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Beyond Economics

2020 outlook

DBS

Economics and Macro Strategy

DBS 2020 Outlook

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Outlook 2020

- *Elections, populism, civic unrest, climate change, geopolitics, cyber security, and great power rivalry; these factors will compete with economic data to drive market sentiments in 2020. Trade war and tech disruption are slated to continue, and secular headwinds to G3 and China would remain. On the plus side, the electronics and auto cycles will likely bottom, central banks will keep liquidity ample and interest rates low, commodity prices are unlikely to jump, and fiscal policy in large parts of the world would play a more proactive role in generating demand. But asset price valuations look frothy in most parts of the developed markets and in some parts of emerging markets, while the broad and sharp rise in leverage is striking. An optimistic scenario would entail an orderly slowdown in the US and China, and a smooth rotation from growth to value and DM to EM assets by investors. But such dynamics would require non-economic factors to remain in check, something we can hope for without being particularly confident.*

- *Rates: DM central banks will largely be on pause, allowing their Asian counterparts to keep monetary policy loose.*

- *Currencies: Murky recovery prospects*

- *Credit: Modest spread compression seen on trade truce holding and longer global policy accommodation*

- *Equities: A rotation from DM to EM looks likely given the wide valuation gap*

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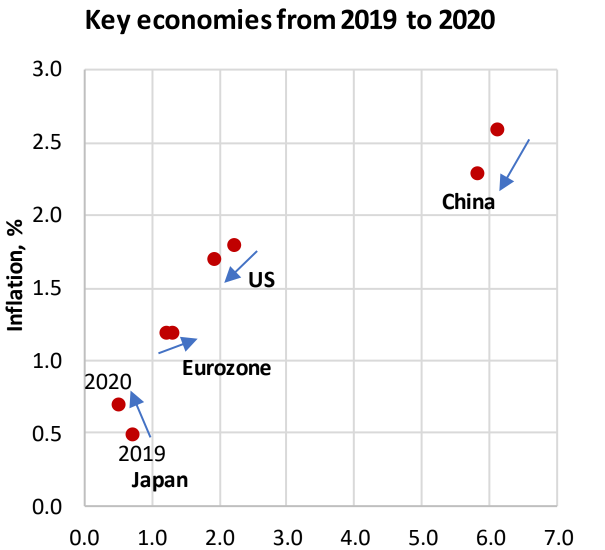
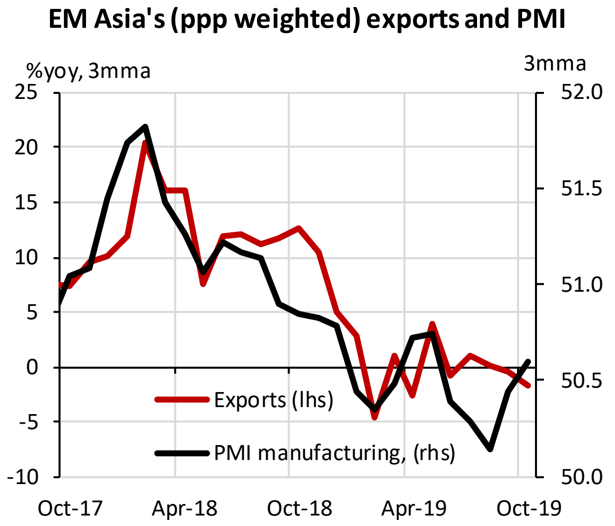
2020 in charts

Modest slowdown in the world's largest economies is on the cards, driven by lacklustre trend in investment

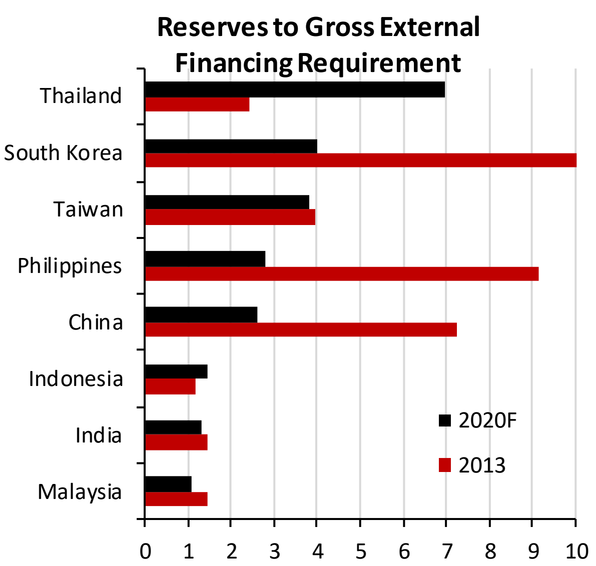


After nearly 18 months of weakness, the slump in global trade may end in 2020, with electronics demand leading the recovery path



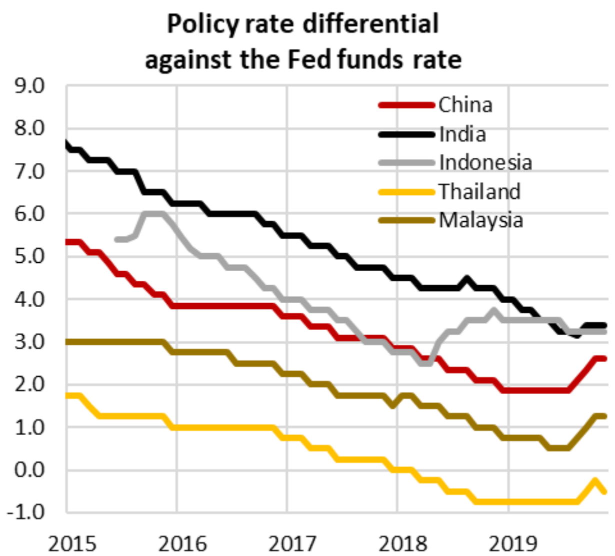
Soure: CEIC, DBS.

India, Indonesia, and Malaysia have the smallest buffers against short-term liabilities. China and the Philippines have growing vulnerabilities as well



Source: IMF. World Bank, country authorities, DBS

Key Asian central banks have cut rates in recent decades to narrow their policy rate differential vis-à-vis the US Fed considerably. Could 2020 see a reversal of this dynamic?



Source: CEIC, DBS

2020 in charts

Overview: Beyond Economics

2019 has been characterised by trade tension and political polarization on one hand, low inflation and low interest rates on the other hand. Among other contrasting themes, Investment has weakened around the world but housing has been on a fairly solid footing, manufacturing and agriculture sectors have been weak, but the retail sector has been stable. Asset markets have rallied after a couple of bouts of volatility, liquidity is ample, and despite a sharp rise in corporate leverage, spreads have narrowed over the course of the year. Similarly, at the sovereign space, record fiscal deficits have not gotten in the way of the bond market rally. One longstanding concern, the rapid expansion of the collateralized loan obligations (CLOs) market, has yet to cause any systemic problems, and is largely US-centric.

A key to an orderly 2020 would be for major central banks to keep liquidity taps on, with a focus on both monetary operations and regulations that have been seen to weigh on funding conditions this year. While there is little doubt about the intentions of the Fed, ECB, and BoJ to hold short-term rates low, how they manage to keep yield curves relatively flat (and how that impacts corporate spreads) remains to be seen. With nearly two trillion of dollars of refinancing in the pipeline next year needed just by Asian corporates, the debt rollover challenges are daunting.

One area of mild optimism is electronics. Global demand for semiconductors and mobile phone related electronics have been in a slump for nearly two years, but that may be about to change. Billings of electronics exporters have picked up in recent months, which is typically a useful leading indicator of shipment. As inventories decline and 5G and new generation mobile phone related spending picks up, the beginning of 2020 could yield much needed good news to manufacturers in the US and elsewhere. We are however not particularly hopeful about the auto cycle, where the industry is undergoing major disruptions (stricter emission standards, rising popularity of electric vehicles, and growing preference for ride sharing services over ownership).

A weaker US dollar may go in some way to offset the cost of higher tariffs and restore competitiveness for the US, and offer greater breathing room to those outside the US with dollar liabilities. But the US currency's reserve status worldwide limits the room for depreciation, in our view. If US economic growth slows, it also leads to an increase in global slowdown worries. Then, even Fed rate cuts can't guide the dollar down, as global risk aversion causes the dollar to benefit from flight to safety, as evidenced by the opposite directionality of the Fed funds rate and the US dollar index this year. Instead, a bottom in the electronics cycle and recovery in emerging market growth could help, as could a trade deal with China. The best way to get a weaker dollar is for the US to engage constructively with the rest of the world; that's the narrative we would hope to see play out in 2020.

Taimur Baig

US: Politics of slowing growth

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	2.9%	2.2%	1.9%	1.8%
Inflation, yoy%, eop	2.0%	1.7%	1.7%	2.0%
Core PCE inflation, yoy%, eop	2.0%	1.6%	1.7%	1.8%
Monetary policy rate, %, eop	2.50	1.75	1.75	1.75
USD per EUR, eop	1.16	1.09	1.11	1.15
10-year yield, %, eop	2.68	1.75	2.20	2.50

The US economy, despite considerable support from low interest rates, strong labour market, and buoyant asset prices, is slated to slow next year. Consumption is likely to hold up, but if investment remains in doldrums and fiscal/monetary policy support space is limited, it will be rather challenging for the US to print a 2%+ real GDP growth outturn in 2020, in our view. As the politicians and markets (already dealing with considerable froth) come to terms with this eventuality, the risk is this will impact politics (the populism factor) and asset prices.

Trade war will not disappear in the coming year. There were plenty of words and posturing and investigations through 2017, but trade war officially began in February 2018 when the US imposed tariffs on the import of washing machines and solar panels. This was soon followed up with steel tariffs, and after this US protectionism on trade, technology transfer, and cyber security became increasingly China-centric. Since then, through 2018 and '19, targeted goods have been put on various lists, further tariffs have been imposed (and occasionally postponed). A "Phase One" trade deal notwithstanding, trade tensions and overall rivalry with China are unlikely to dissipate in 2020. This would be true independent of economic and election outturns, in our view.

What has been the impact of trade war on the US so far? During January-October 2019, China's exports to the US were down 12%yoy as importers looked for alternative markets to avoid tariffs. But at the same time, China's imports from the US were down 25%yoy, primarily driven by a sharp reduction in purchases of agriculture goods. Consequently, the US-China trade deficit has corrected by only 4%yoy, while remaining considerably worse than 2017. Meanwhile, China's total trade surplus with the entire world remains healthy, up by 0.7% of GDP through the first three quarters of this year.

Assuming some trade-related progress but no major breakthroughs next year, it will be challenging for businesses to ignore lingering political uncertainties and embrace new capital expenditure. Even though rates are low, corporate leverage and asset valuations are high, which would act as a cyclical impediment to investment fatigue in any case.

We are calling for a protracted period of monetary policy pause in the US, but that doesn't mean the Fed will be out of the picture. Whether being cornered by tweets or dealing with short-term money market stability, the Fed has its work cut out. Wage increases have not yet translated into higher prices, nor have high leverage led to financial distress. If these risks were to manifest in 2020, Fed communications and toolbox will come under scrutiny, potentially returning volatility to the fore. How the US central bank deals with sustained economic slowdown in China and the US political calendar are also forthcoming challenges for the coming year.

Taimur Baig

Eurozone: Treading water

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	1.9%	1.2%	1.3%	1.5%
Inflation, yoy%, eop	1.8%	1.2%	1.2%	1.3%
Core PCE inflation, yoy%, eop	1.0%	1.0%	1.1%	1.2%
Monetary policy rate, %, eop	0.0	0.0	0.0	0.0
10-year yield, %, eop	0.24	-0.45	-0.20	0.00

Third quarter 2019 GDP numbers pointed to a stabilization in Eurozone growth, albeit at lows. Headline growth at 1.1% YoY was the weakest since late 2013. Preliminary numbers also saw Germany narrowly avert recession but continues to endure economic stagnation. From a revised forecast of 1.2% YoY in 2019, the bloc is expected to expand 1.3% in 2020, still below the 5Y average of 2%.

Uncertain external environment remains a key risk for the bloc heading into 2020, a weaker EUR notwithstanding. Together with a slowdown in global trade volumes, hard/ no-deal Brexit and further protectionist measures by the US could translate into a second year of decline in the zone's exports.

Encouragingly, domestic demand, particularly consumption, remains an effective counterweight. Unemployment remains at the lowest in a decade, even as divergence between countries remains wide. Wage growth continues to firm up, which along with benign inflation is supportive of real purchasing power.

Christine Lagarde, former Managing Director of the International Monetary Fund, replaced ECB President Mario Draghi in November, taking office at a time of soft growth, muted inflation and dovish policy bias. She also inherits a divided Governing Council after the decision to restart QE and push the deposit facility rate deeper into negative, was not unanimous.

With little by way of fresh guidance, we expect the new ECB chief to keep the policy-ship steady rather than introduce radical changes. This would leave policy in ultra-accommodative mode, with the main refi rate at 0%, deposit facility rate at -0.5%, cheap financing program that is underway and EUR20bn/ month open-ended QE. With monetary policy in easing mode, all eyes are on the fiscal stance to take a growth-supportive stance. The German government made affirmative noises on the available room to pump-prime but little clarity has emerged since. While smaller measures like higher child allowances, tax relief, pensions etc. continue, emphasis is on long-term investment-oriented fiscal support, by tapping the available space.

After more than six years of mending fiscal balances, a modest 20-30bps slippage in the cumulative fiscal deficit might not antagonize the European Commission. ECB policy action has also left borrowing costs at rock-bottom levels, providing room for individual countries to undertake a looser fiscal policy, if deemed necessary.

An eye will be on uneasy German ruling coalition, risks of a hard Brexit, Catalan independence protests in Spain etc., which might turn into a matter of concern if the bloc fails to stay resilient or the global environment turns more challenging.

Radhika Rao

Japan: An Olympics year

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	0.8	0.7	0.5	0.9
Inflation, yoy%, ave	1.0	0.5	0.7	0.6
Core inflation, yoy%, ave	0.8	0.6	0.6	0.6
Monetary policy rate, %, eop	-0.1	-0.2	-0.2	-0.2
JPY per USD, eop	110	109	106	104
10-year yield, %, eop	-0.01	-0.15	-0.10	0.00

The economy is expected to grow 0.5% in 2020, a slower rate than 0.7% this year, but largely due to technical reasons. The sales tax hike implemented in October 2019 will likely continue to weigh on the year-on-year growth numbers in 1H20. The quarter-on-quarter growth profile, however, is expected to improve modestly from 1Q20 onwards.

An important event in Japan next year is the Tokyo Summer Olympics Games. The games are expected to boost inbound tourism and consumer confidence. The number of foreign visitors to Japan has been rising steadily in the last several years, thanks to the easing of visa requirements and the weakening of the yen. It is on track to achieve 35mn in 2020, exceeding the 31mn seen in UK during the 2012 London Olympics. Tourism revenues are expected to add nearly 0.1ppt to GDP growth next year.

Meanwhile, the Tokyo Olympics Games are set to showcase Japan's innovation capabilities and market its high-tech industry globally. The cutting-edge technologies to be used in the games include robots, 5G, AI-powered athlete tracking, VR training, cloud-based broadcasting, among others.

From the cyclical perspective, the economy is expected to improve next year as consumption revives and exports bottom out. It may not take as long as in 2014 for private consumption expenditures to recover from the sales tax shock (about 12 quarters in total), given the relatively strong labour market conditions this time. Meanwhile, exports should not deteriorate further in 2020, considering the stabilisation in global economic conditions, and the bottoming of the electronics and auto cycles (assuming status quo in South Korea-Japan and China-US trade relations).

Mini stimulus could be expected next year, on both the fiscal and monetary fronts, lending some additional support to consumption and investment. Prime Minister Shinzo Abe's government has delivered its promise of raising the sales tax in two steps from 5% to 10% to fix public finances. No further tax hikes are scheduled for 2020. On the other hand, budget request from government agencies and ministries for FY20 has hit a record high of JPY105tn. The government is also reportedly compiling a supplementary budget for FY19 (JPY5-10tn), the first stimulus package since 2016, to help the economy recover from the worst typhoon in decades.

The Bank of Japan has sent a clear signal about monetary easing. It revised the forward guidance at the October 2019 meeting, saying that the BOJ expects the short- and long-term interest rates to remain at "the present or lower levels", as long as it is necessary to pay close attention to the possibility that the momentum towards achieving the price stability target would be lost. This points to the chance of a modest 10bps cut in the short-term policy rate (from -0.1% to -0.2%) in the next 1-3 months, in our view. Counteracting measures could be expected to support the long-term yields and mitigate the pressure on banks' profits.

Ma Tieying

Rates: On pause

2020 is likely to mark a pause in monetary easing across the G3 space. To recap, global economic growth proved challenging in 2019 amid an extended manufacturing / electronics slump. Moreover, increased uncertainties on the China-US trade war dented sentiment and proved to be a drag on investment growth. Accordingly, the Fed and the European Central Bank (ECB) both stepped in cushion growth. The Bank of Japan (BOJ), already having embarked on aggressive easing for multiple years, held back.

The ECB and the BOJ have likely reached the limits of monetary policy. Increasingly, we are seeing signs of pushback against overly flat curves and overly low rates as policy makers realize that they are pushing on a string. Moreover, low rates may impair the ability of financial institutions to function. For the Fed, the cumulative 75bps of rate cuts should be viewed as a mid-cycle adjustment. We suspect that the hurdle for policy moves in either direction is now set much higher and reiterate our base case that **the Fed will be on hold through 2020.**

There have been some tentative signs of a turnaround in the global electronics sector in 4Q19 and this should translate into better numbers in 1H20. The manufacturing slowdown was the single largest factor driving down global growth. However, with electronic inventories starting to fall in Korea and Taiwan, the supply overhang could be slowly easing, ending a close to two-year slump

Lastly, we think the policy mix will shift towards more aggressive fiscal spending over the coming quarters, balancing out the one-sided monetary policy easing in 2019. Arguably, only the US is running expansionary fiscal policy as revenue growth lags after Trump's tax cuts. Japan implemented a consumption tax hike in October while the Germans are still reticent to spending even as the economy narrowly averts a technical recession. Modest fiscal loosening could be in the offing across the G3 amid lingering growth concerns.

Given these reasons, **we expect modest bear steepening across the G3 curves.** Shorter-term rates are likely to be broadly stable as their respective central banks keep policy rates on hold. However, an improvement in growth dynamics the long-end underperform.

In Asia, we think that bond performances will be nuanced. Policy easing has already begun in earnest for most Asian central banks (especially the higher yielders). In 2020, we suspect that there will still be a bit more easing in 1H (China, India and the Philippines) and this should support shorter-term govvies in general. For the rest of Asia, central banks are likely to mirror their DM counterparts, pausing unless economic activity materially worsens.

Indo and India govvie curves are steep by historical standards. While low inflation and an easing bias has anchored short-term rates, fiscal concerns are preventing a sharper rally in the long end. We think that steepening will eventually give way to flattening pressures in 2H20. From a tactical perspective, we think that the India govvie curve looks more stretched. **For lower-yielding Asia govvies, we prefer tactical steepeners** to take advantage of a bottoming out of global economic activity in 1H20.

Eugene Leow

Currencies: Murky recovery prospects

The US dollar has proven resilient despite three US rate cuts this year. The US economy was not spared from the synchronized global slowdown, but growth has held up better than its weaker Developed Market peers. Monetary policy divergences have returned after the Fed's mid-cycle adjustment ended with its third rate cut in October. In November, the European Central Bank re-started its asset purchase program without a clear end date while the Bank of England signaled a rate cut bias. The Reserve Bank of Australia has kept the door open for more rate cuts to 0.25%, a level it would consider quantitative easing measures.

Nonetheless, the world economy has started to stabilize on concerted monetary policy easing across developed and emerging markets. Based on our view for a modest growth recovery in 2020, we expect the USD to peak in Q1 2020 before stabilizing for the rest of the year. To pencil in more USD weakness, especially against the Chinese yuan and other Emerging Asian currencies, the global recovery next year needs to gain traction on an extended China-US trade truce and a soft Brexit.

The former will need President Xi and Trump to sign a Phase 1 trade deal this year before election fever grips America in 2020. The base case remains a trade deal without a rollback of existing tariffs which should keep the Chinese yuan stable within a 7.00-7.20 range. A rollback of some tariffs will be viewed as a positive de-escalation of trade tensions and lead the CNY into a stronger 6.80-7.00 range. Without a trade deal, our sanguine recovery outlook will be challenged with the CNY weakening past 7.20.

On the latter, the risk of a no-deal Brexit on January 31, 2020, cannot be ruled out. Unless a majority government emerges at the UK elections on December 12, EU may not extend Article 50 a third time. Germany and the UK may have averted technical recession, but they are still not out of the woods. Hence, EURUSD is well-positioned within its old QE range of 1.05-1.15 with a downside bias.

While not immune, Emerging Asian currencies have been largely resilient to a re-escalation of the trade war in May-August, more emerging market stress in Latin America and a pickup in geopolitical risks. In fact, the South Korean won, the Singapore dollar and the Malaysian ringgit have kept largely to the trading ranges established during the tariff war in H2 2018. Thanks to global monetary easing including the US, the Indonesian rupiah and the Indian rupee have kept to stronger halves of their tariff war ranges. The Philippine peso has surprised on the upside with a 75% retracement of its 2018 depreciation. Thailand continued to struggle with a strong baht at a six-year high.

To balance the economic recovery hopes with the unresolved trade and Brexit/EU risks, we have flattened our 2020 forecasts for Emerging Asian currencies within the same ranges of 2019. The next revision to our forecasts hinges on how China-US trade relations play out. It is possible but improbable for the US to label Vietnam a currency manipulator. The USD will be less dovish a shift from monetary policy easing towards fiscal support and this could lead to downward pressures on the debt ratings of countries that cannot afford them.

Philip Wee

Credit: Conditional compression

2020 should see conditions turn supportive for Asian credit, with volatility likely to ease relative to 2019. One positive is the Phase 1 trade deal under negotiations, which should keep a lid on trade tensions between US and China ahead of the Presidential election. Remember, surprise US tariff hikes was the cause for RMB depreciation that aggravated stresses in Chinese USD bonds. The corollary is that **any tariff roll-back in 2020, accompanied by RMB stabilization, should also drive a tightening in spreads.**

Fed rate cuts, ECB QE, and an extension of monetary accommodation globally for a longer time should also ease broader financial conditions. EM Asian corporate IG now offers a decent yield pick-up (~20bps) vs US corporate IG, as risks related related to a trade war fell more heavily on export-reliant Asia. If a mild recovery in global trade occurs, **Asia's growth differential with the US should improve, triggering a compression in the Asian credit risk premium vis-à-vis US credit.**

Expectations of an improving macro-credit environment do not negate lingering risks. We are concerned over a wall of Chinese corporate maturities in 2020. **Tight liquidity conditions, coupled with elevated leverage levels, could pose obstacles to refinancing.** Risks are amplified as headwinds in the Chinese industrial sector have not abated, with the sector's ROA extending its decline below lending rates. Indeed, 2019 has seen two large firms with over CNY200bn of assets entering negotiations with bondholders over repayments. A proposed debt recast by a state-owned commodity trader will be China's largest offshore bond failure since the collapse of Gitic in 1998.

Thus far, **broader credit markets are unperturbed as risks were anticipated by bond markets earlier,** while defaults appear isolated with no significant losses to systemic banks. Nevertheless, 2020 marks High Noon for Chinese defaults, as over USD6bn of distressed debt are slated to mature offshore. Spillover risks should be carefully monitored.

Much attention has also been on leveraged Chinese property developers, given their large issuance of offshore debt. While liquidity is tight for some as cash interest coverage is low, **we hold a qualified view that risks stemming from debt burdens are capped, so long as developers can translate inventories into cash.** DBS property equity analysts expect sales to hold up, eyeing a slight increase in ASP for 2020. With stability in the property market, developers can manage a glide in leverage to lower levels, which should lessen their credit costs**.** Further easing via a loosening of credit quotas and easing of the LPR should also buffer.

India's international bonds have stabilized over the course of 2019. BB spreads in general are still attractive, averaging 340bps even with a modest compression. **2020 may finally yield a turnaround for liquidity, as the government explores stronger options to clean up the balance sheets of stressed NBFCs**, including a possible mini-TARP scheme.

Indonesia has welcomed a second Jokowi term, and **investors are keenly awaiting tax reforms set to bolster corporate profitability**, as well as new incentives to attract manufacturing investment. Initiatives on infrastructure, including constructing a new capital in Kalimantan, should keep profits supported. Alongside a Fed that is on hold, Indonesian spreads have scope to narrow modestly.

Wei Liang Chang

Equities: Barbell favoured

Earnings recovery optimism is on an uptick for Asian equities, underpinned by the following factors (1) a potential easing in US-China trade tensions (2) optimism of an upturn in the global electronics cycle (3) anticipation of fiscal stimulus in a low interest rate environment (4) a low-base effect y-o-y earnings comparison. We see focus shifting from a defensive stance this year to a more balanced approach in 2020.

This year's rally has lifted Asia Ex-Japan's 12-mth forward PE to 13.63x, which is above +1SD over a 10-year period. We think that Asian equities can sustain above average PE valuation levels as earnings recover and valuation remains attractive versus global equities.

Singapore, HK/CN, Philippines are attractive within Asia ex-Japan. These countries trade below their mean 12-mth forward PE valuation over a 10-yr period. Singapore, Hong Kong and the HSCEI also offer the highest yield of at least 4% for FY20F. Chinese A-shares offer the lowest PEG followed by the Philippines and H-shares.

Being a small and open economy, **Singapore** stands to benefit from a recovery in global electronics demand and non-escalation of US-China trade tariffs. Singapore should also benefit from an expansionary fiscal budget next year given the outsized accumulated surplus of about S$15.6bil. These factors, coupled with an undemanding PE valuation, high single digit EPS growth, high dividend yield of 4.2% and its defensive characteristics, should trigger inflows to the Singapore market and drive upward PE rerating. We adopt a barbell strategy with a balance of REITs/defensive and early-mid cyclical recovery exposure.

Hong Kong should benefit from a low-base effect comparison as its economy is expected to pull out of recession next year with a +1.5% y-o-y GDP growth. For **China**, we see policy support in infrastructure, tax cuts and easy monetary policy as key to buffering weakness in growth outlook. While recent uncertainties in Hong Kong have severely affected the retail and tourism sectors, local exposure of the benchmark index is not high.

We believe that the outcome for a US-China 'Phase 1' deal will be a bigger driver for the Hong Kong market going forward. Defensive stocks looked over owned, investors are seeking to raise their cyclical exposure should current uncertainties improve. We see the HSI and HSCEI putting up a better performance next year underpinned by their attractive PE valuation and yield. We prefer sectors with Chinese exposure in the education, property, F&B and insurers segment while avoiding Hong Kong banks and consumer discretionary.

Mixed bag for rest of ASEAN. The **Philippines** market should be underpinned by a +6-6.5% y-o-y GDP recovery next year, supportive monetary and fiscal policies as well as having an attractive PE valuation. However, **Thailand** and **Malaysia** markets are trading above mean historic PE valuation while recovery remains uncertain. For Thailand, domestic spending and investments have weakened as exports fell and tourist arrivals suffered a dip. In Malaysia, an uninspiring confidence level has affected investments while the government's fiscal constraints have impeded major stimulus initiatives. We continue to favour defensive/yield for these markets. The Indonesia market is also trading at slightly above mean historic PE valuation but is supported by low interest rates, the possibility of corporate tax cut and political stability. Corporate earnings growth should recover to 12% for FY20F from less than 7% this year with commodities and infrastructure expected to grow double digits.

Yeo Kee Yan

China: A Better Year Ahead

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	6.6%	6.1%	5.8%	5.6%
Inflation, yoy%, eop	2.1%	2.6%	2.3%	2.5%
Core inflation, yoy%, eop	1.9%	1.6%	1.6%	1.7%
Policy rate, %, eop	4.35	4.35	4.35	4.35
CNY per USD, eop	6.88	7.10	7.05	6.85
10-year yield, %, eop	3.31	2.80	3.00	3.00

China's growth outlook is expected to weaken further due to headwinds including drag from the ongoing trade war with the US and tighter financial regulations. GDP growth will moderate to 5.8% next year, slower than the 6.1% forecast for 2019. Intensified policy support is a necessity to buttress the economy. Fiscal policy will likely continue to focus on infrastructure spending and tax cuts, whilst further monetary policy easing through a combination of the reserve requirement ratio and interest rate reductions is warranted in the face of benign core inflation and falling producer prices. Given the tremendous coverage of China macroeconomics, all the risks are well-known and thoroughly analysed:

China appears to be far from the "Minsky Moment" (named after Hyman Minsky: a sudden collapse of asset prices after a long period of growth, sparked by debt or currency pressures), even though its absolute total debt level reached 306% of GDP at 2Q19. The gist of the matter is that the state owns both enterprises and the banks, and it has enormous political power to keep them afloat regardless of their financial health, lest not forgotten bank deposits amounted to RMB196tn should provide adequate cushion to any unforeseen shocks.

Most foreign invested enterprises cannot neither afford wholesale relocation of their plants out of china nor replacing Chinese suppliers easily. It is true that FDI going into Vietnam from China has been accelerating. But these are mostly lower end manufacturing which had been planning to diversify well before the trade war due to structural reasons from rising labour costs to an aging workforce. Hi-tech manufacturing in China has become more vertically integrated and rest of the world is increasingly dependent on its supply of intermediate goods for their exports.

The authorities have managed the demand and supply side of the property market well, as evidenced by stability of residential pricing and the absence of loan defaults in this sector. The average net debt to total equity ratio of the property sector in 1H19 is held stably at 66%, compared to 71% in 2014. If the economy were to decelerate notably in 2020, the authority may allow property prices of selected projects to increase mildly.

However, there is no room for complacency because "unforeseen" crisis always stems from the "unknown unknown". Politics has already taken the front seat position from economics to lead and drive market forces in recent years. Confluence of political and economic factors often develops multiple leads without strong conclusions. The interactions are hard to predict precisely and timely. We can take some comfort from the known risks which will most likely be under control in 2020. The unknown portion will have to come from the geo-political spectrum.

Chris Leung and Nathan Chow

Hong Kong: Challenges Galore

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	3.0	-1.7	1.5	1.5
Inflation, yoy%, eop	2.4	2.7	2.5	2.5
Policy rate, %, eop	2.75	2.00	2.00	2.00
HKD per USD, eop	7.83	7.85	7.83	7.80
10-year yield, %, eop	1.95	1.55	2.00	2.30

We have downgraded the GDP growth forecasts to -1.7% from 0% for 2019. The social movement and China-US trade war pushed Hong Kong to a technical recession in 3Q. Due to the low base comparison this year, we expect the economy will rebound by 1.5%.

What is surprising is however the resilience of property prices despite recession. The property price has already rebounded 1.7% from its year-low in late October amid easing global monetary conditions. The Policy Address also allows potential homeowners to access the property market with higher leverage and weaker stress test requirements.

Exports of travel services (down 32.2%) was also dampened by a weaker CNY and domestic instability. Retail sales registered the 8th consecutive decline of 18.3% in September. Visitor arrivals slumped by over 30% in August and September. Looking ahead, the retail sector will stay weak due to subdued local demand amid rising unemployment rate.

The investment outlook is sluggish due to political uncertainties and China-US trade war. Investment component of GDP contracted by four quarters in a row at 16.3%, indicating a weakening business sentiment. Yet, capital outflow remains manageable. Although M2 growth slowed from 3.5% in 2Q to 1.9% in 3Q, 1M HIBOR was range-bound at 1.5%-2.3% levels over the past 5 months except some upticks due to seasonal effect and large-scale IPOs. Both USD/HKD spot and its 12M forward outright were still within the 7.75-7.85 convertibility band. HKD peg remains rock-solid. The Exchange Fund remains more-than-double of the monetary base.

Indeed, Hong Kong remains as a significant financing gateway of Chinese corporates. This is exemplified by the recent Alibaba IPO. Hong Kong was also ranked 1st in terms of fundraising through IPOs in 2018 after the introduction of Weighted Voting Right system. More importantly, China's foreign direct investment from / through Hong Kong increased from 27.8% in 2006 to 65.0% in 2018.

The immediate impact on Hong Kong economy is likely to be minimal. First, sanctions would only come after enlistment and enactment of Section 7(a) and imports control. This Act enhances flexibility to augment the Hong Kong Policy Act to the interest of US government.

Second, enactment of custom control means there will be potential import restrictions. To a certain extent, Hong Kong is now less reliant on technology imports from the US (6.4% of total tech import exclude China, which accounts for 50% of tech imports). However, rising US' alertness over technological transfer through Hong Kong to China is a long-term concern. There could be a risk that the restriction list may extend to re-exports. The stakes are high should the UK and EU adopt similar measures. In fact, share of technology products in Hong Kong's re-exports increased from 32.8% in 1991 to 77.3% in 2018. Among tech re-exports, those to China accounts for over 60% of the total value.

Chris Leung and Samuel Tse

India: Trough before an upturn

	2018	2019F	2020F	2021F
Growth, yoy%, ave	7.1	6.8	5.0	5.8
Inflation, yoy%, ave	3.6	3.4	3.9	4.2
Core inflation, yoy%, ave	4.7	5.8	3.8	4.4
Currency, vs USD, eop	65.1	69.2	72.0	73.5
Policy rate, %, eop	6.00	6.25	4.65	4.65
10-year yield, %, eop	7.6	7.4	6.7	7.0

(in fiscal years ending March; 2018 is YE Mar18)

This year's narrative on the Indian economy was dominated by a sharp deceleration in economic activity and persistent financial sector stress (see outlook note here)**.** Growth eased from 8% YoY in March 2018 quarter to a likely sub-5% in 3Q and 4Q19. Idiosyncratic domestic factors have played a key role in pulling down growth.

This slowdown is driven by an interplay of factors. This is part cyclical and part structural, which points to the likelihood of a slow climb to recovery in 2020. Cyclical concerns are underscored by tight financial conditions despite an aggressive rate easing cycle this year. On the structural end, key economic drivers – corporates, financial institutions and the general government are in deleveraging mode, preventing a sharp boost to expansion prospects. Households joined the milieu, as tighter credit availability has impacted demand in the urban and non-farm rural sectors.

With more high-frequency indicators surprising on the downside, we dial down our FY20 real GDP growth to 5% YoY (prev 5.5%), with the likelihood of two quarters of sub-5% growth and inching up past 5% in 1H20. Favourable base effects, easier monetary conditions could support demand and while global conditions stabilize at lows. FY21 GDP growth is pegged at 5.8% YoY. Demand-supportive measures are expected in February's Budget, which should help growth in the short-term. Resumption of government spending coupled by inventory restocking is expected to help production, while non-financial sectors underpin services output.

We remain hopeful of three-pronged support – monetary, fiscal and macro policies. With the output gap in negative, dovish policy will stay its course. We hold out for another 50bps of cuts in FY20, divided between December 2019 and March 2020 quarters. On the fiscal end, the evolving fiscal math points to an at least 0.2-0.3% of GDP miss in the FY20 deficit target. We expect the FY20 fiscal deficit to be revised to -3.6% of GDP vs budgeted -3.3%. For FY21, February 2020 Budget assumes importance. Lastly, macro policies will also be important to draw in foreign capital – investments and portfolio flows.

External vulnerability indicators are on the mend, helped by the central bank's reserves accumulation. Total reserves stood at a record high of USD440bn by late-October, with imports coverage at a healthy 11x months. Total external debt has risen to a record high of USD557bn due to a sharp increase in external commercial borrowings.

The May 2019 elections saw the ruling party extend its support base in the Lower House. The Upper house math is also expected to shift in favour of the ruling coalition over 2020 and 2021, strengthening the coalition's political foothold.

Radhika Rao

Indonesia: Continuing reforms

	2018	2019F	2020F	2021F
Growth, yoy%, ave	5.2	5.0	5.0	5.1
Inflation, yoy%, ave	3.2	3.1	3.4	3.2
Core inflation, yoy%, ave	2.8	3.2	3.2	3.2
Currency, vs USD, eop	14,390	14,100	14,500	14,300
Policy rate, %, eop	6.0	5.0	4.5	4.5
10-year yield, %, eop	8.0	6.8	7.0	7.2

Jokowi second period started on October 20th and has announced new cabinet soon after, with 14 ministers are retained from his previous cabinet and 11 ministers holding the same position, including Minister of Finance, Minister of Public Works and Minister of Transportation, all three are priority area. We think political backlog will be limited as coalition government control 74% of seats in the parliament, allowing faster execution of reforms.

Jokowi reiterated his vision from the first term for Indonesia to reach advanced economy status by 2045. **Priority area are infrastructure and human capital development as well as economic and bureaucratic reforms to support investment.**

We think **growth will continue to remain resilient around Indonesia's potential growth, growing at 5.0%,** despite strong global headwinds due to several factors. First, we expect consumption to remain resilient although lower compare to its 2019 growth. The robust consumption growth is supported by 270 regional elections covering more than 50% of total districts on Sep20 (9 provinces, 224 districts and 37 cities) and relatively benign inflation.

Inflation is expected to accelerate slightly in 2020 as the government is set to adjust several administered prices including non-subsidized electricity tariff, cut on diesel and LPG subsidies and increase of non-subsidized BPJS (health insurance) premium. In addition, cigarette excise hike by 23% would impact CPI significantly as cigarette's weight in CPI (3.1%) is on par with rice (3.8%).

Second, investment growth is likely to accelerate in 2020 as election jitter fades and new government priority becomes clearer. **Several reforms, including omnibus laws and revision of negative investment list, will serve as a positive booster for investment, but is unlikely to significantly impact the 2020 number.** The omnibus law will include several changes in the tax law including lower corporate income, dividend and interest income tax.

Fiscal room will be more limited as revenue collection might continue to be hampered by lower economic activity and subdued commodity prices. In fact, given budget realization up to Oct19, fiscal is expected to widen to 2.2% from 1.9% in the budget. Fiscal deficit will most likely stay above 2% in 2020 (vs 1.76% in 2020 budget).

Loan growth has remained weak despite Bank Indonesia (BI) 100bps policy rate cut so far this year. **There is room for another 50bps rate cut which is likely to be executed in 1Q20,** as risk of inflation and widening current account deficit is higher in the later part of the year. Further macroprudential easing will be key in 2H20 to maintain growth momentum as policy rate cut become an unlikely policy option as inflation starts to accelerate and current account deficit widen.

Masyita Crystallin

Malaysia: Slowing down

	2018	2019F	2020F	2021F
Growth, yoy%, ave	4.7	4.5	4.6	4.6
Inflation, yoy%, ave	1.0	0.9	1.6	1.8
Core inflation, yoy%, ave	0.8	1.0	1.4	1.6
Currency, vs USD, eop	4.13	4.15	4.14	4.10
Policy rate, %, eop	3.25	3.00	3.00	3.00
10-year yield, %, eop	4.08	3.40	3.70	3.85

The economy posted strong performance in the second quarter with an expansion of 4.9% YoY, but the momentum is expected to ease in the subsequent two quarters. While private consumption was the main driver (+7.8%) in the past quarters, particularly coming on the back of income tax and GST refund from the government, investment will be in the driving seat going forward. Some of the infrastructure projects that were previously shelved are now back in the pipeline. A steady pick-up in domestic investment should help to offset possible moderation in private consumption when the tax refund impetus fades.

Yet, external headwinds have remained strong amid an ongoing trade war and downcycle in global electronics demand. Trade disputes between the US and China could likely persist given the complexity of the matter. Though exports of certain products such as furniture and processed food to the US have risen, unlike Vietnam and Cambodia, Malaysia has not been a big beneficiary of the trade war and will likely continue to be weighed down by weak global demand. Separately, while there are some tentative signs of a bottoming out in the electronics industry, the recovery ahead may not be strong given overhanging global trade uncertainties. As such, we continue to maintain the view that growth momentum will fizzle out in 2H19, and full year GDP growth will average just 4.5%. Some pump priming from the recently announced budget may help to bolster growth in 2020 but the impact could fall short of expectation.

Budget 2020 was delivered in October, with the aims to boost near-term economic growth, promote digitalization of the economy, invest in human capital and foster inclusive growth. However, budget 2020 is a smaller budget compared to the previous one. The government budgeted MYR 297bn in spending for 2020, 6% lower than what was earmarked for this year. Moreover, though the increase in developmental budget along with the associated multiplier effects could deliver some fiscal impulse, this could be partially offset in the near-term by opex reductions. Henceforth, **overall GDP growth for 2020 is likely to register 4.6%, below the official target of 4.8%.**

Nonetheless, Bank Negara has opted to keep the Overnight Policy Rate (OPR) unchanged at 3.00% in the final policy meeting of the year. The official rhetoric appears cautiously optimistic about the growth outlook for 2020. Concomitantly, inflationary pressure could also pick up. The impact from consumption tax policy changes will lapse while the removal of price ceilings for fuel and some food items could also prompt higher inflation. We expect headline CPI inflation to rise to 1.6% in 2020, up from 0.9% this year. As such, monetary policy could be sandwiched between sluggish growth and rising inflation. There is limited room for the central bank to ease monetary policy further given the balance of risks is no longer just tilted towards growth. We expect **Bank Negara to remain on hold and maintain the OPR at 3.00% for the rest of 2020 and beyond**.

Irvin Seah

Philippines: Start off strong

	2018	2019F	2020F	2021F
Growth, yoy%, ave	6.2	5.9	6.3	6.3
Inflation, yoy%, ave	5.2	2.8	3.5	3.3
Core inflation, yoy%, ave	4.1	3.2	3.3	3.0
Currency, vs USD, eop	52.58	51	50.5	50.1
Policy rate, %, eop	4.75	4.0	3.75	3.75
10-year yield, %, eop	7.0	4.7	4.2	4.5

After a soft 2019 due mostly to delayed government budget and weak consumption, Philippines economy will start off stronger in 2020 as major risks such as high inflation, tight monetary policy and government budget delay have subsided. **Growth is likely to pick up to 6.3% in 2020 from 5.9% this year**.

Private consumption is expected to remain robust as inflation has cooled significantly. Inflation has returned to BSP target range of 3%-4% from an average of 6.2% in 2018. Stronger remittances, growing at 4.2% in 9M19 also provides additional supports to consumption.

Contrary to 2019, in which growth prospect was halt by delay in government budget, **government spending and investment are likely to be the major growth driver in 2020**. The government could spend the P4.1tn from 2020 budget and the extended 2019 budget validity until Dec20.

The government has also revised the list of flagship infrastructure projects, from 75 to 100 projects, with a **significant number of projects are targeted to be completed and partially operational by 2022.** In addition, half of this flagship projects will be executed by private sectors through various public-private partnership (PPP) scheme, removing financing barriers for faster project execution.

The finance chief is currently pushing or increasing sin tax (alcohol and tobacco products, and e-cigarettes). This measure is part of Duterte tax reform which include reducing income tax, centralizing real property valuation and simplifying tax structure for financial investment.

Benign inflation in 2019 has given Bangko Sentral ng Pilipinas (BSP) room to partially dial back its 175bps rate hike previously by cutting policy rate by 75bps, as well as lowering Reserve Requirement Ratio (RRR) by 400bps by Dec19. Further, **we expect inflation to inch up to 3.5% in 2020** from 2.8% in 2019 due to the low base effect as well as higher economic activity. Yet, **we think it is unlikely for inflation exceed BSP upper limit of 4%, providing BSP with room for another 25bps cut, most likely in 1Q20**, before inflation starts picking up.

Despite the aggressive monetary and macroprudential easing this year, loan growth has remained weak, registering only 10.8% growth in 3Q19 from 12.6% in 1Q19, as investment growth contracted in 2019. Besides the regular 6 to 9 months monetary transmission lag, acceleration in loan growth might depend on the execution of the Build, Build, Build (BBB) flagship projects.

From the external side, as investment is expected to accelerate, **current account is likely to widen**. Yet, the widening trade deficit will be minimized with likely improvement in exports number. We see Peso to stabilize at 50.5% in 2020 as **we still expect robust capital inflows** as global liquidity is still supported by monetary easing stance of both advanced and developing economies.

Masyita Crystallin

Singapore: Getting out of the woods

	2018	2019F	2020F	2021F
Growth, yoy%, ave	3.1	0.6	1.4	1.8
Inflation, yoy%, ave	0.4	0.6	1.1	1.5
Core inflation, yoy%, ave	1.7	1.1	1.2	1.4
Currency, vs USD, eop	1.36	1.38	1.37	1.35
10-year yield, %, eop	2.04	1.70	2.00	2.25

The Singapore economy struggled in 2019 amid headwinds from the trade war and a down-cycle in electronics. However, there are emerging signs of a gradual improvement in growth prospects. Economic growth cycle may be bottoming. Barring any unforeseen external shocks, growth performance should improve in the coming quarters.

There are signs of bottoming out in the manufacturing sector. The decline in NODX has moderated from about -16% YoY in May. In addition, electronics indicators such as the growth in semiconductor equipment billings is improving, while semiconductor shipments are rising steadily. These suggest a turnaround in this key industry.

High frequency data is showing similar signs of bottoming out in the services sector. Re-exports growth has turned positive after three consecutive months of decline, pointing to a turnaround in global trade flows and potentially better prospects for trade related services. Container throughput growth is also improving, pointing to improved trade volume. Loan growth apparently has also bottomed, and now creeping higher on the back of stronger business loan growth.

Yet, an improvement in global outlook will be conditioned on a positive resolution in the trade talk, which is far from conclusive. Brexit and weakness in the fundamentals within Eurozone should be closely watched. Slowdown in China is real, and more policy support is certainly required. The growth cycle may have bottomed but the improvement ahead could be weak. Considering the above, **GDP growth in 2020 is expected to register 1.4%, which is below Singapore's potential growth rate, but up from a projected 0.6% this year.**

Inflation could be marginally higher in 2020. Effects from the Open Electricity Market initiative will fade, and if growth momentum starts to pick up, the output gap could potentially turn positive. Barring any significant inflation shock in the external environment, or new policy changes that would impact price levels, we expect inflation to rise gradually to 1.1% in 2020, up from 0.6% in 2019.

The decisions at the SGD policy review in October were broadly in line with expectations. While the policy statement has kept the door open for another easing, recent rhetoric by the central bank appears to concur with our view of a gradual stabilization within the economy. **Decision on the next policy meeting will be data dependent**. Should the recent improvement in growth seen in 3Q19 persist over the next two quarters, the likelihood of further monetary easing will reduce.

Beyond monetary policy support, expect additional fiscal impetus in the upcoming budget. **An outsized accumulated surplus of about SGD 15.6bn implies ample room for aggressive fiscal support for the economy**. An upcoming election would also provide added impetus for a robust fiscal response to the economic challenges.

Irvin Seah

South Korea: Bottoming out

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	2.7	2.1	2.4	2.3
Inflation, yoy%, ave	1.5	0.5	1.5	1.3
Core inflation, yoy%, ave	1.2	0.9	1.3	1.2
Monetary policy rate, %, eop	1.75	1.25	1.25	1.25
KRW per USD, eop	1111	1170	1165	1145
10-year yield, %, eop	1.96	1.65	2.15	2.45

The economy is expected to bottom out in 2020, with real GDP picking up to 2.4% from the decade low of about 2% this year. From a longer-term perspective, growth will remain a tad lower than the potential rate and the output gap will remain slightly negative in 2020.

Fiscal policy will be more expansionary next year, lending direct support to consumption and investment. According to the FY20 budget proposal, the central government will boost its total expenditures by 8.0% on top of the 9.9% this year. Net fiscal deficit will be allowed to widen to 3.6% of GDP, far bigger than the 2.2% in 2019. The increase in public spending will focus on improving health, social welfare and employment conditions, as well as providing support to SMEs. Additional fiscal stimulus can't be ruled out next year, given the decline in President Moon Jae-in's approval ratings and the political pressure facing his Democratic Party ahead of April's parliamentary elections.

Monetary policy will likely remain loose next year, alleviating the debt servicing burdens on corporates and households. The 50bps rate cuts delivered by the Bank of Korea this year have taken the benchmark repo rate back to the historical low of 1.25% seen in 2016-17. We expect the BOK to keep the benchmark rate unchanged at 1.25% through 2020. The governor mentioned at the October 2019 meeting that the BOK would study the non-rate policy tools, should the room for rate cuts shrink further. This, however, does not mean the BOK will pursue QE, zero/negative interest rates, or other radical, unconventional easing measures anytime soon.

The long-term KTB yields would face some upward pressure next year from the increase in government bond supply. But this should be partly offset by strong demand for KTBs from local and foreign investors, in the context of lingering geopolitical uncertainties, and deepening negative interest rates in Eurozone, Japan and other developed markets.

Exports are expected to receive support from a cyclical recovery in global tech demand. Research firms including Gartner and IDC predict a modest rise in global smartphone shipments in 2020 after the decline this year, mainly driven by the impact of 5G. South Korea's Samsung has outpaced Apple in releasing the 5G-capable smartphones. The company may also benefit from the challenges faced by the Chinese rival Huawei, which has been struggling with the US's trade restrictive measures. An embedded assumption here is status quo in South Korea-Japan trade relations. The disrupting impact on South Korea's electronics supply chains from Japan's export controls will remain for some time but will not escalate further, under our baseline scenario.

Leading indicators have showed some signs of silver lining, including consumer confidence, money supply M1/M2, and the inventory-to-shipment ratio. More data are still needed at this point to confirm that the worst is over, and the economy is about to bottom out.

Ma Tieying

Taiwan: MIT, 5G and elections

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	2.7	2.3	2.0	2.2
Inflation, yoy%, ave	1.3	0.7	1.0	1.1
Core inflation, yoy%, ave	1.2	0.5	0.8	1.0
Monetary policy rate, %, eop	1.375	1.375	1.375	1.375

We expect the economy to grow 2.0% in 2020, a stable rate compared to 2.3% this year. This should be seen as a healthy pace of expansion, given the continued slowdown in US/China, lingering geopolitical uncertainties, and still challenging global economic environment.

Made-in-Taiwan (MIT) is likely to remain an important theme in 2020. According to the Invest Taiwan Office, it has received a total of TWD700bn investment applications from the Taiwanese firms with offshore operations through the first eleven months of 2019. About one third is estimated to be realised this year and the remainder will create tangible impact on the economy only in 2020-21.

If the so-called Phase 1 trade deal between China and the US were to remove the remaining tariff threats, it would reduce the urgency for the mainland-based Taiwanese firms to move back to Taiwan in the near term. Nonetheless, given the persistent uncertainties in China-US trade relations and the unresolved disputes in non-tariff areas, Taiwanese firms would continue to find it necessary to diversify their supply chains in the longer run.

Investment, production and exports are also likely to receive support from a cyclical recovery in the tech sector. According to the research firms including IDC and Gartner, global smartphone market will return to a modest growth (2-3%) in 2020, thanks to the impact of 5G. Taiwan should be an important beneficiary, given its leading position as a semiconductor supplier to the global smartphone producers including Apple, Samsung and Huawei. Taiwan's TSMC has announced in October 2019 to increase the capex plans, citing an upward revision in its forecast of the 5G smartphone penetration rate in 2020.

Another focus next year is Taiwan's presidential and legislative elections, which are scheduled to be held on January 11. The latest polls showed that the incumbent President Tsai Ing-wen leads ahead the opposition party's candidate Han Kuo-yu by a wide margin. But the ruling DPP party would face intense competitions from the opposition KMT to secure the seats in the Legislative Yuan.

Regardless of the election outcomes, fiscal policy will likely stay neutral next year. There was no substantial difference between the DPP and the KMT on fiscal policy stance during the recent two decades. Both parties pursued a gradual process of fiscal consolidation in the initial years after elections, except 2000 and 2008 when the economy was hit by unexpected shocks and slipped into a recession (tech bubble burst, SARS, global financial crisis). Based on the existing budget proposal for FY20, government expenditures and revenues will both increase by about 5% next year, leaving the fiscal balance roughly unchanged at -0.6% of GDP.

Taiwan's central bank didn't follow other regional peers to slash rates this year. Given the stable growth/inflation outlook, ample liquidity conditions in the banking system, and a well-managed TWD effective exchange rate, there should be little reason for the central bank to change course in 2020.

Ma Tieying

Thailand: Demand to offset weaker trade

	2018	2019F	2020F	2021F
Real GDP growth, yoy%, ave	4.1	2.5	3.0	3.2
Inflation, yoy%, ave	1.0	0.8	1.2	1.3
Core inflation, yoy%, ave	0.7	0.5	0.8	1.0
Monetary policy rate, %, eop	1.75	1.25	1.25	1.25
THB per USD, eop	32.7	30.5	30.4	30.0
10-year yield, %, eop	2.60	1.75	2.15	2.45

From sub-par growth in 2019, we expect the Thai economy to fare better next year but stay below the historical trend. Manufacturing and export-related activities were the key areas of weakness this year. Encouragingly the underlying trend i.e. MoM sequential pace is stabilizing at lows. A sharp recovery will require visibility on stronger global demand as well as a healthy domestic sector.

Resilience on private consumption and government spending to boost growth will increase into 2020. After holding up well earlier in the year, consumption showed signs of strain, reflected in weak car sales, tepid farm incomes and sluggish confidence indices. To reverse this tide, the government undertook two tranches of stimulus measures – USD10bn worth boost in August and another in November of USD 3bn primarily directed at farmers. Low inflation will also help boost real incomes and purchasing power. We expect these reasons to lift consumption but remain below long-term trends. Delay in government formation and deferment in Budget approvals hurt disbursements this year. With the Thai Cabinet approving the Budget in Sept-Oct, and ongoing deliberations suggest that spending could resume in early 2020. In FY20 (year starting Oct 2019), spending has been pegged at THB3.2trn, up 7% YoY, projecting the fiscal deficit at -2.6% of GDP.

Year-to-date inflation averages 0.7% YoY, below the BOT's 1-4% inflation target. For the year, we expect inflation to end the year at 0.8% average, down from 2018's 1.1%. Subdued inflation and tepid growth allowed the central bank on an easing bias, lowering rates by 50bps to 1.25% - a global financial crisis low. Beyond this, policymakers will be wary of further cuts given financial stability risks and already high household leverage levels. Low rates have had a limited impact in reining in THB bulls.

Safe haven flows and a strong current account surplus pushed the Baht to be a regional outperformer this year. Albeit **a strong 7% appreciation vs USD and 6% on effective exchange rate is a source of worry for the BOT**, given the additional pain this inflicts on trade competitiveness. Beyond rate cuts, administrative measures will be tapped to make a material difference to the currency, including measures to encourage outbound portfolio investments, allowing exporters to keep part of the earnings offshore, managing gold trading flows (a fifth of the current account surplus was gold). In addition to policy action, if risk-appetite improves further and safe-haven flows subside, the extent and scale of further appreciation in the THB could ease.

A positive development and likely benefit from trade diversion, saw the value of FDI applications into Thailand are up 69% in Jan-Sep19. Japan, China and Switzerland are the largest three investors. Two-thirds of the interests are in electronics, digital and automotive sectors.

Radhika Rao

Vietnam: Bucking regional trend

	2018	2019F	2020F	2021F
Growth, yoy%, ave	7.1	6.9	6.8	6.7
Inflation, yoy%, ave	3.5	2.5	2.9	3.0
Core inflation, yoy%, ave	1.5	1.9	2.2	2.5
Currency, vs USD, eop	23175	23200	23300	23300
Policy rate, %, eop	6.25	6.00	6.00	6.00

The economy has bucked the regional trend with GDP growth accelerating to 7.3% YoY in 3Q19, up from 6.7% in the previous quarter. Despite weaker export demand from China, Vietnam is experiencing a sharp spike up in export sales to the US, as well as exceptionally strong FDI inflows, which boosted domestic demand and economic growth. **Overall GDP growth for the year is expected to register 6.9%, from 7.1% in the previous year**.

Except for the agriculture sector that has been hit by drought in the central crop farming region, all other key engines in the economy are firing. The manufacturing sector remains the star performer, with growth averaging 11.7% year-to-date. The impetus has spilled over to the services cluster, where growth has also picked up to 7.1% in 3Q19, from 6.5% in 1Q19. Moreover, in a bid to alleviate the supply side bottlenecks, infrastructure and residential construction activities have accelerated. Growth in the construction sector rose to 9% in the latest quarter, up from 6.7% in the first three months of the year.

Global economic outlook is expected to remain challenging over the coming months. Though economic growth in the US will remain around potential level, prospects in Eurozone and China have been lacklustre. However, Vietnam is emerging as a key beneficiary of the ongoing trade war. The country is well-positioned as an alternative to China for US importers seeking new sources, and for both global and Chinese companies looking to reshuffle their supply chains to a new low-cost destination. Such value proposition to investors implies continued strong FDI flows, which could potentially help to mitigate some of the drag arising from an increasingly challenging economic landscape. **We expect such positive narrative to continue for Vietnam and GDP growth likely to remain robust at 6.8% and 6.7% over the next two years.**

The State Bank of Vietnam (SBV) cut policy rates by 25bps recently. We view the move as merely to align the interest rate differential vis-a-vis the US and ease the upward pressure on the currency as this came just prior to the second rate cut by the US Fed in September. However, with inflationary pressure expect to pick up in the coming quarters, the room for further monetary easing is narrowing. **Headline inflation is expected to register 2.9% in 2020, up from a projected 2.5% this year**. **The SBV is expected to maintain the refinance rate at 6.00% right through 2020**.

While many of the regional peers are struggling with weak demand, the key challenge for Vietnam is in managing the faster than expected growth. In fact, we expect monetary policy to remain stable in 2020 and policymakers must stay vigilant on asset prices and inflation. Macro-prudential measures may have to be deployed to check against speculative pressure on housing prices if necessary. Indeed, **policy focus must remain on ensuring economic stability and sustainability amid strong inflows and an uncertain global landscape**.

Irvin Seah

Growth, Inflation, & Policy Rates forecasts

	GDP growth, % YoY				CPI inflation, % YoY, ave			
	2018	2019f	2020f	2021f	2018	2019f	2020f	2021f
China	6.6	6.1	5.8	5.6	2.1	2.6	2.3	2.5
Hong Kong	3.0	-1.7	1.5	1.5	2.4	2.7	2.5	2.5
India	7.4	5.0	5.8	6.4	4.0	3.5	4.2	4.5
*India (FY basis)**	*7.1*	*6.8*	*5.0*	*5.8*	*3.6*	*3.4*	*3.9*	*4.2*
Indonesia	5.2	5.0	5.0	5.1	3.2	3.1	3.4	3.2
Malaysia	4.7	4.5	4.6	4.6	1.0	0.9	1.6	1.8
Philippines**	6.2	5.9	6.3	6.3	5.2	2.8	3.5	3.3
Singapore	3.1	0.6	1.4	1.8	0.4	0.6	1.1	1.5
South Korea	2.7	2.1	2.4	2.3	1.5	0.5	1.5	1.3
Taiwan	2.7	2.3	2.0	2.2	1.3	0.7	1.0	1.1
Thailand	4.1	2.5	3.0	3.2	1.1	0.8	1.2	1.3
Vietnam	7.1	6.9	6.8	6.7	3.5	2.5	2.9	3.0
Eurozone	1.9	1.2	1.3	1.5	1.8	1.2	1.2	1.3
Japan	0.8	0.7	0.5	0.9	1.0	0.5	0.7	0.6
United States***	2.9	2.2	1.9	1.8	2.0	1.7	1.7	2.0

* refers to year ending March i.e. 2020 represents FY20 - year ending March 2020 ** new CPI series *** eop for CPI inflation

	Policy interest rates, eop							
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
China*	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Indonesia	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Singapore**	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60
South Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Taiwan	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38
Thailand	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Vietnam***	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20
United States	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75

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

FX forecasts

	Exchange rates, eop							
	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21
USD/CNY	7.20	7.15	7.10	7.05	7.00	6.95	6.90	6.85
USD/HKD	7.85	7.84	7.84	7.83	7.82	7.81	7.80	7.80
USD/INR	72.0	72.5	73.5	74.0	73.5	73.0	72.5	72.0
USD/IDR	14200	14300	14400	14500	14450	14400	14350	14300
USD/MYR	4.20	4.18	4.16	4.14	4.13	4.12	4.11	4.10
USD/PHP	52.0	51.5	51.0	50.5	50.4	50.3	50.2	50.1
USD/SGD	1.40	1.39	1.38	1.37	1.36	1.36	1.35	1.35
USD/KRW	1180	1175	1170	1165	1160	1155	1150	1145
USD/THB	31.0	30.8	30.6	30.4	30.3	30.2	30.1	30.0
USD/VND	23300	23300	23300	23300	23300	23300	23300	23300
AUD/USD	0.64	0.65	0.66	0.67	0.68	0.69	0.70	0.71
EUR/USD	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15
USD/JPY	110	109	107	106	105	105	104	104
GBP/USD	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27

Australia, Eurozone and United Kingdom are direct quotes

Rates Forecasts

		2020				2021			
		Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
US	3m Libor	1.85	1.85	1.85	**1.85**	1.85	1.85	1.85	**1.85**
	2Y	1.70	1.70	1.75	**1.85**	1.95	2.00	2.00	**2.00**
	10Y	1.75	1.90	2.00	**2.20**	2.40	2.50	2.50	**2.50**
	10Y-2Y	5	20	25	**35**	45	50	50	**50**
Japan	3m Tibor	0.05	0.05	0.05	**0.05**	0.05	0.05	0.05	**0.05**
	2Y	-0.15	-0.15	-0.13	**-0.13**	-0.10	-0.10	-0.10	**-0.10**
	10Y	-0.15	-0.15	-0.10	**-0.10**	-0.05	-0.05	0.00	**0.00**
	10Y-2Y	0	0	3	**3**	5	5	10	**10**
Eurozone	3m Euribor	-0.40	-0.40	-0.40	**-0.40**	-0.40	-0.40	-0.40	**-0.40**
	2Y	-0.60	-0.50	-0.50	**-0.50**	-0.50	-0.50	-0.50	**-0.50**
	10Y	-0.45	-0.40	-0.30	**-0.20**	-0.10	0.00	0.00	**0.00**
	10Y-2Y	15	10	20	**30**	40	50	50	**50**
Indonesia	3m Jibor	5.10	5.10	5.10	**5.10**	5.10	5.10	5.10	**5.10**
	2Y	5.80	5.80	5.80	**5.80**	5.80	5.80	5.80	**5.80**
	10Y	6.80	6.80	6.90	**7.00**	7.10	7.20	7.20	**7.20**
	10Y-2Y	100	100	110	**120**	130	140	140	**140**
Malaysia	3m Klibor	3.30	3.30	3.30	**3.30**	3.30	3.30	3.30	**3.30**
	3Y	2.90	2.85	3.00	**3.10**	3.20	3.25	3.25	**3.25**
	10Y	3.40	3.50	3.60	**3.70**	3.80	3.85	3.85	**3.85**
	10Y-3Y	50	65	60	**60**	60	60	60	**60**
Philippines	3m PHP ref rate	3.25	3.20	3.15	**3.10**	3.05	3.00	3.00	**3.00**
	2Y	3.75	3.70	3.70	**3.75**	3.80	3.80	3.75	**3.75**
	10Y	4.55	4.40	4.30	**4.20**	4.40	4.50	4.50	**4.50**
	10Y-2Y	80	70	60	**45**	60	70	75	**75**
Singapore	3m Sibor	1.60	1.60	1.60	**1.60**	1.60	1.60	1.60	**1.60**
	2Y	1.65	1.65	1.65	**1.65**	1.70	1.75	1.75	**1.75**
	10Y	1.70	1.80	1.90	**2.00**	2.15	2.25	2.25	**2.25**
	10Y-2Y	5	15	25	**35**	45	50	50	**50**
Thailand	3m Bibor	1.37	1.37	1.37	**1.37**	1.37	1.37	1.37	**1.37**
	2Y	1.35	1.35	1.35	**1.35**	1.35	1.35	1.35	**1.35**
	10Y	1.85	1.95	2.05	**2.15**	2.35	2.45	2.45	**2.45**
	10Y-2Y	50	60	70	**80**	100	110	110	**110**
China	1 yr Lending rate	4.35	4.35	4.35	**4.35**	4.35	4.35	4.35	**4.35**
	3Y	2.70	2.65	2.60	**2.60**	2.60	2.60	2.60	**2.60**
	10Y	3.20	3.10	3.05	**3.00**	3.00	3.00	3.00	**3.00**
	10Y-3Y	50	45	45	**40**	40	40	40	**40**
Hong Kong	3m Hibor	1.95	1.95	1.95	**1.95**	1.95	1.95	1.95	**1.95**
	2Y	1.65	1.65	1.70	**1.80**	1.90	1.95	1.95	**1.95**
	10Y	1.55	1.70	1.90	**2.00**	2.20	2.30	2.30	**2.30**
	10Y-2Y	-10	5	20	**20**	30	35	35	**35**
Korea	3m CD	1.45	1.45	1.45	**1.45**	1.45	1.45	1.45	**1.45**
	3Y	1.45	1.45	1.50	**1.60**	1.70	1.75	1.75	**1.75**
	10Y	1.80	1.95	2.05	**2.15**	2.35	2.45	2.45	**2.45**
	10Y-3Y	35	50	55	**55**	65	70	70	**70**
India	3m Mibor	5.60	5.60	5.60	**5.60**	5.60	5.60	5.60	**5.60**
	2Y	5.55	5.55	5.60	**5.65**	5.70	5.75	6.00	**6.00**
	10Y	6.70	6.80	6.90	**7.00**	7.00	7.00	7.00	**7.00**
	10Y-2Y	115	125	130	**135**	130	125	100	**100**

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

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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