reliable access to electricity. Thus, attracting investments into the power sector and electricity distribution is of great importance to the success of Myanmar. Another key area is the banking sector which is life-blood of the economy remains at the early stage of development while the reform of state-owned banks is still on-going.

Myanmar's inflation stood out in 2015 as it averaged a high 11.4%, the highest among Asian countries and while it is likely to ease lower this year, it is still expected to remain elevated at just under 10% in 2016, thanks to strong domestic demand and unresolved supply bottlenecks. One of the ways to manage the inflationary pressure is to better manage Myanmar's increasing government budget deficit but this may a tall order given the country's current stage in the growth cycle. Meanwhile, the current account has been in deficit since 2007 and it hit -8.9% (of GDP) in 2015, the highest since 1998 and it is likely to stay above 8% in 2016-2017.

Myanmar remains vulnerable to weather-related events (Typhoon season is typically between May and October) and we are mindful about a repeat of the 2015 floods. Another Achilles' heel for Myanmar's broad-based progress is the unresolved ethnic conflicts in the Rakhine state and the long-drawn peace process between Myanmar's government and warring ethnic minorities.

MMK Outlook: Likely Weaker In 2017

What a difference of two halves it was for the Myanmar currency, MMK (Kyat) in 2016. MMK was one of the top appreciating currencies against US dollar in 1H 2016 but the 4Q surge in US dollar strength after the unexpected US presidential victory by Donald Trump wiped out all the appreciation and the MMK is now about 0.8% weaker against the US dollar YTD with the USD/MMK pair touching a new high at 1320 (as of 7 Dec 2016). This is another year of depreciation although much milder compared to the massive 21%depreciation in 2015).

Despite the improving investment climate and expected continued FDI inflows to Myanmar, the MMK is unlikely to buck the global trend of a stronger US dollar powered by higher US interest rate expectations and the Trump effect. Thus, **while we keep our positive outlook for the domestic economy, we have revised our outlook for the MMK to negative in 2017** and expect it now to be on a depreciation trend with the USD/MMK pair likely to hit 1,350 by mid-2017 and then weakening further to 1,400 by end-2017.

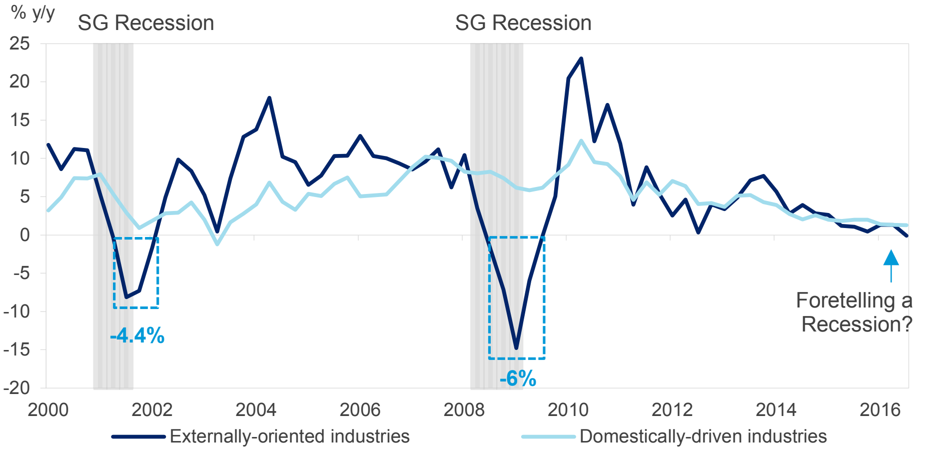
SINGAPORE

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/SGD	1.45	1.46	1.47	1.48
SGD 3M SIBOR	0.90	1.05	1.15	1.35

Economic Indicators	2014	2015	2016F	2017F
GDP	3.3	2.0	1.4	1.8
CPI (average, y/y %)	1.0	-0.5	-0.8	0.5
Unemployment rate (%)	1.9	1.9	2.2	2.4
Current account (% of GDP)	17.5	19.8	22.4	23.4
Fiscal balance (% of GDP)	1.3	-0.1	0.7	0.8

Does The Contraction In External Sectors Foretell A Looming Recession In 2017?

Source: CEIC, UOB Global Economics & Markets Research
Note: Externally-oriented industries are manufacturing, wholesale & retail, finance & insurance, accommodation & food services



Slowest Growth In Services Sector Since Global Financial Crisis

Singapore's 3Q GDP grew 1.1% y/y, a markedly lower rate of growth from the 2.0% y/y growth registered in the first half of this year. The sequential pullback of 2.0%, came about from very weak private consumption expenditure, which grew only 0.6% y/y, the slowest growth since the sustained slowdown that started in 4Q 2015. This is possibly a result of the weaker real wage growth and less-tight labour market, and evident in the contraction in Singapore's retail sales numbers over the past year.

Faced with the onset of poorer economic prospects and job market, weaker consumer confidence had resulted in a collective "tightening your belt" situation amongst residents. What was worrisome was the 2.7% contraction in gross fixed capital formation, as it tells us that businesses were also a lot more cautious about spending money for the future (aka: investments), as they may find it pointless if demand is weak. We hope that this does not start the vicious cycle where lower investments today results in lower potential GDP growth in the next period. But should external demand remain weak and there is no significant government intervention, this could well be the case.

The services sector (68% of GDP and 72% of employment), had recorded its slowest growth rate (0% y/y) since the 2009 global financial crisis, as trade-related sectors such as wholesale & retail trade (-1.5% y/y), finance & insurance (-0.7% y/y), and business services (+0.2% y/y) continue to face headwinds of weak external demand, although domestic sectors such as healthcare, education and social services experienced a pickup.

Although GDP grew at a slower rate, inflationary pressures seem to be stronger. Singapore's core inflation (an important indicator that the central bank looks at to adjust monetary policy) had been inching higher over the past few months. In their latest report, the Monetary Authority of Singapore (MAS) expects core inflation for 2017 to rise to the 1-2% range, from 1% in 2016, as energy-related price components start to contribute positively to inflation. Higher inflation in the midst of slower economic growth and rising unemployment (which we forecast to move higher towards 2.4% by end 2017, from 2.1% in 3Q 2016) points to a "stagflationary" scenario. **We forecast 2017 GDP to grow 1.8%, from 1.4% in 2016**, and this has not factored any possible trade-retaliation policies from the new US government under President-elect Donald Trump.

For now, the weak economic story will simply mean that the MAS will continue to keep to their current monetary stance of a "zero appreciation of the SGD NEER", possibly for the whole of 2017 too. Higher inflation expectations (a common theme globally, it seems now) will mean that the central bank's hands are tied when it comes to any further easing (via a shift in the midpoint). As such, we look towards more fiscal stimulus from the government budget, tying in with the key strategic recommendations from the much-anticipated Committee for Future Economy (CFE) in January 2017.

Factoring the inaction of the MAS in the upcoming meeting and our expectations of a single 25bps rate hike in the U.S. in December this year and three more 25bps rate hike in 2017, **we maintain our forecast that the USD/SGD will trend towards the 1.48/USD level by end 2017. The 3m SIBOR is forecast to reach 1.35% by the end of 2017.**

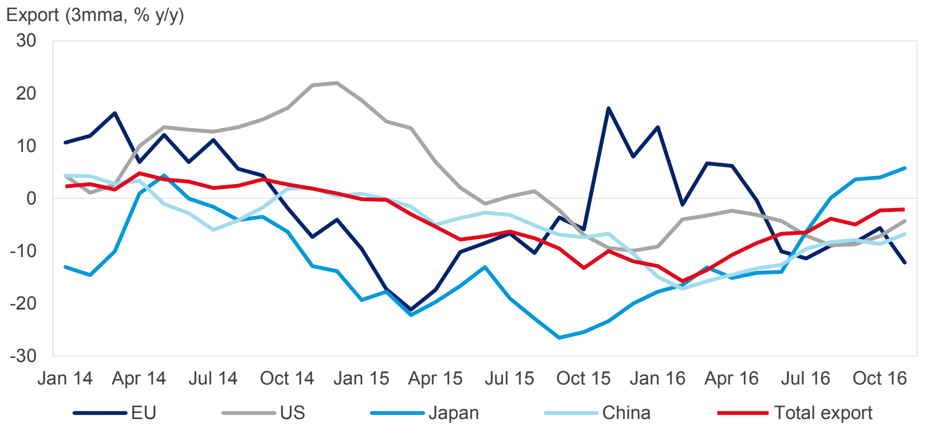
SOUTH KOREA

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/KRW	1,190	1,200	1,210	1,220
KRW Base Rate	1.25	1.25	1.25	1.25

Economic Indicators	2014	2015	2016F	2017F
GDP	3.3	2.6	2.8	2.6
CPI (average, y/y %)	1.3	0.7	1.0	1.8
Unemployment rate (%)	3.5	3.5	3.6	3.7
Current account (% of GDP)	6.0	7.7	7.5	6.5
Fiscal balance (% of GDP)	-2.0	-2.1	-2.3	-2.0

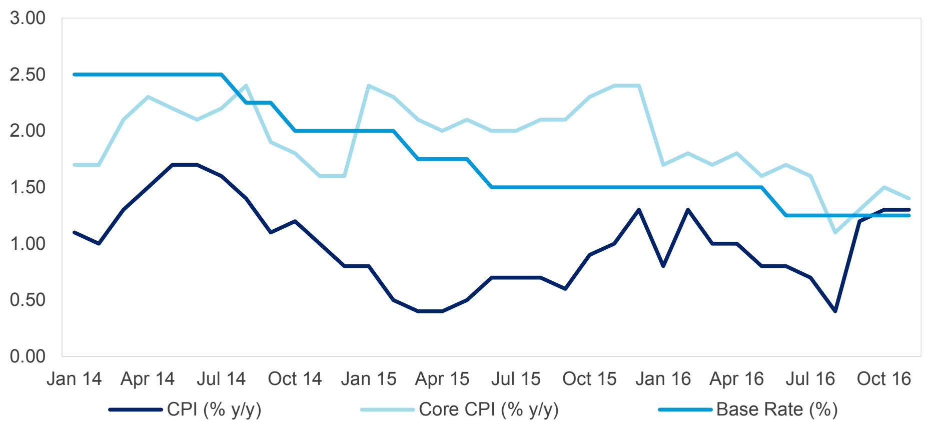
Exports On Recovery Trend But Risks Remain

Source: CEIC, UOB Global Economics & Markets Research



Headline CPI Has Edged Higher While Core CPI Remained Subdued

Source: CEIC, UOB Global Economics & Markets Research



Growth Risks Have Increased

South Korea's economy grew at its slowest pace in five quarters at 2.6% y/y in 3Q16. Private consumption demand growth eased off after a robust 3.3% pace in 2Q16 to register 2.7% growth while the strength in fixed investments was mainly supported by double-digit expansion in construction activities. The three consecutive quarterly contractions in facilities investment continued to point to a weak investment demand. Meanwhile, export activities were held up by shipment of semiconductors and chemical products.

The monthly trade data is indicating improvements in both export and import. Despite better data, we see the key risk to growth coming from the trade channel next year on the back of the prospect of US' trade protectionist measures. Furthermore, the BOK warned that a 10% decline in China's exports to U.S. could reduce South Korea's total exports by 0.36% and the impact could increase if it is followed by deterioration in the Chinese economy which is South Korea's largest export market and accounting for a quarter of Korea's exports this year.

The government's measures to dampen the property market in November are also expected to increase growth risks ahead given that construction investments had contributed to half of the GDP growth in the first three quarters of this year.

After expanding 2.9% y/y in the first three quarters of the year, we expect the economic growth to slow further to 2.5% in 4Q16. Restructuring in the shipbuilding and shipping industries and weaker housing construction will weigh on the growth prospects in 2017. We expect growth to moderate to 2.6% in 2017 from an estimated 2.8% this year.

The passage of the impeachment bill to begin a process of removing President Park from office is expected to provide some relief to market rather than a status-quo despite at least another two months before the constitutional court's decision. An end to the political impasses and an earlier presidential election in 1H17 will allow the new government to act on the economic challenges earlier, overcoming the lame-duck period in the last year of the president's term.

Inflation Creeping Higher

Headline Inflation has crept higher to 1.3% y/y in November from recent low of 0.4% in August but core inflation has remained subdued at 1.4% y/y. Higher oil prices could offset some of the weakness in domestic demand, lifting the headline inflation to 1.8% in 2017 from 1.0% this year.

BOK Likely To Stay On Hold

BOK cut its benchmark Base Rate once this year, by 25 bps to record low of 1.25% in June. We expect the central bank to remain on hold in 2017 as a result of global and domestic uncertainties, particularly as US Fed is likely to increase the pace of rate hikes. The household debt concern could ease as the government reverses its policy direction to tighten the property market but this in itself is unlikely to drive BOK into further monetary easing unless growth slows sharply

Instead, the South Korean government has announced preemptive market-stabilizing move to use bond-market stabilizing fund as soon as necessary to ease companies' funding problems amid rising yields and the state-run Korea Development Bank will also purchase up to KRW500bn in corporate bonds in 1Q17.

Lesser domestic political tension will help to alleviate some pressure from the strong USD but weaker growth and prospect of US anti-trade measures will still keep USD/KRW bias to the upside. We expect USD/KRW to trade to 1,190 by end-1Q17.

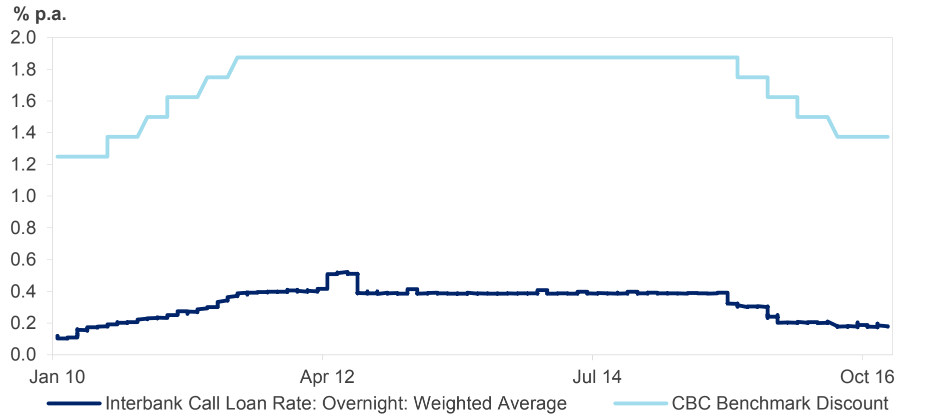
TAIWAN

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/TWD	32.5	32.9	33.3	33.7
TWD Official Discount Rate	1.38	1.38	1.38	1.38

Economic Indicators	2014	2015	2016F	2017F
GDP	3.9	0.7	1.3	2.0
CPI (average, y/y %)	1.2	-0.3	1.3	1.0
Unemployment rate (%)	3.8	3.9	4.1	4.0
Current account (% of GDP)	12.5	14.5	12.0	12.0
Fiscal balance (% of GDP)	-0.3	-0.2	-0.9	-0.8

CBC Discount Rate And Overnight Interbank Call Loan Rate

Source: CEIC, UOB Global Economics & Markets Research



Growth Stabilizing But Remains Soft

Taiwan's 3Q16 GDP growth came in at 2.03%y/y, slightly below advance estimate of 2.06%. However, this is much faster pace than the 1.13% expansion in 2Q16 (which was revised up from estimate of 0.70%), and after 3 consecutive quarters of y/y declines that ended in 1Q16. 3Q expansion was driven by an acceleration in investment spending as well as private consumption after several quarters of lackluster performance. External demand has also helped contributed after flat to negative growth in the prior 5 quarters, as exports performed exceptionally well in 3Q16. Exports rose 3.6%y/y in 3Q16, largely on the back of stronger demand for electronics with new models of mobile devices hitting the market worldwide during the quarter, although non-electronics exports remained weighed down.

While we expect exports to continue to contribute positively to headline GDP, its tech-heavy nature exposes Taiwan to the vulnerability of shifts in consumer demand and tastes, as well as the risks of trade protectionist measures from US President-Elect Donald Trump who is set to take office from 20 January 2017.

Keeping in mind external headwinds, we maintain our GDP forecasts for Taiwan at 1.3% for 2016, which implies 2.4%y/y in 4Q16, and at 2.0% for 2017. In contrast, official forecast for 2016 GDP growth has been raised in Nov to 1.35% (from +1.22% projection made in Aug), with an implied 4Q16 GDP growth forecast of +2.37% y/y. For 2017, official full-year GDP growth forecast was cut to 1.87% (from forecast of 1.88%). For the external sector, official projections for 2016 exports were revised to -2.85% from -3.08% and imports projection at -3.59% y/y (from -4.40%). 2017 full-year exports forecast are projected to gain 4.95% (down from earlier forecast of 5.08%).

Growth Headwinds Gathering

Domestically, weak wage increases and sharp slowdown in tourist arrivals from mainland are likely to weigh on private spending. Despite jobless rates hovering at the lowest levels in 10 years, wages rose an average of 0.6% in 2016, compared to an average of 2.2% gain in 2010-15. Tourist arrivals from Mainland decelerated sharply as cross-strait relations tensed up with the new administration in Taiwan. Mainland arrivals used to account about 30-40% of total from 2010 to early 2016, and dropped to just 25% share by Oct 2016, and the trend is unlikely to reverse soon. Mainland visitors per month have halved from peak of 300,000 to 400,000 during 2013 to early 2016, to 215,000 by Oct 2016.

Externally, the risks of trade protectionism have risen significantly in the US with President-elect Donald Trump vowing to impose trade tariffs on countries with "unfair" trade practices. US accounted for 13% of Taiwan's US$260bn exports in 2015.

CBC In "Wait And See" Mode

As expected, Taiwan's Central Bank of China (CBC) left its key policy rate unchanged at 6-year low of 1.375% at its last scheduled quarterly meeting on 29 Sep. CBC last reduced its policy interest rate at its scheduled meeting on 30 Jun, for the fourth time and a cumulative 50bps, since the easing cycle began at the 3Q15 policy meeting.

With the rediscount rate close to historic low, we expect the CBC to keep its interest rate policy on hold for now (next policy announcement: 22 Dec 2016), given that: 1) activity data have largely regained traction, especially with headline growth likely to maintain current momentum into 2017; 2) TWD has withstood downward pressure comparatively well despite a strong USD backdrop since US presidential election on 8 Nov; and 3) CBC governor has characterized for the second time, at the 3Q16 policy meeting, that the current monetary policy stance as "very loose". However, given the downside risks from both the domestic and external fronts, we expect the CBC to be ready to shift to further loosening, though it would depend on how the events would play out ahead, especially with respect to the new US government's stance on trade and currency and relations with Mainland China.

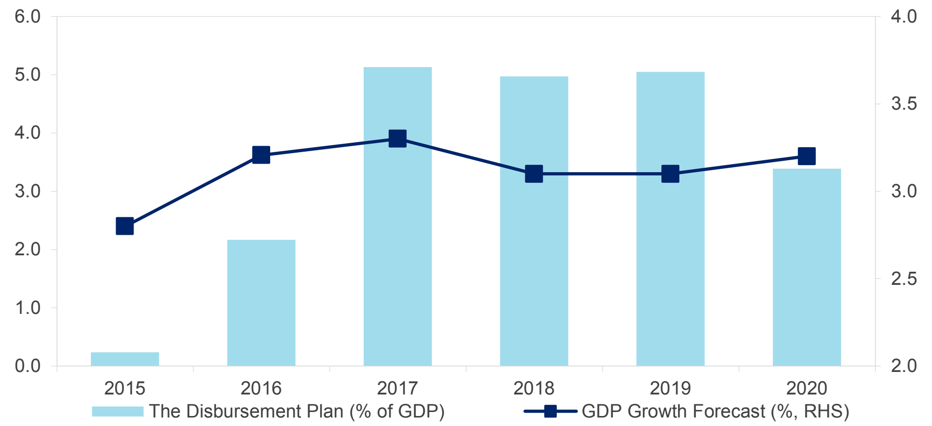
The TWD has performed relatively well compared to other EM currencies amidst the market turmoil after the US election on 8 Nov. The unit has weakened about 1.4% since then to 31.95/USD (as of 6 Dec), one the best Asian currencies while JPY fell nearly 8% and MYR is down more than 5%. As we anticipate the US dollar to remain firm broadly against most EM currencies going into 2017, supported by US fiscal policy, tax policy, and higher US Fed interest rates, we look for TWD to edge down towards 32.88 by mid-2017 and further towards 33.70 by end-2017.

THAILAND

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/THB	36.3	36.5	36.8	37.0
THB 1-Day Repo	1.50	1.50	1.50	1.50
Economic Indicators	**2014**	**2015**	**2016F**	**2017F**
GDP	0.8	2.8	3.2	3.3
CPI (average, y/y %)	1.9	-0.9	0.3	1.5
Unemployment rate (%)	0.8	0.9	0.8	0.7
Current account (% of GDP)	3.8	8.8	10.5	7.0
Fiscal balance (% of GDP)	-2.7	-2.6	-2.7	-2.6

Public Investment Remains A Significant Growth Driver

Source: Finance Ministry, UOB Global Economics & Markets Research



The Thai Economy Remains On A Recovery Path Despite Increased Downside Risks From External Factors.

Thailand's economy remains resilient in face of challenging global environment. The 3Q16 GDP growth rose to 3.2% versus 3.5% in the previous quarter. In seasonally adjusted terms, 3Q16 GDP grew by 0.6%. The economic momentum was driven by public expenditure on transportation and irrigation projects and a steady growth in private consumption. In addition, exports started to pick up and tourism continued to grow despite the bombing incidents and the government's measure to curb zero-dollar tours, which impacted both the service providers in the tourism supply chain and the foreign demand for tourism in Thailand. While private investment remained low, there were some improvements in certain export-oriented manufacturing sectors that were consistent with fund raising by businesses in the manufacturing sector, which showed signs of improvement.

Economic growth is projected to increase over the next year, assuming that substantial public infrastructure investments proceed on schedule and the political climate is calm around the general elections proposed for 4Q17. The factors are forecast to lift 2017 economic growth to 3.3% from 3.2% in the preceding year. The government is likely to maintain its expansionary fiscal policy stance in 2017 so as to sustain the growth trend as the economy faces increased headwinds to growth due to heightened external uncertainties. During 2017-18, the government is committed to speeding up construction of the planned development projects under the Eastern Economic Corridor (EEC), which will form a high-tech industry cluster for ten targeted industries such as biotechnology, robotics for industry, biofuels and biochemical, and medical services. It will then help increase Thailand's competitiveness and income levels in provincial areas. The private sector can participate in infrastructure projects through fast-tracked public-private partnerships (PPPs) that so far include mass rapid transit lines, motorways, and a renewable energy power plant. The government's Thailand Future Fund is another channel for equity investment in infrastructure.

Good progress on the major infrastructure investment projects would lift business confidence. Private investment is expected to pick up in 2017 as infrastructure projects get under way. Low borrowing costs should also support private investment, though low capacity utilisation hinders expansion in some industries. Tourism is expected to continue the expansion trend, but increased risks to the global economic recovery might affect merchandise exports. In this context, the exports are projected to improve at a gradual pace. Meanwhile, private consumption is projected to continue to expand mainly due to a rising wage trend in tandem with the expected increase in the minimum wages. These developments are projected to generate a smaller current account surplus in 2017.

The Bank of Thailand (BoT) decided to maintain the policy rate at 1.50% in the November meeting. The BoT reiterated that monetary policy stance should continue to be sufficiently accommodative in order to support the economic recovery, whilst maintaining long-term economic and financial stability. Looking forward, we expect that the BoT is likely to keep the policy rate on hold at 1.50% through 2017 because current monetary conditions remain accommodative and conducive to the economic recovery. Depending on fresh food prices and the largely uncertain developments in global oil prices, headline inflation is expected to rise slowly, but remain close to the inflation target. Further monetary policy easing will likely provide limited support to economic growth as the economic slowdown is in part due to structural problems. The limited policy space should be preserved for future utilisation as there remain downside risks to GDP growth from both external and domestic sources.

Capital flow and exchange rate volatility would likely persist in the period ahead due to external uncertainties stemming from further monetary easing by central banks in major advanced economies and political developments in the US and Europe. The direction of the US economic policies under the new administration might affect international trade and investment and confidence of the investors. The baht's appreciation against key trading partner currencies thus may not be beneficial to the ongoing economic recovery. We view the baht would likely depreciate against the US dollar with Thailand's interest rates expected to remain low going into next year. For now, we expect THB to weaken against USD towards 37.0 at the end of 2017 from around the 35.6 level currently.

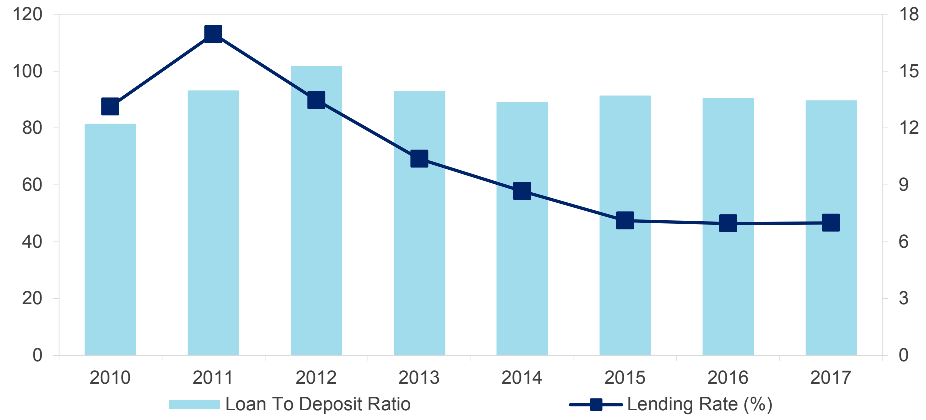
VIETNAM

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
USD/VND	22,700	22,700	22,750	22,750
VND Refinancing Rate	6.50	6.50	6.50	6.50

Economic Indicators	2014	2015	2016F	2017F
GDP	6.0	6.7	6.0	6.2
CPI (average, y/y %)	4.1	0.6	2.5	3.0
Unemployment rate (%)	2.1	2.4	2.4	2.4
Current account (% of GDP)	5.0	1.4	0.6	0.3
Fiscal balance (% of GDP)	-4.4	-5.9	-5.8	-5.8

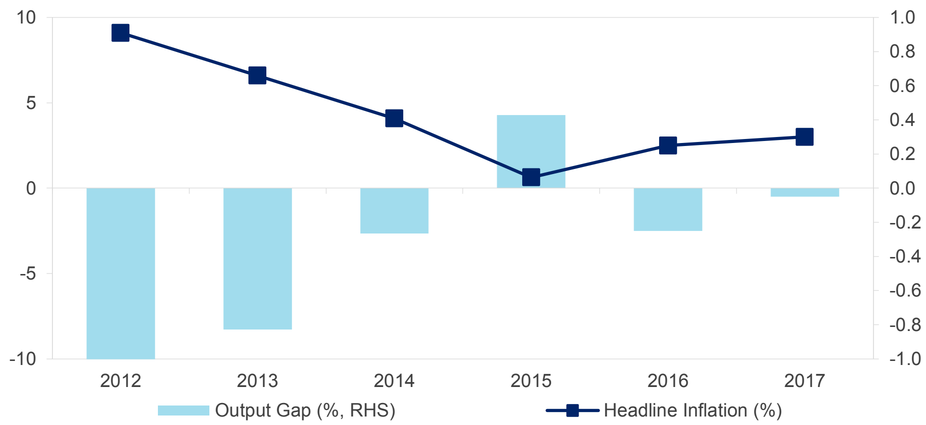
Monetary Conditions Remain Conducive To Economic Growth

Source: IMF, CEIC, UOB Global Economics & Markets Research



The SBV Is Likely To Remain In Easing Mode In 2017

Source: IMF, UOB Global Economics & Markets Research



Vietnam Is A Standout Performer Among ASEAN Economies, Led By Strong Export Growth And FDI Inflows.

Vietnam's real GDP growth is projected to moderate to 6.0% in 2016 but should pick up to 6.2% next year on the back of expansion in exports, investment and private consumption. The economic growth averaged 5.9% through the first three quarters of 2016 due to adverse weather conditions damaged a large share of agricultural output, lower commodity prices squeezing producers, and weaker external demand – all of which should pose a drag on exports. In 2017, solid manufacturing growth and increased construction activity are likely to remain the growth drivers. Merchandise export growth should increase only moderately next year, capped by the fragile global economic recovery. The future of Trans-Pacific Partnership (TPP) is uncertain, but Vietnam's export outlook is still positive having concluding bilateral trade agreements with South Korea and the European Union. Investment from both the government and multinational enterprises is projected to continue to expand so as to build infrastructure and further expand export capacity. We expect FDI inflows to grow on the positive outlook for growth and from concluded trade deals. Export revenues and urban migration will also support private consumption and retail trade.

The Vietnamese government is expected to continue to run budget deficit over the next two years. Government revenues should climb on higher commodity prices and improved economic activity but fiscal expenditure is also projected to increase to meet investment and social spending objectives. Consequently, the budget deficit should stabilize to around 5.8% of GDP over 2017-2018. The accumulated deficits will raise the public debt level to 62% of GDP by 2018, below the legal limit of 65%. The authorities actually aim to narrow the budget deficit to 3% by 2020 to arrest growing public debt but have not yet announced any specific fiscal consolidation measures.

On the stability front, unemployment is expected to remain at a low level in 2017. The current account surplus should recede as oil prices climb. This is since Vietnam is net oil importer and higher prices will increase the value of imports. Nevertheless, we expect this to be compensated by rising exports, keeping the current account in surplus. It is then expected to post a surplus of 0.3% of GDP next year. Headline inflation is expected to rise in line with pick up in global commodity prices and strong consumer spending. We forecast headline inflation of 3.0% for 2017, versus 2.5% in 2016.

As economic expansion is on a recovery path and inflation remains manageable, the State Bank of Vietnam (SBV) should be in easing mode next year. We expect unchanged policy rates at 6.50% and a mild depreciation of the Vietnamese dong as external headwinds increasingly weigh on the currency, particularly the fragile global economic recovery and uncertainties in the economic and monetary policy directions of major advanced economies which might induce greater capital flow volatility. These factors could significantly affect the recovery of Vietnam's trading partners and the continuity of Vietnam's growth momentum. It is essential for the central bank to preserve the policy space to cushion potential impact should these risks materialize. For now, we expect VND to trade at 22,750 per USD at the end of 2017.

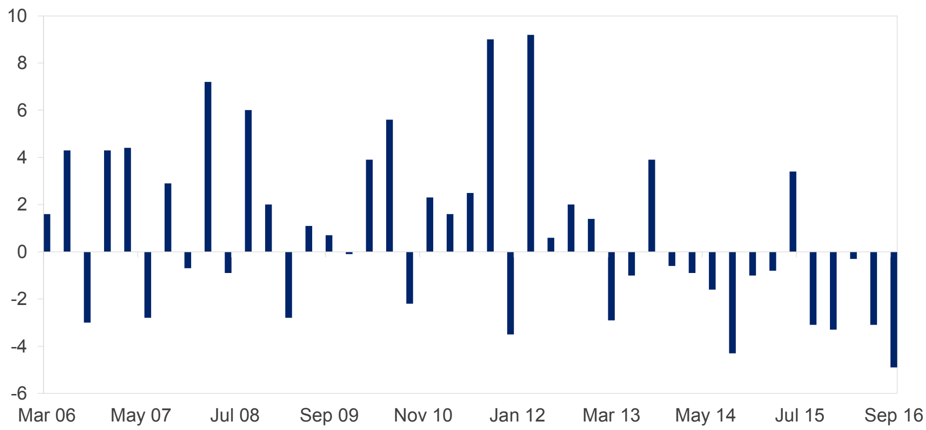
AUSTRALIA

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
AUD/USD	0.73	0.73	0.72	0.72
AUD Offical Cash Rate	1.50	1.50	1.50	1.50

Economic Indicators	2014	2015	2016F	2017F
GDP	2.8	2.4	2.9	2.9
CPI (average, y/y %)	2.5	1.5	1.2	2.1
Unemployment rate (%)	6.1	6.1	5.8	5.6
Current account (% of GDP)	-2.9	-4.8	-3.6	-3.5
Fiscal balance (% of GDP)	-2.1	-1.9	-2.5	-2.2

Australian Construction Activity Fell The Most Since 2000 In 3Q16

Source: Bloomberg, UOB Global Economics & Markets Research



Economy Shrinks Most In 8 Years

For the first time since 2011, the Australian economy shrunk in the September quarter, and not by a small amount. At 0.5%, the decline – driven by a slump in construction and government spending – was the largest since the final quarter of 2008, the depths of the global financial crisis. The contraction, well below the expected 0.1% fall, saw the year-on-year growth rate slow sharply, tumbling from 3.0% to 1.8%. That is also well below a trend growth rate of around 2.75%, and the weakest level in six years.

The latest growth numbers will no doubt invite talks of a recession, but we think that the odds are that GDP will rise in the fourth quarter. There are a number of temporary elements to the weakness in the latest report, and we think this overstates the underlying weakness in the Australian economy. In fact, we saw better news from the income perspective. For instance, another rise in the terms of trade, thanks mainly to the bounce in commodity prices, so real per capita income growth, a key measure of living standards, rose another 0.5%. This is the third straight gain after falls in six of the previous eight quarters. Commodity prices have also risen so far in this quarter, so the outlook on at least this measure for the current quarter looks decent.

RBA Holds Rate For Christmas

The RBA voted to leave the OCR unchanged at a record-low of 1.50%, in what was its final policy meeting of the year. There were also very few major changes in the accompanying policy statement, with the RBA'S language on the outlook for inflation, the labour and housing markets similar to those in November.

On inflation, it said that it "remains quite low", adding that weak growth in labour costs is expected to see it "remain low for some time, before returning to more normal levels". It dropped its reference though to "very low cost pressures elsewhere in the world" as a contributing factor to the weakness in inflationary pressures". On the labour market, an area of particular focus given weak wage and employment growth and elevated levels of underemployment, the board said recent indicators "continue to be somewhat mixed. The unemployment rate has declined this year, although some measures of labour underutilization are little changed" it said, acknowledging that "there continues to be considerable variation in employment outcomes across the country".

It appears that new RBA Governor Philip Lowe has decided that any benefits to the economy from a further short term boost to housing and spending from even lower interest rates would not justify the potential risks around household debt that even lower interest rates might bring. Hence, we think the RBA sees fiscal policy as a more appropriate tool to boost demand and raise productivity than further leaning on household balance sheets. Whilst there is scope for lower rates into 2017, unless employment slows further and business conditions become weaker, we are think the RBA prefers to be on hold for now. Note that the next RBA policy meeting is not until February 2017, when the bank will also be releasing its updated quarterly growth and inflation forecasts.

Aussie Remains Vulnerable

AUD was remarkably volatile in the past quarter, dropping around 6% in the aftermath of the US election and then later rebounding an impressive 2.5% off the multi-month low. We think the outlook for AUD/USD remains clouded especially given the concerns surrounding the Australian economy, which may keep the chances of a rate cut alive, and place pressure on the currency. Furthermore, challenges remain for the global economy, and there is a risk that concerns over China could lift. This could result in further volatility in currency markets and the Australian dollar. On balance, we expect the AUD/USD to trade lower into 2017 – mid-2017 target of 0.730, with risks of overshooting lower.

EUROZONE

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
EUR/USD	1.04	1.03	1.02	1.02
EUR Refinancing Rate	0.00	0.00	0.00	0.00

Economic Indicators	2014	2015	2016F	2017F
GDP	1.2	2.0	1.6	1.1
CPI (average, y/y %)	0.4	0.0	0.2	1.2
Unemployment rate (%)	11.6	10.9	10.1	9.8
Current account (% of GDP)	2.4	3.1	3.3	2.9
Fiscal balance (% of GDP)	-2.6	-2.1	-1.9	-1.7

Good Try, Draghi!

The expectations going into the 8 December ECB meeting was that Draghi would announce an extension of the EUR80bn-a-month QE program from April 2017 to September 2017, prolonging the ECB's efforts to keep interest rates low and kick start the Eurozone economy. However, what we got from Draghi was both more and less.

Less – because the ECB will reduce the amount of its monthly purchases to EUR60bn from April 2017, bringing it back to where it was before the decision last March. More – because the bond buying will now carry on until at least December 2017. In fact, the result is that the ECB has committed to buying EUR540bn of debt rather than EUR480bn, which would had been the case had monthly bond purchases not been reduced and the program extended by six months. Draghi was at pains to stress that this was not the start of tapering, which he claimed was not favoured by a single Council Member, and to him would mean steadily trimming purchases towards zero, which was "not discussed".

2017	Event
19 Jan	ECB Rate Announcement
09 Mar	ECB Rate Announcement
15 Mar	Dutch General Election
23 Apr	French Presidential Election (1st Round)
27 Apr	ECB Rate Announcement
07 May	French Presidential Election (2nd Round)
08 Jun	ECB Rate Announcement
20 Jul	ECB Rate Announcement
07 Sep	ECB Rate Announcement
Oct	Czech Legislative Election
22 Oct*	German Federal Election
26 Oct	ECB Rate Announcement
14 Dec	ECB Rate Announcement

* to be held latest by this date
Source: Bloomberg, Global Economics & Markets Research

By choosing the longer duration, we think the ECB clearly wants to reassure market participants that it is determined to ensure the sustained transmission of its stimulus measures. It is also highly possible the ECB had taken the election calendar into consideration when making its latest decision, as the extension would take them past the crucial German election (expected sometime in the autumn) as well as elections in other European markets. But in short, the ECB has definitely bought itself more time, and from here, we look for it to remain status quo for some time.

Euro Exposed To Political Risks

We had adjusted our EUR/USD forecasts lower into 2017 to reflect the likelihood of additional ECB easing measures, as well as political event risks in the Eurozone – elections in France, Germany, the Netherlands and possibly Italy – especially with skepticism on the rise, and public opinion polls showing declining favorability in key European nations. This stands against the Fed, set to raise interest rates. We thus look for a EUR/USD target of 1.04 for end-1Q17 and expect a continued decline towards 1.02 by end-2017. We are cautious about being overly bearish on the EUR/USD at this juncture, although it would be fair to say that volatility will persist and there are downside risks to our forecasts, especially if inflation does not pick up sufficiently and with Draghi making it clear that the QE programme is 'in effect open-ended'.

Post-Italian-Referendum: Where Are We?

As of writing, President Sergio Mattarella has confirmed PM Matteo Renzi's resignation and said talks to form a new government would begin. He added that Renzi's government would remain in place to handle administrative matters. But the aftermath has brought political instability to the Eurozone's third-largest economy, with uncertainty over how long a technocratic government might stay in office and when new elections might be held. Challenging in the next election will be the Five Star Movement, an anti-establishment party led by comedian Beppe Grillo; the Northern League, an anti-euro, anti-immigrant party led by Matteo Salvini; and Forza Italia, the centre-right party led by Silvio Berlusconi.

This comes as Italy needs to shore up its banking sector, with its third largest lender Monte dei Paschi di Siena trying to raise EUR5bn in fresh capital. Italian authorities have reportedly requested more time from the ECB to fix the capital issues of Monte Dei Paschi di Siena. According to the report, the bank outlined in a letter to the ECB that the current political instability has made it very difficult to proceed with the recapitalization process.

Risks are indeed growing for Italy's EUR4tn banking sector. There is an estimated EUR360bn of non-performing loans in the system – equivalent to roughly 20% of Italy's GDP – versus EUR225bn of equity on their books. Apart from Monte dei Paschi di Siena, seven other Italian banks are known to be in various stages of distress: mid-sized banks – Popolare di Vicenza, Veneto Banca and Carige; and four small banks rescued last year – Banca Etruria, CariChieti, Banca delle Marche and CariFerrara. The challenge now for Italy's political leadership is to avoid any loss of confidence in Italy's banking sector or in the long-term sustainability of its public finances.

NEW ZEALAND

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
NZD/USD	0.68	0.68	0.67	0.67
NZD OCR	1.75	1.75	1.75	1.75

Economic Indicators	2014	2015	2016F	2017F
GDP	3.0	3.0	2.7	2.6
CPI (average, y/y %)	1.2	0.3	0.8	1.8
Unemployment rate (%)	5.3	5.3	5.1	5.1
Current account (% of GDP)	-3.2	-3.4	-3.0	-3.5
Fiscal balance (% of GDP)	1.3	1.4	0.3	0.2

New Zealand GDT All Milk Products Weighted Average Winning Price

Source: Bloomberg, UOB Global Economics & Markets Research

RBNZ's Easing Phase Likely To Be Done

The RBNZ slashed the OCR by 25bps to 1.75% at the November meeting, as expected. There was a significant shift in the accompanying statement though. The RBNZ stated that monetary policy will continue to be accommodative, but it added that current projections and assumptions indicate that policy settings will see growth strong enough to have inflation settle near the middle of the target range. The near-term policy bias is, therefore, neutral, in contrast to the easing bias seen over the last few months.

According to the RBNZ, house-price inflation remains excessive and is posing concerns for financial stability. Although prices have moderated slightly in Auckland the bank is uncertain whether this will be sustained given the imbalance between supply and demand. As far as inflation is concerned, the bank recognized that inflation was weak in the third quarter, but expects annual inflation to rise from the fourth quarter due to a stronger domestic economy and reduced downward pressure from tradeable goods prices.

We had previously penciled in a further rate cut to 1.50% by early next year. We think the door is still open for further easing. But with the central bank shifting from an easing to a neutral bias, we see the RBNZ on a wait-and-see approach for now. Note that the RBNZ is not due to meet again until 9 February.

Economic Outlook Improves

New Zealand's economic growth has been strong, driven by booming construction, retail and tourism. GDP growth accelerated to 3.6% y/y in 2Q, and more recent economic numbers have proved resilient. For instance, employment rose by 1.4% q/q in 3Q, beating expectations. The unemployment rate was also better than expected, falling 0.1ppts from a revised 2Q print to 4.9%, the best reading since 2008. The strong rise in employment follows a 2.4% q/q rise in 2Q (although this outturn was influenced by changes in survey methodology). In this context, the sustained strength in 3Q is especially notable.

Following two seasons of being very low, dairy prices have also rebounded strongly in recent months, much to the relief of New Zealand dairy exporters and easing the financial strain afflicting the industry. Whilst futures markets had suggested a rise in price was likely, the result was still stronger than anticipated and comes amid signs of softer production especially in Europe. The outcome takes whole milk powder prices in NZD terms back to levels not seen since mid-2014.

A possible downside risk to growth though could be the costs of the recent earthquakes. On that, we think that although it remains highly uncertain what the impact will be, the New Zealand economy should be able to ride it out. With loose monetary conditions and gains in real disposable income putting the economy on solid footing, we continue to see New Zealand as one of the few bright spots.

Kiwi Driven By US Dynamics

Whilst the Kiwi has been generally stronger-than-expected over the course of this year, the past quarter has seen the New Zealand currency moving south against the greenback, boosted by an improving US economic outlook. Further NZD depreciation is likely, and this is largely due to our view that the US dollar will be broadly stronger. We expect a 25bps Fed tightening in December to support the USD and a further increase in US rates to underpin broad gains well into 2017.

That said, we do not see excessive weakness in the NZD. As aforementioned, the case for further easing should remain low given the resilient domestic growth backdrop and stable global prices for New Zealand export commodities. The bounce in headline CPI inflation should help support inflation expectations and remove the risk of the RBNZ sliding lower. We also expect any impact from the recent macro-prudential tightening on the housing market to prove temporary. Exacerbating housing market risks by lowering rates further when inflation is within the target band (rather than close to zero) would be a much tougher decision.

Taking into account these factors, we see NZD/USD hovering around the 0.68 region by the end of 1Q17.

UNITED KINGDOM

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
GBP/USD	1.20	1.18	1.16	1.16
GBP Repo Rate	0.25	0.25	0.25	0.25

Economic Indicators	2014	2015	2016F	2017F
GDP	3.1	2.2	1.6	0.7
CPI (average, y/y %)	1.5	0.0	0.7	2.1
Unemployment rate (%)	6.3	5.4	5.1	5.6
Current account (% of GDP)	-4.7	-5.3	-5.6	-4.3
Fiscal balance (% of GDP)	-5.7	-4.3	-3.7	-3.5

2017	Event
02 Feb	Super Thursday (Nemat Shafik's last MPC meeting)
16 Mar	BOE Meeting
Mar	Article 50 Triggered? Spring Budget
11 May	Super Thursday (last of Andrew Haldane's current term)
15 Jun	BOE Meeting (last of Kristin Forbes' current term)
03 Aug	Super Thursday
14 Sep	BOE Meeting
02 Nov	Super Thursday
Nov	Autumn Budget
14 Dec	BOE Meeting

High Court Puts Brakes On Brexit

PM Theresa May had insisted she will invoke Article 50 by the end of March, beginning two years of formal exit talks expected to conclude with Britain leaving the EU in Spring 2019. However, on 3 November, a High Court ruling stipulated that Brexit will require a vote in Parliament before moving forward.

The government has appealed against the decision and the appeal was heard over four days, from 5 - 8 December. Although a decision is only expected at the start of January 2017, the latest development has been that May has won lawmakers' backing to trigger the start of Britain's exit from the EU by the end of March next year after promising to give Parliament the chance to scrutinize her plan first. The House of Commons voted by 448 to 75 in favor of a motion that commits lawmakers to support her timetable for formally notifying the EU that Britain is leaving. The motion also ties May to setting out her negotiating plan so lawmakers can examine the details before she begins the Brexit process.

The latest vote is not legally binding though on either the government or members of parliament but it is a politically significant moment for the UK's efforts to withdraw from the EU. May has been unwilling to give details of her negotiating strategy, saying it would give an advantage to Brussels before the start of talks next year. But it also means May will have to set out in more detail the shape of the final deal she wants to see before triggering the Brexit process under Article 50 of the Lisbon Treaty.

The path is still a complicated one, and although we think Article 50 will be triggered eventually, there is a high chance it could be delayed past the March 2017 deadline.

BoE Drops Planned Rate Cut

The BoE left its monetary policy unchanged as expected at its November meeting. The Bank Rate was kept at 0.25%, the target for the stock of government bond purchases and the target for the stock of corporate bond purchases were kept at GBP435bn and GBP10bn, respectively. There were also no changes to the new Term Funding Scheme (TFS).

What was surprising, though, was the change of course, with the BoE saying it 'can respond in either direction'. The reason is that economic data has been resilient to the Brexit uncertainties. But BoE officials also warned there were limits to how far they would tolerate price growth in excess of their 2% target, signaling that they might be prepared to raise borrowing costs if the GBP's steep decline fuels a more rapid acceleration in inflation.

The central bank's change of stance underscores the uncertainty facing the UK. And due to this shift, we have revised our BoE call. Before the November monetary policy decision, we had been looking for another 15bps rate cut by the end of this year. However, now that the BoE has shifted from an easing bias to a neutral bias, we no longer expect the BoE to cut the bank rate further.

GBP Remains Exposed To Further Political Uncertainty

The resilience in the GBP has been notable. In fact, since the flash crash from early October, GBP/USD has seen relative out-performance. Risks remain elevated though, as we look to uncertainty surrounding the Brexit process. Our call for a broadly weaker GBP is also on the back of a deteriorating macro backdrop (large current account deficit and a negative net international investment position). As it is, sentiment among British consumers appears to have deteriorated over the past few weeks, with GfK's index of consumer confidence slipping from -1 to -3 in October 2016. The further slippage in the headline reading reflected weaker readings across all components of the survey, with the continuing uncertainty over the path towards Brexit probably discouraging respondents' perception of the general economic outlook. We therefore continue to see significant downside risks and forecast GBP/USD at 1.20 by end-1Q17 and 1.16 by end-2017.

UNITED STATES OF AMERICA

FX & Rates	1Q17F	2Q17F	3Q17F	4Q17F
US Fed Funds Rate	0.75	1.00	1.25	1.50
Economic Indicators	**2014**	**2015**	**2016F**	**2017F**
GDP	2.4	2.6	1.7	2.7
CPI (average, y/y %)	1.6	0.1	1.0	2.5
Unemployment rate (%)	5.6	5.0	4.8	4.6
Current account (% of GDP)	-2.2	-2.7	-1.7	-1.2
Fiscal balance (% of GDP)	-2.8	-2.5	-2.5	-2.9

Better Growth & Higher Inflation In 2017

3Q 2016 GDP growth revised higher to 3.2%q/q SAAR (from 2.9%), the strongest since 3Q 2014 and was due to higher personal spending and unexpectedly strong soya beans exports.

For rest of 2016, growth will remain supported by the US consumer and housing market improvements but the sub-2%y/y outcomes in the first 3 quarters of 2016 means **growth is now expected to be 1.7% in 2016** (from 2%) matching the recent low recorded in 2013.

We expect US growth to come in above its potential output at 2.7% in 2017, again anchored by US consumer & housing market with the likely added fiscal boost from US President Trump's reflationary policies which will kick in more prominently in 2H 2017 and 2018.

US price environment which was benign in 2016 with the Fed Reserve's preferred inflation measure, the core PCE, being held at 1.74%y/y in Oct, and has been below 2% since April 2012. That would likely change in 2017 if Trump's pledged reflationary policies is actualized and **inflation could exceed 2% by mid-2017**.

The US economy has been adding jobs every month since Oct 2010 (>15 million jobs as of Nov 2016) and it is only natural that the pace of job creation take a step down. **We expect the new normal likely set at 100,000-150,000 monthly new jobs in 2017** with the occasional upside/ downside surprises.

Hopeful For "Soft" Trump Scenario In 2017

2017 could well be the year of President Donald Trump, and financial markets already priced in higher USD and higher UST yields after the 8 Nov 2016 elections due to expectations of Trump's expansionary US fiscal policy which could contribute to higher US growth & US inflation and thus a faster pace of interest rate hikes.

One of the immediate issues that Trump needs to tackle is the expiry of the temporary suspension of the US government debt limit on 15 March 2017. But as the Republicans have complete control of the Congress and the Presidency, we think there will not be a problem to raise the limit in 2017.

But how many of Trump's campaign pledges (of anti-free trade, anti-globalization, anti-immigration, imposition of trade tariffs, tax cuts and US military deployment) will translate into actual measures really remains a big question mark.

Because Republicans have complete control of the Congress and the Presidency, it is possible that many of the sensible, economy-boosting measures can gain passage. His nominations of Wall Street veterans, Steven Mnuchin as Treasury Secretary and Wilbur Ross as Commerce Secretary, suggest that some of his pledges on tax & trade reform will be carried out by people who know the financial markets well.

However, the lack of details and clarity whether (and how) Trump will carry through his election promises mean that it is still difficult to assess their impact at this point.

That said, we like to distinguish two scenarios for Trump policy outlook: 1) A "soft" Trump scenario in which not all of his campaign promises are fulfilled (about 50% of his pledges and mostly non-radical measures) and 2) A "hard" Trump scenario in which all the key Trump pledges are fulfilled and that scenario will hold more risks. **We view the "soft" Trump scenario is likely most plausible for now.**

FOMC: Higher Rates, New Voters & Maybe New Governors In 2017

We still expect one 25-bps rate hike in 13/14 December FOMC while markets already considered it a done-deal. We ruled out a more aggressive 50bps hike in Dec as the Fed had been on this very conservative bias for so long that we think the Fed is unlikely to switch to an aggressive monetary stance just like that.

We are now more hawkish for the Fed rate trajectory in the coming years (compared to before 8 Nov 2016) thanks to the likely expansionary US fiscal policies from Donald Trump even as we expect the Fed Reserve to adopt a pragmatic approach towards the likely Trump fiscal boost, details of which will only gradually become available.

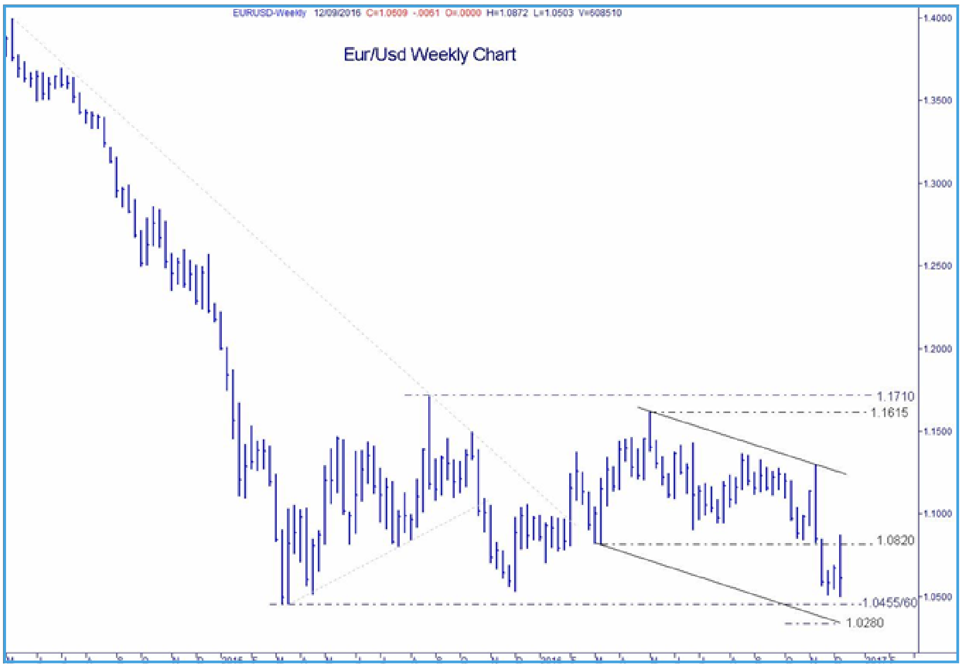
Thus, we see the Fed remaining on hold in 1Q 2017 after December 2016's hike. Thereafter, we expect three 25bps rate hikes in 2017 (in June, September and December FOMC of 2017) from two previously. We also adjusted the terminal Fed Funds Target rate (FFTR) higher to 3.5% by 4Q-2019 (from 3%).

Going into 2017, the composition of the Federal Open Market Committee (FOMC) will change. The 5 current Fed Board Governors will remain as will the New York Fed President, William Dudley who has a permanent vote in FOMC. As for the four Fed Reserve Bank Presidents, Loretta Mester, Eric Rosengren, Esther George & James Bullard will rotate out of their voting positions but will remain as non-voting participants attending the FOMC. Replacing them as voters in the 2017 FOMC will be **Dallas Fed President Robert S. Kaplan, Minneapolis Fed President, Neel Kashkari, Philadelphia Fed President Patrick Harker** (all three being 1st time voters) and **Chicago Fed President, Charles Evans** (seasoned voter in 2011, 2013, 2015 FOMC).

The Federal Reserve Board of Governors has not had its full quota of Governors since 2013 and there are presently two vacancies on the Fed's seven-member board. Trump has vowed to fill them soon after he assumes office and his nominees are likely to get a smooth passage to confirmation by the Senate. (unlike during President Obama's tenure when the Republican-chaired Senate banking committee blocked the hearings of many of his Fed Governor nominees, giving Obama the unsavory record of the most failed Fed nominations of any US president.)

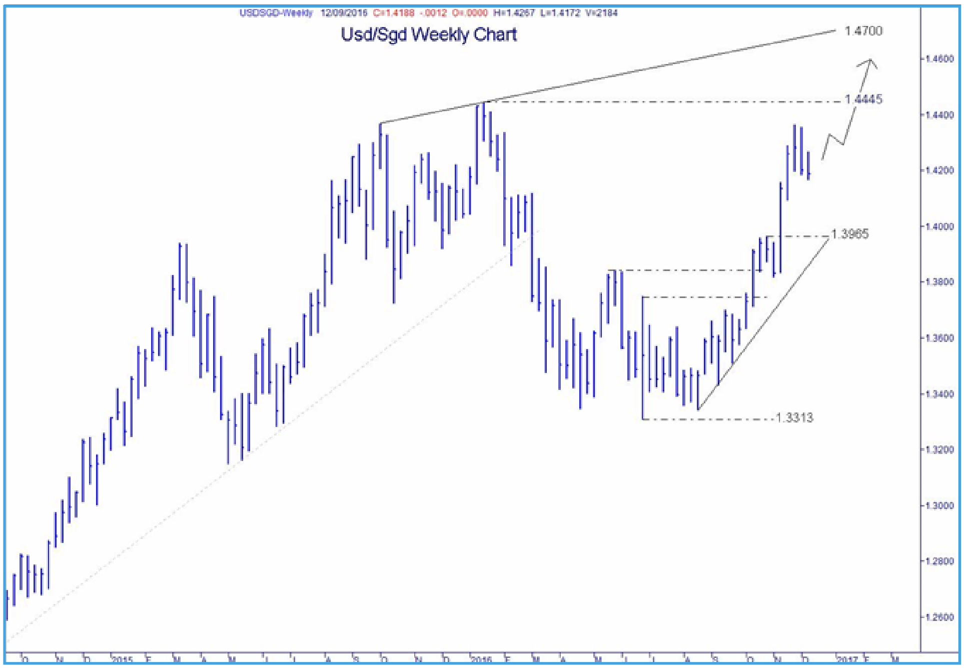
And while we are confident that both **FOMC Chair Janet Yellen and Vice Chair Stanley Fischer** will remain in their Fed decision-making role for 2017, they may be put under significant political pressure. And with their appointments expiring in 2018 (Yellen on 3 Feb 2018, Fischer on 12 June 2018), the composition of the Fed could look drastically different in 18 months' time.

FX TECHNICALS



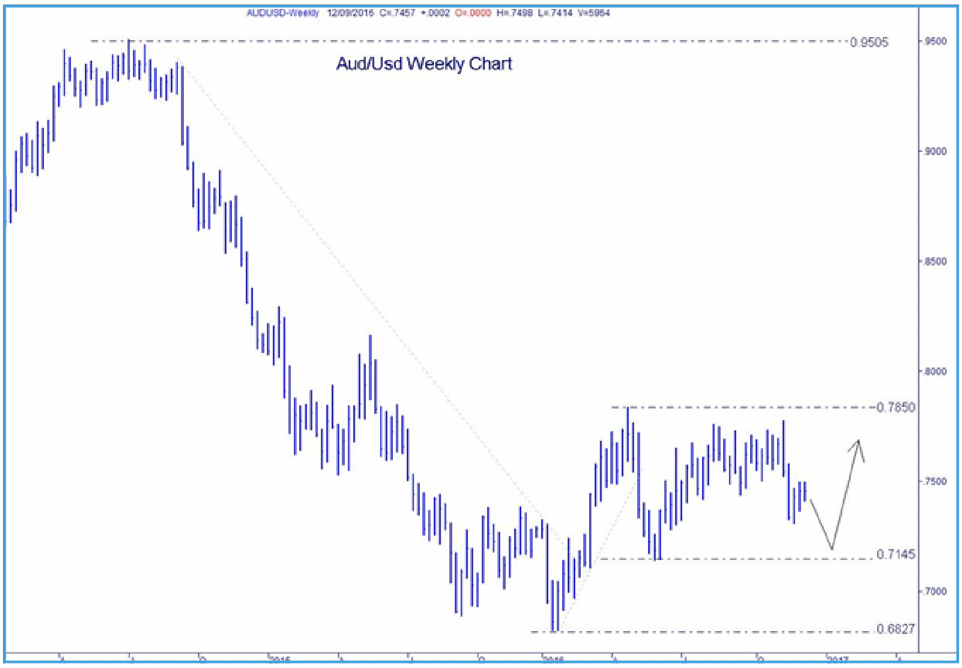
EUR/USD
1.0750

After trading sideways between 1.0820 and 1.1615 for about 8 month (between Mar and Nov 2016), EUR/USD clearly broke below the major 1.0820 support. While downward momentum is not strong, the decline appears incomplete and further weakness seems likely in the first quarter of 2017. That said, an initial recovery would not be surprising but 1.1200 is acting as a very strong resistance now and this level is expected to cap EUR/USD strength for a move lower towards 1.0280. Based on the lackluster momentum, a move to 1.0000 seems unlikely.



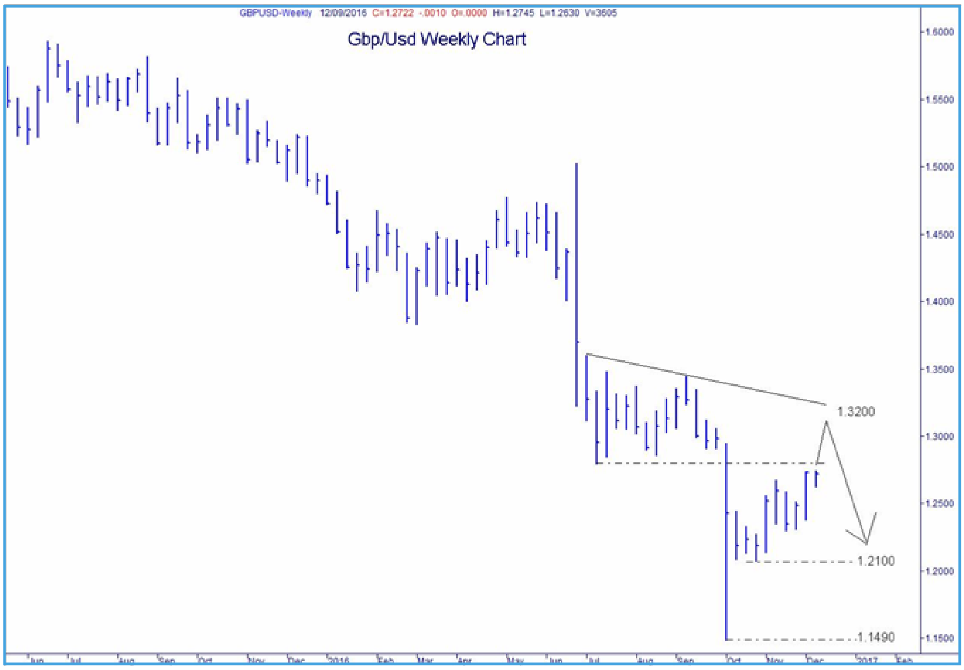
USD/SGD
1.4200

The strong USD/SGD rally during the last quarter of 2016 appears incomplete and further USD strength is expected in the early part of 2017. While a move above the major peak of 1.4445 would not be surprising, the pace of any further gains is expected to be slower. At this stage, USD/SGD strength is not expected to move beyond 1.4700 in the first quarter of 2017. Major support is at 1.3965.



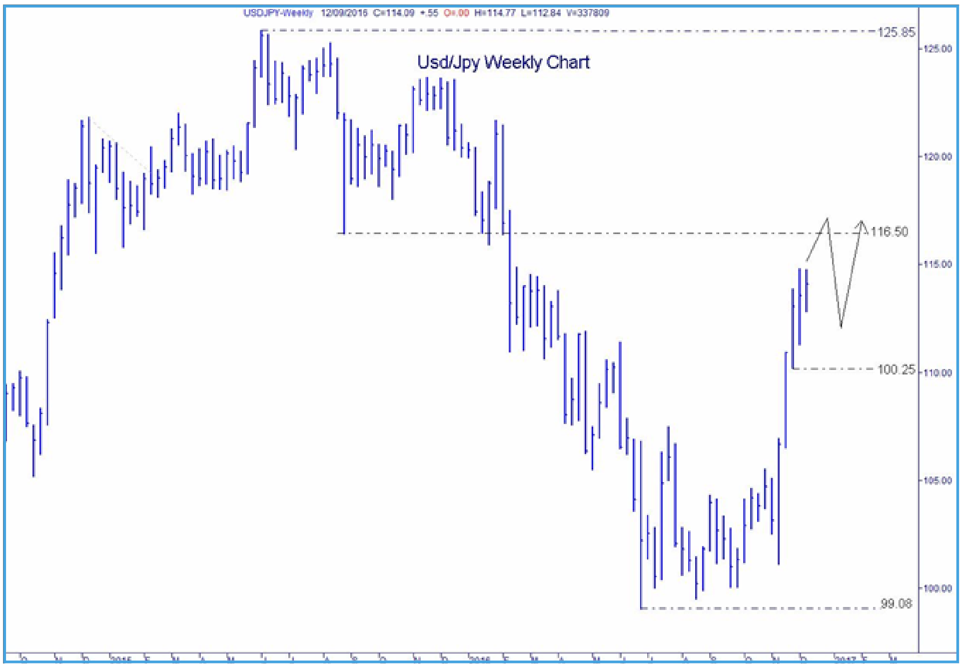
AUD/USD
0.7450

AUD/USD has been trading mostly sideways for the past few months. While the near-term bias it tilted to the downside, any weakness during the first quarter of 2017 is expected to encounter solid support near the 0.7145 low seen in late May 2016. On the upside, any AUD strength is unlikely to have enough momentum to seriously threaten the major 0.7850 resistance. To put it another way, it is unlikely that AUD/USD would be able to break out of 0.7145/0.7850 range that has been intact since March 2016.



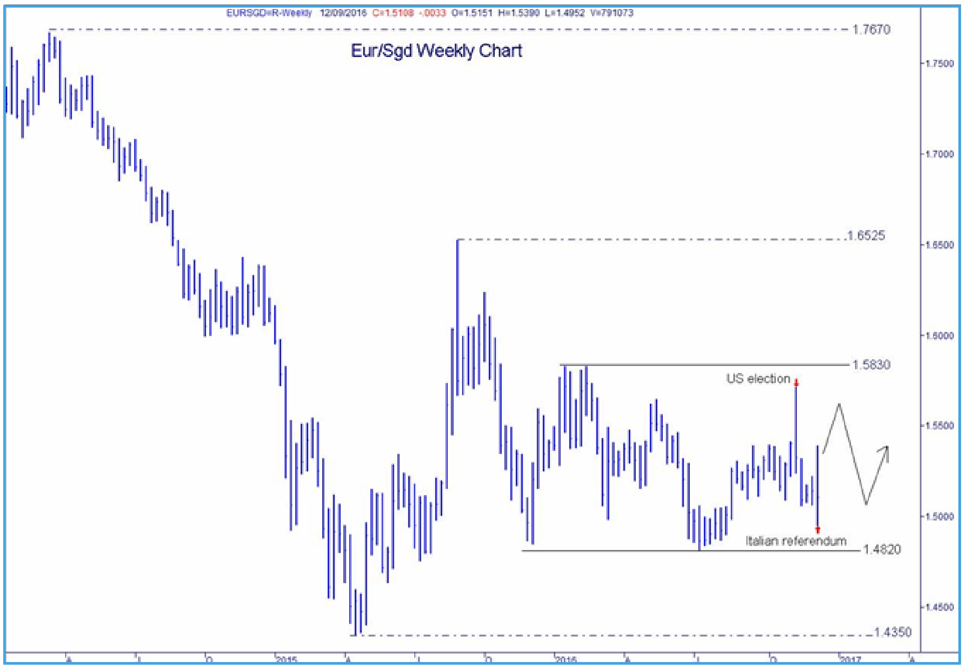
GBP/USD
1.2730

The price action after the ‘flash crash’ low of 1.1490 is viewed as a corrective rebound. However, the recovery appears incomplete but any extension higher is likely limited to the strong 1.3200 resistance. Barring a sustained break above this level, GBP/USD is expected to weaken nearer the end of 1Q17 towards the major support near 1.2100.



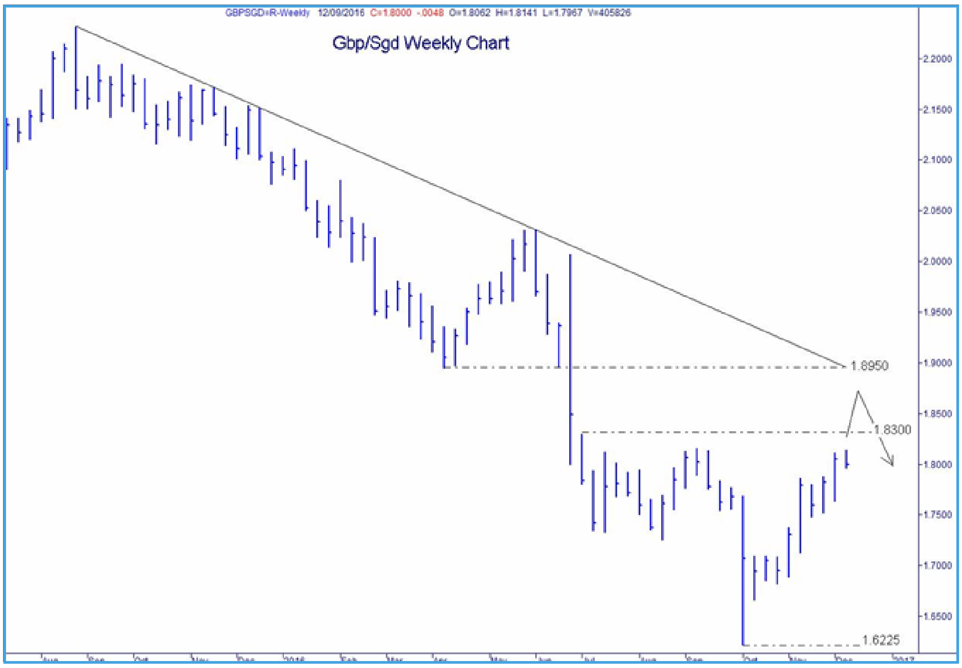
USD/JPY
114.00

While the post-US election USD/JPY rally appears incomplete, indicators are clearly overbought and this coupled with signs of waning momentum suggests that the near term upside potential is likely limited to the major 116.50 resistance. A move above this level is not ruled out but this is expected to be followed by a period of consolidation before further USD strength can be expected closer to the end of 1Q17.



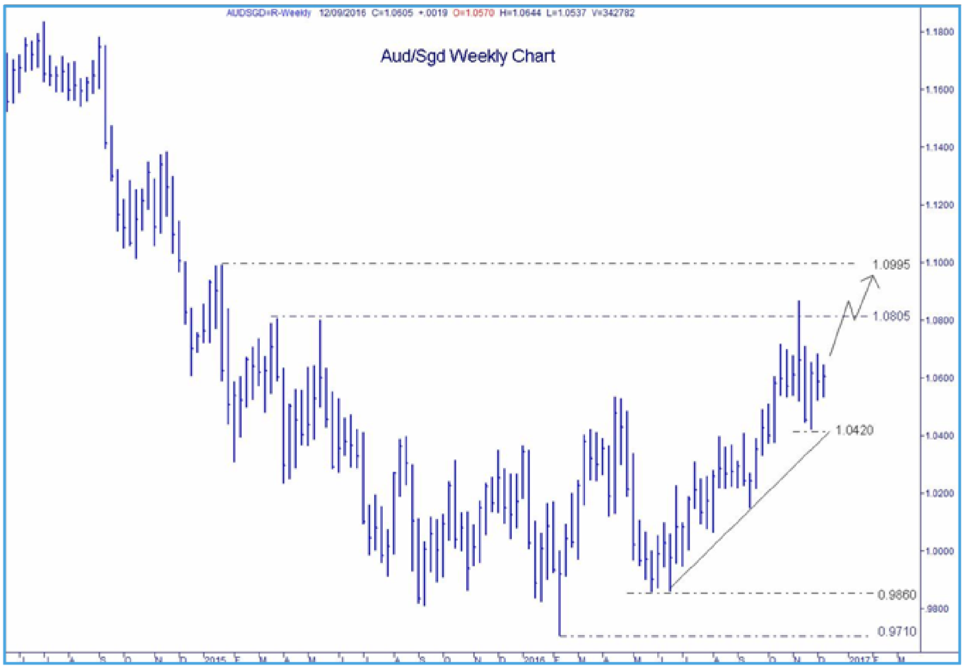
EUR/SGD
1.5250

During the last quarter of 2016, EUR/SGD had a couple of outsized moves, namely during the US election and Italian referendum. However, these large moves were short-lived and EUR/SGD continues to hold within the roughly 10 big figures range (between 1.4820 and 1.5830) that has been intact since late 2015. Technical indicators are mostly flat which suggest further range trading in the coming quarter and at this stage, there is no pre-indication that this pair is ready to break out of the 1.4820/1.5830 range.



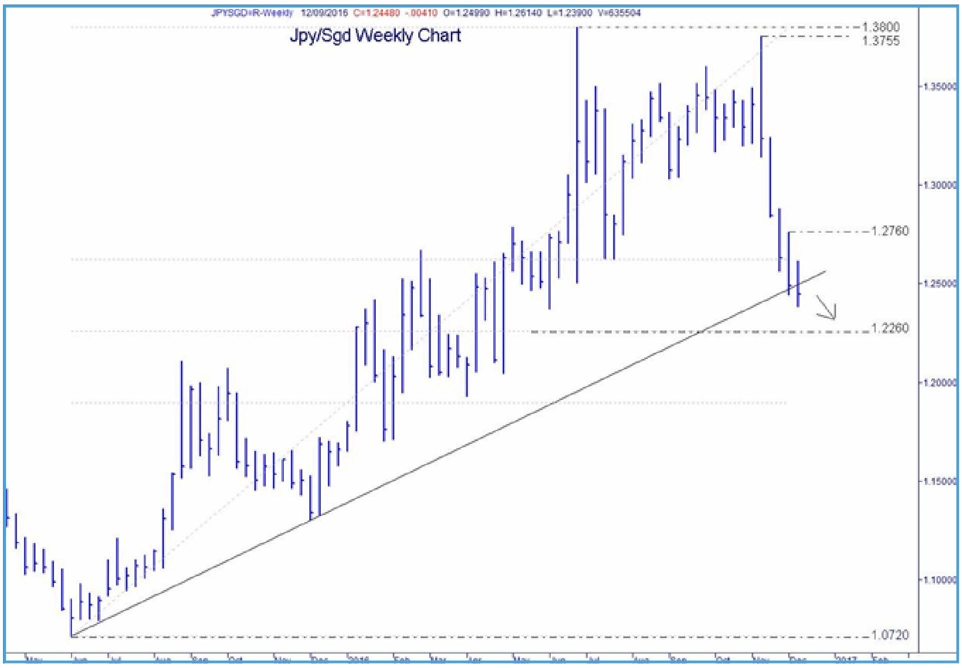
GBP/SGD
1.7995

The price action after the ‘flash crash’ low is viewed as a corrective rebound and not the start of a major reversal. However, the rebound appears to have scope to extend above the strong 1.8300 resistance. Based on the current momentum, any up-move is unlikely to challenge to the next major resistance at 1.8950, at least not within the first quarter of 2017.



AUD/SGD
1.0565

While the up-move from the 0.9860 low appears to be struggling, the undertone is still positive and there appears to be room for further extension in the coming quarter. That said, the up-move is close to overbought and any further AUD strength is expected to face stiff resistance near 1.0990/1.1000. On the downside, solid support can be found at 1.0420.



JPY/SGD
1.2445

JPY/SGD plunged after touching a high of 1.3755 in November (just below the 1.3800 high seen on the day of Brexit). In a span of a few weeks, it has dropped by about 9% from the high. While oversold, the rapid drop appears to have room to extend further towards 1.2260, the 50% retracement of the rally from 1.0720 (May 2015) to the 1.3800 high (Jun 2016).

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