Economics & Strategy Weekly

Under China's lengthening shadow

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- *If morning shows the day, first week of 2019 is pointing to further volatility and risk aversion this year, dominated by China slowdown fears.*
- *US policy and markets are beginning to see external concerns overtake domestic ones for the first time in years.*
- *The market is second guessing the Fed, pricing in no further hikes this year and perhaps even a cut in 4Q. We think such trades could get overturned readily by three pipeline developments: thaw in trade wars; low and stable energy prices; China policy stimulus.*
- *The going will be challenging, no doubt. Expecting US trade negotiators to take it easy on China is a fool's errand; oil could rebound over Iran; the efficacy of China's policy measures is open to question.*
- *To get going with the new year, we present key developments of the past couple of weeks.*

China's shadow lengthens

A torrid end of 2018 has spilled over to a torrid beginning of 2019. There is no shortage of unresolved matters fuelling uncertainty—US government shutdown, Fed policy, Brexit saga, China slowdown, tech cycle, and oil correction to name a few. But the key issue at this moment for the global economy is the depth of China's economic malaise. Having accounted for 30-40% of global growth in recent decades, a steadily slowing China imparts a major drag to the world economy in any case. Add to this fears of the decline being disorderly, all other risks pale in comparison.

Apple's recent guidance on weak demand for its products in China may be the latest straw that's hurting market sentiments, but local companies have already been lowering guidance in recent quarters. Signs of bottoming out are yet to emerge. High frequency data slid further in December. Caixin Manufacturing PMI fell to 49.7, the lowest since May 2017, indicating contraction. Domestic and external demand related indicators all registered further deterioration. New orders fell for the first time in two and a half years, with companies reporting subdued demand despite some price discounting. Export orders shrank for the ninth consecutive month. Industrial profits also dropped for the first time in almost three years. M2 and credit growth remained close to a multi-decade low. Trade data were weak. Shipments to most regions slowed, reflecting faltering global demand. A plunge in import growth, coupled with cooling factory gate inflation, suggests policy efforts to shore up domestic demand hitherto are falling short. Taken together, our Nowcasting framework is pointing to growth falling below 6% in 1Q.

In response to the sustained economic weakness, the PBoC has recently launched a "targeted" version of its Medium Term Lending Facility (TMLF). Large commercial banks, joint-stock banks and big city commercial banks extending strong support for the real economy on the back of financial prudence will be allowed to apply. Longer term TMLF will be priced 15 basis points below the MLF rates. The move is aimed at lowering funding

costs and encourage more lending to illiquid private companies. Taken into the account of time lag, the monetary tactic is unable to reverse course of economic slowdown in the months ahead. We expect three cuts on the reserve requirement ratio alongside cutting reverse repo rate.

At the December's Central Economic Work Conference (CEWC), top policymakers acknowledged imminent fiscal policy support is around the corner to fend off the perils of a deepening economic downturn. Specific steps include cutting taxes and fees "on a larger scale" than last year to ease shortage of operating capital. Annual quota of special local government bonds will be boosted in order to support infrastructure and utility investments.

The stuttering Chinese economy is having a knock-on effect throughout Asia. Manufacturing PMI for December disappointed from Taiwan to Malaysia. Worsening data could prompt Washington and Beijing to reach a deal sooner. The Trump's administration agreed to postpone a tariff hike on USD200 bn of imports from China until 1 March as both sides try to strike a deal over issues such as trade barriers and alleged intellectual property theft. It remains to be seen if any concrete steps can be achieved in so short a time.

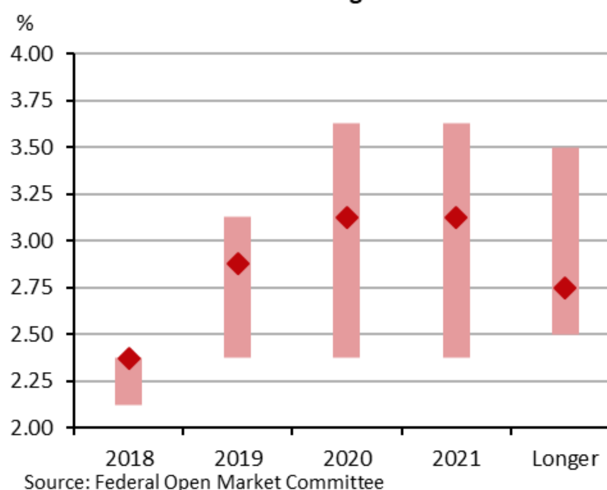
Taimur Baig and Nathan Chow

Fed ended 2018 with four policy rate hikes; despite market pricing, we think two more to come this year

Market participants had been on the edge leading into the last policy meeting of the US FOMC, with the VIX spiking to over 25 (first time since early February 2018). In the event, the Fed sounded only marginally more cautious, with its members guiding expectations of two further policy rate hikes this year on top of the 25bps hike last December. This has not pleased the markets, but we believe the Fed's guidance in December was reasonable.

We had previously been calling for four rate hikes, but in light of ongoing developments and recent Fed decision, have adjusted our call to two hikes this year (in June and September). Fed governors are seeing the scope to hike one more time in 2020, which might be wishful thinking. In a year's time, the conversation will likely be possible rate cuts in 2020, in our view. For now, we will refrain from prognosticating about 2020, and focus on the next four quarters.

Fed Dot Plot - Median and Range



Source: Federal Open Market Committee

Curves have flattened considerably lately, but neither the Fed nor we see this warranting major concern. US output gap has closed, job vacancies are at record high, wages are growing by 3%+, and growth markers show solid 2.5%+ momentum.

Admittedly, core PCE inflation has surprised on the downside lately (thus giving the Fed the room to pause in the near term), housing and auto sales have been somewhat disappointing, and any hope for further fiscal support in the coming years have dissipated. But at the same time, the US fiscal deficit has soared with no resolution in sight, the outlook for oil is uncertain given lingering tension in the Middle-East, and structural liquidity is tightening with the end of QE in Europe. Further curve flattening may be on the cards, but not a whole lot more, in our view.

What about the dollar? We expect less support for the greenback in 2019, but we still see a flat trajectory over an outright correction. Growing worries about the US notwithstanding, neither growth/policy nor the political outlook of EU or Japan warrant a shift of assets there. We therefore expect the flow of funds to keep the USD stable in the year. The dollar will eventually correct, but that phase in not near at all.

Our worries about developed market equities and credit will remain. Valuations are still high despite the recent selloff, leverage is elevated, and sentiments are on the weak side. The Fed may be pleased with the economic trends, but clearly the market had bet on a much stronger outcome for late-2018 and 2019. Between trade wars

and China slowdown, that bet is bound for disappointment.

This in turn makes Asia relatively more compelling. Any easing of tension in trade wars, low oil, and further policy stimulus from China will cheer local markets this year, in our view. We are picking up a rise in investor interest in Asia's beaten-down assets. A silver lining indeed.

Taimur Baig

Rates: No Respite

USD rates continued their downward slide over the past two weeks. There was no respite into the first few trading days of 2019 as risk aversion remains the dominant theme. As US equities wobble and the VIX holds above 20, 10Y yields have drifted to 2.55%, some 60bps below the peak seen in early November. The rally in shorter-term rates has also been impressive with Fed funds futures removing the 2.5 hikes priced in (and now reflecting a cut) for the year over the same period.

The rally in USD rates is looking overdone and we think there is little value in USTs at current levels. While US growth is set to slow (to 2.5% in 2019) from a blockbuster 3.5% in 2018, this should not warrant the extent of decline in USD rates. We think the deterioration in outlook is at odds with fundamentals that suggests that US economic activity is still firm. That said, there is little point in fighting the decline in USD rates in the immediate term if stock market gyrations continue.

The Fed signalled a slower pace of rates hikes (two in the December dot plot compared to three in September). However, there was disappointment that the autopilot in the balance sheet run-off was not addressed. **We suspect that balance sheet shrinkage will probably have to slow/stop sooner rather than later.**

We have also revised our rates forecasts lower across several Asia economies on account of our less hawkish Fed view. The new numbers are reflected in the updated forecasts table below.

Eugene Leow

FX: Weakness is coming home to roost

A tempered Fed hike stance has not kept the US dollar down. Although we now see two instead of four hikes this year, the Fed Funds Rate has not only turned neutral at 2.50% but has also become positive in real terms and continued to widen its favourable differentials against Developed Market (DM) peers. On a relative basis, the US economy has held up better than the Eurozone, China and Japan but is not immune to their weaknesses.

Against this background, global financial markets have started 2019 on a fragile note. Investor confidence has become elusive as evidenced by the flash crash in currency markets i.e. a flight to safety into the Japanese yen. Upside risks to the world economy have become synonymous, not with a constructive cyclical outlook, but a desperation to ameliorate the two major downside risks – trade tensions and rising US rates. Despite the US-China trade talks over December-February, Trump's beggar thy neighbor policies have already hurt manufacturing/export data in China and other export-led Asian countries and Apple's earnings outlook.

Neither is the political landscape pretty in Europe. In the UK, Brexit has been antithetical to adversity making strange bedfellows, a situation where all UK/EU negotiating parties have agreed to disagree. This has increased the risk of the UK exiting the EU on the 29 March deadline without a deal. If so, the British pound is set to revisit 1.20, its post-2016 referendum low. At a time when the Eurozone slowdown is deeper and lasting longer-than-expected, the EU Parliament elections on 23-26 May could evolve into a referendum on the single market. Populist and far-right anti-establishment political parties have already taken over or increased representation and influence in the governments of large EU countries such as Italy, France and Germany. Instead of taking the euro higher on ECB's exit strategy, investors and speculators have become concerned that the Eurozone lacks the monetary and fiscal room to respond to any unexpected economic shocks ahead.

Philip Wee

Flashback of Asia equities in 2018; Fed and weak USD trend to be the key drivers for 2019

Asia markets were off to a good start in 2018 and most indices rose to all-time highs in 1Q18. However, the positive trend quickly reversed in 2Q18 **as emerging markets suffered a major correction in April 2018 on concerns over rising interest rates and a stronger dollar as well as the US-China trade war**.

The negative sentiment on emerging markets continued throughout 2Q18 but countries with current account deficits and big funding gaps suffered the most, beginning with Turkey and Argentina. Similarly, Asia countries such as Indonesia, Philippines and India were badly hit in their currencies, bond and equity markets as risks of emerging market debt crisis loomed, in the face of liquidity tightening and rising interest rates in the US.

By the second half of the year, Asia markets traded even lower as de-risking continued. US-China trade wars intensified and USD/ RMB depreciated to almost 7, with most market watchers seeing the devaluation as a response to higher tariffs being imposed, and hence could be subject to more depreciation. Meanwhile the Fed continued to relentlessly increase interest rates with markets looking for more hikes into 2019 as higher oil price and US wage growth fuel inflationary expectations.

Sentiments have however turned better since December for Asia markets. Investors have started to look for relief, for some of these external pressures to ease and when valuations are beginning to look supportive. Notably, the Fed has turned more dovish after the last rate hike in December had provided relief to emerging markets. We believe emerging ASEAN markets such as Indonesia and Philippines should start to outperform. The more cyclical markets such as China / Hong Kong, Singapore, Taiwan and Korea will have to go through a soft data patch as the global economic outlook deteriorates in Q1, before stabilising in our view. We look for policy stimulus for China / Hong Kong to recover strongly.

Joanne Goh

Credit: New year, old issues

Positioning defensively: Based on the limited evidence seen in the short week of the new year, credit market will continue to be driven by the same issues we saw during much of 2018: equity market volatility, Chinese new issues repricing secondary market and rising credit stress. For now, it is hard to see any catalyst to help market sentiment recover. Given weak sentiment and volatility, we continue to recommend position defensively with a preference for investment grade credits, where we see value following spread widening during 2018.

For investors seeking some yield pick up, we recommend subordinated debt of high grade corporates (rather than going down the credit curve) and selective short-dated Chinese BBs. The latter because they offer relative value against Indian and Indonesian HY with manageable credit risk. Despite expectation of rising credit stress in China, we believe the better quality issuers, even among sub-investment grade, have good funding access, especially following the Chinese authorities' loosening of credit conditions (e.g. encouraging AAA onshore bond issuances (Macro Strategy dated December 14), medium-term lending facility intended to facilitate credit to smaller private companies).

2018 recap: Benchmark Asian bond indices understated the pain investors faced last year. The JACI index was down only 0.8% while the Bloomberg Barclays' HG index was flat with the HY index was down 3.5%. However, a sample of 32 Asian credit funds that we looked at with an aggregate USD37bn under management as of November 2018 reported a negative return of 5.1% and a YoY drop in AUM of 15%.

Year-on-year closing levels

	3/1/2018	31/12/2018
Bloomberg Barclays Asia USD HY TR index	179	172
Bloomberg Barclays Asia USD HY TR index	180	162
10Y UST yield	2.45%	2.69%
2-10 spread	52 bp	20 bp

Neel Gopalakrishnan

Singapore: Ending 2018 on a low note

The Singapore economy ended 2018 on a low note. Advance GDP growth for the fourth quarter came in lower than expected at 2.2% YoY, from a revised 2.3% in the previous quarter. Sequentially, growth momentum slowed to 1.6% QoQ saar, from a robust 3.5% previously. Overall, the economy expanded by 3.3% in 2018.

Notably, the slowdown in the fourth quarter was broad-based. While the manufacturing sector saw a higher year-on-year growth, this was largely due to the low base last year. Sequentially, output from the sector has declined by 8.7%. The slowdown from China could be a key factor. Non-oil domestic exports to China has shrunk by an average of 20.9% between Oct-Nov18. Latest December manufacturing PMI in China also contracted (49.4) for the first time in more than two years. The trade dilution impact of the trade war has started to bite.

The drag from the manufacturing sector has in part spilled over to the services sector. While the sector has remained in expansion, the pace of growth in this key sector has continued to moderate. Note that the services sector accounts for about 70% of the economy and employment. Continued moderation in the growth momentum in this sector would have significant implications on the performance of the overall economy, as well as employment outlook.

The construction sector has remained in recession, but the worst for the cycle may have passed. Overall growth remains stuck in negative and the sequential growth momentum has also eased to 1.1% QoQ saar, from 3.3% previously. Impetus in the coming quarters will come from infrastructure projects, but this will be juxtaposed with a slowdown in the residential construction activity.

External headwinds have picked up. Global electronics demand is easing, and the trade war is adding salt to wound in the near term. Trade diversion from China to ASEAN countries could help but this will take time to materialise. Besides, liquidity conditions will get tighter in 2019. Although rising US rate expectations have simmered, we still see the Fed Funds Rate increasing another 50 bps to 3%. Overall, last year has been a roller coaster ride but this year could be just as challenging. We expect GDP growth in 2019 to slow to 3.0%, from 3.3% in 2018.

Irvin Seah

Hong Kong - Pace of prime rate hike will remain mild

HIBORs shot up in December due to year-end effect. As a result, HIBOR-LIBOR spreads were neutralised and USD/HKD remained stable at 7.82-7.84. Yet, the spread is not expected to widen drastically again because the Fed will likely at most hike 2 more times this year.

Hong Kong banks did not raise the prime lending rate accordingly in December due to the abundant liquidity of the banking system. The Aggregate Balance and outstanding Exchange Fund Bills and Notes amount to HKD79bn and HKD1,060bn respectively. Against this backdrop, we expect the prime rate to remain largely constant over the next 12 months.

The seemingly peaked loan-to-deposit ratio also points to slower pace of interest rate hike. The ratio has climbed to 85.3% in October from its low of 75.7% in March 2017. Looking ahead, banks will reduce their exposure to Chinese businesses amidst uncertainties. Given the declining loan demand, upward pressure on local interest rates will be eased. Slower interest rate hike will mitigate downward pressure on asset price. We believe the property market had probably peaked in August; The Centa-city Leading Index rose by 50% during August 2016 to 2018. It then registered a 7.6% decline since end-July. Another 10%-15% drop is likely in 2019.

Hong Kong's property market has started to soften. The Hong Kong's investment in China, particularly in the Greater Bay Area, is battered by the escalation in trade tensions (Guangdong's exports to GDP ratio was 51.7% in 2017, compared to national average of 18.6%). The government's latest measures imposed in July also encouraged property developers to clear unsold units.

The first phase of the proposed a new 1,700-hectare reclamation project is only expected to complete by 2032. Assuming this 20-year plan can satisfy housing demand for 1.1mn people, the newly-built artificial islands can only meet the demand of the immigrants from China (150 persons x 365 days x 20 years). More land is required to fulfil the demand from local natural events (e.g. marriage and birth-death). On New Year Eve, the Task Force on Land Supply proposed to raise the ratio between public and private housing of new land supply from 6:4 to 7:3. The allocation of land will also exert upward pressure on private housing prices over the long run due to decreasing supply.

Samuel Tse

India: Politics and policy outlook bear watching

Indian asset markets remained beholden to global developments, after the rupee depreciated 8.5% in 2018. Markets are far from breathing easy at the start of 2019 as regional data points to an impending slowdown. This comes at a time when India's domestic catalysts are gaining importance, led by the April-May general elections. Lower oil prices, alongside a softer but stable growth environment, adds to the current disinflationary spell. **Policy tightening expectations have accordingly fizzled out, but the monetary, fiscal outlook and politics still bear watching.**

On monetary policy, a benign inflation trajectory of 2.0-2.8% (vs 4% target) in the coming months, the remarks of new Governor Das and a commitment to keep the fiscal deficit close to its FY19 target of -3.3% of GDP (at the interim budget on 1 February) will be closely watched for a shift to a neutral stance at next RBI review on 6 February. With real rates high on below-target inflation, expectations have emerged for a rate cut at the following review in April. But this will not be the start of a new easing cycle; inflation is set to return above 4.0% in FY20 on base effects amidst an uncertain global backdrop.

The government has prioritised fiscal consolidation in recent years, but markets eye risks to the outlook. In April-November 2018, the central government fiscal deficit is already 15% higher than the target, driven more by a revenue shortfall than a front-loading of expenditure. Approaching national elections reduce the likelihood of fresh revenue-generating measures amidst higher spending needs. Addressing rural distress and lowering the economic pain from GST adherence are amongst the immediate priorities. Speculation is that the government might introduce a) a monthly income payout and/ cash handout to bridge the gap between actual crop vs assured support prices; b) crop insurance scheme; c) interest-free crop loans. Press reports peg the annual costs of such benefits at INR2.3trn (1.2% of GDP). While the impact of any such scheme will be apparent in FY20, this year any slippage might be limited to -3.5% of GDP. Expenditure compression is on the cards in FY19, helped also by the freeze that routinely takes effect in the final quarter of the year. Quality of the consolidation efforts will be, nonetheless, questionable due to revisions in the FY19 Budget economic indicators, the postponement of spending items and prevailing accounting methodology.

Radhika Rao

Indonesia: Pressure easing

Growth has remained stable despite the stronger headwinds in 2018 and both fiscal and monetary policy tightening. Growth has remained stable and is likely to reach 5.1% in 2018, similar to its level in 2017. Current account deficit has widened significantly last year owing to higher oil price, strong infrastructure projects-related imports and weaker Rupiah. In addition, both fiscal and monetary policies were in tightening stance in 2018. Bank Indonesia hiked interest rate by 175bps last year on the back of widening current account and pressure to Rupiah. Fiscal was also in tightening stance as basic balance deficit hit the lowest since 2012.

Rupiah depreciated in 2018 on the back of widening current account and weak inflows. Government established several measures to curb current account deficit including the use of B20 and higher consumption goods import taxes. But it would be unrealistic to expect a noticeable impact current account deficit last year. On another account, inflows have shown some respite in 4Q18, in line with other emerging markets, causing Rupiah to rebound in the last quarter to 14,390/USD on Dec 31, 2018 from the recent lows at 15,200/USD at the end of Oct18.

Inflation risk remain low. Headline CPI edged up slightly in December but still register an overall inflation of 3.13% for 2018, in line with our expectation at 3.2%. Stable inflation in 2018 was supported by fixed retail prices for most fuel categories and stable rice price thanks to better management of domestic rice stock. Sharp decline in global oil prices erase worries that the government needs to adjust the politically sensitive retail fuel price ahead of May 2019 election.

We think Bank Indonesia hiking cycle may not continue in 2019. Firstly, as we expect only two Fed rate hikes this year**,** there will be less pressure to increase interest rate differential further. Secondly, pressure to inflation risk ease thanks to softer oil price trajectory.

Masyita Crystallin

Philippines: Inflation eased

Despite some slowdown, the Philippines remains one of the fastest growing country in Asia. Growth deceleration in 2018 - 6.3% in 2018 (DBSf) from 6.7% in 2017 – was driven mostly by the external sectors. Inflation increased significantly due to higher excise tax for automobiles, fuel, tobacco, sugar-sweetened beverages and higher oil price. We think inflation has reached peak and will continue to decelerate further. However, the impact of demand pull inflation could not be dismissed entirely as core inflation continued to edge up.

Bangko Sentral ng Pilipinas (BSP) has remained on a tightening stance due to the inflation pressure**. As inflation is likely to ease further in 2019, supported by lower oil price trajectory and as the base effect from excises tax increase dissipates, we think policy rate will remain flat this year.**

External sector will continue to remain to be a drag on growth. Philippines electronic exports, accounting for 55% of total exports, was hit hard by weak global electronic demand. Lower oil price will have a positive impact on the trade balance, however, we doubt that the balance of payment pressure will ease significantly this year as global electronic demand is likely to remain weak. In addition, infrastructure-related imports are likely to remain high. We think that fiscal might remain accommodative to support growth.

Masyita Crystallin

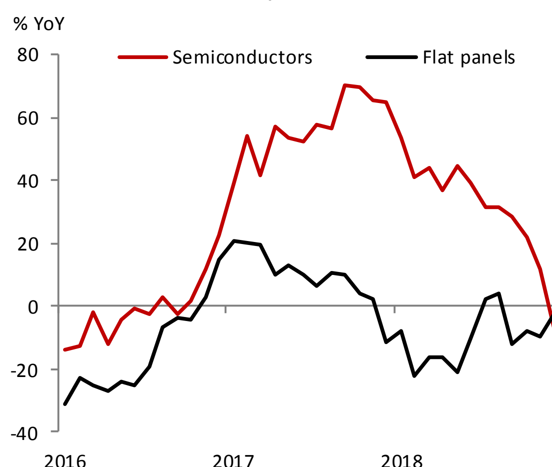
South Korea: Slowing on all fronts

Both the demand and supply side indicators point to a growth slowdown (QoQ) in 4Q18. In particular, semiconductor exports fell by -8.3% YoY in Dec18, the first contraction since Sep16. Exports to China fell -13.9% on top of the -2.7% decline in Nov18, also the worst seen since late-2016. Industrial production dropped -1.7% MoM sa in Nov18, reversing the 1.3% rise in the previous month. All-industry output also slipped by -0.7% after gaining 0.8%.

Inflation risk has subsided thanks to the sharp correction in global oil prices. Headline CPI eased to 1.3% YoY in Dec18 after registering a stable 2% in the previous three months, which converged with the core inflation levels. It is possible that CPI figures will remain at low-1% in the next few months, if oil and food prices do not rebound sharply**.**

The deterioration in macroeconomic conditions corroborates our view that the Bank of Korea (BOK) will not further hike rates in 2019. The BOK said in its 2019 monetary policy report that it will maintain an accommodative policy stance this year amid lingering external uncertainties. The 2019 inflation target was set at 2%, unchanged from the previous 3-year target that expired in 2018. We see a good chance for the actual inflation to undershoot the 2% target this year.

South Korea: Electronics exports



Ma Tieying

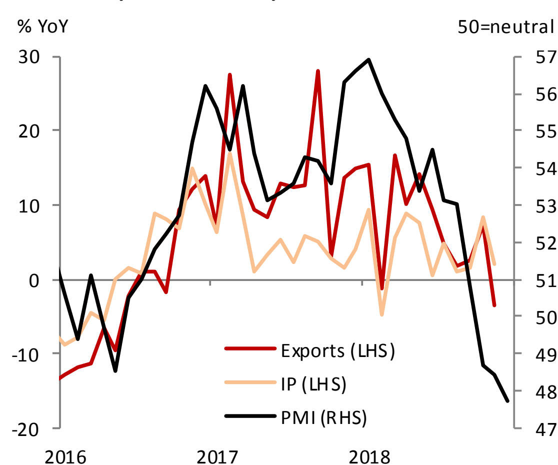
Taiwan: Export engine stalls

Trade indicators deteriorated at a faster pace. Export orders and exports fell -2.1% and -3.4% respectively in Nov18, the first negative reading seen since mid-2016 (excluding the Chinese New Year periods). The decline was not only caused by the US-China trade war, or the slowdown in global electronics cycle. Demand from the Chinese and European markets both deteriorated, while that for electronics and non-electronics declined synchronously as well.

Thankfully, **domestic demand was relatively stable, underpinned by the steady labour market, property prices and credit growth**. Industrial production remained in the positive territory, at 2.1% in Nov18. We reckon that GDP growth could still hold at the 2% YoY level in 4Q18. But downside risks to the 1Q19 numbers will need to be monitored closely.

The central bank (CBC) held rates steady at 1.375% at the December policy meeting, while trimmed the 2019 GDP forecast to 2.3% from 2.5%. Notwithstanding the weaker growth prospects, the CBC kept the money supply M2 target unchanged for 2019, at 2.5-6.5%. These support the case that the CBC will postpone interest rate normalisation well beyond 2019 and maintain an accommodative stance on monetary policy via the non-rate instruments this year.

Taiwan: Exports, industrial production and PMI



Ma Tieying

Thailand: modest slowdown ahead

The Bank of Thailand raised its benchmark interest rate by 25bp to 1.75% in mid-December, in what was perceived as a 'dovish hike'. Subsequent Minutes of the meeting saw members emphasise the need for a gradual increase hereto, but not continuous as was the case in the past.

This implies that the BOT prefers to keep its options open, emphasising the data-dependent nature of its policy trajectory. Underlying economic conditions back this view. Growth likely softened into 4Q18, with 3Q setting the stage for a lull period as the economy's two main engines - exports and tourism, are under a cloud. November exports slowed sharply to 0.2% YoY vs Oct's 8.4% as demand from China and ASEAN eased, while that to the US rose (likely substitution impact). Imports rose 16% YoY, resulting in a narrower trade surplus, which also bodes weakly for the current account balance. Tourism receipts improved towards late 2019, helped by the holiday boost, but is likely to fall short of recent years' trend. We expect 2019 growth to moderate to below 4% vs a forecast of 4.1% for 2018.

Concurrently, there are risks that inflation will continue to undershoot the 1-4% policy target, as supply-side pressures ebb, food stays stable and THB is strong. December inflation eased sharply to 0.4% YoY vs 0.9% month before. If the growth momentum slows and inflation consistently misses its target, the BOT might find it a challenge to justify further policy tightening. On the external front, the US Federal Reserve is expected to hike further but not as aggressively as feared earlier. This coupled with lower supply-side pressures due to a decline in oil prices will add to the BOT's reticence to tighten in 2019. The trajectory is flat this year, with policymakers likely to watch for pockets of stability to improve Thai vs US rate differentials, to maintain financial stability.

Indications are that the general elections scheduled for 24 February might be delayed, as it is seen to clash with the preparations for the coronation of the country's king. A final word from the Election Commission is awaited as this goes to print; any delay will push the timetable beyond May 2019. As the ASEAN chair, Thailand will hold the summit in mid-2019.

Radhika Ra

Highlights of the week:

Taiwan faces more risks from weak PMIs than South Korea
Singapore: Ending 2018 on a low note
US: A marginally dovish hike
2018 - A scorecard (what we got right and what we got wrong)
DBS Annual Chartbook: 2019 in 64 charts

Key Forecasts

	GDP growth, % YoY				CPI inflation, % YoY, ave			
	2017	2018f	2019f	2020f	2017	2018f	2019f	2020f
China	6.9	6.6	6.2	6.0	1.6	2.1	2.3	2.3
Hong Kong	3.8	3.3	2.5	2.0	1.5	2.5	2.7	2.5
India*	7.1	6.7	7.1	7.4	4.5	3.6	4.0	4.2
Indonesia	5.1	5.1	5.2	5.1	3.8	3.2	3.8	3.6
Malaysia	5.9	4.7	4.5	4.2	3.8	1.1	2.5	1.6
Philippines**	6.7	6.3	6.5	6.4	2.9	5.3	4.7	3.8
Singapore	3.6	3.4	3.0	2.8	0.6	0.7	1.8	1.5
South Korea	3.1	2.7	2.6	2.4	1.9	1.5	1.7	1.6
Taiwan	3.1	2.7	2.2	1.8	0.6	1.5	1.0	1.0
Thailand	3.3	4.1	3.8	4.0	0.7	1.1	1.4	1.5
Vietnam	6.8	6.9	6.6	6.3	3.5	3.6	3.8	3.4
Eurozone	2.5	1.9	1.8	1.8	1.5	1.8	1.4	1.4
Japan	1.9	1.0	1.0	0.5	0.5	1.0	1.1	1.6
United States***	2.3	3.0	2.5	1.5	2.1	2.6	2.5	2.5

* refers to year ending March ** new CPI series *** eop for CPI inflation

	Policy interest rates, eop							
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
China*	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00
Philippines	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Singapore**	1.80	2.05	2.30	2.30	2.30	2.30	2.30	2.30
South Korea	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Taiwan	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38
Thailand	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Vietnam***	6.25	6.25	6.25	6.25	6.00	5.75	5.75	5.75
Eurozone	0.00	0.00	0.00	0.00	0.25	0.25	0.50	0.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00
United States	2.50	2.75	3.00	3.00	3.00	3.00	3.00	3.00

* 1-yr lending rate; ** 3M SOR ; *** prime rate

	Exchange rates, eop							
	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
China	7.10	7.20	7.15	7.10	7.05	7.00	6.95	6.90
Hong Kong	7.85	7.85	7.84	7.83	7.82	7.81	7.80	7.79
India	74.0	75.0	76.0	77.0	76.5	76.0	75.5	75.0
Indonesia	15000	15200	15400	15600	15500	15400	15300	15200
Malaysia	4.25	4.30	4.28	4.25	4.23	4.20	4.18	4.15
Philippines	53.5	54.0	54.5	55.0	54.8	54.5	54.3	54.0
Singapore	1.42	1.44	1.43	1.42	1.41	1.40	1.39	1.38
South Korea	1180	1200	1190	1180	1170	1160	1150	1140
Thailand	33.5	34.0	33.8	33.5	33.3	33.0	32.8	32.5
Vietnam	23500	23600	23550	23500	23470	23440	23410	23380
Australia	0.68	0.66	0.67	0.68	0.69	0.70	0.71	0.72
Eurozone	1.10	1.08	1.09	1.10	1.11	1.12	1.13	1.14
Japan	116	118	117	116	115	114	113	112
United Kingdom	1.26	1.24	1.23	1.22	1.23	1.24	1.25	1.26

Australia, Eurozone and United Kingdom are direct quotes

Rates forecasts

		2019				2020			
		Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
US	3m Libor	2.70	2.95	3.20	**3.20**	3.20	3.20	3.20	**3.20**
	2Y	2.70	2.85	3.00	**3.00**	3.00	3.00	3.00	**2.90**
	10Y	2.80	2.90	3.00	**3.00**	3.00	3.00	3.00	**2.90**
	10Y-2Y	10	5	0	**0**	0	0	0	**0**
Japan	3m Tibor	0.05	0.05	0.05	**0.05**	0.05	0.05	0.10	**0.10**
	2Y	-0.08	-0.05	-0.03	**0.00**	0.02	0.04	0.05	**0.05**
	10Y	0.14	0.16	0.18	**0.20**	0.20	0.20	0.22	**0.22**
	10Y-2Y	22	21	21	**20**	18	16	17	**17**
Eurozone	3m Euribor	-0.30	-0.30	-0.30	**-0.30**	-0.05	0.20	0.20	**0.20**
	2Y	-0.55	-0.40	-0.25	**-0.10**	0.05	0.15	0.15	**0.15**
	10Y	0.20	0.30	0.40	**0.50**	0.50	0.50	0.50	**0.45**
	10Y-2Y	75	70	65	**60**	45	35	35	**30**
Indonesia	3m Jibor	7.50	7.50	7.50	**7.50**	7.50	7.50	7.50	**7.50**
	2Y	7.50	7.50	7.50	**7.50**	7.50	7.50	7.50	**7.50**
	10Y	8.10	8.20	8.20	**8.20**	8.20	8.20	8.20	**8.00**
	10Y-2Y	60	70	70	**70**	70	70	70	**50**
Malaysia	3m Klibor	3.65	3.65	3.65	**3.65**	3.65	3.65	3.40	**3.40**
	3Y	3.75	3.75	3.75	**3.75**	3.75	3.75	3.60	**3.60**
	10Y	4.15	4.20	4.25	**4.30**	4.35	4.35	4.30	**4.25**
	10Y-3Y	40	45	50	**55**	60	60	70	**65**
Philippines	3m PHP ref rate	5.55	5.55	5.55	**5.55**	5.55	5.55	5.55	**5.55**
	2Y	6.75	6.75	6.75	**6.75**	6.75	6.75	6.75	**6.75**
	10Y	7.00	7.00	7.00	**7.00**	7.00	7.00	7.00	**6.90**
	10Y-2Y	25	25	25	**25**	25	25	25	**15**
Singapore	3m Sibor	1.80	2.05	2.30	**2.30**	2.30	2.30	2.30	**2.30**
	2Y	1.90	2.05	2.20	**2.20**	2.20	2.20	2.20	**2.10**
	10Y	2.15	2.25	2.35	**2.35**	2.35	2.35	2.35	**2.25**
	10Y-2Y	25	20	15	**15**	15	15	15	**15**
Thailand	3m Bibor	1.85	1.85	1.85	**1.85**	1.85	1.85	1.85	**1.85**
	2Y	1.80	1.80	1.80	**1.80**	1.80	1.80	1.80	**1.80**
	10Y	2.40	2.40	2.50	**2.60**	2.60	2.60	2.60	**2.50**
	10Y-2Y	60	60	70	**80**	80	80	80	**70**
China	1 yr Lending rate	4.35	4.35	4.35	**4.35**	4.35	4.35	4.35	**4.35**
	3Y	2.90	2.80	2.80	**2.80**	2.80	2.80	2.80	**2.80**
	10Y	3.20	3.15	3.10	**3.15**	3.20	3.25	3.25	**3.25**
	10Y-3Y	30	35	30	**35**	40	45	45	**45**
Hong Kong	3m Hibor	2.40	2.65	2.70	**2.70**	2.70	2.70	2.70	**2.70**
	2Y	2.10	2.30	2.40	**2.40**	2.40	2.40	2.40	**2.30**
	10Y	2.25	2.35	2.45	**2.45**	2.45	2.45	2.45	**2.35**
	10Y-2Y	15	5	5	**5**	5	5	5	**5**
Taiwan	3m Taibor	0.66	0.66	0.66	**0.66**	0.66	0.66	0.66	**0.66**
	2Y	0.60	0.60	0.60	**0.60**	0.60	0.60	0.60	**0.60**
	10Y	0.95	1.00	1.00	**1.00**	1.00	1.00	0.95	**0.90**
	10Y-2Y	35	40	40	**40**	40	40	35	**30**
Korea	3m CD	1.90	1.90	1.90	**1.90**	1.90	1.90	1.90	**1.90**
	3Y	2.10	2.15	2.20	**2.20**	2.20	2.20	2.15	**2.10**
	10Y	2.30	2.40	2.50	**2.50**	2.50	2.50	2.40	**2.30**
	10Y-3Y	20	25	30	**30**	30	30	25	**20**
India	3m Mibor	7.30	7.20	7.10	**7.10**	7.10	7.10	7.10	**7.10**
	2Y	6.80	6.65	6.50	**6.50**	6.50	6.50	6.50	**6.50**
	10Y	7.30	7.40	7.50	**7.50**	7.50	7.50	7.50	**7.50**
	10Y-2Y	50	75	100	**100**	100	100	100	**100**

%, eop, govt bond yield for 2Y and 10Y, spread bps

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