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QUARTERLY GLOBAL OUTLOOK

Second Quarter 2017

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Information as of 27 March 2017

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EXECUTIVE SUMMARY

Economically Better But Politically More Uncertain Outlook

Into the first months of 2017, two things stood out: 1) we survived the first 67 days of Trump's Presidency (20 Jan 2017 to time of publication on 27 Mar 2017) and 2) global growth was actually better than what we (and probably many others) had initially projected. Indeed, a synchronized global revival is taking place as we write this piece, led by (but not limited to) the developed markets including US, Europe and Japan.

Asian economies, which have generally reported a stable set of 4Q16 and 2016 GDP numbers, are looking at a generally positive outlook in 2017 as recent exports and manufacturing data suggest some positive momentum in the global demand recovery, supported to some extent by the low base effect. Such as the 20.2%y/y jump in Feb Korean exports or the 27.7%y/y surge in Taiwanese Feb exports, and while Chinese Feb exports disappointed with a more modest 4.3% increase in Feb, this was made up by the slightly better 6.3% increase in China's Feb industrial production. Commodity exporting countries are also benefiting from the stabilization in prices since late 2016 while stronger commitments to infrastructure investments in the region could also contribute more strongly to growth as governments including Malaysia, Indonesia and Thailand step up their infrastructure developments.

And yet the broad market sentiment remains downbeat or gotten even more downbeat despite the more positive economic outlook. And that is because **geo-political risks are also rising**, led by (but again not limited to) the developed economies. The initial euphoria driven by US President Donald Trump's pledges of US tax reform, expansionary fiscal plans & a trillion dollar infrastructure bill has fizzled out as the reality of hard-bargaining politics are putting these plans on hold or even derailed altogether. Trump's failure to get the US House to repeal and replace the Affordable Care Act ("Obamacare") is his first major legislative setback. He has ditched the repeal of Obamacare as a priority for now and looks to refocus on reversing energy policies (Obama's clean energy plan), tax reform and infrastructure spending proposals. We still expect Trump to get most of his tax reform and infrastructure spending proposals approved through Congress but it may or may not happen by 2017. With the Trump reflation policies delayed (but not derailed), **we have recalibrated our US dollar view where we still expect a stronger US dollar by end-2017 but at a lowered trajectory.**

In Europe, **the key political event in 2Q is the French Presidential election** (first round to be held on 23 April) and it remains too close to call and will likely be a key variable affecting sentiment towards Europe and the volatility of the euro. And across the English Channel, **the UK government is expected to trigger Article 50 – the formal notification of Britain's intention to leave the European Union (EU) – on 29 March**, setting the country on an irreversible path with immediate impact on the currency while longer term impact on businesses operating in UK may already be set in motion. The recent terror attack in London (22 Mar) was also a reminder that terrorism-related attacks on major cities remains a clear, present and on-going danger. Even in what was considered the most politically-stable G7 economy, Japan's politics is feeling the heat from a school donation and a dodgy government land sale which could potentially implicate PM Abe.

As China's growth slows further, the country will continue to struggle with issues including its high leverage, banking sectors' increased dependence on wholesale funding, falling FX reserves and RMB depreciation risks. China's has the largest corporate debt pile in the world, amounting to US$18 trillion in 2016, compared to US$13 trillion in the US and US$12 trillion in the Eurozone. The speed of increase has raised eyebrows. China's corporate debt soared from 96% of GDP prior to the Global Financial Crisis to 167.6% in 2016. In contrast, China's local government debt repayment pressures are expected to be more manageable in the next 1-2 years. The increase in debt balances is expected to slow as a result of regulatory responses including closer scrutiny and debt-for-equity swaps. For the banking sector, the increased dependence amongst the smaller banks on wholesale funding has increased systemic risks due to the interconnectedness of banks and other financial institutions, and investment products via interbank and repo markets. Even as China-related risks remain on our radar, we expect to see the continuation of stability going into the Communist Party's 19th National Congress in the autumn of 2017. The "leadership transition" in itself will also have implications on the pace of economic and market reforms in China in the years to come.

The Korean Peninsula is likely to be the hotspot in Asia in terms of geo-political risk. From North Korean missile tests and acquisition of nuclear weapon capability, to the on-going spat between China and South Korea on THAAD to the upcoming South Korean Presidential elections on 9 May 2017 following the impeachment of former President Park Geun-hye, South Korea has all the elements to make it a potentially very volatile 2Q this year, despite its robust exports growth and KRW being the strongest Asian currency against the USD so far this year (up 8.5% YTD).

Beyond geo-politics, **crude oil price could be in for a volatile period in 2Q**. After plunging to a 13-year low in early 2016, crude oil prices have since recovered and went above US$50/barrel following OPEC's decision in late Nov to cut crude output, joined by non-OPEC producers, most notably Russia (as of 30 Nov 2016). But in 1Q 2017, crude oil prices came under pressure again due to record US crude inventories and potentially higher US crude production. US crude stockpiles rose to a record high 533.1 million barrels (reported on 20 Mar 2017) while US crude oil production averaged an estimated 8.9 million barrels per day in 2016 and EIA estimated US production to average 9.2 million in 2017 and then higher to 9.7 million in 2018. According to Baker Hughes, the number of active US rigs drilling for oil rose by 21 to 652 rigs, ten consecutive weeks of increase as of 24 Mar. US crude oil price fell below US$50/barrel since 9 March while London Brent Crude future price is holding above US$50/barrel (as of 23 March). Even as we are not expecting another crude oil price collapse in 2Q, the current positive US supply factors means that it is unlikely that crude oil prices can rally much in 2017 given the stable global demand and the low probability of another OPEC coordinated production cut anytime soon. Our base case is that US and Brent crude oil prices could gravitate lower towards US$45/barrel in 2Q 2017.

One of the possible surprises for 2017 we highlighted in our previous quarterly outlook report was the resurgence of inflation. While the latest inflation print from some economies such as UK (2.3%y/y in Feb from 1.8% in Jan) and Singapore (0.7%y/y in Feb from 0.6% in Jan) were above expectations, it may be premature at this juncture to warrant monetary policy tightening especially against the rather troubled global political backdrop. And the risk of an unexpected commodity-led inflation spike in 2017 is further lower with the recent retreat of crude oil prices and a potential delay in US reflationary fiscal policies (Trumpflation).

To conclude our thoughts on outlook and risks, it is perhaps not surprising US President Trump may still have the final word. One area of temporary comfort is that Trump's much feared anti-trade/protectionist/anti-globalization policy remains all talk for now, while the actualization of the "Border Adjustment Tax" is probably still some distance away. Having said that, there are two events that we will be following closing in April: 1) the first face-to-face meeting between Trump and China President Xi Jinping in US (likely on 6-7 April 2017), which will be followed by 2) the release of the US Treasury's Semiannual Report on International Economic and Exchange Rate Policies (likely on or around 15 April). One concern we have is whether the US will label any country, especially China, as a currency manipulator in this semi-annual report or more of firing warning shots. Incidentally, if these two events take place as scheduled, it will fall within the first 100 days of Trump's Presidency (till end April 2017).

The best/worst is yet to come and it may take a while longer to make it past 100.

SINGAPORE BUDGET IN FOCUS:
Operationalising Longer Term Strategies While Addressing Shorter Term Needs

Budget 2017 provided a good balance between operationalizing the strategies from the Committee on the Future Economy while resolving shorter term needs from several industries. In view of very weak domestic consumption and capital investment growth, shorter term solutions include the bringing forward of public infrastructure projects which will help the construction sector. Additionally, there were corporate and personal income tax rebates announced, and the additional special employment credit scheme will be extended till end 2019.

There were 2 new categories in Budget 2017, namely, city and prudence. To enhance Singapore's attractiveness as a city to live, work, and play, as well as becoming more sustainable, a slew of taxes and tariffs such as higher water prices, carbon taxes, and diesel taxes will be introduced to prevent overconsumption of such goods.

On prudence, Finance Minister stressed on the rapid increase in government expenditure in the coming years, due to higher spending in healthcare and infrastructure. As such, there was a permanent 2% downward adjustment to the budget caps of all Ministries and Organs of State from FY2017 onwards (aka: cost-cutting and leading by example).

Government's overall budget surplus at S$5.2 billion (1.3% of GDP) for FY2016 was larger than initially expected. For FY2017, the government will be running a primary budget deficit of S$5.62 billion, a mildly expansionary budget, while overall budget is expected to come in at surplus of S$1.91 billion (0.4% of GDP). This will relieve any pressure for the central bank to ease its policies any further, while potentially helping the economy to grow at the upper end of government's forecast of 1% to 3%.

CHINA IN FOCUS:
NPC Sets Targets For 2017

In the Work Report at the National People's Congress in March, Premier Li reviewed the country's progress made in 2016 and laid out the targets and tasks for 2017. The main theme for the year is maintaining growth stability, job creation, prevention of risks, safeguarding financial security, protection of livelihood, and environment conservation, among others. As widely expected, China lowered its growth target for 2017 to "about 6.5%", compared to the 6.5-7.0% range used in the 2016 Work Report. It is interesting to note that the goal for new job creation has been raised to "above 11 million", instead of the previous 10 million objective, suggesting that the government is sufficiently confident of the strength of the economy to continue its job creation streak. The other important element is prevention of risks, which the central bank has already embarked on since late 2016, through regulatory means (such as macroprudential assessment, among others) and utilization of policy tools, including through open market operations. Overall, we expect China to be able to sustain slower and stable growth path in 2017 and we keep our forecast for China's GDP growth at 6.6%.

SINGAPORE MONETARY POLICY PREVIEW IN FOCUS:
No Change To April Monetary Decision, But Current Neutral Slope Losing Relevance

The Monetary Authority of Singapore (MAS) will be announcing its monetary policy statement sometime between 10th and 13th of April 2017, and **we expect no changes to the current policy of a zero appreciation of the SGD NEER, while keeping the midpoint and bandwidth of the policy band untouched.**

Recent bullish data from both growth (export, manufacturing numbers) and inflation will probably mean that the central bank may have to revert to some form of appreciation of the SGD NEER soon. Indeed, the market had been pricing in these expectations lately, resulting in the SGD NEER trading above its midpoint for 91% of the time since the start of this year.

As a recap, the MAS executed three rounds of cuts to the SGD NEER slope since January 2015 to reach the current neutral appreciation. Although recent economic numbers are pointing stronger, we think that it may be too soon to appreciate the SGD NEER slope in the upcoming April meeting. This is because the lagged impact from past two years of slow economic growth is still hampering private consumption and business investment. The still-weak labour market condition is also another factor for consideration.

That said, we do not rule out a 0.5% pa appreciation of the SGD NEER slope in the October meeting should current momentum of core inflation continues in the following months, and supported by some improvement in the labour market.

FX STRATEGY:
Sell S$NEER Proxy

As a reversion to mean play, we recommend selling SGD against an equally-weighted basket of USD, CNY, JPY and EUR in 6-month forwards (priced 21-March), targeting 1.5% with a 1% stop.

RATES STRATEGY:
Where SG Rates Stand In Relation To The FED Hike Cycle

With the FED having restarted rate hikes in March 2017, we take a look at where SG rates are in relation to the last full FED hike cycle back in 2004/2006. This provides a reminder of the outcomes to expect if the FED manages to fulfil their rate normalization objective going forward.

Global FX

EUR/USD: We think EUR remains vulnerable to further volatility and weakness over the next couple of months as the FX market will increasingly focus on the political risks as we get closer to the French elections. This is the basis behind our forecast of EUR/USD falling lower towards the end of 2Q before rallying later in the year after these risks have passed. In a scenario where Le Pen wins, we would expect a sharp but short-lived decline in EUR/USD. Medium-term, we expect EUR/USD to move higher.

GBP/USD: Following the flash crash in October 2016, GBP/USD has been mostly range-bound within the 1.20-1.28 band. The pair has moved significantly higher following Kristin Fobes' dissent at the BoE meeting, and then subsequently following the UK inflation data. Going forward, we expect GBP/USD to remain volatile, and we still see potential for further weakness as we believe there will be significant hurdles to overcome even once the government has triggered Article 50. It is extremely unlikely that Brexit negotiations with the EU will be smooth. Furthermore, potential economic and political consequences of the UK's exit from the EU in the longer term alongside broader strength in the USD should weigh on the GBP.

AUD/USD: We recognize the support for AUD from improved global economic conditions and rising commodity prices. This is likely to continue. Domestically, the RBA has also made it clear that it has no appetite to cut its cash rate any further, given how low rates have driven a strong rise in housing prices and household debt in Australia's major cities. These factors should continue to provide upside for the AUD. That said, we think the RBA would want to limit the upside in AUD and is ready to soften in case the exchange rate appreciates excessively. In addition, the AUD is also expected to succumb to interest rate differentials against higher US rates as we factor further rate hikes by the Fed.

NZD/USD: The New Zealand dollar performed fairly well at the start of this year on the back of the broad-based dollar weakness, and also as the reflation story took hold. Perhaps this is one of the reasons that led to the New Zealand central bank shifting to a neutral bias at its 9 February meeting.The case for the US dollar moving materially higher in 2017 is not as compelling, and this is the key ingredient in our forecasts for a higher NZD/USD from here. But with little reason to think that the RBNZ would change its tune, we think that gains in the NZD are limited.

USD/JPY: After touching a recent high of 118.6 on 3 Jan (2017), the USD/JPY has since entered a consolidation phase given the disappointment in Trump's legislative setbacks & the lack of details into US President Trump's "phenomenal" tax reform and infrastructure spending plans, leading to a broadly weaker US dollar. Despite the diminished Trump effect in the near term, we still believe the growing monetary policy divergence between the Fed Reserve and BOJ to strengthen the US dollar and lift the USD/JPY pair higher albeit less aggressive than what we initially anticipated. We expect the pair to climb to 115 by mid-year (from 117) and then to touch 118 by end-2017 (from 120). The risk for the yen to strengthen in a risk-off environment could be due to potential geo-political events in Europe and radical policy announcement from Trump.

Asian FX

USD/CNY: PBoC's further shifts toward the use of interest rate as a policy tool would suggest that RMB exchange rate policy is on track to be liberalized further. Therefore, keep watch for FX market reform measures this year. Widening divergence between the Fed and regional central banks and uncertainty on US President Trump's fiscal plans should continue to keep USD supported. For China, the bias is towards US dollar accumulation which has been curbed by the current restrictions on capital flows. As such we maintain our USD/CNY forecasts of 7.02 for mid-2017 and 7.16 for end-2017.

USD/SGD: On the inflation front, Singapore's core inflation had been inching higher over the past months and with the central bank forecasting an average of 1% to 2% for 2017 (higher than the average of 0.9% in 2016), market has been pricing in a stronger SGD 91% of the time since the start of the year (ie: with the SGD NEER closing above the midpoint).

That said, as the labour market remains weak, we think that it could be too premature for the MAS to appreciate the SGD NEER in their upcoming April monetary policy meeting. However, we do not rule out a 0.5% pa appreciation of the SGD NEER slope in the October meeting should current momentum of core inflation continues in the following months. As such, although we look to the US Federal Reserve hiking interest rates by 2 more times in 2017, upside in the USD/SGD could be limited by a strengthening SGD. We adjust our forecast for the USD/SGD to end 2017 at 1.46, from 1.48 previously.

USD/IDR: Improvements in Indonesia's FX reserves to its highest level since August 2011 when the reserves were at record high as well as strong foreign holdings of IDR-denominated government bonds (at 37.5% end-Feb) were clear indications of receding capital flight risk. Following Fitch's upgrade of Indonesia's outlook to positive in December 2016, a similar move by Moody's in February had further reaffirmed the improvement in sentiment towards the country. The focus for the rest of the year will be whether S&P's upgrades its rating for Indonesia to investment grade. We continue to maintain our forecast of a moderate upward trajectory in USD/IDR. Our projection of a weaker IDR is in line with expectation of widening current account deficit (CAD) this year after it narrowed sharply to 0.8% of GDP in 4Q16 (3Q16: 1.9%). We expect the CAD to rise to 2.1% of GDP this year from 1.8% in 2016. Meanwhile, we do not expect the outcome of April's Jakarta election to have a significant bearing on the financial markets.

USD/KRW: The KRW was up more than 8% against USD YTD, leading gains amongst the Asian currencies as USD retreated. The currency also benefited from the removal of some political uncertainty as the court upheld President Park's impeachment and heralded in an earlier presidential election on May 9 (as opposed to original schedule in Dec). Given the YTD outperformance and expectation of the continuation of strong current account surplus (albeit lower compared to 2016), we have lowered our USD/KRW forecast to 1,140 by end-2Q17 from 1,170. We still see USD/KRW higher by year-end which will be mainly driven by broad USD. Domestically, exports numbers had been robust but there are still downside risks to the economic growth from potential US' trade protectionist measures and also retaliatory actions from China from the deployment of the THAAD system in South Korea.

USD/MYR: Post US elections, USD/MYR gapped up above the 4.00-4.20 range to end last year at 4.48. The pair has steadied within 4.40-4.46 since February. The Ringgit remains undervalued on a real effective exchange rate basis despite more encouraging macro conditions, suggesting that factors weighing on Ringgit are beyond fundamentals. Foreign reserves has held steady at US$95bn since end-January. BNM's requirements for exporters to convert at least 75% of their export proceeds into MYR has helped to cushion reserves despite further foreign selling of Malaysia's government bonds. Improved export outlook and commodity earnings recovery will help buffer the current account surplus, and stable FDI flows will also help alleviate some of the pressure from portfolio outflows. We expect USD/MYR at 4.46 at end-2Q17.

USD/THB: Capital flow and exchange rate volatility will likely increase going forward due to external uncertainties, particularly the actual implementation of US fiscal stimulus and the pace of the Fed's monetary policy normalization. We reckon monetary policy divergences will eventually drive USD/THB higher this year. Currently, we expect USD/THB at 35.8 at end-2Q17.

USD/INR: After lowering rates by 175bps since 2015, we still think that the Reserve Bank of India (RBI) will continue their dovish attitude this year; with the potential of 2 rate cuts in 2017 should there be downward revisions in the GDP numbers as more data comes in. This will continue its longest easing cycle since the global financial crisis, and with our expectations of 2 more interest rate hikes by the US Federal Reserve in 2017, we expect more weakness in the INR, where the USD/INR will trend higher by end 2017.

USD/VND: Against the backdrop of improving global economy, the Vietnam's economy would still face uncertainties in the direction of the US economic policies and in the monetary policy directions of major advanced economies. The SBV will likely weaken the reference rate over the coming quarters to help support the economic growth. For now, we expect VND to trade at 22,900 per USD at end-2Q17.

USD/MMK: Despite the expected continued FDI inflows to Myanmar, the MMK is likely to trade lower as the US dollar is expected to resume strengthening, driven by higher US interest rate expectations. Thus, while we keep our positive outlook for the domestic economy, we maintained our negative outlook for the MMK in 2017 and expect it to remain on a depreciation trend with the USD/MMK pair likely to hit 1,365 by mid-2017 and then weakening further to 1,395 by end-2017 (2.2% depreciation for 2017).

Global Interest Rates

Federal Reserve: Even as we had our first 2017 rate hike in the 14/15 March FOMC (Federal Open Market Committee), we are still maintaining the forecast of 3 rate hikes from the Fed Reserve this year. Against the backdrop of positive US economic data & rising US inflation together with robust US financial market performance, we expect two more 25bps rate hikes in 2017 (in the June and September FOMC), remain on pause in 4Q-2017 before resuming hiking rates in 2018 by another 4 times. Beyond the rate hike trajectory, the composition of the FOMC will change going into April 2017 as Fed Governor Daniel Tarullo will resign from the Fed with effect from 5 April 2017 and his exit would create a 3rd open seat at the Fed Board of Governors.

European Central Bank (ECB): ECB President Mario Draghi's message at the 9 March ECB meeting was in line with our expectations. In fact, we thought he did a successful job of tweaking the ECB's policy language to show that the economic risks to the Euro area are starting to recede, yet, at the same time, insisting that monetary stimulus must continue. We think the ECB will make baby-steps, probably making the first move of changing the forward guidance in June depending on the outcome of the key European elections ahead.

Bank of England (BoE): With the inflation pickup chiefly reflecting sterling's depreciation rather than domestically-generated inflation, we think that it is still simply too early to prognosticate how many members of the BoE Monetary Policy Committee (MPC) may join Kristin Forbes (who is due to leave the MPC at the end of June) as a dissenting vote at near-term rate decisions. We continue to see a status quo policy for the rest of this year, especially given the major uncertainties over the UK economic and political outlook.

Reserve Bank of Australia (RBA): We think that monetary policy will remain accommodative for an extensive period of time. The predicament for the RBA is clear. On one hand, policymakers are hesitant to lower interest rates to avoid fanning an overheated property market. On the other hand, Australia's inflation rate is running well below the central bank's target range. Besides, they do not want to push rates higher as this will stifle consumption and investment more broadly, as well as potentially place some upwards pressure on the Australian dollar.

Reserve Bank of New Zealand (RBNZ): The RBNZ appears more comfortable with the inflation and exchange rate profile which gives the bank scope to maintain a neutral policy for now whilst it looks to both domestic and global developments. There is nothing to alter our view on the forward path of the OCR. We see the next move as a hike, but not until the second half of 2018.

Bank of Japan: We 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. And while there is increasing market expectation that the next BOJ move is to taper its easing program, we think it is premature in 2017 because Japan is still far away from its 2% inflation target and it is inappropriate to debate exit of monetary policy easing at this early stage. Thus, the most likely outcome for the BOJ may be to maintain status quo in the near term, but we still expect more easing in later part of 2017 such as to push the Policy-Rate Balance rate to -0.2% (from -0.1% presently), accelerate it asset purchase program and may even include buying of other instruments. BOJ has surprised the markets with unexpected policy easing in 2016, and we cannot rule out policy surprises this year.

Asian Interest Rates

People's Bank of China: PBoC has since late 2016 taken active steps to manage leverage and preventing systemic risks. Other than measures such as Macroprudential Assessment (MPA), the central bank has raised market interest rates through its regular Open Market Operations (OMO), which have the effect of raising interbank interest rates. In the first three months of 2017, PBoC has hiked a total of 20bps for short term money (reserve repo) and medium term money (MLF). PBoC has made clear that there is no shift in its "prudent and neutral" policy stance (though the bias clearly is towards tightening) and that these are not considered "rate hikes" as benchmark interest rates remain unchanged. There certainly is further scope for PBoC to raise market interest rates to nudge banks into rationalizing their activities, and no one should be surprised by more of these small rate increments through 2017. However, benchmark policy interest rates are likely to remain for now (at 4.35% for 1Y lending and 1.50% for 1Y depo), so as not to increase financing costs to end borrowers as the economy slows.

Monetary Authority of Singapore: As the labour market remains weak, we think that it could be too premature for the MAS to appreciate the SGD NEER in their upcoming April monetary policy meeting. However, we do not rule out a 0.5% pa appreciation of the SGD NEER slope in the October meeting should current momentum of core inflation continues in the following months. With our expectations of the US Federal Reserve to hike interest rates by 2 more times in 2017, we forecast the 3m SIBOR to reach 1.45% by the end of 2017.

Bank Indonesia: We maintain our call for BI to stay on hold in the next two quarters. Higher domestic inflation will be the key challenge for the central bank. As real interest rate falls in Indonesia, the central bank's ability to maintain stability in the IDR (which also depends on the US rate hike trajectory) will determine whether domestic interest rates have to be raised later in the year. The prospect of a rate hike cannot be totally discounted even as BI would prefer not to respond to the policy-induced price pressure.

Bank of Korea: We estimate that the headline inflation rate will rise towards 2.5% by mid-2017 on the back of a low base effect and this is at the top of the BOK's target range of 1.5-2.5%. As demand-side inflationary pressure is still weak given the state of the economy, we do not see risk of monetary tightening at this point. We maintain our call for the BOK to stay on hold throughout 2017.

Bank Negara Malaysia: Bank Negara Malaysia (BNM) has kept the Overnight Policy Rate (OPR) unchanged in the first two meetings this year and signaled no rate change for now. The pressure to ease rates has abated amid stabilizing growth. While inflation has trended upwards since January, price pressures are largely cost-driven on the back of reversal in energy prices. BNM revised upwards their inflation outlook to 3%-4% this year. We expect headline inflation to average 4% in 1H 2017 assuming global oil prices between US$50-55/bbl. But we do not see prospects of negative real interest rates prompting BNM to tighten policy given that the upshift in inflation is expected to be temporary on the back of normalizing oil prices, signs of moderate domestic demand, and caution on lingering external risks. On balance, we think BNM is likely to keep OPR unchanged at 3.00% through the year.

Bank of Thailand: The Bank of Thailand (BoT) kept the policy rate unchanged at 1.50% on 8 Feb 2017. Looking forward, the BoT will likely keep the policy rate on hold at 1.50% through 2017 since current monetary conditions remain accommodative and conducive to the ongoing economic recovery. Moreover, headline inflation is expected to rise at a slow pace as demand-pull inflationary pressure remains weak.

Reserve Bank of India: Although India's CPI picked up some pace in February (3.65% y/y) due to rising food prices, it is still considerably low. Moreover, the RBI had projected inflation to remain within a range of 4.0% to 4.5% in the first half of the 2017-18 financial year. After lowering rates by 175bps since 2015, we still think that the Reserve Bank of India (RBI) will continue their dovish attitude this year; with the potential of 2 rate cuts in 2017 should there be downward revisions in the GDP numbers as more data comes in. This will continue its longest easing cycle since the global financial crisis.

State Bank of Vietnam: The State Bank of Vietnam (SBV) is likely to remain in easing mode, whilst Vietnam growth is expected to register 6.2% this year. Headline inflation should strongly rebound led by higher oil and commodity prices with the improvement in the global economy, but remains manageable. We therefore expect the SBV will likely maintain the policy rate at 6.50% in 2017.

Real GDP Growth Trajectory									
y/y% change	2016	2017F	2018F	3Q16	4Q16	1Q17F	2Q17F	3Q17F	4Q17F
China	6.7	6.6	6.5	6.7	6.8	6.5	6.5	6.6	6.5
Eurozone	1.7	1.6	1.5	1.8	1.7	1.6	1.6	1.6	1.6
Hong Kong	1.9	2.0	2.0	2.0	3.1	1.4	2.2	1.9	2.4
Indonesia	5.0	5.2	5.5	5.0	4.9	5.1	5.1	5.2	5.3
Japan	1.0	0.9	1.2	1.1	1.6	1.4	1.1	0.9	0.4
Malaysia	4.2	4.5	4.7	4.3	4.5	4.4	4.5	4.6	4.6
Philippines	6.8	6.5	6.5	7.0	6.6	6.5	6.3	6.4	6.6
India	7.5	7.2	7.6	7.4	7.0	7.1	7.0	7.4	7.3
Singapore	2.0	2.4	2.8	1.2	2.9	2.4	2.1	2.6	2.5
South Korea	2.7	2.6	2.9	2.6	2.3	2.3	2.4	2.7	3.0
Taiwan	0.7	1.5	2.0	2.1	2.9	1.9	1.9	1.9	2.1
Thailand	3.2	3.3	3.1	3.2	3.0	3.2	3.1	3.3	3.4
US (q/q SAAR)	1.6	2.7	2.5	3.5	1.9	2.0	3.4	3.0	2.8

Source: CEIC, UOB Global Economics & Markets Research

FX & INTEREST RATE OUTLOOK

FX OUTLOOK

	27 Mar 2017	2Q17F	3Q17F	4Q17F	1Q18F
USD/JPY	110.2	115	117	118	119
EUR/USD	1.087	1.06	1.06	1.08	1.09
GBP/USD	1.256	1.23	1.22	1.21	1.20
AUD/USD	0.763	0.78	0.79	0.79	0.80
NZD/USD	0.705	0.70	0.71	0.71	0.72
USD/SGD	1.393	1.43	1.45	1.46	1.47
USD/MYR	4.412	4.46	4.48	4.50	4.52
USD/IDR	13,306	13,600	13,700	13,800	13,900
USD/THB	34.44	35.8	36.2	36.5	36.8
USD/PHP	50.12	50.2	50.6	50.9	50.9
USD/INR	65.08	67.9	68.8	69.8	69.8
USD/TWD	30.24	31.0	31.1	31.4	31.6
USD/KRW	1,113	1,140	1,150	1,160	1,170
USD/HKD	7.77	7.80	7.80	7.80	7.80
USD/CNY	6.876	7.02	7.09	7.16	7.20
USD/MMK	1,364.0	1,365	1,370	1,395	1,395
USD/VND	22,776	22,900	23,050	23,200	23,400

INTEREST RATE TRENDS

	27 Mar 2017	2Q17F	3Q17F	4Q17F	1Q18F
US (Fed Funds Rate)	1.00	1.25	1.50	1.50	1.75
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 (Policy Rate)	-0.10	-0.20	-0.20	-0.20	-0.30
SGD (3M SIBOR)	0.95	1.20	1.40	1.45	1.65
IDR (7-Day Reverse Repo)	4.75	4.75	4.75	5.00	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	1.75
PHP (Overnight Reverse Repo)	3.00	3.25	3.50	3.50	3.50
INR (Repo Rate)	6.25	5.75	5.50	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)	1.25	1.50	1.75	1.75	2.00
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	6.75

Source: Bloomberg, UOB Global Economics & Markets Research

SINGAPORE MAS POLICY PREVIEW

No Change To April Monetary Decision, But Current Neutral Slope Losing Relevance

The Monetary Authority of Singapore (MAS) will be announcing its monetary policy statement sometime between 10th and 13th of April 2017, and we expect no changes to the current policy of a zero appreciation of the SGD NEER, while keeping the midpoint and bandwidth of the policy band untouched.

It's interesting how the economic landscape had changed over the past five months since the last MAS policy meeting. Back then, we were very concerned about the deflationary environment, slow economic growth, rising labour redundancies and industry-specific risk factors such as from the offshore & marine industries. Fast forward a few months later, Singapore's 4Q 2016 GDP growth surprised analysts on the upside with a stronger 2.9% y/y growth, while the central bank had set their 2017 core inflation forecast at 1-2%, higher than the average 0.9% in 2016.

Bullish data from both growth (export, manufacturing numbers) and inflation will probably mean that the central bank may have to revert to some form of appreciation of the SGD NEER soon. Indeed, the market had been pricing those expectations in lately, resulting in the SGD NEER trading above its midpoint for 91% of the time since the start of this year.

With the global economic environment moving towards the reflationary stage and away from the past years of deflation, we may start to experience further improvement to Singapore's GDP growth, accompanied by rising prices. In fact, we had upgraded our 2017 GDP growth forecast to 2.4%, from 1.8% previously. As such, the days of easy monetary policies could be over, as Asian central banks brace themselves up against potential capital outflows as the US start hiking interest rates.

As a recap, the MAS executed three rounds of cuts to the SGD NEER slope since January 2015 to reach the current neutral appreciation. Although recent economic numbers are pointing stronger, we think that it will be too early to appreciate the SGD NEER slope in the upcoming April meeting. This is because the lagged impact from past two years of slow economic growth is still hampering private consumption and business investment. The still-weak labour market condition is also another factor for consideration.

That said, we do not rule out a 0.5% pa appreciation of the SGD NEER slope in the October meeting should current momentum of core inflation continues in the following months, and supported by some improvement in the labour market. As such, although we look to the US Federal Reserve hiking interest rates by 2 more times in 2017, upside in the USD/SGD could be limited by expectations of a strengthening SGD. We adjust our forecast for the USD/SGD to end 2017 at 1.46, from 1.48 previously. The 3m SIBOR is forecast to reach 1.45% by the end of 2017.

ANNEX B: Announced MAS Monetary Policy Statements / Actions Since 2013

Date	Scheduled Meeting?	Decision		Factors /Outlook Affecting Decision					
		Bias	Pivot Point	External Econ	Global Elec-tronics	Domestic Econ	Imported Inflation	Domestic Inflation	Labour Mkt
12 Apr-13	yes	slope unchanged at 2.5% (estimate), band width unchanged	no change to mid point	recovery in G3, pickup in housing/private demand in US, Japan monetary stimulus, robust Chinese demand	improving trend in US Semi-Book-to-Bill ratio	gradual improvement for the rest of the year on the back of external demand recovery	generally mild in recent months and projected to lower due to supply buffers in energy and food	declining but with upside risks coming from wage increase pressures, lowered headline and core inflation estimate	tighter labour market due to foreign labour restrictions
14 Oct-13	yes	no change to slope bias and band width	no change to mid point	stronger regional eco-nomic growth, improving PMI numbers and confi-dence levels	first drop below parity in US Semi Book-to-Bill ratio since start of 2013	consistent recovery expected in manufactur-ing sectors with strong contributions from services sectors	declining but with upside risks coming from wage increase pressures	eased for both accomodation and private transportation costs. But the latter has risks of trending higher	higher foreign workers levies, new rules on employment pass ap-plications. Tight labour market
14 Apr 14	yes	no change to slope bias	no change to mid point	improving economic con-ditions in US, Eurozone and Japan. Emerging Asia growth remains robust	semiconductor sales projected to grow strongly in Americas and Europe	cyclical demand pickup is expected in externally-ori-ented industries in 2014 and positive spillovers to benefit domestic sectors	stable food and oil pric-es and an appreciating SGD NEER will result in low imported inflation	both accomodation and trans-port costs had eased. However, risks of higher transport costs to come from low base in 2013 and higher COE premiums in 2014	labour market remains very tight with latest job vacancy-to-unemployed ratio at 1.44. Wages to continue to rise, par-ticularly in the services sector
14 Oct 14	yes	no change to slope bias	no change to midpoint	US economy to lead global economy but growth in the core Eurozone economies and Japan is likely to remain weak, hampered by structural headwinds.	na	The continued improve-ment in global demand should provide some support to the exter-nal-oriented sectors of the Singapore economy.	Imported food inflation due to higher food cost. Subdued external price pressures due to ample supply buffers in the major commodity markets.	With the economy at full employment, wages should continue to increase and filter through to prices particularly for services items	continues to remain tight, particularly in the services sector
28 Jan 15	no	lowered slope by 0.5% to 1.0%	no change to midpoint	The global economy continues to grow at an uneven pace across countries, with stronger growth in the US partly offset by weakness in the Eurozone, Japan, and China.	na	Mixed outlook for the glob-al economy weigh on the external-oriented sectors; domestic-oriented sectors should stay resilient. 2015 growth remains at 2–4%.	Imported inflationary pressures are receding, with global oil prices likely to stay subdued this year.	While domestic cost pressures will remain, the pass-through to consumer prices is expected to be moderate.	Tight labour market have remained, but pass-through to CPI has been slightly weaker than anticipated.
14 Apr 15	yes	no change to slope bias	no change to midpoint	Weak external growth environment persisted. China slowdown causing concerns	Weak growth in semiconductor demand	Slowest economic growth (in 2Q) in nearly three years	Depreciation in curren-cies of several import-ing nations depressed imported inflation	Cost pass-through from higher domestic cost is not evident. Mark ups by firms are not significant	Labour market remains tight
14 Oct 15	yes	lowered slope by 0.5% to 0.5%	no change to midpoint	Turmoil in financial markets since China's Aug devaluation added on to global recession risks	Weak growth in semiconductor demand	Very weak manufacturing sector that contracted for four consecutive quarters on-year	Depreciation in currencies of several importing nations depressed imported inflation	Cost pass-through from higher domestic cost is not evident. Mark ups by firms are not significant	Labour market remains tight
14 Apr 16	yes	slope lowered to 0%, band width unchanged	no change to midpoint	Still-weak global economic conditions	improvement in US Semi Book-to-Bill ratio	Slowest economic growth in 2015 since 2008/09 recession, 1Q16 GDP grew 0% q/q SAAR	Weakness in imported inflation due to contraction in factory prices and low commodity prices	Prices of cars and housing remain low, but risks of inflation moving higher due to base effects. 2016 core inflation likely at lower half of 0.5-1.5%	Labour market still tight, however, there are risks of higher labour redundancies in 2016
14 Oct 16	yes	no changes to neutal slope and band width	no change to midpoint	Uncertainties of full impact of Brexit and upcoming elections in U.S.	improvement in US Semi Book-to-Bill ratio	Headwind from the slowdown in services sector	No risk in imported inflation	Prices of cars and housing remain in contraction but y/y growth risks moving higher due to base effects	Slight loosening in labour market as redundancies edged higher in recent 2 quarters
10/13 Apr 17	yes	no changes to neutral slope and band width	no change to midpoint	External demand is picking up benefiting mainly Singpaore's tradeable sectors	Double digit growth in semiconductor production	Growth in services sector still slow, hampered by weak domestic consumption	Not a major risk, but looks to be rising as China PPI & oil prices gained in recent months	Prices of cars and housing remain in contraction but y/y growth risks moving higher due to base effects	Looser labour market conditions will cap supply-side cost increases

MATCHING BUDGET 2017 INITIATIVES TO THE 7 STRATEGIES IDENTIFIED BY THE CFE

S$2.4billion To Implement The 7 CFE Strategies Over Next 4 Years

1. DEEPEN AND DIVERSIFY INTERNATIONAL CONNECTIONS

Over **S$100mn** to build capabilities under the below initiatives:

- Set up of **Global Innovation Alliance** for Singaporeans to gain overseas experience, build networks and collaborate abroad. Consists of 3 programmes:
  1. **Innovators Academy**
  2. **Innovation Launchpads**
  3. **Welcome Centres**
- **SkillsFuture Leadership Development Initiative** will support companies to groom Singaporean leaders

2. ACQUIRE AND UTILISE DEEP SKILLS

- Increasing Accessibility of Training for all Singaporeans
- Strengthening On-the-Job Skills Utilisation

3. STRENGTHEN ENTERPRISE CAPABILITIES TO INNOVATE AND SCALE UP

- Up to S$600mn in a new **International Partnership Fund** that will co-invest with Singapore-based firms to help them scale-up and internationalise
- IE Singapore's Internationalisation Finance Scheme will be enhanced
- To top up the **National Research Fund** by S$500mn to support innovation efforts

4. BUILD STRONG DIGITAL CAPABILITIES

Over **S$80mn** will be made available for these programmes:

- Introduce the **SMEs Go Digital Programme** to help SMEs build digital capabilities
- **Strengthen capabilities in data and cybersecurity**

5. DEVELOP A VIBRANT AND CONNECTED CITY OF OPPORTUNITY

- To make significant investments in critical economic infrastructure:
  1. **Changi Airport T5**
  2. **KL-SG HSR**
  3. **Tuas Terminal**

  to deepen Singapore's connectivity to global markets
- Invest in shared infrastructure for economic clusters so that industry players can network, pool resources and share knowledge

Sustaining A Quality Environment For The Future

- To implement carbon tax on the emission of greenhouse gases from 2019
- Restructuring Diesel Taxes
- Vehicular Emissions Scheme
- Early Turnover Scheme
- Water Price Changes

6. DEVELOP AND IMPLEMENT INDUSTRY TRANSFORMATION MAPS (ITMs)

- **Industry Transformation Maps** to bring together various stakeholders to come together to transform each sector. 23 sectors identified, covering 80% of the economy
- To top up the **National Productivity Fund** by S$1bn to support industry transformation

7. PARTNER EACH OTHER TO ENABLE INNOVATION AND GROWTH

- To support firms in their efforts to innovate, **A*STAR** will embark on the following efforts:
  1. Operation & Technology Road-mapping
  2. Headstart Programme
  3. Tech Access Initiative
- **SPRING's IP Intermediary**
- **New Tech Access Initiative**
- **Public Sector Construction Productivity Fund**

SINGAPORE BUDGET 2017

Operationalising Longer Term Strategies While Answering Shorter Term Needs

- Budget 2017 provided a good balance between operationalizing the strategies from the Committee on the Future Economy while answering to the shorter term needs from several industries.

- Even though the government did extend the deferment of the foreign workers' levies for the marine and process sectors, there was no relaxation of the said measure for all industries, cementing government's long-standing objective to wean businesses off the heavy reliance on foreign labour as a factor of production.

- In view of very weak domestic consumption and capital investment growth, shorter term solutions include the bringing forward of public infrastructure projects which will help the construction sector.

- Additionally, there were corporate and personal income tax rebates announced, and the additional special employment credit scheme will be extended till end 2019.

- There were 2 new categories in Budget 2017, namely, city and prudence.

- To enhance Singapore's attractiveness as a city to live, work, and play, as well as becoming more sustainable, a slew of taxes and tariffs such as higher water prices, carbon taxes, and diesel taxes will be introduced to prevent overconsumption of such goods.

- Moreover, Minister Heng also spent 5 pages in the Budget document stressing about the rapid increase in government expenditure in the coming years, due to higher spending in healthcare and infrastructure. As such, there was a permanent 2% downward adjustment to the budget caps of all Ministries and Organs of State from FY2017 onwards (aka: cost-cutting and leading by example).

- Government's overall budget surplus at S$5.2 billion (1.3% of GDP) for FY2016 was larger than initially expected.

- For FY2017, the government will be running a primary budget deficit of S$5.62 billion, a mildly expansionary budget, while overall budget is expected to come in at surplus of S$1.91 billion (0.4% of GDP). This will relieve any pressure for the central bank to ease its policies any further, while potentially helping the economy to grow at the upper end of government's forecast of 1% to 3%.

ECONOMIC INITIATIVES

Containing Clues That Operationalises CFE Strategies While Supporting Near Term Growth

Singapore's Budget 2017 was delivered by Finance Minister Heng Swee Keat on 20 Feb 2017 and it continued to place emphasis on strategies to help restructure the economy (ie: long term) as well as addressing the short term needs of businesses and measures.

Budget 2017 was closely watched because it was the first Budget to be delivered after the announcement of the report from the Committee on the Future Economy (CFE) on 9 Feb 2017. In short, we viewed that the "CFE report tells us where to go and why we should go that way, while the Budgets (in the following years) will guide us on how to do it."

In line with the prudent governance philosophies of previous terms of governments, Budget 2017 was not overly prescriptive on shorter term economic measures, and had allocated a larger share towards longer term economic objectives.

EXHIBIT 1: More Short Term Or Long Term Measures In Budget 2017?

An Innovative And Connected Economy		Pages	No of Pages	% of Total Pages
Short-Term	Managing the Transition	6 to 10	5	28% (2016: 16%)
Long-Term	The Future Economy	11	1	72% (2016: 84%)
	* Strengthening Enterprises Capabilities	12 to 15	4	
	* Deepening People's Capabilities	16 to 19	4	
	* Partnerships for Shared Success	20 to 23	4	

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

Exhibit 1 shows a simple page count of the Budget document and provides some colour on the emphasis of the Ministry of Finance in Budget 2017.

It can be seen that around 72% of government's focus is still on the longer term economic restructuring, although the shorter term measures had a higher share of emphasis in 2017 (28%), compared to 2016 (16%).

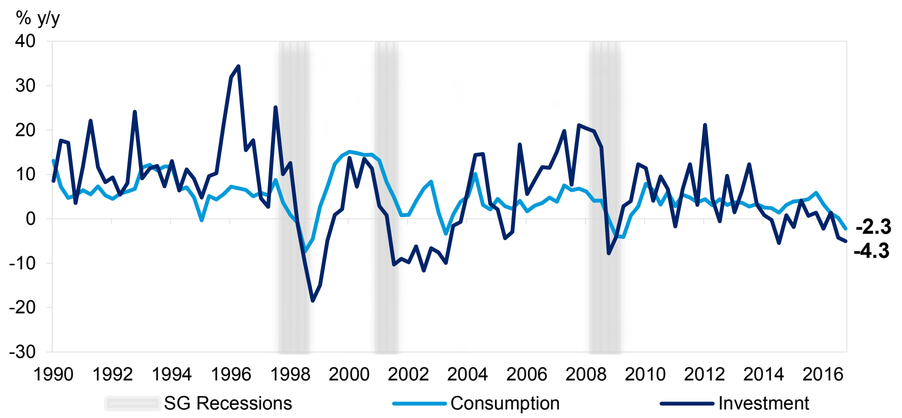
Over in the next 2 boxes, we discuss the details in both the shorter term and longer term economic measures.

BOX A: SHORTER TERM ECONOMIC MEASURES

As we had hoped for, Minister Heng announced enhancement to the **corporate income tax (CIT)** rebate by raising the cap from S$20,000 to S$25,000 for YA2017, while extending the rebate for another year to YA2018 (although at a reduced rate of 20% of tax payable). Moreover, a **personal income tax rebate** of 20% of tax payable was announced too. Such initiatives will supposedly help to boost business cash flows, household income and eventually higher consumption and investment via positive tax multipliers.

EXHIBIT 2: Both Consumption And Investment Were Weak

Source: CEIC, UOB Global Economics & Markets Research Forecasts



The latest Ministry of Trade and Industry GDP report (released on 17 Feb 2017) showed that private consumption expenditure had contracted 2.3% y/y in 4Q 2016, the first on-year contraction since the global financial crisis. Moreover, investment had also contracted in 1Q, 3Q and 4Q of 2016, exhibiting a weak trend since the start of 2014 (**EXHIBIT 2**). As such, the tax rebates announced during the Budget is timely as it provides short term relief for both households and businesses and will help partially to address weak consumption and investment growth.

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For firms, there will be another year of **deferment of foreign worker levy increase** for the Marine and Process sectors. The construction sector will enjoy **S$700 million worth of public sector infrastructure projects** brought forward to start in FY2017 and FY2018. However, foreign worker levy increases for the construction sector will proceed this year.

The **wage credit scheme, special employment credit, and SME Working Capital Loan** will continue to tide firms during this period of economic slowdown. Moreover, there will be an extension of **additional Special Employment Credit** to encourage firms in hiring older workers who are not covered by the new re-employment age of 67 years old. All the support measures amount to over S$1.4 billion for firms in FY2017. Other initiatives such as a 100% road tax rebate for 1 year and partial road tax rebate for another 2 years for commercial diesel vehicles are welcomed.

For workers, an "**Attach and Train**" initiative will be introduced for sectors that have good growth prospects but where firms may not be ready to hire yet. An additional sum of up to $26 million a year will be committed from the **Lifelong Learning Endowment Fund** and the **Skills Development Fund** to support these initiatives.

EXHIBIT 3: Poor Hiring Sentiments Amongst Employers

Source: CEIC, UOB Global Economics & Markets Research
Note: PMET refers to Prof, Managers, Executives & Technicians;
CSSW refers to Clerical, Sales & Service Workers
PTOCL refers to Prod,Transport Operators,Cleaners & Labourers

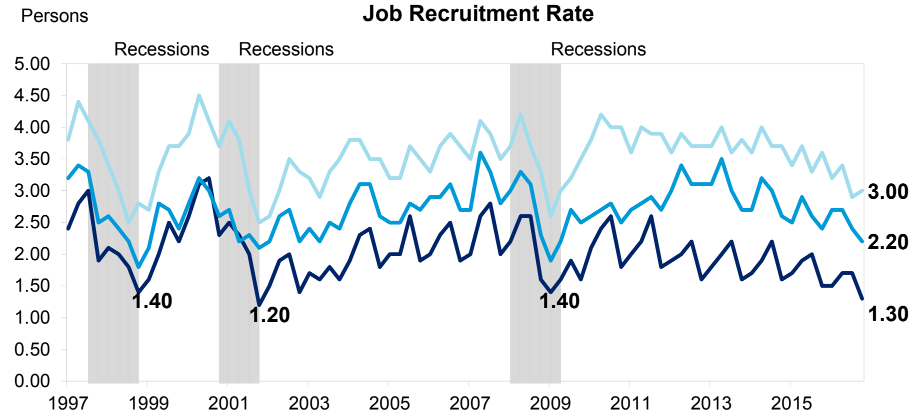
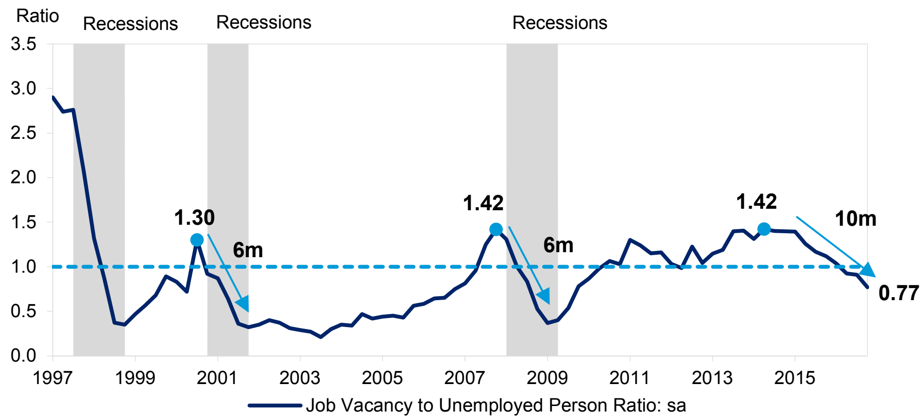


EXHIBIT 4: Lesser Job Vacancies for Unemployed Persons

Source: CEIC, UOB Global Economics & Markets Research



Such labour initiatives will be critical to ensure the demand for labour does not dry up as employers are treading very carefully and are not prepared to hire due to weak revenue prospects, particular for the PMET segment of workers. **Exhibit 3** shows that recruitment rate in 4Q 2016 dropped to one of the lowest in history of 1.3%. This is worrying as the economy is not in a technical recession and yet recruitment sentiments are very weak.

Moreover, the number of job vacancies have continued to shrink in the three quarters to 4Q 2016. As of that quarter, there are only 77 job vacancies for every 100 unemployed persons. Such a situation was only experienced during a recession in the past (**Exhibit 4**).

BOX B: LONGER TERM ECONOMIC MEASURES

Although Budget 2017 had addressed both short and longer term economic challenges, the emphasis remain in the longer term economic restructuring efforts. A simple page count reveals that Minister Heng dedicated a total of 5 pages in the Budget statement on short term measures. On the other hand, there were a total of 12 pages for longer term initiatives.

Indeed, the 12 pages provided some insights on how the government will operationalize the strategies put forth from the Committee on the Future Economy (CFE) report released on 9 Feb 2017.

The following are the details, mapping initiatives addressed in Budget 2017 to the 7 CFE strategies:

1) Deepen And Diversify Our International Connections (Workers)

A **Global Innovation Alliance** for Singaporeans to gain overseas experience, build networks, and collaborate with their counterparts in other innovative cities will be set up and will include 3 programmes – Innovators Academy, Innovation Launchpads, Welcome Centres. Moreover, a **SkillsFuture Leadership Development Initiative** will support companies to groom Singaporean leaders by expanding leadership development programmes. This includes sending promising individuals on specialised courses and overseas postings. For a start, the programme will target to develop 800 potential leaders over the next three years. Over S$100 million will be set aside for this.

2) Acquire And Utilize Deep Skills (Workers)

Locally, there will be more short, modular courses, and the use of e-learning to help enhance training. Funding support for Singaporeans to take approved courses will continue to be available through SkillsFuture, while union members can get subsidies for selected courses through the NTUC-Education and Training Fund. S$150 million is set aside to match donations to the Fund.

The National Jobs Bank will be more useful for jobseekers and employers and government will work with private placement firms to deliver better job matching services for professionals.

3 & 4) Strengthen Enterprise Capabilities To Innovate And Scale Up And Build Strong Digital Capabilities (Firms)

Government will commit up to S$600 million for a new **International Partnership Fund** that will co-invest with Singapore-based firms to help them scale-up and internationalise. There will be an enhancement of the Internationalisation Finance Scheme by government co-sharing the default risk of lower quantum non-recourse loans. The government will also provide a share of the needed sovereign risk insurance coverage for projects undertaken by larger firms in higher-risk developing markets. Overall, these enhancements will enable more companies to take on more overseas projects.

Budget 2017 announced the SMEs Go Digital Programme to help SMEs build digital capabilities, where SMEs will get step-by-step advice on the technologies to use at each stage of their growth through the sectoral Industry Digital Plans. Then, SMEs will get in-person help at SME Centres and a new SME Technology Hub to be set up by Info-communications Media Development Authority (IMDA). SMEs can approach business advisors at SME Centres for advice on off-the-shelf technology solutions that are pre-approved for funding support, or connect to Info-communications and Technology (ICT) vendors and consultants. Moreover, SMEs that are ready to pilot emerging ICT solutions can receive advice and funding support. S$80 million will be available for these programmes.

5) Develop A Vibrant And Connected City Of Opportunity

Other than the known investments in the new Changi Airport Terminal 5, the KL-Singapore High Speed Rail, Tuas Terminal, Jurong Innovation District, Budget 2017 recognises the need for high-quality living environment. As such, Minister Heng announced the implementation of a **carbon tax** on the emission of greenhouse gases. Moreover, diesel taxes will be restructured as a volume-based duty of $0.10/litre will be levied.

A new Vehicular Emissions Scheme (starting 1 Jan 2018) will run for 2 years to replace the current Carbon Emissions-based Vehicle Scheme. There will also be an increase in water prices by 30% in 2 phases (starting 1 Jul 2017).

6) Develop And Implement Industry Transformation Maps (Firms)

This was announced during Budget 2016. So far, 6 sectors have been launched and the remaining 17 will be launched in FY2017.

7) Partner One Another To Enable Growth And Innovation (Firms)

A*STAR currently works with firms to conduct operation and technology road-mapping, to identify how technology can help them innovate and compete. For companies seeking access to intellectual property, **Intellectual Property Intermediary**, a SPRING affiliate, matches them with IP that meets their needs. A*STAR also partners SMEs through the Headstart Programme. The **Headstart programme** allows SMEs that co-develop IP with A*STAR to enjoy royalty-free and exclusive licences for 18 months in the first instance. In response to industry feedback, this will be extended to 36 months. A new **Tech Access Initiative** will see A*STAR providing access to advanced machine tools for prototyping and testing.

Additionally, a new **Public Sector Construction Productivity Fund** will allow Government agencies to procure innovative and productive construction solutions, which may have higher costs as these solutions may be nascent and lack scale. The fund will allow these solutions to enter and gain traction in the market, and will cost about S$150 million.

Moreover, there will be top ups to the **National Research Fund** by S$500 million and another S$1 billion to the **National Productivity Fund**.

All in, there will be a total of S$2.4 billion over the next 4 years to implement CFE strategies.

SOCIAL INITIATIVES

Although Budget 2017 started off with a slew of economic measures, social spending was not neglected. Using the same method of counting pages, we found that 26% of the Budget was allocated to social expenditure (**Exhibit 5**). Separately, Box C provides a brief summary of the social measures introduced in Budget 2017.

EXHIBIT 5: More Social Or Economic Measures In Budget 2017?

Budget 2017		Pages	No of Pages	% of Total Pages
Social	A Caring And Inclusive Society	32 to 42	11	26% (2016: 34%)
	An Innovative And Connected Economy			
Economy	Managing the Transition	6 to 10	5	43% (2016: 66%)
	The Future Economy	11	1	
	* Strengthening Enterprises Capabilities	12 to 15	4	
	* Deepening People's Capabilities	16 to 19	4	
	* Partnerships for Shared Success	20 to 23	4	
City	A Quality Living Environment	24 to 31	8	19% (2016: 0%)
Prudence	A Sustainable Fiscal System	43 to 47	5	12% (2016: 0%)

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

BOX C: SOCIAL MEASURES

An increase in the CPF Housing Grant will enhance the attractiveness of resale HDB flats for first-time applicants. However, this may dampen further the demand for private residential properties, which were already suffering from price declines due to the many rounds of government housing cooling measures.

Enhancements to the Preschool sector will help encourage more female labour force participation, while the increase in annual bursary amounts for those attending Post-Secondary Education Institutions will help alleviate the burden on lower income households.

Moreover, a series of increases in the **GST Voucher** (U-save rebate), **one-off GST voucher**, **Service & Conservancy charges rebate** will also help households in their expenditure for FY2017.

A lot more details were announced on the **Enabling Masterplans** (5-year national plans to support persons with disabilities and their caregivers) and this Budget saw the launch of **the Third Enabling Masterplan**, which was put together by a committee of private and public sector representatives. The Masterplan calls for the Government and the community to better integrate Persons with Disabilities into the workforce, and to give more support to their caregivers.

Mental health issues received more support from the Budget via the setting up of more community-based teams to support those in need. Separately, community sports and cultural events received funding as well.

Other than the usual economic and social initiatives, Budget 2017 also contained 2 new categories, namely, city and prudence. To enhance Singapore's attractiveness as a city to live, work, and play, as well as becoming more sustainable, a slew of taxes and tariffs such as higher water prices, carbon taxes, and diesel taxes will be introduced to prevent overconsumption of such goods.

Additionally, Minister Heng also spent 5 pages in the Budget document stressing about the rapid increase in government expenditure in the coming years, due to higher spending in healthcare and infrastructure. As such, there was a permanent 2% downward adjustment to the budget caps of all Ministries and Organs of State from FY2017 onwards (aka: cost-cutting and leading by example).

That said, there should also be upcoming measures to increase government revenue and we believe that there contains hints of tax increases in Budget 2018. That said, Minister Heng stressed the importance of maintaining a pro-growth and progressive revenue base and that "we must study the implications and prepare our options early". As the erosion our competitiveness is not the way to go, increases to the corporate or personal income taxes will likely not be the case. Moreover, the government has been shifting from the implementation of direct taxes (such as income taxes) towards indirect taxes (such as consumption taxes) over the years. As such, we think that the most likely source for significant incremental government revenue will be from higher Goods and Services taxes (GSTs). The last time the GST was increased to the current 7% was on 1 Jul 2007, nearly 10 years ago. The time seems ripe for another potential hike; especially if economic growth picks up relatively well from now to the next Budget.

DISTILLING BUDGET EMPHASIS OVER THE YEARS USING MACHINE LEARNING

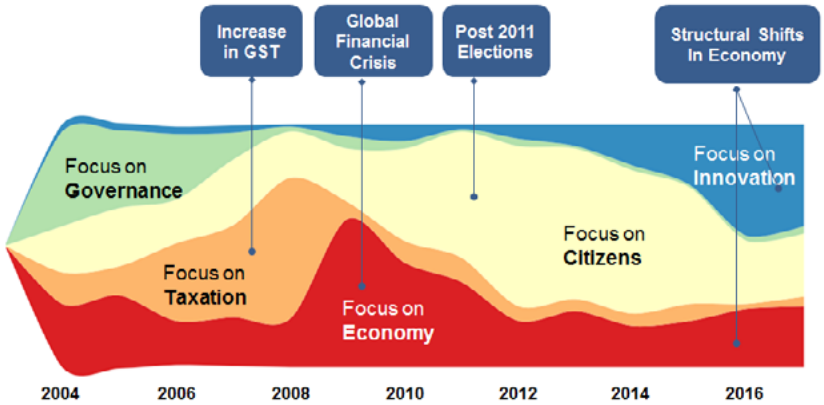
Such statements are tough to justify and many are derived from "gut feels". As we attempted to "uncover" key themes from past Budget statements, we partnered with UOB Data Management Office to come up with a novel way to ascertain and apportion the government's focus. We used machine learning to perform natural language processing[1] on Budget statements to analyze 14 years (2004-2017) of Budget statements (over 850 pages, and containing 200,000+ Words). In that exercise, we uncovered 5 key topics (Governance, Taxation, Economy, Citizens, and Innovation) and government's emphasis on each topic during each fiscal year.

Exhibit 6 shows the results and that during the earlier years when GST was increased, there was heavy emphasis on "Taxation". Thereafter, the ensuing global financial crisis in 2008/09 saw the Budgets emphasizing on "Economy". The focus was then shifted to "Citizens" after the 2011 general elections, which subsequently has less emphasis during Budget 2016. Since 2016 Budget, the focus is on "Innovation", particularly important as it is the key focus of the CFE.

1 We used a method under Topic Modelling called Latent Dirichlet Allocation which is a technique that analyses the occurance of similar words in a body of text to represent latent structure behind a collection of documents. For example, the topic of "Innovation " will mean increased incidence of words such as "innovation", "transformation", "develop", etc.

EXHIBIT 6: Determining the Focus of Previous Budgets

Source: Singapore Ministry of Finance, UOB Data Management Office



BALANCING THE BUDGET

A Smaller Overall Surplus Expected For FY2017, While FY2016 Surplus Came From Stronger NIRC

Due to the addition of Temasek's contribution to the Net Investment Returns Contribution (NIRC) starting FY2016, the government ran an overall budget surplus in FY2016 of S$5.18 billion (1.3% of GDP). However, rising expenditure means that the primary budget had a deficit of S$2.72 billion.

EXHIBIT 7: Balancing The Budget*

S$mn	FY2016 Govt Estimate	FY2016 Govt Revised	FY2017 Govt Forecast	FY2017 UOB Forecast
Operating Revenue	68,440	68,670	69,450	70,926
Total Expenditure	73,430	71,390	75,070	74,095
Operating Expenditure	54,430	52,680	56,300	54,473
Development Expenditure	19,000	18,710	18,770	19,622
Primary Budget Balance**	-4,990	-2,720	-5,620	-3,169
Less: Special Transfers	6,270	6,470	6,580	5,362
Add: NIR Contribution	14,700	14,370	14,110	15,696
Overall Budget Balance	**3,440**	**5,180**	**1,910**	**7,164**
% of GDP	*0.85*	*1.30*	*0.40*	*1.70*

Source: Singapore Ministry of Finance, UOB Global Economics & Markets Research
* Figures may not add up due to rounding;
** Surplus (Deficit) before Special Transfers and Net Investment Income (NII) Contribution

Of note, the addition of Temasek into the NIRC picture has resulted in the ballooning of the NIRC to S$14.37 billion for FY2016 (and S$14.11 billion for FY2017). This is in stark contrast to the average of S$8.5 billion NIRC during the 2011-2015 period. We acknowledge that although the additional S$5.9 billion provides a good buffer to support rising expenditures over the next few years, this may only be a temporary measure if the growth rate of government expenditure continues to outstrip that of revenue. The government will then need to look for additional sources of income.

For FY2017, the government expects total spending to be S$3.7 billion (+5.2%) higher than FY2016. This is thus an expansionary fiscal policy and will help to relieve any pressure for the central bank to ease its policies any further. Moreover, the Budget can potentially help the economy to grow at the upper end of government's forecast of 1% to 3%. Nevertheless, a smaller budget surplus of S$1.9 billion (0.4% of GDP) is expected for FY2017.

CHINA FOCUS

NPC Sets Targets For 2017

2017 Growth Target Set At "About 6.5%"

China Premier Li Keqiang delivered the 2017 Government Work Report at the opening of the fifth session of the 12th National People's Congress (NPC) on 5 Mar.

In the Work Report, Premier Li reviewed the country's progress made in 2016 and laid out the targets and tasks for 2017. The main theme is maintaining growth stability, job creation, prevention of risks, safeguarding financial security, protection of livelihood, and environment conservation, among others. Key economic targets for 2017 are summarized in the table below.

As widely expected, China lowered its growth target for 2017 to "about 6.5%", compared to the 6.5-7.0% range used in the 2016 Work Report. China is back to setting point estimate for growth target, after using the "range forecast" for the first time in 2 decades.

However, the goal for new job creation has been raised to "above 11 million", instead of the previous 10 million objective, suggesting that the government is sufficiently confident of the strength of the economy to continue its job creation streak even as supply side reform measures such as capacity reduction and destocking in sectors with excess capacity (such as steel and coal industries). This is reflected in the addition of more than 13 million jobs in each of the past two years, well ahead of target.

Another figure of note is that CPI inflation rate is set at 3%, similarly to the previous two years. However, this year will not be the same as last the two as domestic producer price index (PPI) has been accelerating for five straight months (Jan 2017: +6.9%y/y) after emerging from 54 months of negative readings. As such, upward pressure on consumer prices will be more significant in 2017, compared to the 2% increase in 2016 and 1.4% in 2015.

Prudent And Neutral Monetary Policy In 2017

As expected, Premier Li reiterated the prudent and neutral monetary policy that has been in place since 2016. More significantly, both the 2017 targets for M2 money supply and increase in total social financing have been lowered to about 12%y/y, from about 13% for 2016, and at the upper end of the 10-12% projection outlined in our NPC preview report. At the same time, the central bank is to comprehensively utilize its policy tools and to ensure sufficient liquidity and guide the transmission of market interest rates.

The message for the neutral policy stance is clear as the government

China: Key Economic Targets At A Glance

Indicator	2017 Target	2016 Actual	2016 Target	2015 Actual	2015 Target
GDP growth rate/range	About 6.5%	6.7%	6.5-7.0%	6.9%	About 7%
CPI inflation	About 3%	2%	About 3.0%	1.4%	3.0%
M2 money supply growth	About 12%	11.3%	About 13.0	13.3%	12.0
Total Social Financing (% change)	About 12%	12.8%	About 13.0	12.4	-- ("Steady Growth", 平稳增长)
Fiscal deficit (% of GDP)	3%	3.8%	3.0%	3.5%	2.3%
Job creation (millions)	Above 11.0	13.14	Above 10.0	13.12	Above 10.0
Registered urban jobless rate (%)	Below 4.5%	4.02%	Below 4.5%	4.05%	Below 4.5%

Source: Bloomberg, UOB Global Economics & Markets Research estimates.

prioritizes prevention of systemic risks and safeguarding financial safety. This means that deleveraging will be a key task in 2017, as the government acknowledged that corporate leverage is somewhat high, due to high savings and a credit-based system. The Work Report says that lowering corporate leverage is now a critical task (重中之重), and actions such as securitization, debt-for-equity swap, equity financing, debt limits especially for state-owned enterprises, among others, will be used to lower corporate leverage to reasonable levels.

We expect China's market interest rates will likely drift higher, following the trend set in the pre- and post-Lunar New Year period. However, we expect benchmark interest rates to stay unchanged for now (at 4.35% for 1Y lending and 1.50% for 1Y depo rates).

While the term "risk" appears more frequently this year (14 times vs. 11 times in 2016), the government says that systemic risk remains under control, but it is vigilant of risks posed by nonperforming assets, debt defaults, and shadow banking. Its confidence stems from sound domestic economic fundamentals, banks' capital adequacy and loss reserves, availability of policy tools and resources, among others.

A Stable RMB In Global Exchange Rate System

On the FX front, the Work Report strikes a somewhat different tone in 2017. While maintaining that RMB market reform will continue, there is NO mention of a RMB at a reasonable and equilibrium value like it did in 2016. It however says that the currency will be stable in the global exchange rate system. The "global exchange rate system" part is new in 2017 Work Report. This suggests that RMB reform could be key this year, while reaffirming the currency's role as part of the global system and therefore will not engage in tactics such as currency war or competitive devaluation.

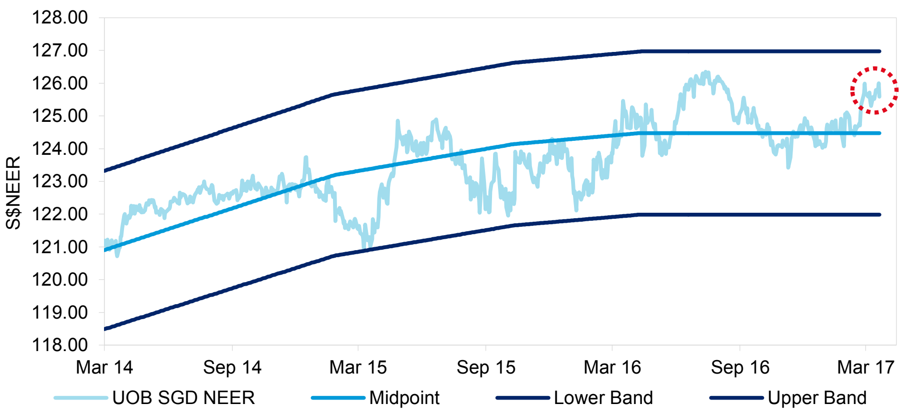
Near term, with the US Fed's policy rates poised to rise through 2017 and the US fiscal policy on expansion path, a stronger USD is expected to remain the case. **We are keeping our USD/CNY forecasts of 7.02 for mid-2017 and 7.16 for end-2017, while keeping a close watch on what actions, if any, the US government would take on its currency and trade policy against Asian countries.**

FX STRATEGY
Sell S$NEER Proxy

The Singapore dollar nominal effective exchange rate (S$NEER) has been rising steadily since the start of this year and has touched a 7-month high of 125.99 on 21-March, based on our model (**Exhibit 1**). Part of the move can be attributed to **market speculation on MAS to adjust its policy stance back to mild appreciation basis** (from current zero appreciation bias) as inflation picks up.

Exhibit 1: A "stretched" S$NEER

Source: Bloomberg, UOB Global Economics & Markets Research



After basing at 0.1% in May 2015, Singapore's core inflation, the Monetary Authority of Singapore's (MAS) preferred measure of price stability, has been moving up steadily, touching a two-year high of 1.5% y/y in January. Despite the global "reflationary" environment, **rising domestic unemployment, subdued consumption and investments are likely to restrain inflationary pressures** (we forecast 1.3% for 2017) from here. As such, it is **unlikely for MAS to shift into a tightening bias** in the near term, at least for the upcoming meeting in April.

On the **S$NEER**, it is likely to be **kept "stable"**, within a plus minus 1% from the midpoint, according to our calculations. Thus, recent outperformance of **S$NEER looks "stretched"** (+1.2% above midpoint on 21-March) **and should be faded**.

Our in-house model of the **S$NEER** includes 11 currency pairs currently which **can be narrowed to a simpler 4-currency basket** with ease of implementation for a reversion to mean play based on idiosyncratic factors (see accompanying rationale below).

To sum up, we **recommend selling SGD against an equally-weighted basket of USD, CNY, JPY and EUR** in 6-month forwards (priced 21-March), **targeting 1.5%** with a **1% stop**.

- **Long 6-mth USD/SGD forward @ 1.3977 (spot:1.3997), 25% weight**
  Scope for subsequent appreciation of USD towards S$1.46 by end year, driven by a robust U.S economy, a steeper Fed normalization (further hikes in June and September), widening rate differential between the 2-year US government yield and that of Singapore(**Exhibit 2**) .

- **Long 6-mth CNY/SGD non-deliverable forward @ 0.1998 (spot: 0.2032), 25% weight**
  Muted speculative interest on the RMB together with more restrictions on outflows by Chinese officials likely to result in a more stable and two-way RMB this year.

- **Long 6-mth JPY/SGD forward @ 1.2626 (spot: 1.2527), 25% weight**
  Yen strength in the near term can be expected as Trumpflation trade falters due to delays in President Trump's tax reforms and fiscal spending plans.

- **Long 6-mth EUR/SGD forward @ 1.5261 (spot: 1.5134), 25% weight**
  A much reduced odds of a Le Pen victory together with speculation on eventual tapering talks by ECB is likely to keep EUR broadly supported.

Exhibit 2: Fed Divergence Would Keep USD Supported

Source: Bloomberg, UOB Global Economics & Markets Research

RATES STRATEGY

Where SG Rates Stand In Relation To The FED Hike Cycle

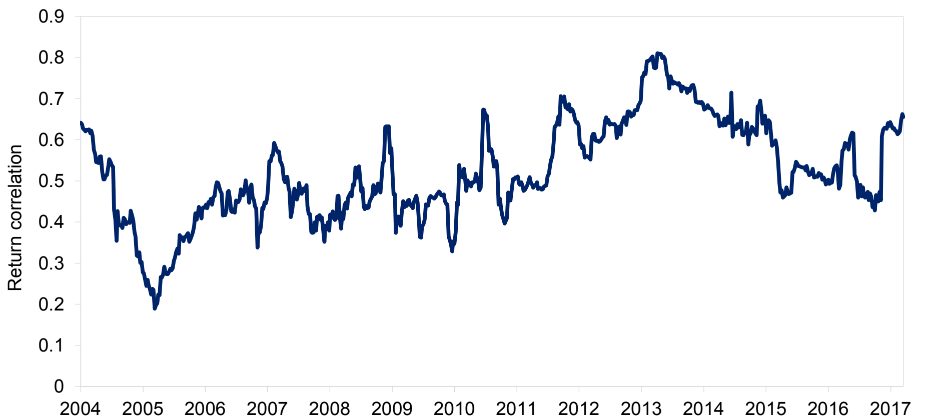
The FED funds rate was increased to 1.00% as of March FOMC and based on the latest projections by FED officials, a further 2 hikes in 2017 is to be expected. Our UOB macro team's forecast is consistent with the updated official guidance, in particular UOB is looking at the next 2 hikes to take place in June and September. Investors have also displayed better willingness to catch up towards official guidance compared to the previous 2 years, as can be seen from the convergence in market based pricing (Eurodollar futures and Overnight Index Swaps) to the official dot plots for 2017. But a "trust" gap still exists when it comes to pricing in a full FED rate hike cycle for 2018 and 2019.

With the improvements seen in US growth and inflation trends and the consensus expectations for expansionary US fiscal policy ahead, the likelihood that 2017 will buck the "one and done" FED hike scenario is at its shortest odds for this current monetary policy cycle. Singapore's interest rates have historically displayed a high degree of correlation to US rate changes, and because it has been more than a decade since a "proper" rate hike cycle, a reminder of how SG rates currently stand versus the 2004/2006 FED cycle provides useful context.

To begin, it is important to bear in mind that economic conditions here in Singapore are starting from significantly different points for the current FED cycle compared to 2004/2006. Singapore's

10Y SG vs. US IRS Historical Correlation

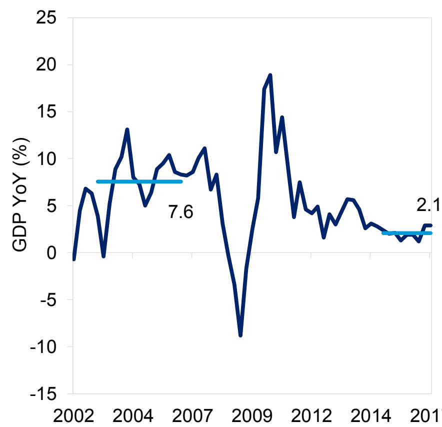
Source: Bloomberg, UOB Global Economics & Markets Research

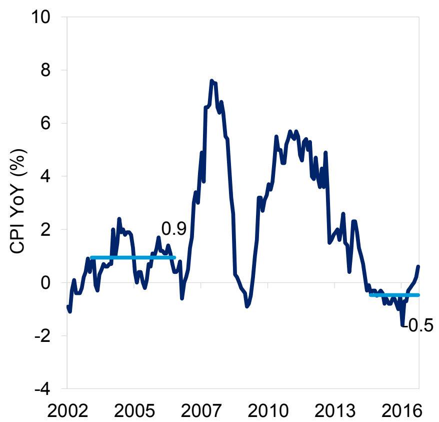


SG GDP: Then And Now

SG CPI: Then And Now

Source: Bloomberg, UOB Global Economics & Markets Research





GDP has averaged around 2.1% from the year leading up to 2015's first FED hike compared to an average of 7.6% during 2004/2006. Headline CPI in Singapore has recently managed to flip back into positive territory, but the current FED cycle average remains at -0.5% compared to 0.9% in 2004/2006. Furthermore, Singapore's growth environment going forward is expected to remain challenging thus there are headwinds in play that complicates comparisons between FED cycles. Nonetheless, we believe these differences in underlying conditions between time periods are mainly an issue of price reaction magnitude rather than a change in price reaction functions. Therefore, benchmarking against 2004/2006 can still offer useful sign posts for navigating the current incomplete FED cycle.

What follows are a series of scatter plots which tracks the relevant price series over each FED funds rate during 2004/2006's hike cycle. The current price levels as well as levels prevailing when the current FED hike started back in December 2015 are overlaid to give a sense of where we stand in relation to 2004/2006.

For the short end of the curve, SORs and SIBORs, outright yields will follow US Libors higher as investors anticipate and adjust to a FED hike cycle. In addition, the yield spread between SG and US rates also tends to widen (i.e. greater SG yield discount) as the FED cycle matures. MAS did tighten monetary policy via steepening of the SGD NEER slope but these occurred just outside the period in 2004/2006 when the FED was hiking rates, thus was not a direct factor in driving changes in yield differentials.

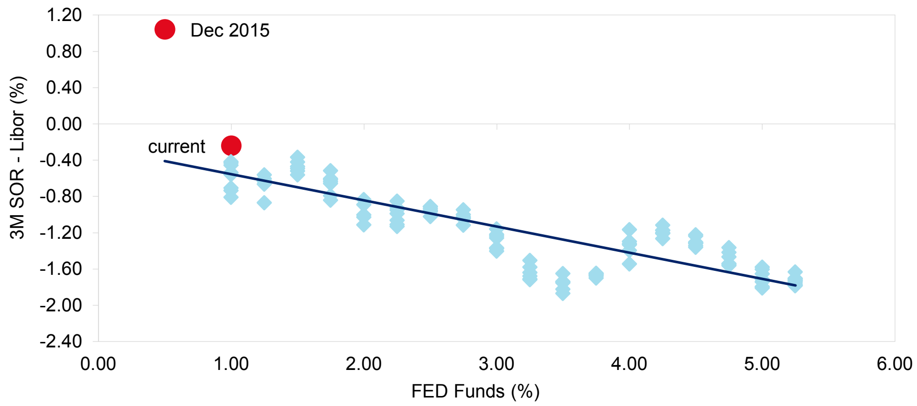
We expect that deepening of the SG yield discount as this current FED hike cycle progresses will be the path of least resistance unless Singapore or regional economies encounters a negative shock that causes risk premiums to be repriced significantly higher along the way.

Yield spreads between SORs and SIBORs tend to be driven by lead lag dynamics due to differences in liquidity as well as how the rates are derived. T herefore, it is not surprising to observe that FED rate hikes had no discernable influence on the SORs vs. SIBORs spread until late in the hike cycle. The matured stage spread widening owes more to the fact that the region was surprising on the upside in terms economic data in the first half of 2006, thus facilitating a shift in demand bias towards SGD funds.

The transition and adjustment process towards higher yields generally favours episodes of overshooting as opposed to undershooting for the shorter end of the yield curve. This risk remains in the current cycle since there is still a fairly large gap between what is currently priced and the official FED dot plots for rate hikes in 2018

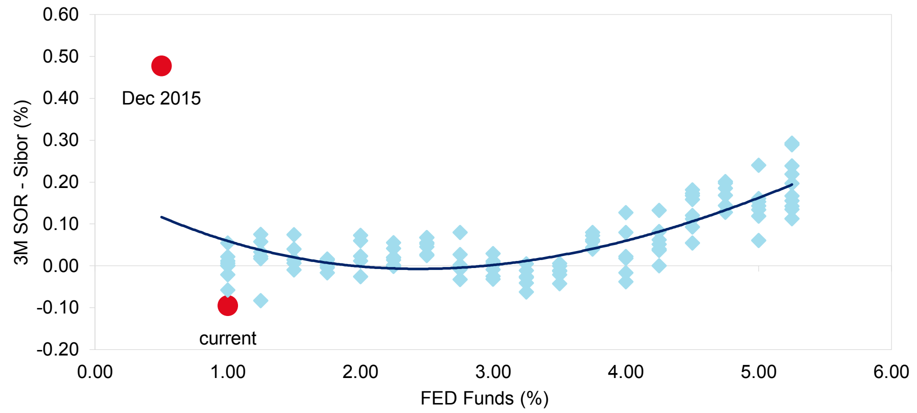
SG Yield Discount: Grows Wider As FED Hike Cycle Matures

Source: Bloomberg, UOB Global Economics & Markets Research



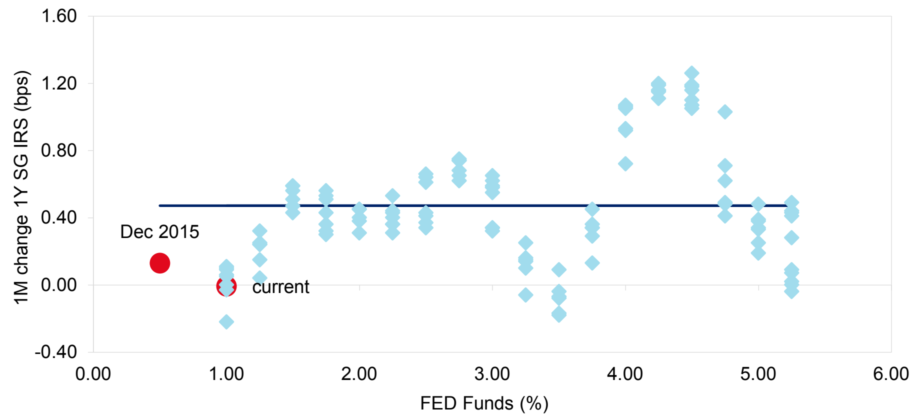
SOR vs. Sibor Spread: Indifferent To FED Hikes Until Late In The Cycle

Source: Bloomberg, UOB Global Economics & Markets Research



Risk Of 1Y Yield Overshooting Outwieghs That Of Undershooting

Source: Bloomberg, UOB Global Economics & Markets Research



and 2019.

Shifting to the longer end of the yield curve, the current 10Y SG IRS yield is significantly lower compared to where it was during the 2004/2006 FED hike cycle. But the difference in yield levels becomes less stark when we discount the 2004/2006 levels by the influence of zero interest rate policies (ZIRP) and negative interest rate policies (NIRP) which continue to operate in the current FED hike cycle.

In contrast to shorter maturities, the 10Y region shows signs of being fully priced when the FED hike cycle reaches middle age. This historical feature could repeat itself given that recent studies have been suggestive of a lower R* (equilibrium level of real short term interest rate) given productivity trends. However, we are cognizant that the immediate risk is tilted towards yields being jolted higher via an eventual normalization by other monetary regimes, ECB and BOJ in particular, away from ZIRP and NIRP.

The combined result of the FED hike cycle behavior in short term rates and 10Y tenor leads to flatter yield curves over the course of higher FED funds rates. Curve flattening is initially more dramatic before settling on a more gradual glide path from mid cycle onwards.

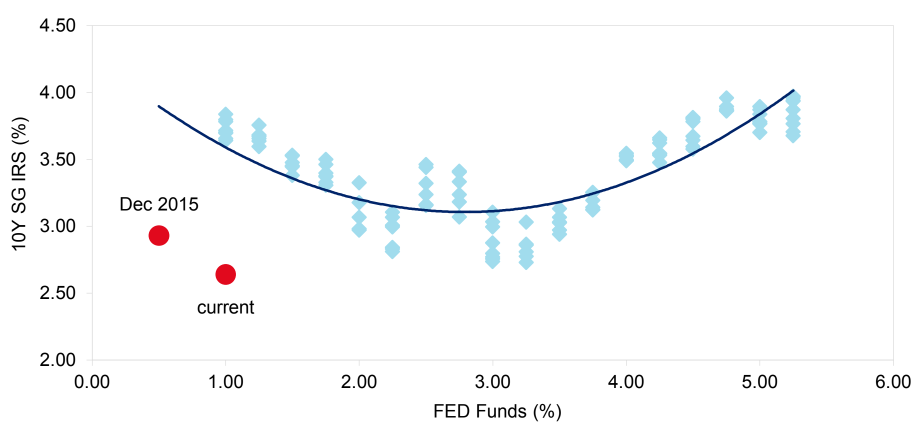
Episodes of significant flattening have tended to be of the bear variety, i.e. short term yields gains outpacing long term yields. Thus considering that investors have not yet fully embraced the full hike cycle, changes in the 2s10s curvature could still exhibit the exuberance commonly seen in early phase hike cycles.

10Y SG bondswap spread has previously favoured tightening into mid hike cycle before widening out when hitting late cycle. This behavior of SG IRS outperformance over SGS can be traced to the tendency for SORs' yield discount against US Libor to deepen over a FED hike cycle.

To conclude, SG rates behavior over a full FED cycle does provide some useful signposts for what to expect in the current FED hike cycle. Some of these include:

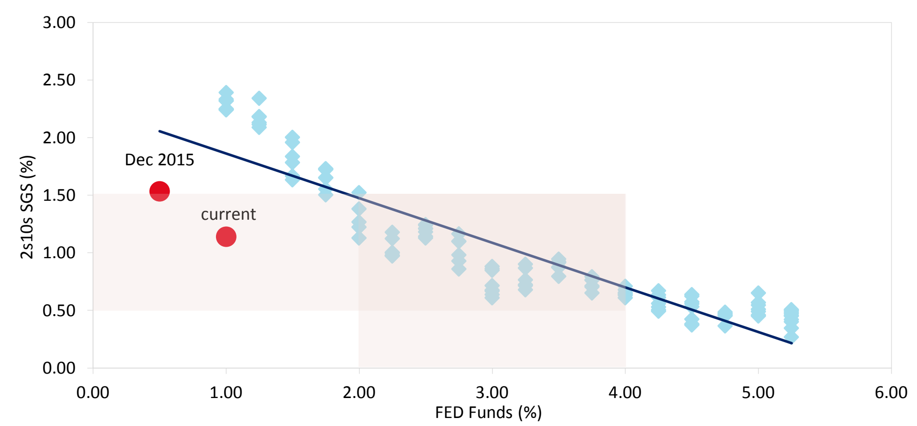
10Y SG IRS: Recognition Of Difference In Growth And Inflation Starting Points

Source: Bloomberg, UOB Global Economics & Markets Research



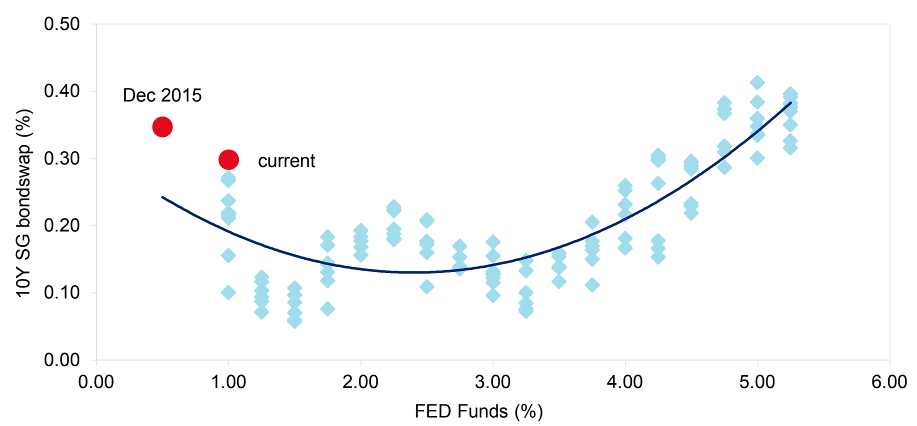
2s10s SGS: Mid Cycle Range Beckons

Source: Bloomberg, UOB Global Economics & Markets Research



10Y SG Bondswap Spread: Tighter Before Wider

Source: Bloomberg, UOB Global Economics & Markets Research



- Changes in SORs versus Sibors spread essentially white noise
- Deepening tendency in SORs' yield discounts versus US Libors
- The pace of flattening in 2s10s SGS curve diminishes when the FED hike cycle enters its mid phase
- 10Y SG bondswap spread tilts towards tightening but essentially range bound for most of the FED hike cycle

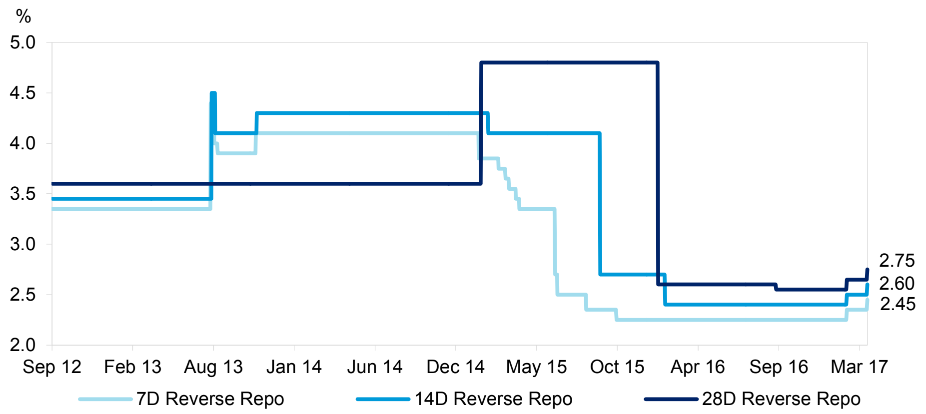
CHINA

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/CNY	7.02	7.09	7.16	7.20
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35

Economic Indicators	2015	2016	2017F	2018F
GDP	6.9	6.7	6.6	6.5
CPI (average, y/y %)	1.4	2.0	2.2	2.0
Unemployment rate (%)	4.1	4.0	4.1	4.1
Current account (% of GDP)	3.0	1.9	1.7	1.5
Fiscal balance (% of GDP)	-3.4	-3.0	-3.5	-3.5

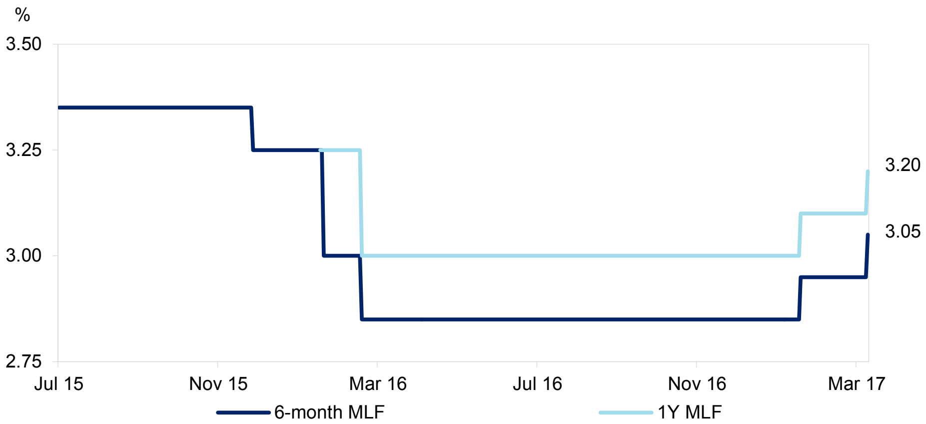
PBoC Reverse Repo Rates

Source: CEIC, UOB Global Economics & Markets Research



PBoC MLF Interest Rates

Source: Bloomberg, UOB Global Economics & Markets Research



Steady But Slower Growth In 2017

China's headline growth for 4Q16 came in slightly better than expected at 6.8%y/y, vs. 6.7%y/y pace from 1Q to 3Q 2016, which was the slowest pace of expansion in more than 7 years. On a sequential basis, growth rate slowed to 1.7% in 4Q16, after acceleration of 1.8%q/q in 3Q16 and 1.9% in 2Q16. For full year 2016, China's economy expanded by 6.7%, its sixth year of decelerating growth rate, easing from 6.9% in 2015 in what is now the "new normal" economic environment.

More important is what to make of China's economic growth going forward. The recently concluded annual National People's Congress (NPC) sessions on 15 Mar, together with the outcome of the annual China Economic Work Conference (CEWC) late 2016 (14-16 Dec), has provided a wealth of pointers as to the policy direction and objectives for 2017. Main themes cited in the government Work Report: maintaining of growth stability, job creation, prevention of risks, safeguarding of financial security, protection of livelihood, and environment conservation.

The official growth target has been lowered to "about 6.5%" (the Work Report added that it would strive to do better). More interesting though is that the goal for new job creation has been raised to "above 11 million" (see table), suggesting that the government is sufficiently confident of the strength of the economy, even as supply side reform measures such as capacity reduction and destocking are putting on downward pressure on the economy.

The other key theme of prevention of risks largely relates to the financial sector, where there have been persistent concerns over China's debt and leverage. We expect credit growth trend to moderate ahead given as China's nominal GDP growth rate is unlikely to surpass the 8% in 2016. Rising private consumption in China is one key driver ahead, as its share of GDP has risen from 40-50% range in 2009 to 2015, to around 65% in 2016. We maintain our growth projection for China at 6.6% this year, from 6.7% in 2016.

PBoC Taking Steps To Manage Leverage

With CEWC setting the tone, PBoC has since late 2016 taken steps to manage leverage and prevent systemic risks. Other than measures such as Macroprudential Assessment (MPA), PBoC has raised market interest rates through its Open Market Operations (OMO), which have the effect of raising interbank interest rates.

In the first three months of 2017, PBoC has hiked a total of 20bps for short term money (reserve repo) and medium term money (MLF). PBoC has made clear that there is no shift in its "prudent and neutral" policy stance (though the bias clearly is towards tightening) and that these are not considered "rate hikes" as benchmark interest rates remain unchanged.

There certainly is further scope for PBoC to raise market interest rates to nudge banks into rationalizing their activities, and no one should be surprised by more of these small rate increments through 2017. However, benchmark policy interest rates are likely to remain for now (at 4.35% for 1Y lending and 1.50% for 1Y depo).

On the currency front, further shifts toward the use of interest rate would suggest that RMB exchange rate policy is on track for further liberalization.Keep a look out for further FX market reform measures this year. Widening divergence between the Fed and regional central banks and uncertainty on US President Trump's fiscal plans should continue to keep USD supported. For China, the bias is towards US dollar accumulation which has been curbed by the current restrictions on capital flows. As such we maintain our USD/CNY forecasts of 7.02 for mid-2017 and 7.16 for end-2017.

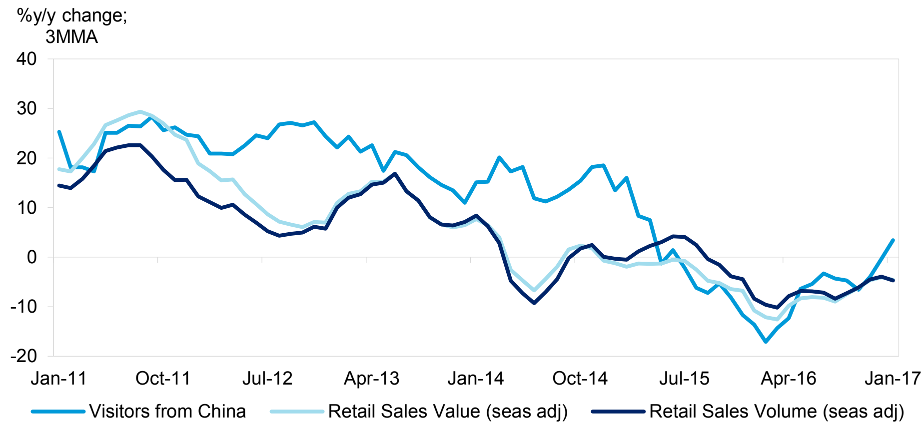
HONG KONG

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	1.50	1.75	1.75	2.00

Economic Indicators	2015	2016	2017F	2018F
GDP	2.4	1.9	2.0	2.0
CPI (average, y/y %)	3.0	2.4	2.2	2.4
Unemployment rate (%)	3.3	3.3	3.4	3.4
Current account (% of GDP)	3.3	4.5	3.0	3.0
Fiscal balance (% of GDP)	1.9	3.3	1.2	1.0

Visitors From China And Retail Sales

Source: CEIC, UOB Global Economics & Markets Research



USD/HKD And 12-m Forward Points

Source: Bloomberg, UOB Global Economics & Markets Research

Economic Growth Holding Well

Hong Kong's economy rose a stronger-than-expected 3.1%y/y in 4Q16, from 2% in 3Q16, and was the best performing quarter since mid-2015. The key driver was private consumption which strengthened further with a 3.2%y/y gain, up sharply from an average of 1% in the first 3 quarters of 2016 which was likely to be have been influenced by the 25% slump in the Hang Seng Index in the second half of 2015. The slump in mainland visitors to HK during most of 2015 and 2016 was also likely to be another factor.

With mainland visitors seeing some improvement in early 2017, albeit tentative, that should provide some support for private consumption going forward. The other key driver was capital investment which recovered in the second half of 2016 after contracting for four consecutive quarters as confidence returned. For the full year, Hong Kong's real GDP growth expanded by 1.9%, slowing from 2.4% in 2015. Overall, with China likely to maintain stable growth environment and the US economy on more stable footing, we revise up our growth forecast for HK's GDP to 2% in 2017, from 1.8% previous estimate. Official forecast for HK's GDP is at 2-3% and headline inflation at 1.8%.

HIBOR To Track Higher

Back in early Dec 2016, we had anticipated the 3-month HIBOR to end at 0.8% by end-2016 and then rise further to 1.60% by end-2017, assuming at that time a US Fed interest rate hike at the 15 Dec FOMC, as well as at least 3 times of Fed rate increases in 2017.

It is thus interesting to note that after the US Fed's Dec FOMC decision, the 3-month HIBOR overshot our forecast by about 20bps to end the year at 1.02%.. Then after the US FOMC meeting in Mar with another 25bps rate increase, the 3-month HIBOR actually fell further, to around 0.94% at present (24 mar).

This unusual situation is likely to be due to global sentiment, as Asian markets have been seeing increased capital inflows after the expected Fed's rate decision in Mar and with US President Trump's fiscal and tax policy in doubt especially after the failure to repeal and replace Obamacare in late Mar.

The flush liquidity condition in Hong Kong is also reflected in the declines in USD/HKD forward points, with the 12-month at -300 on 24 Mar, the lowest since Oct 2011, implying an outright USD/HKD at 7.7351, which is below the 7.75-7.85 corridor for the HKD linked exchange rate. As we continue to see the current HKD FX regime to remain, the flush HKD liquidity would bias towards normalizing, thus pushing up the HIBOR interest. We anticipate another two more US Fed rate hikes this year, which implies HKD interest rates higher by at least another 50bps towards end-2017. We look for the 3-month HIBOR rate to rise towards 1.45% by mid-2017 and then to 1.70% by end-2017.

As mentioned, our base case is for the current HKD linked exchange rate system to remain, with the USD/HKD at 7.80 being the midpoint. Currently, there is no viable replacement for the anchor currency and also no pressing need (politically or economically) to alter this well-tested system. The RMB which was once thought by some to be a replacement remains elusive, as the progress of RMB internationalization has visibly slowed and restrictions on capital flows on mainland would not inspire much confidence at this point.

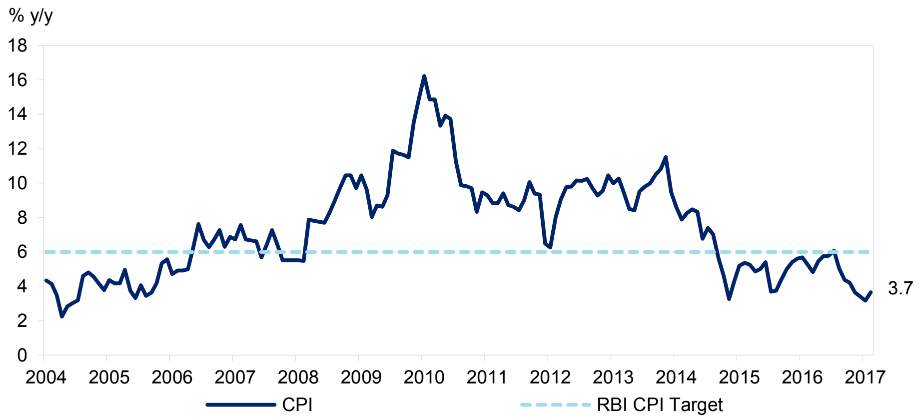
INDIA

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/INR	67.9	68.8	69.8	69.8
INR Repo Rate	5.75	5.50	5.50	5.50

Economic Indicators	2015	2016	2017F	2018F
GDP	7.5	7.5	7.2	7.6
CPI (average, y/y %)	4.9	4.9	4.3	5.3
Current account (% of GDP)	-1.1	-0.5	-0.9	-1.1
Fiscal balance (% of GDP)	-3.5	-3.7	-3.5	-3.3

Although CPI Picked Up, Its Still Considerably Low, Supporting Dovish Monetary Policy

Source: CEIC, UOB Global Economics & Markets Research



Growth Continues To Slow On Weak Manufacturing & Investments

India's Oct-Dec (FY 3Q) 2016 GDP grew 7% y/y, slower than 7.6% y/y a quarter ago, but beating market estimates of a much slower 6.1% y/y expansion that was weighed by concerns of the demonetization affecting consumption expenditure. Prime Minister Narendra Modi had earlier invalidated Rs500 and Rs1,000 currency notes, which made up 86% of the currency in circulation by value, as part of his government's fight against black money on 8 November.

The stronger GDP growth data showed that market was too pessimistic on the impact of demonetisation as private consumption growth even doubled to 10.1% y/y in FY 3Q 2016, from 5.1% y/y a quarter ago. That said, the pace of growth did slow from the growth of 7.4% registered in FY 2Q. India's FY 1Q and 2Q GDP growth estimates were also revised upward by 10bps to 7.2% y/y and 7.4% y/y respectively. As such, the Central Statistics Office (CSO) maintained its forecast that the economy will grow 7.1% in FY 2016-17, slowing from 7.6% in the previous financial year.

Most sectors also grew at a faster pace in FY 3Q, other than the construction (2.7% y/y), and financial and real estate (3.1% y/y) sectors. Of note, the manufacturing sector was expected to be hit hard due to falling consumption demand arising from the demonetisation, but it bucked expectations and grew 8.3% y/y in the latest quarter against 6.9% y/y previously.

We think that although the latest economic growth numbers look impressive, it could be based on the collection of data from India's formal sectors, which only tells part of the story. India has a large informal sector which is largely cash-based and this will not be captured by official statistics. In fact, an RBI survey showed that consumer confidence fell sharply as households remain uncertain about their income, expenditure, and employment. This does not gel with the strong consumption story painted in the latest GDP report.

Although India's CPI picked up some pace in February (3.65% y/y) due to rising food prices, it is still considerably low. Moreover, the RBI had projected inflation to remain within a range of 4.0% to 4.5% in the first half of the 2017-18 financial year. After lowering rates by 175bps since 2015, we still think that the Reserve Bank of India (RBI) will continue their dovish attitude this year; with the potential of 2 rate cuts in 2017 should there be downward revisions in the GDP numbers as more data comes in. This will continue its longest easing cycle since the global financial crisis. With our expectations of 2 more interest rate hikes by the US Federal Reserve in 2017, we expect more weakness in the INR, where the USD/INR will trend higher by end 2017.

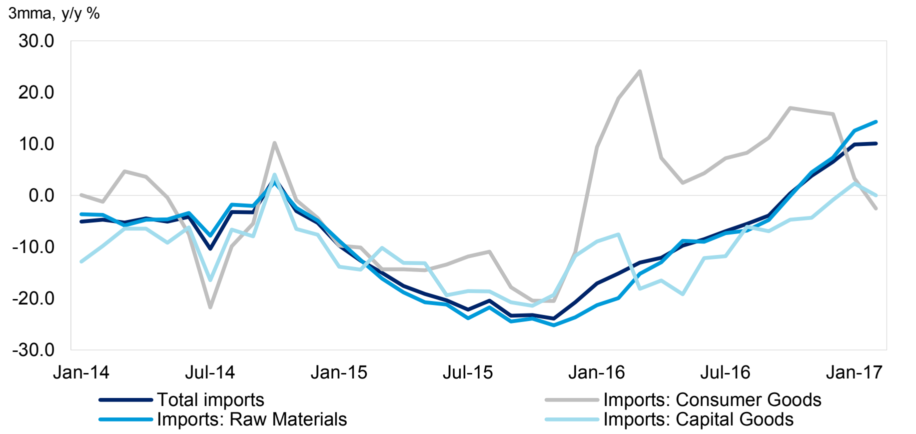
INDONESIA

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/IDR	13,600	13,700	13,800	13,900
IDR 7-Day Reverse Repo	4.75	4.75	5.00	5.00

Economic Indicators	2015	2016	2017F	2018F
GDP	4.9	5.0	5.2	5.5
CPI (average, y/y %)	6.4	3.5	4.2	4.5
Unemployment rate (%)	6.2	5.6	5.3	5.1
Current account (% of GDP)	-2.0	-1.8	-2.1	-2.1
Fiscal balance (% of GDP)	-2.6	-2.5	-2.4	-2.4

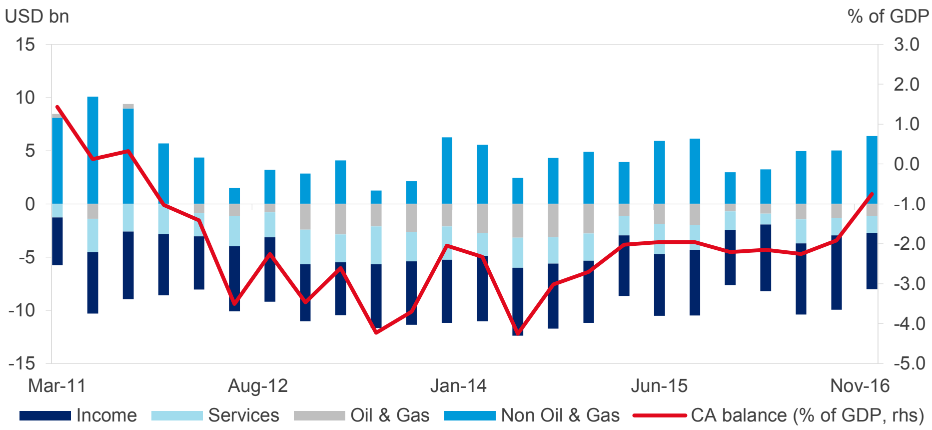
The Import Rebound Was Led By Stronger Demand For Capital Goods And Raw Materials While That Of Consumer Goods Eased In Recent Months Due Partly To High Base Effect

Source: CEIC, UOB Global Economics & Markets Research



Current Account Deficit Narrowed

Source: CEIC, UOB Global Economics & Markets Research



Rebound In Exports Continue

The Indonesian economy largely maintained a steady growth pace of 4.94% y/y in 4Q16. Stronger growth in fixed investment and rebound in exports offset the drop in government spending during the quarter. Of note was that exports of goods and services registered its first positive growth in 4Q16 after eight preceding quarters of contraction, helped by a low base and higher commodity prices.

Going into 2017, the continuation of strong exports rebound (exports had surged by 19.2% y/y in Jan-Feb) and improvements in capital goods and raw materials imports likely support a firmer GDP growth outlook in 1Q17. The investment outlook remains positive as the government is set to accelerate its infrastructure projects. Overall, we expect growth to improve to 5.2% in 2017 from 5.0% in 2016.

Interest Rate Poised To Stay For Longer

We maintain our call for BI to stay on hold in the next two quarters. BI senior deputy governor Mirza Adityaswara provided the clearest signal that the central bank is done with cutting interest rates, indicating that the benchmark rate is "low enough" to boost growth, highlighting other factors such as business confidence and commodity prices. Meantime, the central bank has applied Statutory Reserves averaging this year to manage banking liquidity and could look at the possibility of a cut in the Statutory Reserves this year.

Watch Out For Inflation Risk

Higher domestic inflation will be the key challenge for the central bank. From 3.02% y/y at the end of 2016, Indonesia's headline inflation had surged to 3.83% y/y in Feb following the electricity tariff increase in the prior month. We expect the inflation rate to continue to head higher to the top end of BI's target range at around 4.5-5.0% by end-2017, mainly driven by the planned electricity tariff increases. The prospect of adjustment to the domestic retail gasoline prices (last revised lower in April 2016) could further increase upside risks to Indonesia's inflation.

As real interest rate falls in Indonesia, the central bank's ability to maintain stability in the IDR (which also depends on the US rate hike trajectory) will determine whether domestic interest rates have to be raised later in the year. The prospect of a rate hike cannot be totally discounted even as BI would prefer not to respond to the policy-induced price pressure.

More Moderate USD/IDR Trajectory

USD/IDR had been trading largely within 13,300-13,400 in the past one month compared to a high of 13,488 at the start of the year. Improvements in Indonesia's FX reserves to its highest level since August 2011 when the reserves were at record high as well as strong foreign holdings of IDR-denominated government bonds (at 37.5% end-Feb) were clear indications of receding capital flight risk. Following Fitch's upgrade of Indonesia's outlook to positive in December 2016, a similar move by Moody's in February had further reaffirmed the improvement in sentiment towards the country. The focus for the rest of the year will be whether S&P's upgrades its rating for Indonesia to investment grade.

We continue to maintain our forecast of a moderate upward trajectory in USD/IDR. Our projection of a weaker IDR is in line with expectation of widening current account deficit (CAD) this year after it narrowed sharply to 0.8% of GDP in 4Q16 (3Q16: 1.9%). We expect the CAD to rise to 2.1% of GDP this year from 1.8% in 2016. Meanwhile, we do not expect the outcome of April's Jakarta election to have a significant bearing on the financial markets.

JAPAN

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/JPY	115	117	118	119
JPY Policy Rate	-0.20	-0.20	-0.20	-0.30
Economic Indicators	**2015**	**2016**	**2017F**	**2018F**
GDP	1.2	1.0	0.9	1.2
CPI (average, y/y %)	0.8	-0.1	1.0	1.9
Unemployment rate (%)	3.3	3.0	3.0	2.9
Current account (% of GDP)	3.3	3.8	3.5	4.0
Fiscal balance (% of GDP)	-5.2	-6.5	-7.0	-7.0

Cautiously Optimistic Outlook In 2017

Japan's full year growth came in at 1.0% in 2016, easing from 1.2% in 2015. External demand was the key growth pillar as net exports contributed 0.5ppt of headline growth while private consumption added 0.2ppt. Business spending grew but the growth trend is on the decline through 2016, adding just 0.2ppt while housing investments rebounded strongly (+0.2ppt) in 2016 after preceding years of back-to-back contraction. The above 1% growth recorded in 2015 and 2016 is also partly due to the December 2016's methodology revision which took into consideration research & development (excluded previously) and it also gave more weight to the service sector.

We expect 2017 GDP growth to be at 0.9%, comparable to growth achieved in 2016 and supported by export recovery that will have positive spillover to the manufacturing sector but key risks ahead for Japan will be Trump's US economic & foreign policy and European political developments which may hurt business investment & trade outlook. In addition, we still have concerns about domestic consumer weakness in Japan as reflected in 4Q 2016 GDP and renewal of anemic business spending outlook. An anchor for Japan's 2017 growth may also come from public sector investment via effects of the fiscal boost from the stimulus package announced in August 2016. Fiscal stimulus packages have been the norm under PM Shinzo Abe with the last three being announced in 2016 (Jan, Apr and Aug). Another fiscal package may be announced in 1H17.

Inflation remained the Achilles' heel for Japan's government and central bank policy makers. Japan fell back into deflation in 2016 when average prices declined -0.12%, after 3 years of inflation. The Bank of Japan's (BOJ) CPI inflation measure (which excludes fresh food/energy/effects of 2014 sales tax hike) eased from about 1%y/y in 1Q 2016 to just 0.1% in Dec 2016 and averaged just 0.5% in 2016, well off the 2% target. The BOJ in 1Q kept its forecast to achieve 2% inflation which "will likely be at the end of the projection period – that is around fiscal 2018" but removed the direct reference to "in the second half of the projection period" which was originally penned down in the Oct 2016 Outlook Report. Most seriously doubt the 2% inflation target is achievable by FY2018. While inflation may rise due to recovering commodity prices (barring another oil price correction), weaker yen driving up import costs & Trump's expected reflationary policies, it will still be a challenge before BOJ's 2% target is reached. And the prelim number from the Japanese Trade Union Confederation (17 Mar) showed workers receiving just 0.43% increase in monthly base pay in 2017 annual spring talks (down from 0.44% in 2016), dashing BOJ's hopes of stronger wage-driven inflation pull. Chances are it may be below 2% even when BOJ Gov Kuroda's term expires in April 2018.

Abe To Be 3rd Term PM? Not So Fast…

The ruling Liberal Democratic Party (LDP) congress approved (5 Mar) a proposal that extends the limit to 3 consecutive three-year terms for its leaders (from 2 terms previously), meaning that PM Shinzo Abe could stand for re-election instead of needing to step down as party leader and PM in Sep 2018, giving Abe a chance to remain in power till Sep 2021, potentially becoming Japan's longest-serving post-war leader. With the party leadership extension, it is now seen as unlikely for Abe to call for national elections in 2017, ahead of his party election in Sep 2018. The next 48th general election for Japan is due on or before 13 December 2018. While the extension will ensure political stability, the flipside is that if Abe's policies aren't working, an extension of his Abe's tenure would also mean an extension of those policies. However, in the near term, attention is on an unexpected kindergarten school donation gone wrong and possibly implicating PM Abe to a dodgy government land sale deal to the school.

BOJ More Easing, Yield Control In 2017

We 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. And while there is increasing market expectation that the next BOJ move is to taper its easing program, we think it is premature in 2017 because Japan is still far away from its 2% inflation target and it is inappropriate to debate exit of monetary policy easing at this early stage. Thus, the most likely outcome for the BOJ may be to maintain status quo in the near term, but we still expect more easing in later part of 2017 such as to push the Policy-Rate Balance rate to -0.2% (from -0.1% presently), accelerate it asset purchase program and may even include buying of other instruments. BOJ has surprised the markets with unexpected policy easing in 2016, and we cannot rule out policy surprises this year.

On 17 Nov (2016), the BOJ announced 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 (with the aim of maintaining the 10-year yield at "about" 0%). The unexpected BOJ move came after the global government bond rout post-US presidential election saw Japanese government bond (JGB) yields rising, with the 10-year JGB yield back to positive territory since 15 Nov 2016 after having languished in negative yield for most of 2016. Since then, the BOJ has carried out a few more such operations and going forward, it will likely continue to do so as to exert its authority on yield curve control (at "about" 0%), although BOJ Gov Kuroda has conceded it cannot achieve a yield target of exactly one level.

MP Divergence Keeps USD/JPY Higher Despite Diminished Trump Effect

After touching a recent high of 118.6 on 3 Jan (2017), the USD/JPY has since entered a consolidation phase given the disappointment in US President Trump's legislative setbacks and lack of details into his "phenomenal" tax reform and infrastructure spending plans, leading to a broadly weaker US dollar. JPY repatriation flows may also be a bigger factor for USD/JPY downside as we approach end-March. Despite the diminished Trump effect in the near term, we still believe the growing monetary policy divergence between the Fed Reserve and BOJ to strengthen the US dollar and lift the USD/JPY pair higher albeit less aggressive than what we initially anticipated. We expect the pair to climb to 115 by mid-year (from 117) and then to touch 118 by end-2017 (from 120). The risk for the yen to strengthen in a risk-off environment could be due to potential geo-political events in Europe and major policy disappointments from Trump.

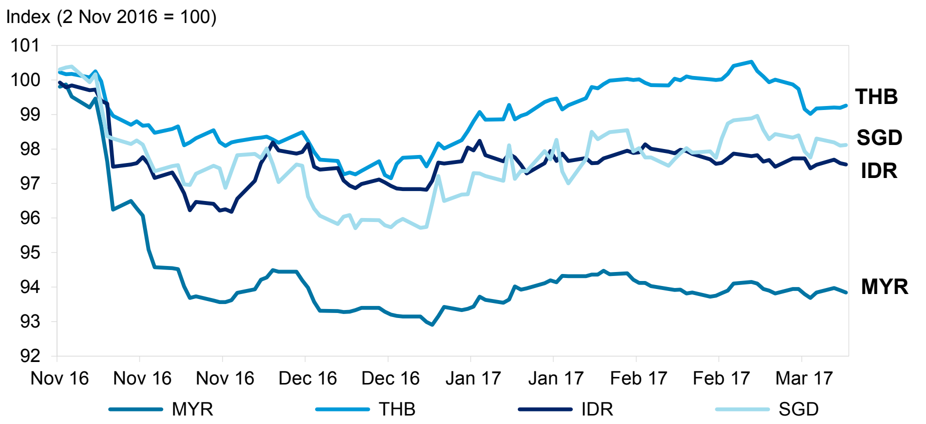
MALAYSIA

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/MYR	4.46	4.48	4.50	4.52
MYR Overnight Policy Rate	3.00	3.00	3.00	3.00

Economic Indicators	2015	2016	2017F	2018F
GDP	5.0	4.2	4.5	4.7
CPI (average, y/y %)	2.1	2.1	3.6	3.0
Unemployment rate (%)	3.1	3.5	3.6	3.6
Current account (% of GDP)	3.0	2.0	2.2	1.8
Fiscal balance (% of GDP)	-3.2	-3.1	-3.0	-2.9

Ringgit Stabilises Post BNM Measures

Source: Bloomberg, UOB Global Economics & Markets Research



Improved Macro Conditions

Despite the fragile external environment, Malaysia's economic growth has held above 4% against potential GDP growth of 4.5-5.0%. Economic indicators have improved since November last year with exports rebounding to double-digit growth, resilient manufacturing output over 4% buoyed by higher export orders, and the Nikkei manufacturing PMI rising to its highest level in 21 months in February signaling improving manufacturer confidence. Recent loan indicators signal stable loan growth momentum of ~5% in the coming months, which is supportive of further economic growth in 1H 2017.

Private consumption will be held up by positive wage adjustments for minimum wages, civil servant salaries and higher government cash-handouts for 6.3 million low-income applicants totaling MYR5.41bn this year. There has been a raft of domestic support measures including big ticket infrastructure spending to spur growth in the short and medium term. Positive news on Malaysia and China signing of MYR144bn worth of agreements and the Saudi Aramco and Petronas US$7bn deal in developing RAPID has been eye-catching in lifting sentiment. The weaker Ringgit has made Malaysia a compelling investment destination.

Oil prices have averaged US$55/bbl through most of first quarter against the government's oil price assumption of US$45/bbl under Budget 2017 implying some fiscal buffer. The current account surplus as a percentage of GDP widened to 3.7% in 4Q 2016, bringing the full year surplus to 2.0% (3.0% in 2015) which helps to allay initial fears of a current account deficit. Our estimations show every 1% rise in average Brent crude oil price increases the current account by 0.4%.

Interest Rates On Hold

Bank Negara Malaysia (BNM) has kept the Overnight Policy Rate (OPR) unchanged in the first two meetings this year and signaled no rate change for now. The pressure to ease rates has abated amid stabilizing growth. While inflation has trended upwards since January, price pressures are largely cost-driven on the back of reversal in energy prices. Headline inflation is expected to average 4% in 1H 2017 assuming global oil prices between US$50-55/bbl. But we do not see prospects of negative real interest rates prompting BNM to tighten policy given that the upshift in inflation is expected to be temporary on the back of normalizing oil prices, signs of moderate domestic demand, and caution on lingering external risks. On balance, we think BNM is likely to keep OPR unchanged through the year.

Ringgit Flat lines

Post US elections, USD/MYR gapped up above the 4.00-4.20 range to end last year at 4.48. The pair has since steadied within 4.40-4.46 since February. The Ringgit remains undervalued on a real effective exchange rate basis despite more encouraging macro conditions, suggesting that factors weighing on Ringgit are beyond fundamentals. Amid prospects of higher US interest rates and stronger dollar, BNM continues to juggle an arduous task of managing pressure on the local currency and ensuring stable financial markets. Foreign reserves has held steady at US$95bn since end-January. Following the introduction of new FX measures and intensified actions to clamp down offshore Ringgit non-deliverable forwards (NDFs), investors raised concern on reportedly low levels of liquidity in the onshore ringgit market that prevents a more effective pricing for the ringgit. BNM noted that the onshore FX market is still undergoing adjustments and the central bank has been supplying liquidity in addressing demand and supply mismatches. Meanwhile volumes have been sustained by the conversion of export proceeds that has helped to shore up liquidity of foreign currency in the onshore market. To assure investors, BNM has clarified that capital markets remain open. BNM introduced the dynamic hedging framework to facilitate investor needs and more hedging instruments to improve market liquidity are in the pipeline.

We think there is genuine interest in Malaysian assets judging by its compelling valuations. Prospects for further FDI are strong given mega infrastructure plans like the High-Speed Rail and East Coast Rail Link, regional integration efforts, and China's One Belt One Road initiative. However key risks to watch are MYR47.5bn worth of government bond maturities between June and November. Timed together with expectations of another two Fed rate hikes this year (UOB: 25bps in June and 25bps in September) and Trump policy announcements. As such until foreign selling of bonds recedes, market liquidity normalizes, and sentiment improves, USD/MYR is expected to trade within 4.40-4.50 assuming moderate dollar strength.

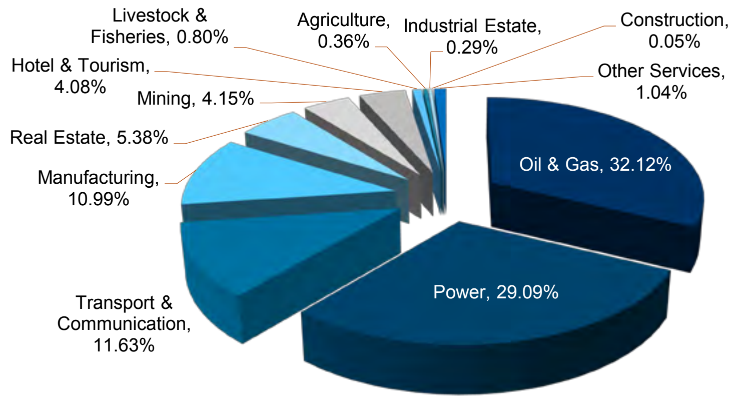
MYANMAR

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/MMK	1,365	1,370	1,395	1,395

Economic Indicators	2015	2016	2017F	2018F
GDP	7.0	8.1	7.7	7.8
CPI (average, y/y %)	11.4	9.8	9.1	7.7
Unemployment rate (%)	4.0	4.0	4.0	4.0
Current account (% of GDP)	-7.8	-8.3	-8.1	-7.1
Fiscal balance (% of GDP)	-4.8	-4.6	-4.6	-4.6

Cumulative FDI Into Myanmar Remains Concentrated In Oil & Gas, Power And Transport & Communication, With Manufacturing Gaining Share

Source: Myanmar DICA (as of 28 Feb 2017)



Growth Still On Course To Outperform

Myanmar continues to make robust progress on the economic front and remains to be one of the top growth performers among the ASEAN countries, underpinned by a positive investment outlook and resumption of construction activity in the key city of Yangon after a soft patch in 1H FY 2016/20176. In its 2016 Article IV Consultation with Myanmar which was published in Feb 2017, the IMF estimated growth in FY2016/2017 to be a softer 6.3% (lowered from 7.3% in FY2015/2016) but thereafter, growth will climb above 7% in FY2017/2018 and FY2018/2019.

Investment sentiment on Myanmar remains robust as foreign direct investment (FDI) into various industries, especially oil and gas sector (1st), transportation and telecommunication, helped the country meet the US$6bn target in FY2016/2017. Note that Myanmar passed a new investment law last year (20 Oct 2016) which is set to take effect this coming 1 April 2017. The new investment law aims 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.

As we highlighted in our 1Q 2017 report, Myanmar's economy continues to grapple with several challenges including the struggle to improve competitiveness & productivity among the domestic industries, reliable access to electricity and slow banking sector reform. Meanwhile, rising inflation continued to plague the domestic economy and it stood out in 2015 as it averaged a high 11.4%, highest among Asian countries and while it is eased lower in 2016, it was still expected to remain elevated at just under 10% in 2016 and remain near these elevated rates in 2017 and 2018. While this is partly due to strong domestic demand and unresolved supply bottlenecks, the inflation issue is also underpinned by strong money supply growth due to the Central Bank of Myanmar buying of government securities (CBM financing the government's fiscal deficit). Thus, 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 impacted by falling revenue from natural gas exports and continued import growth (due to growing onshore infrastructure needs) and it hit -8.9% (of GDP) in 2015, the highest since 1998 and it is likely to stay above 8% in 2016-2017.

The increasingly uncomfortable Achilles' heel for Myanmar's broad-based progress is the unresolved, on-going ethnic conflicts in the Rakhine state. And while much of the ethnic issues are still largely restricted to the bordering states, leaving the economic heart of Myanmar, the Yangon region, largely unaffected, the increasingly negative headlines may take its toll on investor sentiment and FDI inflows into Myanmar. Myanmar also remains vulnerable to weather-related events and we are mindful about a repeat of the 2015 floods as we approach typhoon season for Myanmar which is typically between May and October.

MMK Outlook: Weaker In 2017

After touching its weakest point in late Dec (2016) due to a broad US dollar strength, the Myanmar currency, MMK (Kyat), regained its footing as the fervor for the dollar diminished going into 1Q 2017. Since touching a high of 1384 (22 Dec 2016), the MMK has since pared some of the losses on the back of a broad dollar retreat in 1Q 2017. The USD/MMK pair depreciated 3.5% in 2016, much milder compared to the massive 21% depreciation in 2015 and so far in 2017, the MMK is about 0.22% weaker against the US dollar YTD with the USD/MMK pair at 1360.5 (as of 20 Mar 2017). 2017 is likely another year of depreciation although we think the magnitude of depreciation is likely to be milder compared to last year.

Despite the expected continued FDI inflows to Myanmar, the MMK is likely to trade lower as the US dollar is expected to resume strengthening, driven by higher US interest rate expectations. Thus, **while we keep our positive outlook for the domestic economy, we maintained our negative outlook for the MMK in 2017** and expect it to remain on a depreciation trend with the USD/MMK pair likely to hit 1,365 by mid-2017 and then weakening further to 1,395 by end-2017 (2.2% depreciation for 2017).

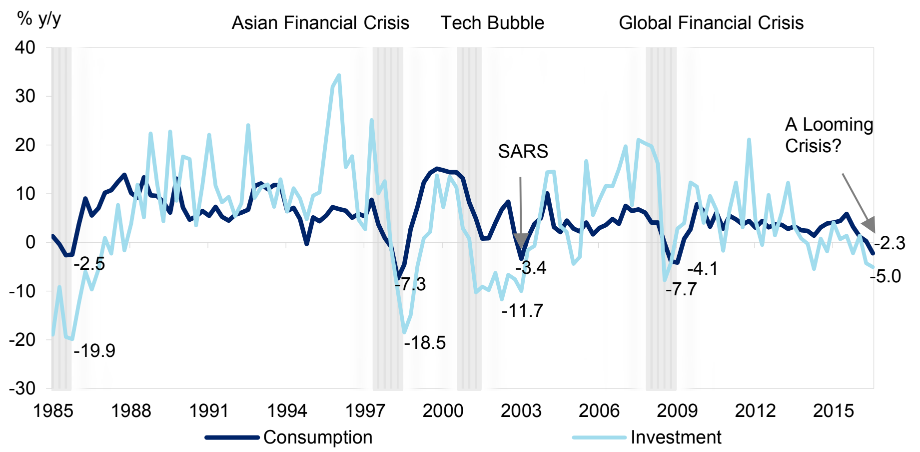
SINGAPORE

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/SGD	1.43	1.45	1.46	1.47
SGD 3M SIBOR	1.20	1.40	1.45	1.65

Economic Indicators	2015	2016	2017F	2018F
GDP	1.9	2.0	2.4	2.8
CPI (average, y/y %)	-0.5	-0.5	0.5	0.9
Unemployment rate (%)	1.9	2.2	2.4	2.5
Current account (% of GDP)	18.8	16.9	17.8	17.8
Fiscal balance (% of GDP)	0.1	1.3	1.7	1.0

Domestic Consumption and Business Investment Still Weak

Source: CEIC, UOB Global Economics & Markets Research



2017 Economic Growth To Be Led By Manufacturing Recovery

Singapore's 4Q 2016 GDP grew 2.9% y/y, surpassing market expectations of a 2.5% y/y growth rate. On a q/q SAAR basis, GDP expanded by 12.3%, turning around from the 0.4% contraction in 3Q. Robust performance in the tradeables sector such as the manufacturing and transport/storage sectors contributed strongly to the overall GDP growth upgrade. The manufacturing sector grew 11.5% y/y (+39.8% q/q SAAR), accelerating from the 1.8% y/y growth recorded in 3Q.

Within the manufacturing sector, growth came from both the electronics and biomedical manufacturing clusters. Higher global semiconductor demand had resulted in the quicker production of semiconductors, growing at a double digit pace (averaging 37% y/y) over the past 10 months. Additionally, the biomedical manufacturing cluster expanded 13.6% y/y in 2016, turning around from a decline of 2.6% y/y in 2015. For the full year, the manufacturing sector grew 3.6% y/y, reversing the 5.1% y/y contraction in 2015.

The services sector (68% of GDP and 72% of employment) picked up some pace and grew 1.0% y/y (+8.4% q/q SAAR) in 4Q 2016, up from 0.4% y/y in 3Q. Stronger growth came from a pickup in transport/storage, finance & insurance, and "other services industries".

Although some externally-oriented industries are experiencing some pickup in growth, GDP-expenditure items such as domestic consumption and business investment continued to decline. The economic slowdown of 2015/16 resulted in a weak job market, resulting in a collective "tighten your belt" situation amongst households. With that, consumption declined 2.3% y/y in 4Q 2016. This is quite abnormal as consumption usually does not contract unless it was a recession. Business investment also declined 5.0% y/y in the same quarter, as businesses were also cautious about spending money for the future. It was probably in view of both weak consumer and business sentiments that the government introduced the corporate and personal income tax rebate during Budget 2017. However, as the cap on the tax rebate is set quite low, it remains to be seen if this initiative will help to boost cash flows for businesses and generate higher consumption and investment expenditure.

Overall, we are more optimistic for 2017 and had earlier upgraded our GDP growth forecast to 2.4%, from 1.8% previously, as the economy continue to be driven by the tradeables sector, particularly in the electronics segment. Global semiconductor sales had surged by 12% y/y in 4Q16, underpinned by healthy demand in major products such as smartphone, automative and solid state drives. Green shoots in the manufacturing sector should benefit other sectors in the economy, although with a time lag.

On the inflation front, Singapore's core inflation had been inching higher over the past months and with the central bank forecasting an average of 1% to 2% for 2017 (higher than the average of 0.9% in 2016), market has been pricing in a stronger SGD 91% of the time since the start of the year (ie: with the SGD NEER closing above the midpoint).

That said, as the labour market remains weak, we think that it could be too premature for the MAS to appreciate the SGD NEER in their upcoming April monetary policy meeting. However, we do not rule out a 0.5% pa appreciation of the SGD NEER slope in the October meeting should current momentum of core inflation continues in the following months. As such, although we look to the US Federal Reserve hiking interest rates by 2 more times in 2017, upside in the USD/SGD could be limited by a strengthening SGD. We adjust our forecast for the USD/SGD to end 2017 at 1.46, from 1.48 previously. The 3m SIBOR is forecast to reach 1.45% by the end of 2017.

SOUTH KOREA

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/KRW	1,140	1,150	1,160	1,170
KRW Base Rate	1.25	1.25	1.25	1.25

Economic Indicators	2015	2016	2017F	2018F
GDP	2.6	2.7	2.6	2.9
CPI (average, y/y %)	0.7	1.0	2.2	2.3
Unemployment rate (%)	3.5	3.6	3.7	3.6
Current account (% of GDP)	7.7	7.0	6.5	6.2
Fiscal balance (% of GDP)	-2.1	-2.3	-2.0	-2.2

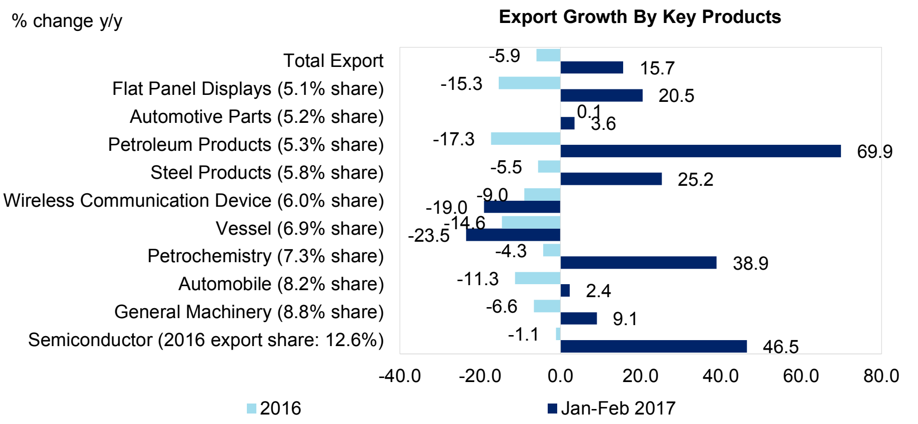
Moderate Growth In 2017

South Korea's 4Q16 GDP growth sank to its weakest pace in six quarters, weighed down by frail global demand and drop in consumer sentiment to its lowest since the Global Financial Crisis. However, recent data seems to suggest that the economy might have bottomed out. The strong pick-up in export growth in Jan-Feb, resilient housing market and expected recovery in sentiment following the Constitutional Court's decision to uphold the impeachment of President Park should bode well for the economic performance in 1H17. For the full-year, we are maintaining our growth forecast at 2.6% (2016: 2.7%).

Despite recent improvements in the trade data, risks will continue to come from potential US' trade protectionist measures and also retaliatory actions from China from the deployment of the THAAD system in South Korea. The latter may potentially could have a larger impact on South Korea's economy through trade and tourism which we could begin to see in the March economic data. China is South Korea's largest export market, accounting for a quarter of Korea's total export in 2016 while 47.6% of foreign visitor arrivals in the country were from China. Domestically, business investments and private consumption demand could remain under pressure from the ongoing corporate restructuring efforts in the shipbuilding, shipping, steel and petrochemical sectors.

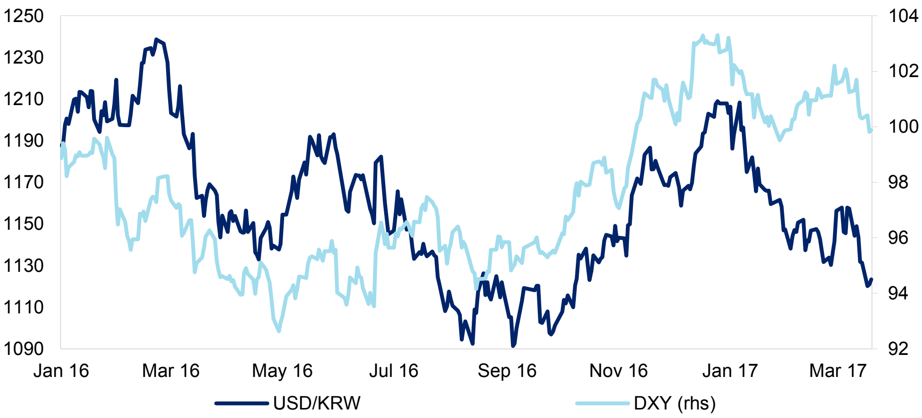
Export Rebound Seen In Most Key Segments

Source: CEIC, UOB Global Economics & Markets Research



KRW Outperforming In 1Q17

Source: CEIC, UOB Global Economics & Markets Research



Headline Inflation Expected To Tread Higher

The headline inflation jumped to 2.0% y/y in Jan-Feb from 1.5% in 4Q16, led chiefly by higher food and transport costs. While the headline rate was at the highest since Oct 2012, core inflation had held steady at 1.5% y/y in the same period (4Q16: 1.5%). We estimate that the headline inflation rate will rise towards 2.5% by mid-2017 on the back of a low base effect. This is at the top of the BOK's target range of 1.5-2.5%.

As demand-side inflationary pressure is still weak given the state of the economy, we do not see risk of monetary tightening at this point. We maintain our call for the BOK to stay on hold throughout 2017.

Lowering Our USD/KRW forecast

The KRW was up more than 8% against USD YTD, leading gains amongst the Asian currencies as USD retreated. The currency also benefited from the removal of some political uncertainty as the court upheld President Park's impeachment and heralded in an earlier presidential election on May 9 (as opposed to original schedule in Dec). Given the YTD outperformance and expectation of the continuation of strong current account surplus (albeit lower compared to 2016), we have lowered our USD/KRW forecast to 1,140 by end-2Q17 from 1,170. We still see USD/KRW higher by year-end which will be mainly driven by broad USD. Domestically, exports numbers had been robust but there are still downside risks to the economic growth.

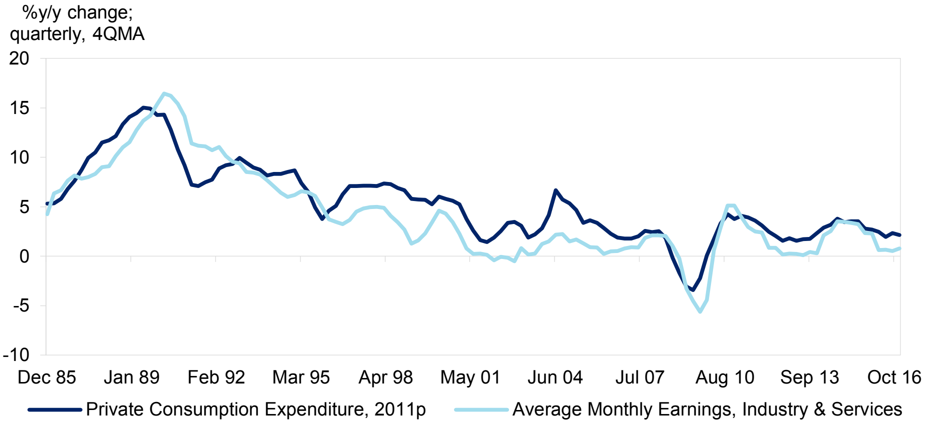
TAIWAN

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/TWD	31.0	31.1	31.4	31.6
TWD Official Discount Rate	1.38	1.38	1.38	1.38

Economic Indicators	2015	2016	2017F	2018F
GDP	0.7	1.5	2.0	2.1
CPI (average, y/y %)	-0.5	1.1	1.0	1.2
Unemployment rate (%)	3.9	3.8	3.9	3.9
Current account (% of GDP)	14.5	13.3	12.0	12.0
Fiscal balance (% of GDP)	-0.2	-0.3	-1.0	-1.1

Taiwan: Private Consumption And Wage Growth

Source: CEIC, UOB Global Economics & Markets Research



Strongest Performance Since 1Q15

Taiwan 4Q16 real GDP expanded a revised 2.88%y/y (vs. advance estimate of 2.58%), from 2.12% in 3Q16. The 4Q16 performance is the strongest since 1Q15, extending the economy's growth momentum for the third consecutive quarter since the 3-quarter streak of contraction late 2015/early 2016 (Taiwan's economy during 3Q15-1Q16 period contracted an average of -0.57%y/y). For full year of 2016, Taiwan's economy grew by 1.5%, better than our expectation of 1.3% as well as official forecast of 1.35% that was made in Nov 2016. This is more than double the 0.72% real GDP growth rate in 2015.

The key drivers for the 4Q16 performance are capital formation which expanded 6.8%y/y, more than doubling the 3.7% in 3Q16 as investment recovered strongly after the lull in 2015 to the first half of 2016, and helped by a weak base in 4Q 2015. Investment was boosted in semiconductor sector and aviation equipment. Personal consumption however was lackluster during the quarter, rising 1.6%y/y from 2.7% in 3Q16. This may be related to the ongoing lackluster wage dynamics despite jobless rate hovering at a range of 3.7-3.8% for the past several years and at the lowest since 2001. From industry's perspectives, manufacturing sector's performance helped propel Taiwan's growth in the second half of 2016 due to strong external demand for electronic devices during that period. Manufacturing sector contributed 1.8%point, or nearly 70% share, of the growth in 4Q16.

Recent monthly data on industrial output and external trade suggest that the growth momentum is likely to carry at least into the 3Q of 2017 as demand for components for new mobile devices picks up. Fiscal spending could be an important driver as Taiwan's Cabinet approved on 23 Mar TWD882.49bn of special budget to fund an 8-year infrastructure plan, which includes TWD424.1bn for railways and TWD250.8b for water resources. This could see economic expansion of 2.7% in 2018 after special infrastructure plan, according to official estimate. Earlier in Feb, official growth forecast for 2017 has been raised to 1.92% from previous projection of 1.87%. On our part, we are keeping our forecast at 2% for 2017, accelerating from 1.5% in 2016.

Central Bank On Hold But For How Long?

Central Bank of China (CBC) left its key policy rate unchanged at 6-year low of 1.375% at its scheduled quarterly meeting on 23 Mar, as widely expected. This is the third straight quarter CBC has kept its policy rate steady, after lowering for the fourth time at its quarterly policy meeting on 30 Jun 2016 (cumulative 50bps cut then), since the last easing cycle began at the 3Q15 policy meeting. The more crucial question is how long would CBC stay on hold?

CBC's statement noted that inflation outlook remains mild and that output gap is still negative, and recent TWD strength helps to offset imported inflation. Crucially, CBC highlighted that effect of loose monetary policy has diminished and the reliance should be on expansionary fiscal policy, which suggests that CBC is paving way for policy normalization.

We expect CBC's policy rate to stay on hold for now at 1.375%. TWD's recent strength has provided greater flexibility for the next policy move. However, this picture may change due to both external and domestic factors. Domestically, the impact of latest fiscal stimulus initiative especially on the "mild" core inflation rate should be watched closely. Externally, as the US Fed continues its rate policy normalization, the divergence in policy would impact on capital flows and currency.

As for USD/TWD, the pair has been on a downtrend since early 2017 despite a strong USD backdrop earlier and US Fed rate hike. The firm TWD is likely to be driven by improved outlook for its exports sector as well concerns of US President Trump's FX policy ahead. We expect TWD to see moderate downside, at 30.98/USD at end-Jun 2017 and 31.45 by end 2017, from 30.49 currently.

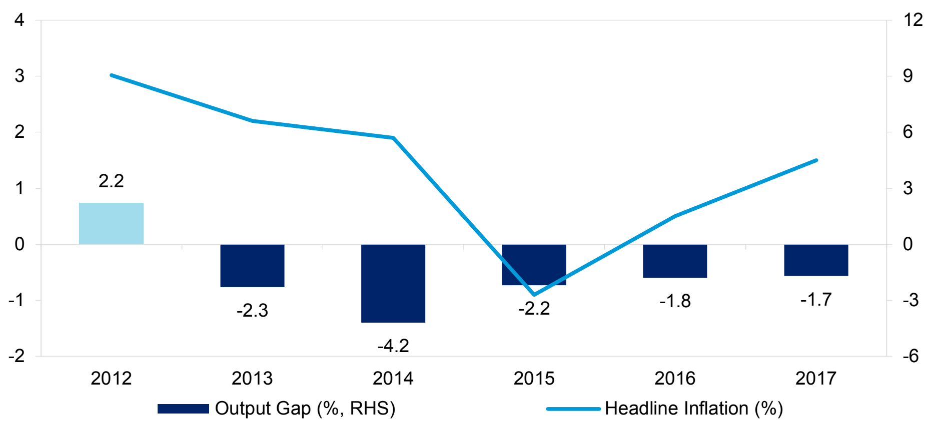
THAILAND

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/THB	35.8	36.2	36.5	36.8
THB 1-Day Repo	1.50	1.50	1.50	1.75

Economic Indicators	2015	2016	2017F	2018F
GDP	2.9	3.2	3.3	3.1
CPI (average, y/y %)	-0.9	0.2	1.5	1.8
Unemployment rate (%)	0.9	0.8	0.7	0.7
Current account (% of GDP)	8.8	10.8	7.2	6.5
Fiscal balance (% of GDP)	-2.4	-2.7	-2.7	-2.5

The BoT Is Likely To Remain In Easing Mode In 2017

Source: MOC, NESDB, UOB Global Economic Economics & Markets Research



Outlook Remains Upbeat

Overall economic activity in 4Q16 continued to expand with public expenditure as a key driver of economic growth, even though the 4Q16 GDP growth slowed to 3.0% from 3.2% in 3Q16. In line with our expectations, GDP growth for 2016 improved to 3.2% from 2.9% in 2015. Exports presented a more robust sign of recovery, consistent with production of export-oriented industries. Nevertheless, service receipts slowed down as a result of a fall in tourism revenues after the government's regulation on illegal tour operators. Private consumption temporarily decelerated but was, however, partly supported by the shopping and domestic travel tax deductions at the end of 2016. Private investment contracted at a slower pace, and remained concentrated in alternative energy, service and transportation and some export-related industries. This was consistent with the extension of business credit by commercial banks that were concentrated in these particular sectors.

Economic growth is projected to increase steadily over the next quarters. The growth momentum will be largely driven by tourism, public spending and a more broad-based recovery in exports that are consistent with the export trend in the region. The factors are forecast to lift GDP growth to 3.3% in 2017 from 3.2% in 2016. The government is injecting THB35bn via Village Funds in a bid to support community-based entrepreneurs. The funding is a part of an additional mid-year budget of THB190bn for fiscal 2017, approved by the cabinet last December, of which more than half of the funds were earmarked to finance investment in provincial clusters and stimulate local economic development. Tourism revenue is estimated to generate THB2.7tr worth of income this year, up 8.2% from 2016, with THB1.8tr stemming from foreign tourists and THB934bn from Thais. Meanwhile, domestic demand is expected to recover at a slow pace.

Inflation Creeping Higher

Headline inflation came in at 1.4% in February, below January's 1.6%. Nonetheless, the reading was comfortably within the BoT's target band of 1.0-4.0% for the third consecutive month after two years below the lower bound. Core inflation dropped from 0.8% in January to 0.6% in February. Going forward, headline inflation will likely increase as prices of fresh food and domestic petroleum are expected to rise in the period ahead. Core inflation is expected to stabilize mainly owing to low demand pressures, whilst public's medium-term inflation expectations remain close to the official inflation target. We expect headline inflation of 1.5% on average in 2017, which is unchanged from last quarter's forecast.

General Election Next Year

The election to restore democracy in Thailand initially scheduled for this year would once again be postponed to 2018 because the government required more time to iron out a new constitution, which requires the king's signature. The country is also in official mourning for the death of the late King Bhumibol Adulyadej. Political activity has largely ceased to mark the period of mourning. Preparations are under way for the royal funeral and for the coronation of His Majesty the King, but neither will take place before October this year.

BoT In "Wait And See" Mode

We reiterate our forecast that the BoT will keep the policy rate unchanged at 1.50% this year since overall financing conditions remain accommodative and conducive to the economic recovery with ample liquidity in the financial system and low interest rates. In addition, headline inflation is expected to rise at a slow pace, whilst demand-pull inflationary pressure remains low and public's medium-term inflation expectations remain close to the inflation target.

Looking ahead, capital flows and exchange rates would continue to be highly volatile as external uncertainties remained considerable, depending on the actual implementation of US fiscal stimulus as well as the pace of the Fed's monetary policy normalization. We reckon monetary policy divergences will eventually drive USD/THB higher this year. For now, we expect THB to weaken against USD towards 35.8 at end-2Q17 from around the 34.7 level currently.

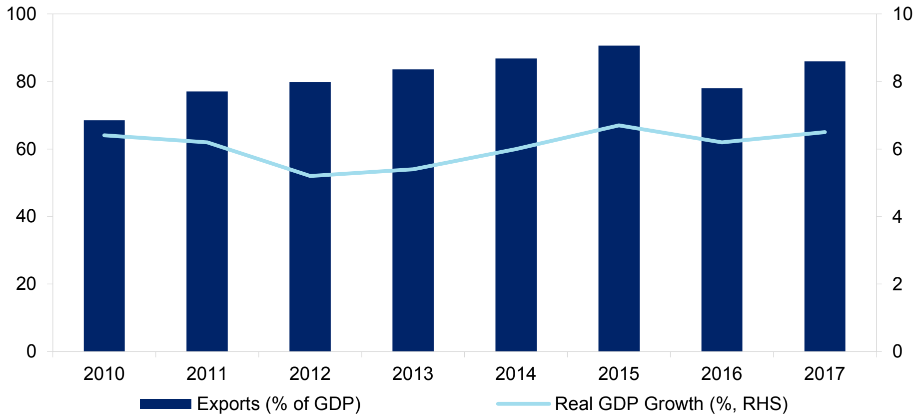
VIETNAM

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
USD/VND	22,900	23,050	23,200	23,400
VND Refinancing Rate	6.50	6.50	6.50	6.75

Economic Indicators	2015	2016	2017F	2018F
GDP	6.7	6.0	6.2	6.2
CPI (average, y/y %)	0.6	2.5	3.0	3.0
Unemployment rate (%)	2.4	2.4	2.4	2.4
Current account (% of GDP)	1.4	0.6	0.3	0.3
Fiscal balance (% of GDP)	-5.9	-5.8	-5.8	-5.8

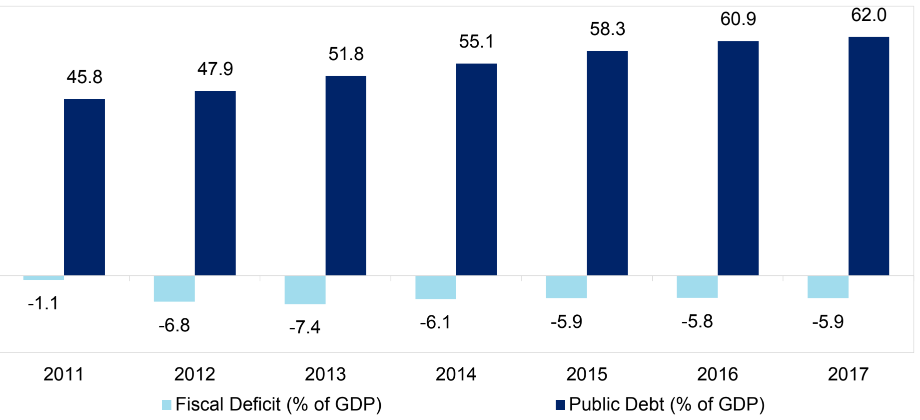
Exports Remain A Key Engine Of Growth

Source: CEIC, UOB Global Economics & Markets Research



The Large Budget Deficit Is Expected To Persist.

Source: CEIC, UOB Global Economics & Markets Research



Positive Outlook
We reaffirm positive outlook for Vietnam's economy. In 2017, the economy is expected to grow by 6.2% on the back of a sustainable rise in FDI and expansion in manufacturing exports. Multinational enterprises continue to invest in Vietnam to take advantage of its highly competitive wages and free trade deals. The latter provides investors a competitive advantage in terms of access to large markets. Besides Samsung, foreign companies such as LG, Microsoft and Intel also have plans to expand their operations in Vietnam.

Even though uncertainties in the global economy remain, particularly the monetary policy directions of major advanced economies and the US trade policy, manufacturing exports have been resilient since demand for its products is relatively inelastic. Vietnam in recent years has actively fostered integration by signing different free trade agreements with industrialized and emerging economies such as the European Union, Japan, Canada, South Korea and India. By doing this, the likelihood of TPP being cancelled will not significantly affect Vietnam's economy because the country still possesses different free trade agreements and bilateral agreements with other nations.

Moreover, manufacturing production is expected to show a similar pace of expansion, which will provide welcome support to private consumption and retail trade this year. In February 2017, industrial production rose by 15.2% annually, which was well above the 0.7% rise in the previous month and the highest figure in over two-years. That said, February's jump partially reflected a positive impact from the Lunar New Year holidays, which fell in January this year compared to February in 2016.

Higher Inflation
Headline inflation has picked up mainly due to the adjustments of public service costs and the recovery in global energy prices. CPI inflation came in at 5.0% in February, which was slightly below January's 5.2%. Higher prices for transportation were behind February's increase, whilst most categories had virtually unchanged prices. Nonetheless, core inflation, which excludes food items, energy products and commodities, remains broadly flat. We expect headline inflation to average 3.5% this year, below the official 4% target for 2017.

Fiscal Boost
In 2015-16, the budget deficit averaged 5.9% of GDP. For 2017, government revenue should climb on higher commodity prices and improved economic activity, but fiscal spending will likely increase to meet infrastructure investment and social spending objectives. Consequently, the budget deficit should stabilize to around 5.9% of GDP this year. Persistent budget deficits have pushed up public debt from a low of 45.8% of GDP in 2011 to over 60% currently, below the legal limit of 65%.

Prudent SBV
For the rest of 2017, we expect unchanged policy rates at 6.5% with fiscal policy supportive of growth, and a mild depreciation of VND amidst prospects for more US rate hikes this year. Historically, the State Bank of Vietnam (SBV) has gradually weakened VND against USD to conserve Vietnam's competitiveness. For now, we expect VND to trade at 22,900 per USD at end-2Q17.

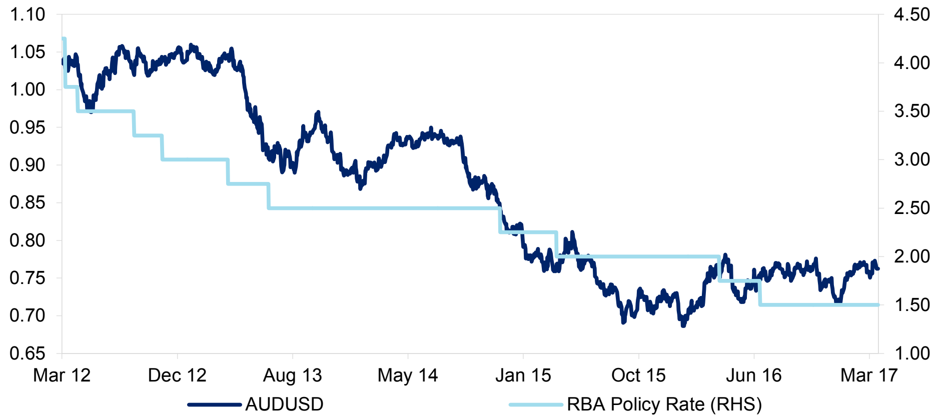
AUSTRALIA

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
AUD/USD	0.78	0.79	0.79	0.80
AUD Offical Cash Rate	1.50	1.50	1.50	1.50

Economic Indicators	2015	2016	2017F	2018F
GDP	2.3	2.5	2.5	2.8
CPI (average, y/y %)	1.5	1.3	2.1	2.2
Unemployment rate (%)	6.1	5.7	5.7	5.6
Current account (% of GDP)	-4.7	-2.7	-1.8	-2.1
Fiscal balance (% of GDP)	-1.9	-1.5	-2.2	-1.7

Aussie Ticks Higher On RBA's Neutral Policy

Source: Bloomberg, UOB Global Economics & Markets Research



Economy Still Faces Risks

The Australian economy rebounded strongly in 4Q16, avoiding the country's first technical recession in more than two decades. Recall 3Q16 GDP had contracted unexpectedly amid broad declines across the economy. It was Australia's first contraction since 2011, but the RBA had said it was due to "temporary factors," such as disruptions to the coal supply and bad weather.

The anticipated 4Q GDP print came, and proved that policymakers were correct. GDP expanded at a seasonally adjusted 1.1% after contracting 0.5% in July-September. In annualized terms, GDP surged 2.4%, following a 1.8% year-over-year gain in the third quarter. Expectations were for a quarterly growth of 0.7%, which would have translated into a year-over-year gain of 1.9%. Household final consumption expenditure contributed 0.5 percentage point to GDP. Public capital formation added 0.3 percentage point.

Notwithstanding the recovery, growth still remains below trend. The labour market also continues to be a key risk. The latest employment report revealed overall employment declining by 6.4k to 11.9k in February, following a gain of 13.5k the previous month. The jobless rate rose to a higher-than-expected 5.9% in February from 5.7% in January. New jobs being created in the economy are mostly part-time, keeping a lid on wages growth. This underscores the softness still evident in the household sector.

The Australian economy relies on consumer spending as a source of growth. Hence, muted labour market conditions combined with a high household debt burden undermine the country's economic outlook. In addition, tensions between China and the new US administration could damp exports, weighing further on employment and investment.

RBA Faces Balancing Act

As expected, the RBA at its March meeting, left the overnight rate at a record low of 1.50%, where it has stood since August 2016. The accompanying policy statement struck an overall neutral tone, concluding with "holding the stance of policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time". Much like the tone of the statement, the minutes were cautiously optimistic, fitting with the view that interest rates were unlikely to change any time soon.

We think that monetary policy will remain accommodative for an extensive period of time. The predicament for the RBA is clear. On one hand, policymakers are hesitant to lower interest rates to avoid fanning an overheated property market, which appears to have run even hotter in the latter half of 2016. Home prices in Sydney and Melbourne especially skyrocketed in 2016 thanks to a steady rise in investment. On the other hand, Australia's inflation rate is running well below the central bank's target range. Further, policymakers do not want to push rates higher as this will stifle consumption and investment more broadly, as well as potentially place some upwards pressure on the Australian dollar.

Taking these factors into account, we remain of the view that the RBA will be on hold for the rest of this year. Another round of macro prudential controls to slow housing could further give the RBA flexibility, and we may see no hike until the second half of 2018.

Aussie Steadily Higher

The Australian dollar has so far been one of the best performing currencies within the G10 space, despite kicking off the year at much lower levels (around the 0.720-region), shortly following the US elections. This is largely due to the US dollar, which has since broadly underperformed on the back of Trump and the Fed. We also recognize how the AUD has benefitted from improved global economic conditions and rising commodity prices, and this is likely to continue.

Domestically, the RBA has also made it clear that it has no appetite to cut its cash rate any further, given how low rates have driven a strong rise in housing prices and household debt in Australia's major cities. These factors should continue to provide support for the Australian currency.

That said, we think the RBA would want to limit the upside in AUD and is ready to soften in case the exchange rate appreciates excessively. In addition, AUD/USD is also expected to succumb to interest rate differentials against higher US rates as we factor further rate hikes by the Fed. Our end-2Q forecast is around 0.780, slightly higher from current levels.

EUROZONE

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
EUR/USD	1.06	1.06	1.08	1.09
EUR Refinancing Rate	0.00	0.00	0.00	0.00

Economic Indicators	2015	2016	2017F	2018F
GDP	2.0	1.7	1.6	1.5
CPI (average, y/y %)	0.0	0.2	1.7	1.5
Unemployment rate (%)	10.9	10.0	9.4	9.0
Current account (% of GDP)	3.0	3.4	3.0	2.9
Fiscal balance (% of GDP)	-2.1	-1.9	-1.7	-1.5

ECB Leaves Interest Rates Unchanged, No Change To Forward Guidance

Draghi's message at the 9 March ECB meeting was in line with our expectations. In fact, we thought he did a successful job of tweaking the ECB's policy language to show that the economic risks to the Euro area are starting to recede, yet, at the same time, insisting that monetary stimulus must continue. Typically, in his introductory statements. Draghi has vowed that the ECB is prepared to use "all the instruments available within its mandate". However, this was removed, and Draghi explained that the reason is "basically to signal that there is no longer that sense of urgency in taking further actions ... that was prompted by the risks of deflation". That said, Draghi stressed that there were "no signs yet of a convincing upward trend in underlying inflation", suggesting that the ECB has not fundamentally changed its view on the medium-term outlook for inflation. We think the ECB will make baby-steps, probably making the first move of changing the forward guidance in June depending on the outcome of the key European elections ahead.

Dutch Election: Rutte's Victory Is Official

It was an election widely seen as a test of populist right-wing sentiment in Europe ahead of the French presidential vote in April and the German national election in September. But it turned out that Conservative Dutch PM Mark Rutte comfortably won far-right firebrand Geert Wilders, and the result was officially confirmed by the Dutch Electoral Council on 21 March. As had been expected since preliminary results were announced on 15 March, Rutte's Party for Freedom and Democracy, the VVD, won 33 seats in the national parliament out of a total of 150. Wilders' Freedom Party, the PVV, won 20 seats, one more than the mainstream Christian Democratic Appeal (CDA) and Democrats 66 (D66) parties. The result was a blow for Wilders who – despite winning a handful more seats than in the last election in 2012 – came a distant second to Rutte. In order to govern, Rutte now needs to bring together enough smaller parties to form a majority – 76 seats in the 150-member chamber. At least four parties are likely to be needed to pull together a majority. If that comes to pass, it will be the largest multi-party alliance in Holland since the 1970s.

French Election: Will France Go The Dutch Way?

Meanwhile, French voters will be going to the polls on 23 April and 7 May in the two-round election. The French Constitutional Council, on 18 March, officially announced the names of the 11 candidates running for the presidency this year. Three candidates – far-left leader Philippe Poutou, and centrists Jean Lassalle and Jacques Cheminade – crossed the signatures threshold at the last minute. They will join François Fillon, Benoît Hamon, Emmanuel Macron, Nicolas Dupont-Aignan, Jean-Luc Mélenchon, Nathalie Arthaud, Marine Le Pen and François Asselineau. At 11, the number is broadly in line with previous recent presidential elections, with 16 candidates in 2002, 12 in 2007 and 10 in 2012.

The first round should see all but two candidates being eliminated from the race. Latest surveys have National Front's leader Marine Le Pen neck-and-neck with centrist independent Emmanuel Macron. For the first time in French politics, the leading candidates participated in a 3-hour TV debate on 20 March that was watched by almost 10 million people. An Elabe survey showed 29 percent thought Emmanuel Macron was most convincing. Left-wing candidate Jean-Luc Melenchon scored 20 percent whilst the center-right Republicans' Francois Fillon and eurosceptic Marine Le Pen tied for third place with 19 percent. At least one more TV debate is scheduled over the next few weeks with all 11 official candidates (possibly on 20 April).

Euro Will Be Politically Driven

We think the EUR remains vulnerable to further volatility and weakness over the next couple of months as the FX market will increasingly focus on the political risks as we get closer to the French elections. Even if polls are currently accurately gauging French public opinion, voters could still change their minds, and a large number of voters are still undecided. This is the basis behind our forecast of EUR/USD falling lower towards the end of 2Q before rallying later in the year after these risks have passed. In a scenario where Le Pen wins, we would expect a sharp but short-lived decline in EUR/USD. Medium-term, we expect EUR/USD to move higher. On the US side, it is hard to price much more Fed tightening. Meanwhile, although we think the ECB will maintain its currency policy stance through the end of the year; If the economic backdrop continues to remain favourable and absent of any severe political turmoil, the ECB's tone could gradually turn more hawkish which is likely to lift the EUR.

Policy Rates	All benchmark interest rates were kept on hold. ▪ Main refinancing rate at 0.00% ▪ Marginal lending rate at 0.25% ▪ Deposit rate at -0.40%
QE Program	**There were also no further changes to the quantitative easing (QE) programme** with the monthly amount of government bond purchases set to decline to EUR60bn from the current EUR80bn from the beginning of April.
Forward Guidance	There had been some speculation that the forward guidance could be adjusted slightly in this statement, but **there were no amendments**. The ECB continues to expect that interest rates will be held at present levels or lower for an extended period of time and well past the horizon of net asset purchases. The ECB also commented that the purchase programme can be increased in terms of size or duration if the outlook becomes less favourable or financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation.
Tapering	ECB President Mario Draghi confirmed there was no discussion of tapering. But he stressed that the ECB no longer had a sense of urgency of taking further actions and that no fresh targeted longer term refinancing operations (TLTROs) had been discussed after the current one expires in a few weeks.
Staff Projections	The ECB unveiled fresh inflation forecasts supporting Draghi's case that stimulus is still needed. Whilst the projection for this year was raised to 1.7% from 1.3%, price growth will then stay at about those levels — and below the goal of just-under 2.0% — for the following two years. The outlook for 2018 was increased to 1.6% from 1.5%, and the rate for 2019 was kept unchanged at 1.7%. The latest ECB staff projections also showed an increase in the 2017 GDP growth forecast to 1.8% from 1.7%, with the 2018 forecast also upgraded by 0.1% to 1.7% with no change for 2019 at 1.6%.

Source: ECB, UOB Global Economics & Markets Research

NEW ZEALAND

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
NZD/USD	0.70	0.71	0.71	0.72
NZD OCR	1.75	1.75	1.75	1.75

Economic Indicators	2015	2016	2017F	2018F
GDP	3.2	4.0	3.1	2.8
CPI (average, y/y %)	0.3	0.6	1.6	1.9
Unemployment rate (%)	5.3	5.1	4.7	4.5
Current account (% of GDP)	-3.4	-2.7	-3.1	-3.6
Fiscal balance (% of GDP)	1.4	1.5	0.5	0.7

Growth Outlook Remains Positive

The New Zealand economy hit a speed bump in the last three months of 2016, slowing more than expected, as weakness in manufacturing and agriculture and the effects of the earthquake in November sapped momentum from one of the world's best-performing developed economies. GDP grew 0.4% in the December quarter, following a downwardly revised 0.8% acceleration the previous quarter. The 3Q result was originally reported as a 1.1% gain.

In annualized terms, GDP expanded 2.7%, following a 3.3% y/y gain in the third quarter. Both readings fell well below expectations for a quarterly growth of 0.7%, translating into an annualized gain of 3.1%. Service activity was the main driver of economic growth in October-December. Business services accelerated 1.7%, offsetting a 1.6% drop in manufacturing. Household consumption expenditure contributed positively to growth, as did fixed-asset investment. However, exports fell 3.8% due to declines in dairy products.

Despite the weaker result, the New Zealand economy has been in expansion mode for 25 consecutive quarters. Looking past the temporary factors that were a drag on growth in late 2016, we expect the economy to continue growing at a moderate pace. Migration inflows and tourist arrivals hit record highs in January, and are expected to remain an important part of the growth story. Furthermore, we are seeing better dairy incomes for farmers, although recent sharp declines in global dairy prices will keep farmers cautious about discretionary spending.

RBNZ To Remain On Hold

At its latest monetary policy meeting, the RBNZ left its OCR on hold at 1.75%, as expected. The accompanying statement suggested little changes in the Bank's broadly neutral bias. In fact, the concluding paragraph was unchanged from the statement released following the February OCR review, with the RBNZ repeating that: "Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly".

The RBNZ noted that quarterly growth was weaker than expected in the December quarter, but it suspects that some of this is due to temporary factors and the growth outlook remains positive. It went on to say that house-price inflation has moderated, due in part due to tighter lending conditions, although it is uncertain whether this moderation will be sustained given continued imbalances between supply and demand. Inflation is still viewed as on track to return to the midpoint of the 1-3% target band over the medium term. On the New Zealand dollar, the RBNZ stated that the trade-weighted exchange rate has fallen 4 percent since February, partly in response to weaker dairy prices and reduced interest rate differentials. In the bank's view, this is encouraging, but further depreciation is needed to achieve more balanced growth. As was the case in February, the Bank continued to express some uncertainty around the future direction of dairy prices.

Overall, the RBNZ appears more comfortable with the inflation and exchange rate profile which gives the bank scope to maintain a neutral policy for now whilst it looks to both domestic and global developments. There is nothing to alter our view on the forward path of the OCR. We see the next move as a hike, but not until the second half of 2018.

Kiwi Should See Upward Bias

The New Zealand dollar performed fairly well at the start of this year on the back of the broad-based dollar weakness, and also as the reflation story took hold. Headline CPI came within the RBNZ's 1-3% target range for the first time in over two years, and expectations for a rate rise in 2017 by the RBNZ increased.

Perhaps this is one of the reasons that led to the New Zealand central bank shifting to a neutral bias at its 9 February meeting, where its projections showed an unchanged OCR until mid-2019 and a small upward move thereafter. At a recent speech, RBNZ Governor Wheeler elaborated on the risks to these projections, saying they are equally weighted.

The case for the US dollar moving materially higher in 2017 is not as compelling, and this is the key ingredient in our forecasts for a higher NZD/USD from here. But with little reason to think that the RBNZ would change its tune, we think that gains in the NZD are limited.

UNITED KINGDOM

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
GBP/USD	1.23	1.22	1.21	1.20
GBP Repo Rate	0.25	0.25	0.25	0.25
Economic Indicators	**2015**	**2016**	**2017F**	**2018F**
GDP	2.2	1.8	1.6	1.3
CPI (average, y/y %)	0.0	0.7	2.5	2.4
Unemployment rate (%)	5.4	4.9	5.0	5.3
Current account (% of GDP)	-4.3	-4.7	-4.0	-3.3
Fiscal balance (% of GDP)	-4.2	-3.0	-3.2	-2.9

The Countdown To Brexit

Article 50 – the formal notification of Britain's intention to leave the EU – will be triggered on 29 March.

It will take the form of a letter to Donald Tusk, President of the European Council, followed by a statement by UK PM Theresa May to MPs in the House of Commons. Tusk has said he would issue draft guidelines for the negotiations within 48 hours, although these will need to be approved by EU leaders.

The EU will then hold its first Brexit summit on 29 April to allow the EU's 27 remaining members to agree on Brexit guidelines, a broad-brush outline of the political principles that will guide them through the next two years of negotiations. If all goes according to the two year negotiations allowed for in the official timetable, Brexit should take place in March 2019.

BoE Split Over Interest Rate Rise

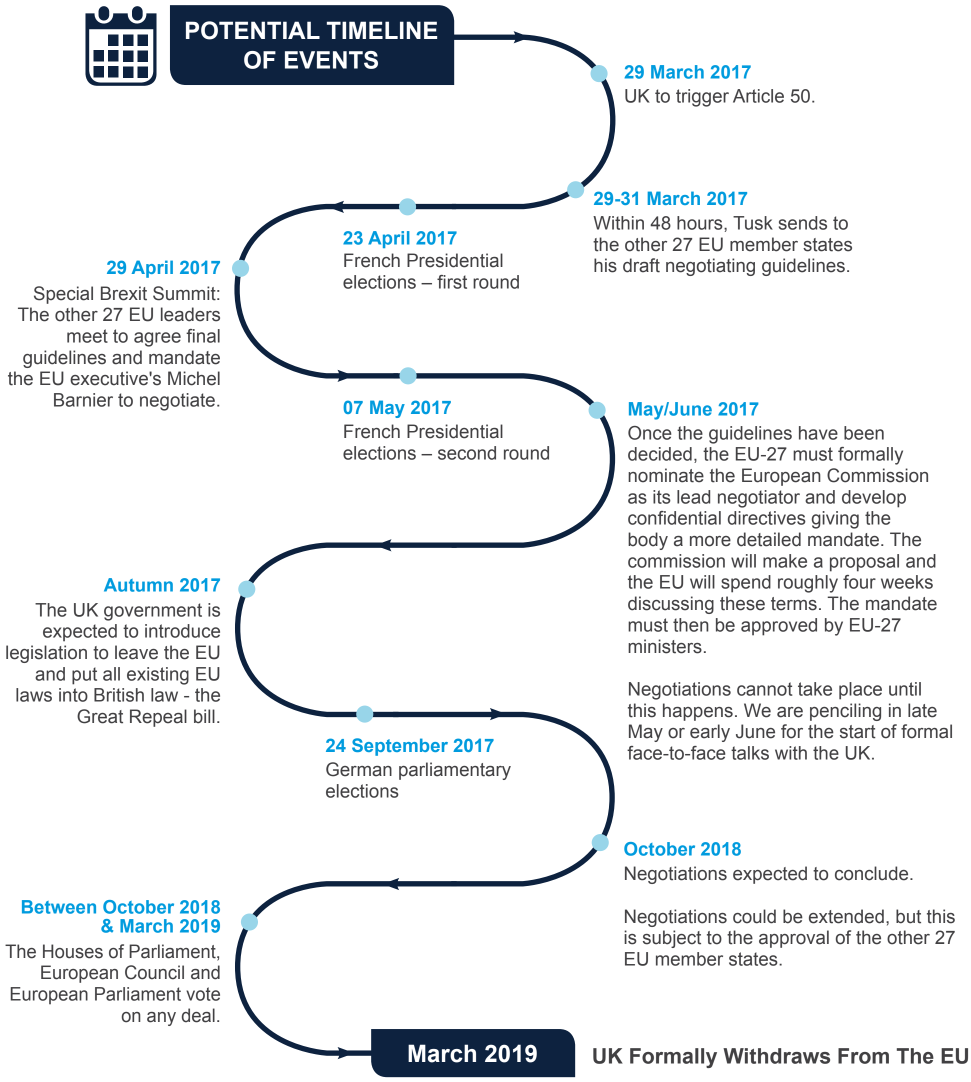
The BoE hosted an interesting rate decision at the March meeting. There were no changes to the Bank Rate nor the QE programme; but what was different was a dissenting vote by Kristin Forbes – who voted for a 25bps rate hike. This is the first split on the MPC since the aftermath of the Brexit vote in July 2016, when Jan Vlieghe then voted for a cut in rates from 0.50% to 0.25%. The minutes to the March meeting also indicated that other members may vote for a rate hike in the coming months.

In fact, just barely a week following the hawkish-than-expected comments from the BoE, the UK's CPI was seen accelerating to 2.3% in February from 1.8% the previous month. This was the fastest pace of annual price growth since September 2013, and the first time consumer price inflation came in above the central bank's 2% target since November 2013. Whilst this surge in inflation may raise a few eyebrows on the MPC, it is unlikely that they will do anything imminently. The BoE had afterall warned about the possibility of a significant overshoot going into the summer months, and had expected inflation to peak at around 2.75% early next year.

In fact, inflation is now running at the same rate as wage growth, and this puts pressure on household income and spending, which is a key engine of the UK economy. With the inflation pickup chiefly reflecting sterling's depreciation rather than domestically-generated inflation, we think that it is still simply too early to prognosticate how many members of the MPC may join Forbes (who is due to leave the MPC at the end of June) as a dissenting vote at near-term rate decisions. In a non-Brexit scenario, the BoE would possibly consider hiking soon. But we continue to see a status quo policy for the rest of this year, especially given the major uncertainties over the UK's economic and political outlook. We will nonetheless continue to keep a close eye on economic data, as well as on any MPC speeches to better gauge just how many MPC members hold the more hawkish view expressed at the March meeting. Note that the next Super Thursday is not until 12 May, when we will be receiving updated inflation forecasts.

More Headwinds For Pound

Following the flash crash in October 2016, GBP/USD has been mostly range-bound within the 1.20-1.28 band. The pair has moved significantly higher following Fobes' dissent at the BoE meeting, and then subsequently following the UK inflation data. Going forward, we expect GBP/USD to remain volatile, and we still see potential for further weakness as we believe there will be significant hurdles to overcome even once the government has triggered Article 50. It is extremely unlikely that Brexit negotiations with the EU will be smooth. Furthermore, potential economic and political consequences of the UK's exit from the EU in the longer term alongside broader strength in the USD should weigh on the GBP.



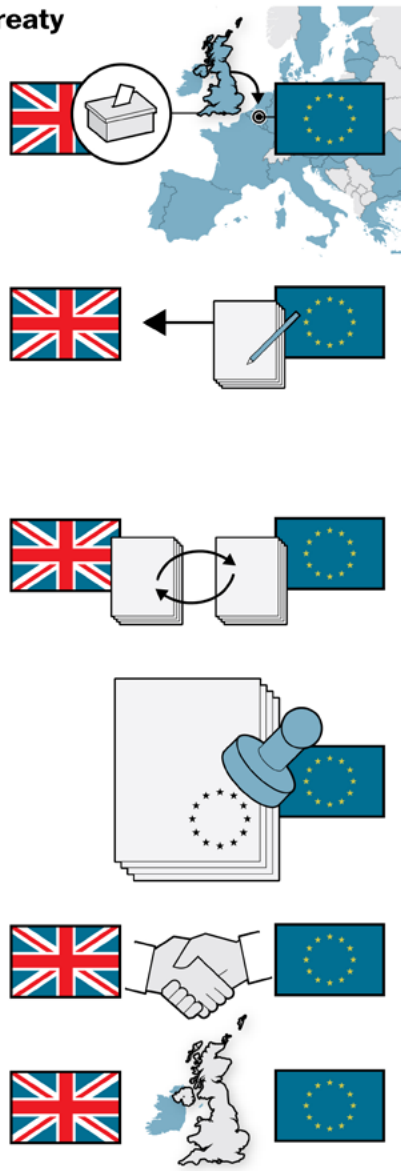
Article 50
At A Glance

- Article 50 of the Treaty of Lisbon gives any EU member the right to quit unilaterally, and outlines the procedure for doing so
- There was no way to legally leave the EU before the Treaty was signed in 2007
- It gives the leaving country two years to negotiate an exit deal
- Once set in motion, it cannot be stopped except by unanimous consent of all member states
- Any deal must be approved by a “qualified majority” of EU member states and can be vetoed by the European Parliament
- In November 2016, the High Court ruled that the Government cannot trigger Article 50 without MPs voting on the matter first. The Supreme Court upheld the ruling in January 2017

Source: The Telegraph

Article 50 of the Lisbon Treaty

1. The member state decides it wants to leave the E.U. It informs the European Council of its intention.
2. The European Council — which is composed of the heads of state of E.U. member states — will decide among itself what sort of agreement it wants to offer. The member state is not involved in the discussions.
3. The member state negotiates with the European Commission — the executive body of the E.U. — on the details of the agreement.
4. The European Council, with the consent of the European Parliament — a directly elected institution of the E.U. — concludes the agreement.
5. There is a two-year deadline for reaching an agreement, though the European Council can decide to extend this.
6. If the member state later wants to rejoin, it has to start the process from scratch.



Source: Europe External Policy Advisors

AARON STECKELBERG/THE WASHINGTON POST

UNITED STATES OF AMERICA

FX & Rates	2Q17F	3Q17F	4Q17F	1Q18F
US Fed Funds Rate	1.25	1.50	1.50	1.75
Economic Indicators	**2015**	**2016**	**2017F**	**2018F**
GDP	2.6	1.6	2.7	2.5
CPI (average, y/y %)	0.1	1.3	2.5	2.5
Unemployment rate (%)	5.0	4.7	4.6	4.5
Current account (% of GDP)	-2.5	-2.5	-1.2	-1.0
Fiscal balance (% of GDP)	-2.5	-2.5	-2.9	-3.5

Bullish 2017 Growth & Price Expectations Intact Despite Slower 1Q

2017 seems to be repeating a pattern that we are getting used to: US GDP growth is likely to disappoint early in the year, this time due to weather-related factors and a wider-than-expected trade deficit in 1Q 2017. Despite the inconvenient 1Q speedbump, we remain bullish on overall US growth, expecting it to come in above its potential output at 2.7% in 2017 (from 1.6% in 2016), anchored by a resilient US consumer, buoyant housing market and robust fixed capital investment, even as the fiscal boost from US President Trump's reflationary policies looks delayed and will kick in more prominently only in late 2017 or later.

And while 1Q growth will not be outstanding, the US economy continues to hum along in the jobs department. The US added an average of 237,000 jobs in the first 2 months of 2017, a marked step-up from the below-150,000 average in 4Q 2016. The US economy has been adding jobs every month since Oct 2010 (>77 months and >15 million jobs added as of Jan 2017) and unemployment has fallen below 5% since May 2016. We now expect jobs creation may still continue at a pace above 200,000 for another few months before taking a step down to 100,000-150,000 monthly new jobs in later part of 2017, pushing unemployment rate towards 4.5%.

US price environment which was benign in 2016 is set to see moderate increases with the Fed Reserve's preferred inflation measure, the core PCE, likely moving towards 2% by mid-2017 after being held at around 1.7%y/y in recent months (Aug 2016 to Jan 2017), on the back of rising US wages and potentially higher commodity prices. Core PCE inflation has been below 2% since April 2012 and we may be in for some upside inflation surprise.

Trump Policy Effect Delayed But Not Doused

While Trump's presidency started with much sound and fury, having signed 14 Executive Orders and Presidential Memorandum in his first week of office (surpassing Obama's previous record of 12), there are enough indications that things will not be smooth sailing in 2017 (at least) for President Donald Trump who according to Gallup poll, saw his approval rating hit a new low of only 37% (as of 18 March).

From his latest revised travel ban order being blocked by the US courts (again) to the FBI director Comey's dismissal of his claims that Obama ordered wiretapping him when he was a candidate, to his latest and biggest legislative setback as the US House failed to vote for the House GOP's American Health Care Act to replace the Affordable Care Act (Obamacare) on 24 March, the initial Trump euphoria has fizzled out as the reality of hard-bargaining politics set in. The repeal of Obamacare is now set aside by Trump for the time being, as he now takes aim at reversing Obama's clean energy plan and prioritizing his "phenomenal" US tax reform plan (with US Treasury Secretary Mnuchin pledging to get it done by the Congress' August recess) and then followed by the mapping out of the US$1 trillion US infrastructure plan. Thus, the initial euphoric expectations of Trump's expansionary US fiscal policy - which could contribute to higher US growth & US inflation – may be pushed back into 2H 2017- 1H 2018 and financial markets responded in 1Q via pricing in a weaker USD and retreating UST yields despite the Fed's March FOMC interest rate hike.

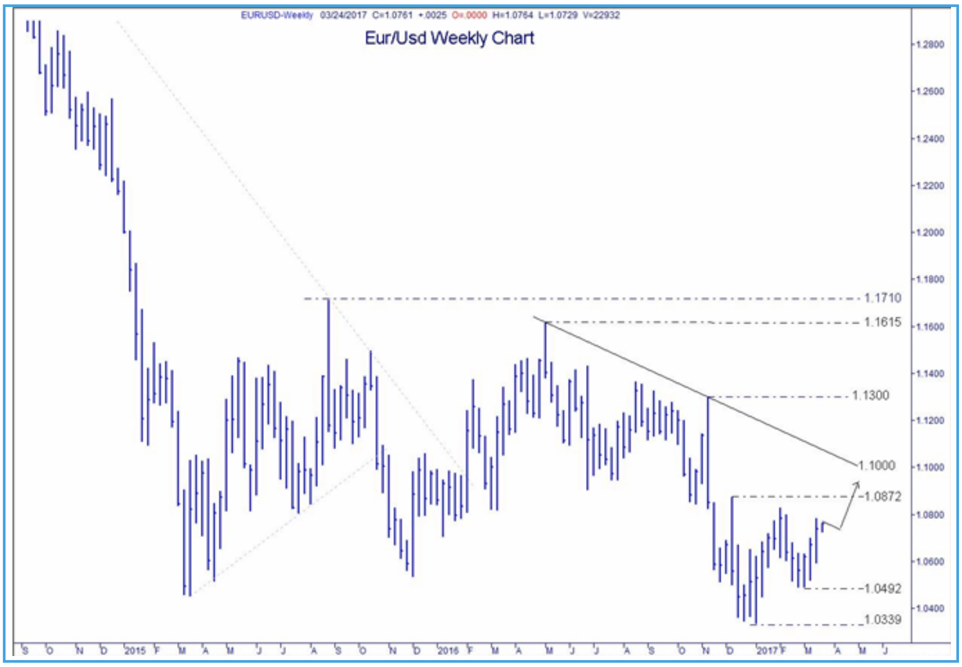
One area of temporary comfort is that Trump's much feared anti-trade rhetoric remains all talk for now and the Trump administration explained that "America First" means getting a better deal for US and not closing off America (from global trade). And the actualization of the "Border Adjustment Tax" is probably still a distance away. **We still expect Trump to get most of his tax reform and infrastructure spending proposals approved through Congress (in late 2017 or sometime in 2018) which will be a boost for the US economy and the real economic effect may be more apparent after 2017.** For the near term, after the failure to repeal Obamacare, we will watch the first face-to-face meeting between Trump and China President Xi Jinping in US (likely on 6-7 April 2017) which will be followed by the release of the US Treasury's Semiannual Report on International Economic and Exchange Rate Policies (likely on 15 April) and the concern is whether the US will label any country as a currency manipulator.

FOMC: Still Expecting 2 More Hikes, Jun & Sep 2017

Even as we had our first 2017 rate hike in the 14/15 March FOMC (Federal Open Market Committee), we are still maintaining the forecast of 3 rate hikes from the Fed Reserve this year. Against the backdrop of positive US economic data & rising US inflation together with robust US financial market performance, we expect two more 25bps rate hikes in 2017 (in the June and September FOMC), remain on pause in 4Q-2017 before resuming hiking rates in 2018 by another 4 times (in the March, June, September & December FOMC of 2018). We kept our terminal Fed Funds Target rate (FFTR) forecast unchanged at 3.5% by 4Q-2019 (which is higher than the longer run FOMC forecast of 3%). One of the main reasons for our hawkish Fed rate trajectory outlook in the coming years is due 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 while Congress approval is likely only later.

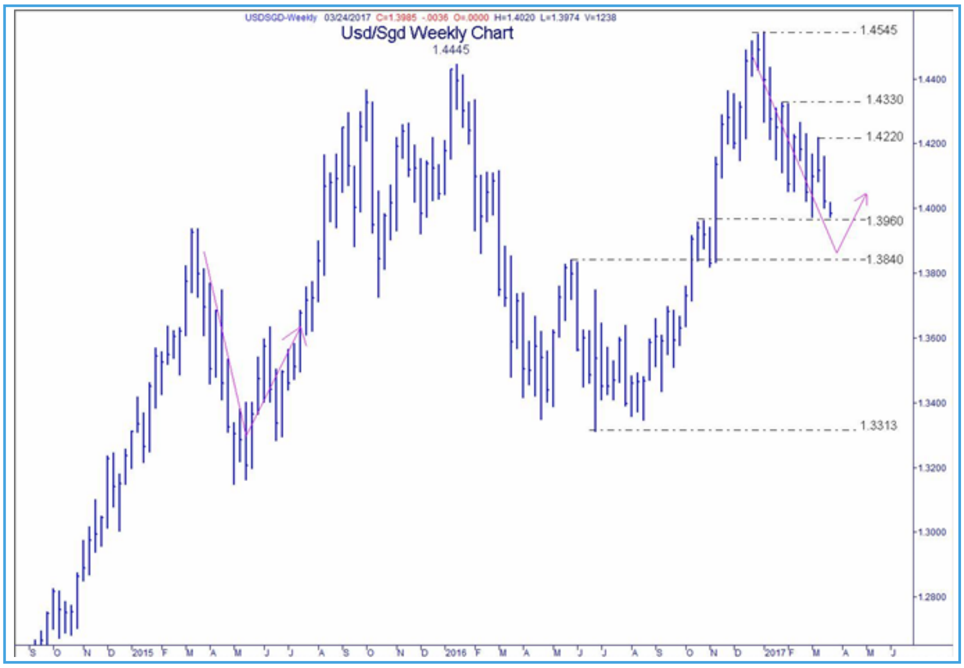
Beyond the rate hike trajectory, the composition of the FOMC will change going into April 2017 as Fed Governor Daniel Tarullo will resign from the Fed with effect from 5 April 2017. His term was originally set to expire in 2022 and his exit would create a 3rd open seat at the Fed Board of Governors.

The Federal Reserve Board of Governors has not had its full quota of Governors since 2013 and Trump has vowed to fill them soon after he assumes office but with the delays of his nominees to key cabinet appointments, it seems that his Fed governor nominations may not get a smooth passage to confirmation by the Senate. 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, their appointments will expire in 2018 (Yellen on 3 Feb 2018, Fischer on 12 June 2018), the composition of the Fed could look drastically different by mid-2018.



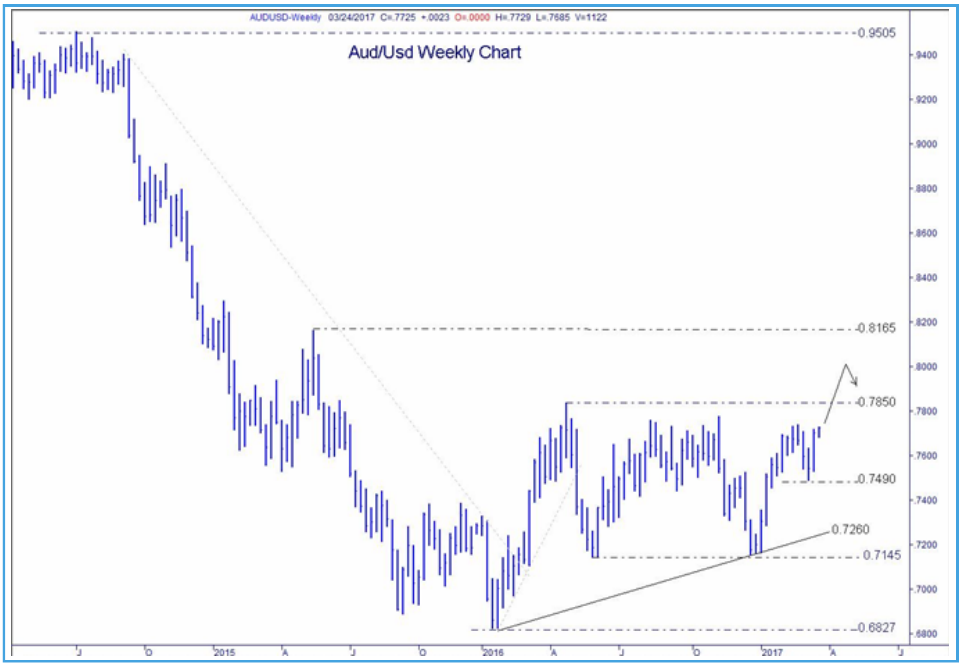
EUR/USD
1.0765

EUR/USD touched a low of 1.0339 in the first week of the year but has since made a tentative recovery. The price action suggests that EUR/USD is basing out for a stronger rebound. However, upward momentum is not strong and any up-move is expected to be 'grinding' and a clear break above the major 1.1000 resistance seems unlikely. Support is at 1.0490/95 and while a dip below this level is not ruled out, the 1.0339 low is unlikely to come into the picture for the second quarter of this year.



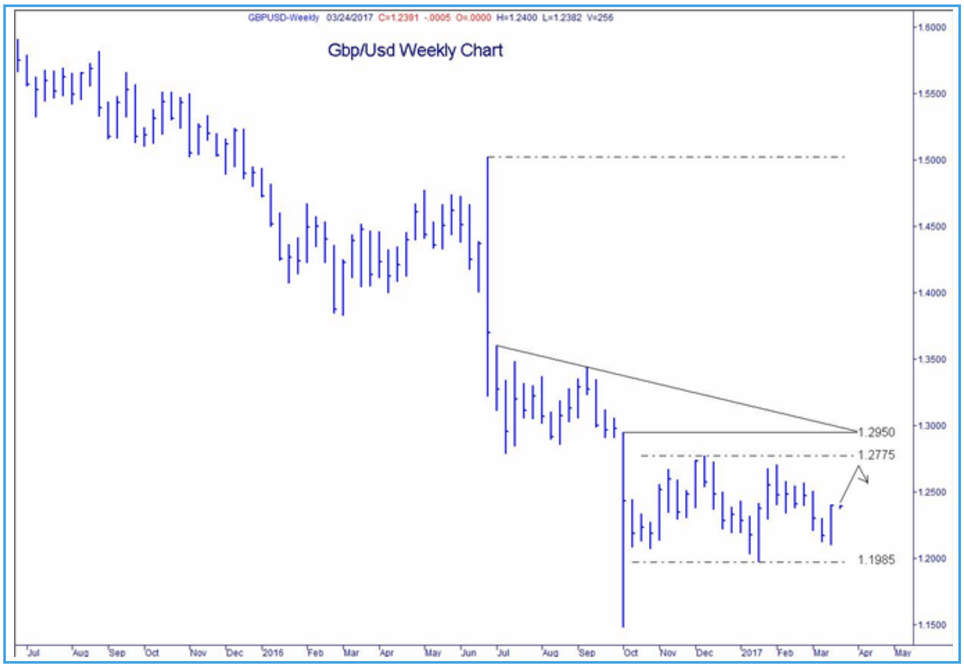
USD/SGD
1.3990

The decline from the high of 1.4545 seen in early January appears incomplete. However, the down-move is viewed as a 'corrective pull-back' and not the start of a major bearish reversal (similar to the price action between March and May in 2015). That said, USD/SGD appears to have scope to extend lower towards the major support at 1.3840 before stabilization can be expected. Resistance is at 1.4220 but only a move back above 1.4330 would indicate that the next leg higher towards 1.4545 has started.



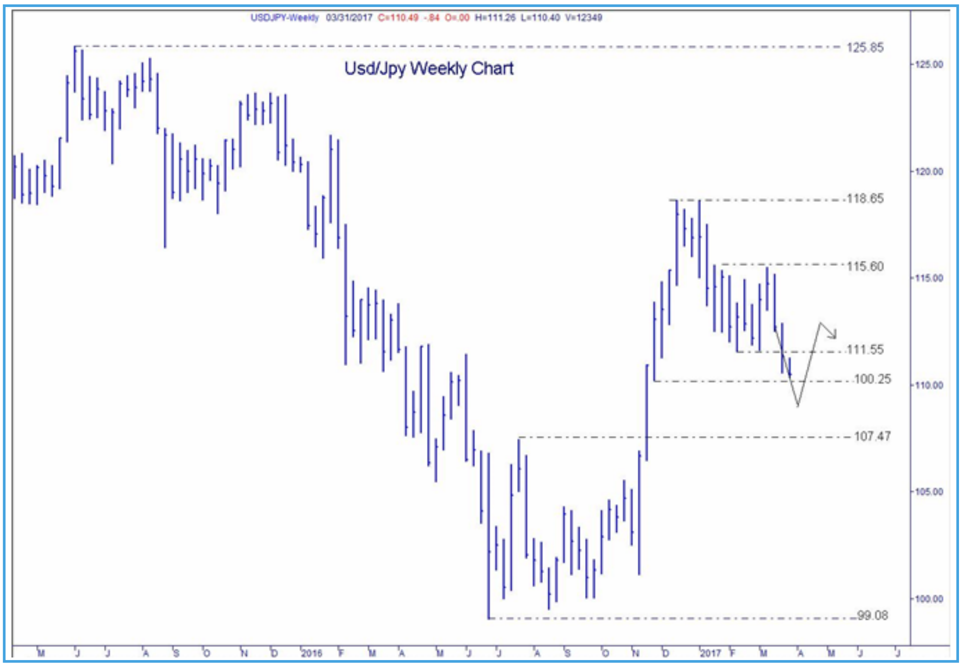
AUD/USD
0.7690

AUD/USD retested the June 2016 low of 0.7145 earlier this year but has since rebounded strongly. Upward momentum is improving and the outlook for the second quarter of the year appears to be positive. While a move above the major 0.7850 resistance would not be surprising, the next major level at 0.8165 is likely out of reach (strong intervening resistance at 0.8000). On the downside, support is at 0.7490 and a move back below the rising trend-line support at 0.7260 seems highly unlikely.



GBP/USD
1.2380

GBP/USD has been trading mostly sideways for the past two quarters and the consolidation phase appears incomplete. While the near-term bias is tilted to the upside, any up-move during the second quarter of the year is unlikely to have enough momentum to move clearly above 1.2775. The next resistance at 1.2950 is a very strong level and is not expected to come into the picture. To put it another way, it is unlikely that GBP/USD would be able to break out of the 1.1985/1.2775 range that has been intact for the past six months.

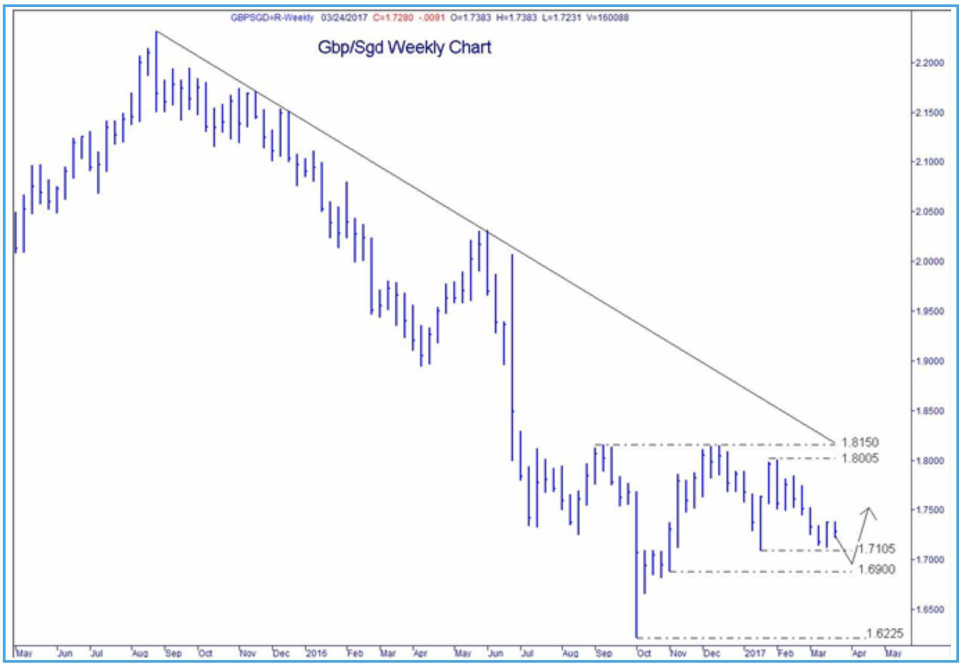


USD/JPY
112.50

The movement after the 118.65 high is viewed as part of an on-going correction phase. While the bias is for a probe below the 100.25 support, any decline is unlikely to have enough momentum to push below the next support at 107.45/50. On the upside, 115.60 is acting as a strong resistance and any USD strength is expected to struggle to move above this level in the next few months.

EUR/SGD
1.5050

EUR/SGD attempted but failed to break above the 1.5390 high seen in late December last year. It subsequently drifted lower and edged below the 2016 low of 1.4820 to touch 1.4800. While the sharp bounce from the low suggests that this pair is trying to form a base for recovery, lackluster momentum indicates that a move above 1.5390 is unlikely. In other words, EUR/SGD is expected to trade sideways in the coming quarter, likely within a 1.4800/1.5390 range even though the near term bias is tilted to the upside.

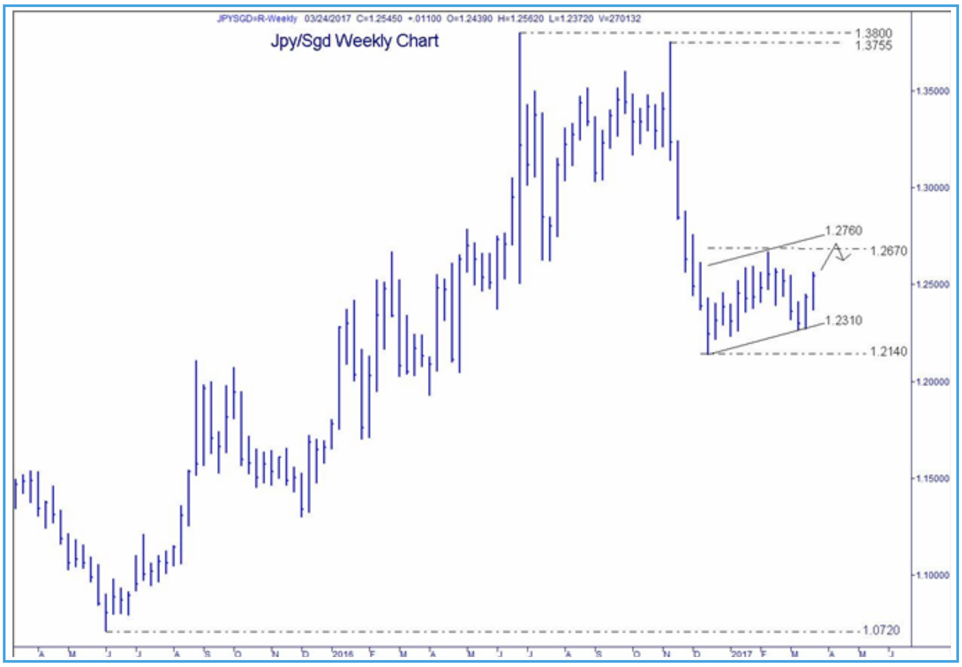


GBP/SGD
1.7305

GBP/SGD traded in a 1.7105/1.8005 range since the start of 2017 and most of the moves were seen during the last two weeks of January. The relatively narrow range has resulted in a mixed outlook even though the price action at the time of writing suggests that a move below 1.7105 would not be surprising. However, any dip below 1.7105 is viewed as a 'range expansion' and not the start of a sustained decline. Overall, this pair is expected to dip towards 1.6900 in the early part of second quarter before recovering even though any rebound is not expected to threaten major 1.8005/1.8150 resistance zone.

AUD/SGD
1.0780

AUD/SGD staged a strong push higher in mid-February but retreated quickly without threatening the major 1.0995/00 resistance. The pull-back appears to be corrective in nature and another push higher towards 1.0995/00 seems likely in the coming quarter. A clear break above this level would open up the way for a move to 1.1085. On the downside, solid support can be found at 1.0625/30 but the key level is much further down at 1.0330.



JPY/SGD
1.2500

JPY/SGD hit a low of 1.2140 in mid-December but has since staged a tentative recovery. While upward momentum is not strong, the near-term bias is tilted to the upside but a sustained move above 1.2760 is not expected. Support is at 1.2310 and the 1.2140 is likely strong enough to hold any pull-back in the second quarter of the year.

Disclaimer

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