Standard Chartered

## Standard Chartered Asia Focus | 13 March 2013

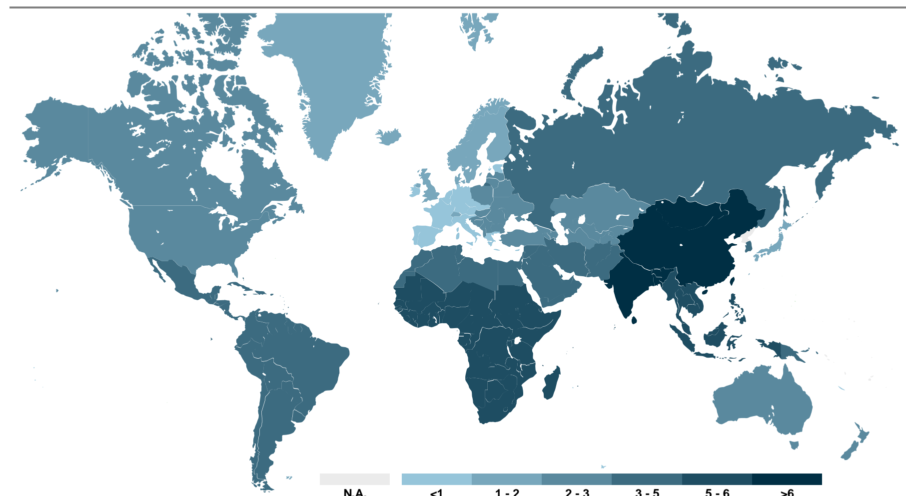
# Transforming, rebalancing, outperforming

## Highlights

- The global economy is recovering, despite the weakness in the West. It will be difficult for the US to achieve more than 2% GDP growth this year; fiscal tightening and policy uncertainty will cast shadows on the turnaround in the housing and energy sectors. Europe is – and will stay – in recession, and austerity fatigue is spreading, with Italy being the latest to buckle. Rising unemployment throughout southern Europe threatens the foundations of the common currency, despite all the liquidity on offer from the ECB.
- Asia may not be booming, but it is growing sustainably. China is in recovery mode; we expect the Q2 data to bolster confidence among investors, who we find are currently still bearish on the economy. China's leaders face an uphill struggle to reform, but we are cautiously optimistic they will do enough to succeed. 2013 is a year for planning, and we will look for implementation in 2014.
- The Philippines stands out within the region for its bullish on-the-ground sentiment, whereas we are cautious on momentum in Thailand as the post-flood stimulus wears off. In Korea, we expect a large supplementary budget to stimulate growth as the housing market continues to weaken.
- We see Asian currencies strengthening against the USD in H2, despite JPY weakness. We are long TWD, as FX gains will play a role in cooling inflation, and long CNY in NDFs on likely convergence between the fix and spot exchange rates. China rates are likely to move up as the year progresses, particularly at the long end. We remain *Overweight* the PHP.

**Asia is outperforming in 2013**

*Darker shades of blue represent faster growth forecasts*




Sources: IMF, Standard Chartered Research

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**Important disclosures can be found in the Disclosures Appendix**
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# Global overview – A positive start

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Overall, 2013 has gotten off to a positive start. In the West, the pro-growth policies of central banks are just about offsetting the lack of stimulus from governments. But a policy mistake in the West remains the key risk to our call for an improvement in global growth this year. In the US, policy uncertainty will escalate as we approach May, when the debt ceiling will have to be raised again. We expect Europe to remain in recession, with unemployment in southern countries continuing to rise. Although the European Central Bank (ECB) pulled the euro back from the brink last year, the importance of rising unemployment and social pressures should not be underestimated. The euro area is not out of the woods – far from it.

In the meantime, Asia continues to grow at a just-right pace: not too hot and not too cold. Although it is not booming, Asia is seeing sustainable growth rates driven by the rise of the consumer, urbanisation and, importantly, a rebound in China.

There are common themes emerging in the Middle East and Africa. In both regions, there is a distinction between resource-rich countries that can afford to invest in their own economies without fiscal constraints, and the rest, which need to rationalise subsidies and consolidate their budgets.

## Policy uncertainty in the West

The political deadlock in the US is negative for growth. With interest rates at the zero lower bound and the Fed's third round of quantitative easing underway, the last thing the economy needs right now is fiscal tightening. Yet this is exactly what the economy is getting, with the sequester already a reality. The sequester will trigger automatic spending cuts from March-September 2013, mostly affecting discretionary spending. The cuts are around 0.6% of GDP, and given the high multipliers, their impact on headline growth will likely exceed 0.6%.

Although the US needs to come up with plans to rein in the fiscal deficit and reduce its debt over time, it is facing neither debt sustainability problems nor pressure from bond markets. Narrowing the deficit and reducing government debt can be achieved over a longer period; this does not need to happen right now, when monetary policy has been used to the max, growth is hovering around an inadequate 2%, and there is so much slack in the labour market.

***In the current environment, we think it would be difficult for US growth to be much more than 2% this year***

We expect uncertainty to increase as we approach the next debt-ceiling deadline in May. Given the current political environment, one should not be overly optimistic. While an agreement is likely, a long-term solution that will reduce uncertainty looks unlikely. Policy makers are more likely to come up with a short-term solution, with debt-ceiling and deficit woes re-emerging a few months down the line. We expect US policy uncertainty to remain a theme for the rest of the year, with the additional problem that, at a time when the US needs short-term fiscal stimulus, fiscal tightening is the reality.

Given the negative impact of fiscal policy on US growth, all of the required economic adjustment will again be left to the Federal Reserve. Policy rates are therefore likely to stay low for a long period. Despite occasional hawkish comments, we expect the Fed to persist with quantitative easing until year-end.

The situation in Europe is more complex than in the US. The euro was on the brink of collapse last year; it was saved in the summer by the actions of the ECB, which promised to do whatever it took to save the common currency. The root cause of the problems in the euro area remains unresolved, however.

*Although the euro is no longer on the brink of collapse, rising unemployment and social pressures are like a slow-burning fuse at the foundations of the common currency*

Southern Europe remains uncompetitive compared to core countries like Germany. Without the option of devaluing their currencies to restore competitiveness, southern European countries are under pressure to cut salaries and proceed with internal devaluations. The problem with achieving an internal devaluation is that salaries are sticky, and it is difficult for them to drop enough to restore the countries' competitiveness. Higher unemployment is increasing pressure on salaries, but the question is how high unemployment needs to go before these economies become competitive again. With youth unemployment at 60% in Greece and 50% in Spain, rising social pressures in the euro area should not be underestimated.

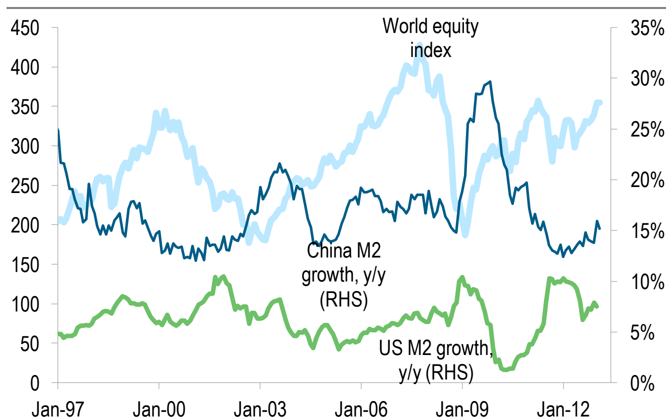
The results of Italy's election, in which the Five Star anti-establishment movement of Beppe Grillo received 25.5% of the votes, serve as a reminder of austerity fatigue. Unlike Greece, which cannot afford to exit the euro, Italy is running a primary budget surplus and a current account surplus, and its debt is held primarily by Italians. If Italy were to decide to exit the euro, it could do so.

## Asian growth is driving the world

Asia may not be booming, but it is growing at a sustainable pace. Sentiment in ASEAN has improved since last year; China's importance as a trade partner is growing as links with the euro area decline. Domestic demand in ASEAN is becoming more resilient, and sentiment has clearly received a boost from the pick-up in economic activity in China.

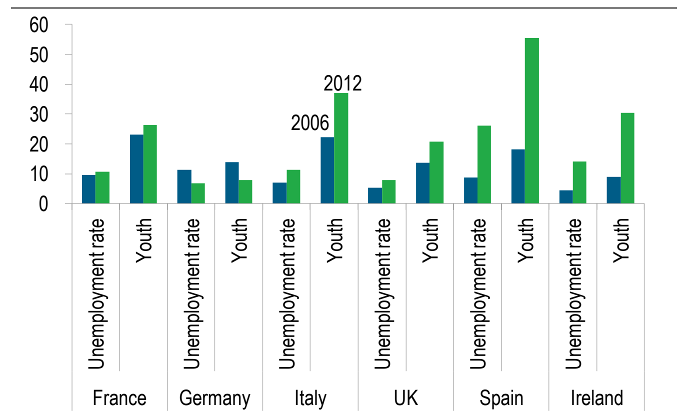
Last year, there were serious concerns that China would suffer a hard landing. China's economy is now slowly rebalancing and recovering. We expect growth to reach 8.3% this year. There are clear signs of recovery, including the record-high level of social financing (a broad measure of credit growth) in January 2013. In absolute terms, China's credit growth in January was higher than in 2009-10, when the authorities pursued aggressive policy easing to counter the global slowdown.

**Figure 1: US and China M2 growth and world equity market**




Sources: Bloomberg, Standard Chartered Research

**Figure 2: Unemployment and youth unemployment rates in Europe**




Source: Standard Chartered Research

*China is making the biggest difference to global liquidity conditions, accounting for close to half the growth in global M2 money supply*

With the new leadership in place, the next big development in China will be reform. Developments in Europe and the US affect confidence globally, including in Asia. Global financial markets tend to react rapidly to changes in the monetary policy outlook (and quantitative easing) in the US. But given that China contributes around 60% of the increase in global liquidity (as measured by M2 money supply growth), markets should be focusing on China as well. Despite tightening measures targeting specific areas in China (such as real estate), we expect monetary stimulus to continue this year in the world's second-largest economy.

India was plagued by policy paralysis in 2012 and had a very disappointing year. The announcement of the budget for FY14 (starting 1 April 2013) was met with disappointment by markets. However, we expect a pick-up in government spending in FY14 and a series of market-friendly reforms to help the economy recover.

## Africa and Middle East: Common themes and differences

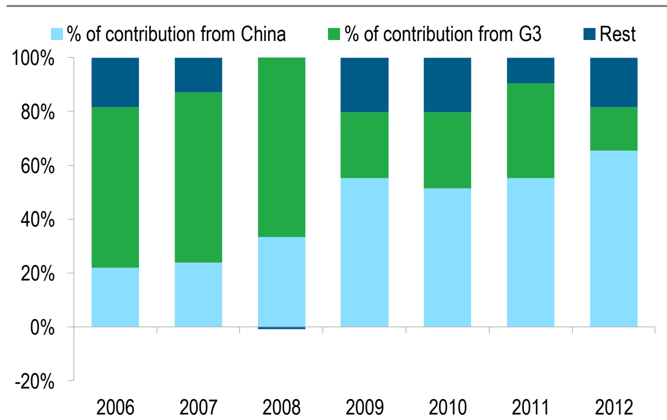
Although Africa continues to enjoy sound headline growth rates, fiscal strength is not uniform. Several African economies have surprised negatively with recent budgets; Ghana and South Africa both announced larger-than-expected deficits. Following peaceful elections in Kenya, the requirement for greater devolution may put further pressure on that country's fiscal metrics.

Debt-to-GDP ratios are also rising, despite robust headline growth rates in much of the region. Strong headline growth has not necessarily been associated with the structural transformation of economies. Primary commodity dependence remains in place in many countries, and particularly in resource-producing countries, income inequality has worsened. In this respect, Africa's non-resource countries have generally fared better.

In the Middle East, the fiscal story is similar. Jordan and Egypt are facing fiscal constraints at a time when social pressures make it very difficult to rationalise their inefficient subsidy systems. On the other hand, the oil-rich Gulf countries are able to invest in infrastructure, driving growth higher. This is particularly true in Saudi Arabia, where the government overshoots its record budgets year after year and still manages to end with fiscal surpluses. With the Saudi population expected to increase by 55% in the next the years and the economy booming, there is an acute need for continued infrastructure investment. Although not oil-rich itself, Dubai is benefiting from the investment boom around it, and is enjoying sustainable growth rates driven by the key logistics, retail and hospitality sectors. This looks set to continue.

**Figure 3: Where global money growth is coming from**

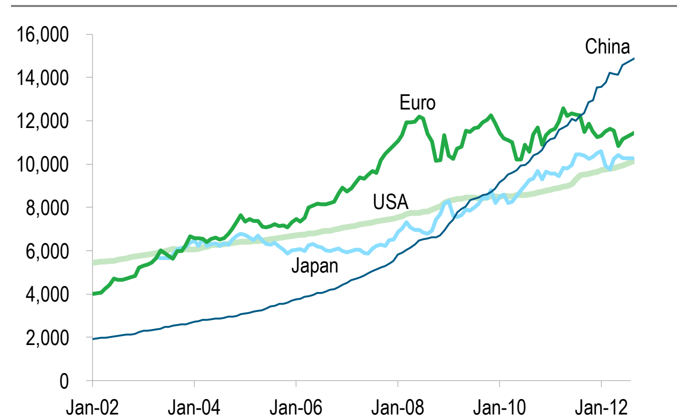
*Contributions to new global M2*




Sources: Bloomberg, Standard Chartered Research

**Figure 4: China's money supply exceeds G3 countries'**

*M2, USD bn*




Sources: Bloomberg, Standard Chartered Research

# Asia overview – Outperforming

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## Through the bad times and the good

Not too hot and not too cold. This is the best way to describe Asia's growth in 2013. Support for growth is coming from many sources: increased confidence, domestic spending and intra-regional trade. Although growth could be even stronger, Asia is clearly outperforming the world as well as other emerging regions. This is helped by the rise of the Asian consumer, urbanisation in ASEAN and China, and the strength of investment.

Growth momentum in Asia was solid at the end of 2012. The Philippines and Indonesia ended the year strongly, growing 6.6% and 6.2%, respectively. Most importantly, China's pace of growth has picked up, and we are confident that 2013 will be stronger than 2012 was.

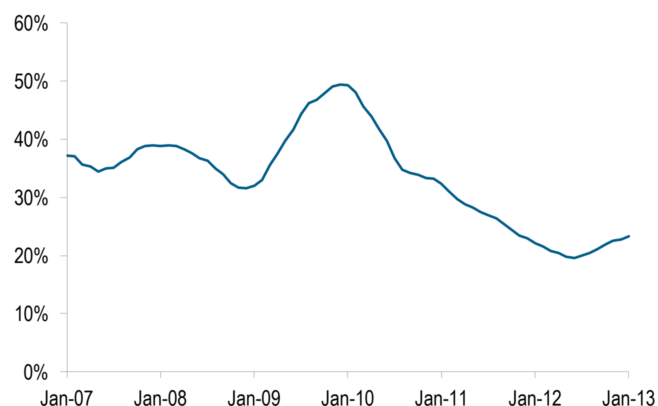
*Asia is increasingly able to rely on itself for growth, while still benefiting from any external upside*

Signs of recovery in China are clear, with total social financing hitting a record high of CNY 2.54bn in January 2013. This 'all-in' monthly credit growth (in absolute terms) is even higher than in 2009-10, when the credit taps were opened wide to counter the global slowdown. We watch this measure more closely than bank lending alone, as the bank lending numbers have accounted for less than half of total social financing growth in the past few months. We are reluctant to get over-excited by one month's numbers, so we prefer to focus on the three-month moving average of growth in outstanding total social financing (Figure 1). This tells a less dramatic story but still clearly shows the turn higher in credit growth. The turnaround in the credit cycle is clear and points to stronger growth ahead.

As China's new generation of leaders establishes an agenda for the coming years, expectations are high of significant reforms, enabling still-fast but also more sustainable growth. We do not interpret the latest housing-market restrictions as a sign of broad-based macro tightening. Instead, they are aimed at combating the strong rise in housing prices in Tier 1 cities in H2-2012.

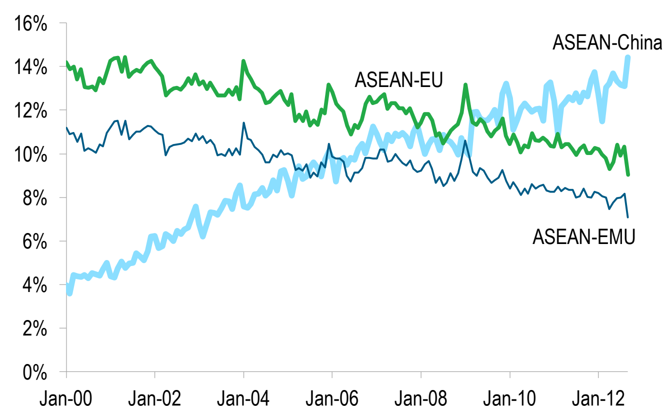
In China, as in other parts of Asia, we expect inflation to return as an issue for policy makers this year. This is particularly true in Hong Kong and Singapore, where policy makers have introduced macro-prudential measures to contain the rise in property prices – a further symptom of excessively loose global monetary conditions. The eventual tightening of these conditions may be more worrisome, but this is not a concern for now.

**Figure 1: China's credit cycle is turning more positive**
*Total social financing outstanding (3mma, % y/y)*




Sources: CEIC, Standard Chartered Research

**Figure 2: ASEAN-China trade is rising rapidly**
*ASEAN-EU vs. ASEAN-China trade as % of total*




Sources: CEIC, Standard Chartered Research

## Our survey says…

### Sentiment is positive in ASEAN, still cautious in Korea

*Our client survey reveals a more self-confident region, even in the absence of a global boom*

In the opening weeks of 2013, we presented to more than 900 clients in the ASEAN region and Korea. We asked clients in six cities – Singapore, Kuala Lumpur, Jakarta, Bangkok, Manila and Seoul – for their views on a variety of topics, ranging from growth expectations to where they would prefer to invest.

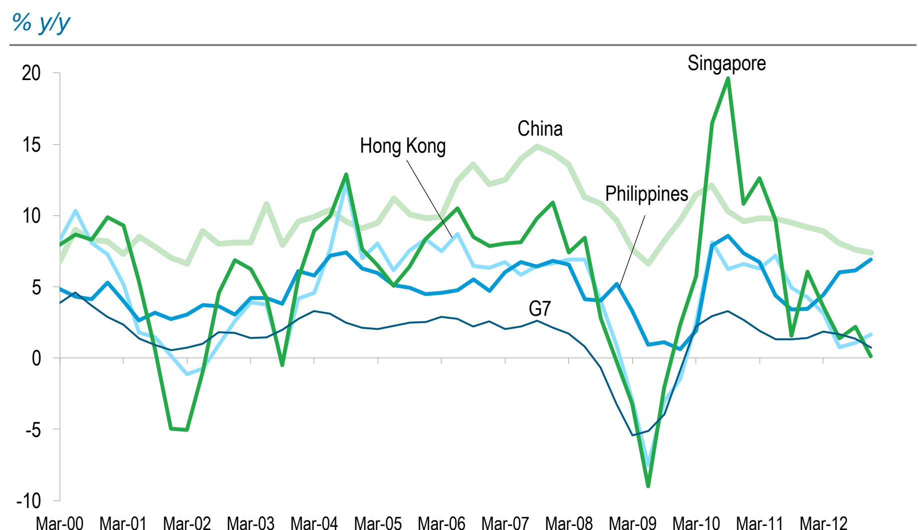
Sentiment in the ASEAN region is better overall than it was a year ago. China's role as a trading partner continues to grow, while links to the EU are declining (see Figure 1). Our client surveys from around the region reveal greater self-confidence in Asia, even amid slower global growth. This may be due to the recovery in China, the reduction of tail risks in Europe since 2012 (though no one is under any illusion that the crisis is over), and the resilience of domestic demand.

The Philippines was the standout country in terms of the strength of on-the-ground sentiment. Its 2012 growth was among the strongest in the region, at 6.6% – above Indonesia's 6.2% and Thailand's 6.4%. We expect the Philippines to see stronger investment growth this year, sustaining the strong momentum from 2012. We expect a rating upgrade to investment grade by at least two of the three main rating agencies by end-2014. While the exact timing is difficult to predict, the market is already pricing in an upgrade.

Korea, the only non-ASEAN country we surveyed in Q1-2013, had a very different story to tell. The housing market remains soft in the Seoul metropolitan area. This matters because two-thirds of all mortgages in Korea are held on Seoul-area properties. The key factor we are watching for is whether newly appointed policy makers under President Park will go ahead with economic stimulus measures. We expect a KRW 20tn supplementary budget to help boost growth; this is higher than the market consensus, which projects that the stimulus will only be half as big. According to our survey, a recovery in property prices is not expected until 2015 or beyond.

**Figure 3: Quarterly GDP growth**

*% y/y*




Sources: Bloomberg, CEIC, Standard Chartered Research

## From global to local issues

*We see local issues driving the outlook across the region in 2013*

While the overarching theme for Asia is growth outperformance, driven by strengthening consumption and investment, local issues lead to differentiation between countries. Macro-prudential policies are being used widely around the region to combat perceived market excesses in property prices or, more broadly, against capital inflows. This is no longer perceived as a sub-optimal policy, as may have been the case before the global financial crisis of 2008-09.

We are cautious on Thailand's growth prospects this year. The post-flood government stimulus is now wearing off. Consumption was the only growth driver in Q4-2012, helped by a tax rebate for first-time car buyers that expired at the end of the year. In our view, the market is overly optimistic about the positive impact of the government's infrastructure investment plans in 2013. At best, the planned spending may not start until Q4-2013.

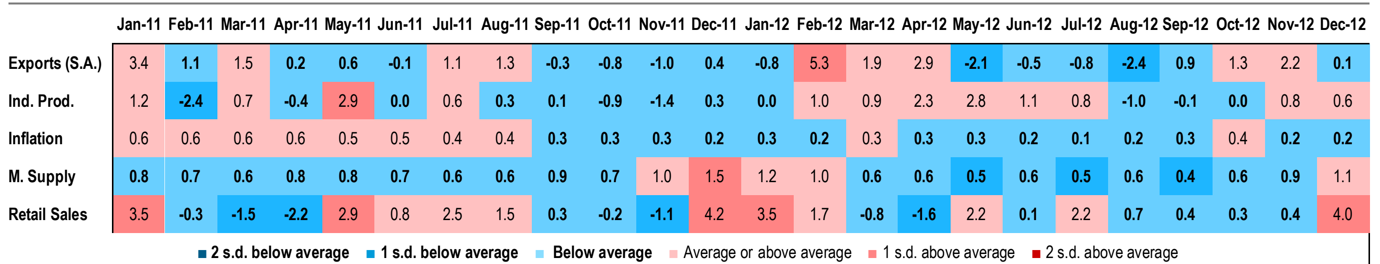
In India, while Q3-FY13 GDP growth was particularly disappointing, at just 4.5% y/y, we see good reasons to be more optimistic about the coming quarters. We expect stronger government spending in FY14 to boost rural consumption. Although the market was disappointed with the budget announcement for FY14 (year starting 1 April 2013), we expect Finance Minister P Chidambaram to announce more investment-friendly reforms in the coming months.

### Election uncertainty

Asia's electoral calendar is busy over the next 18 months, and includes Malaysia's parliamentary elections (H1-2013), the Philippines' mid-term elections (May 2013), India's parliamentary elections (Q1-2014) and Indonesia's presidential election (2014). In general, we expect to see broad policy continuity, though in some cases it may take time to convince the markets that this will be the case.

**Figure 4: Asia Economic Heatmap reveals improved conditions**

*3mma (m/m)*



| | Jan-11 | Feb-11 | Mar-11 | Apr-11 | May-11 | Jun-11 | Jul-11 | Aug-11 | Sep-11 | Oct-11 | Nov-11 | Dec-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exports (S.A.) | 3.4 | 1.1 | 1.5 | 0.2 | 0.6 | -0.1 | 1.1 | 1.3 | -0.3 | -0.8 | -1.0 | 0.4 |
| Ind. Prod. | 1.2 | -2.4 | 0.7 | -0.4 | 2.9 | 0.0 | 0.6 | 0.3 | 0.1 | -0.9 | -1.4 | 0.3 |
| Inflation | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 |
| M. Supply | 0.8 | 0.7 | 0.6 | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.9 | 0.7 | 1.0 | 1.5 |
| Retail Sales | 3.5 | -0.3 | -1.5 | -2.2 | 2.9 | 0.8 | 2.5 | 1.5 | 0.3 | -0.2 | -1.1 | 4.2 |

| | Jan-12 | Feb-12 | Mar-12 | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exports (S.A.) | -0.8 | 5.3 | 1.9 | 2.9 | -2.1 | -0.5 | -0.8 | -2.4 | 0.9 | 1.3 | 2.2 | 0.1 |
| Ind. Prod. | 0.0 | 1.0 | 0.9 | 2.3 | 2.8 | 1.1 | 0.8 | -1.0 | -0.1 | 0.0 | 0.8 | 0.6 |
| Inflation | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 | 0.2 | 0.3 | 0.4 | 0.2 | 0.2 |
| M. Supply | 1.2 | 1.0 | 0.6 | 0.6 | 0.5 | 0.6 | 0.5 | 0.6 | 0.4 | 0.6 | 0.9 | 1.1 |
| Retail Sales | 3.5 | 1.7 | -0.8 | -1.6 | 2.2 | 0.1 | 2.2 | 0.7 | 0.4 | 0.3 | 0.4 | 4.0 |

2 s.d. below average; 1 s.d. below average; Below average; Average or above average; 1 s.d. above average; 2 s.d. above average

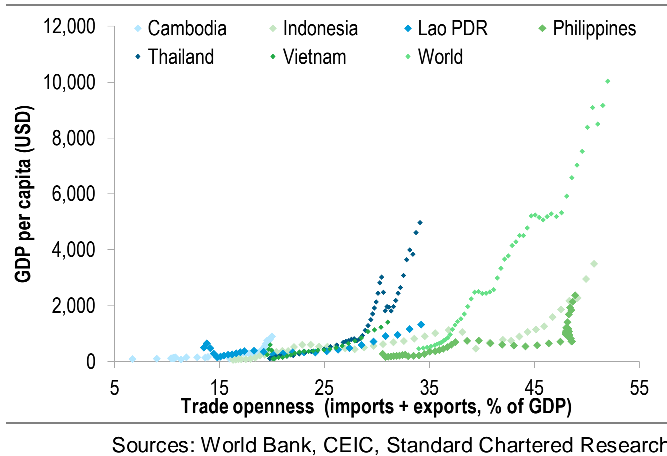
*Note: The Asia Economic Heatmap is compiled using three-month moving averages (3mma) of month-on-month data since January 2007, although the charts only display data from 2010 onwards. Outlying numbers more than two standard deviations away from the historical average since 2007 are shaded **red** for high ('hot') figures and **dark blue** for low ('cool') ones. Statistics closer to the average are shown in lighter shades of red (above average) and blue (below average).*

Sources: CEIC, Standard Chartered Research

# Key regional charts

### Figure 1: ASEAN – Room to grow from urbanisation

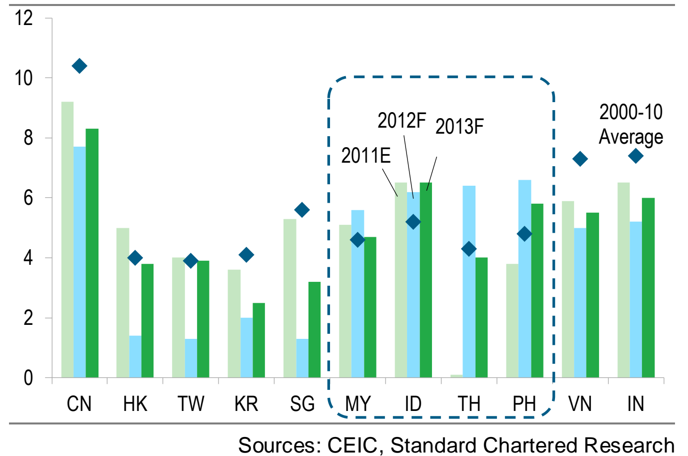
*Data from 1961 to 2011*




Sources: World Bank, CEIC, Standard Chartered Research

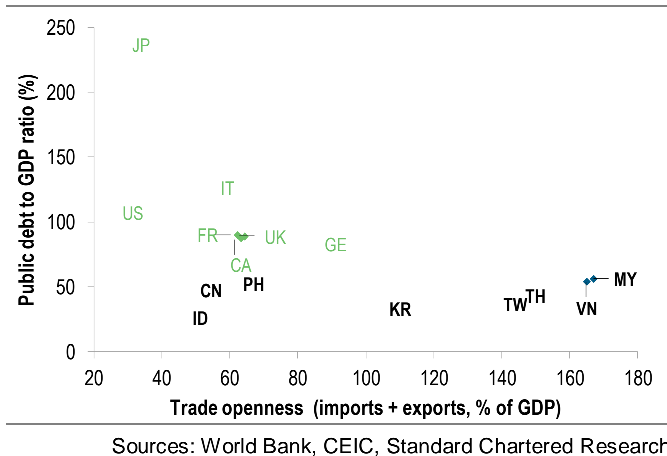
### Figure 2: ASEAN to continue to outperform in 2013

*Real GDP growth forecasts (%)*




Sources: CEIC, Standard Chartered Research

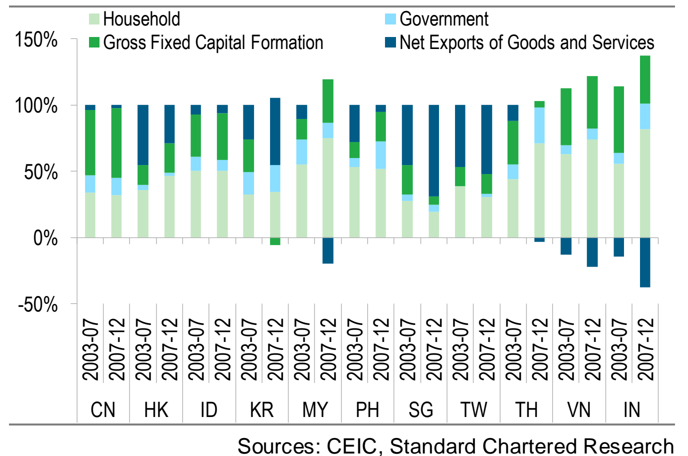
### Figure 3: AXJ – Exposed to external weakness, but more room to stimulate than the G7




Sources: World Bank, CEIC, Standard Chartered Research

### Figure 4: Asia – Sourcing more growth from within

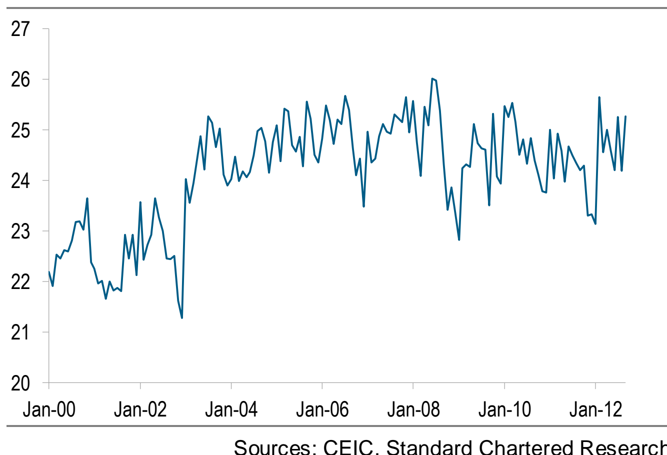
*Percentage contributions to GDP growth; 5-year averages*




Sources: CEIC, Standard Chartered Research

### Figure 5: Intra-ASEAN trade has plenty more room to rise

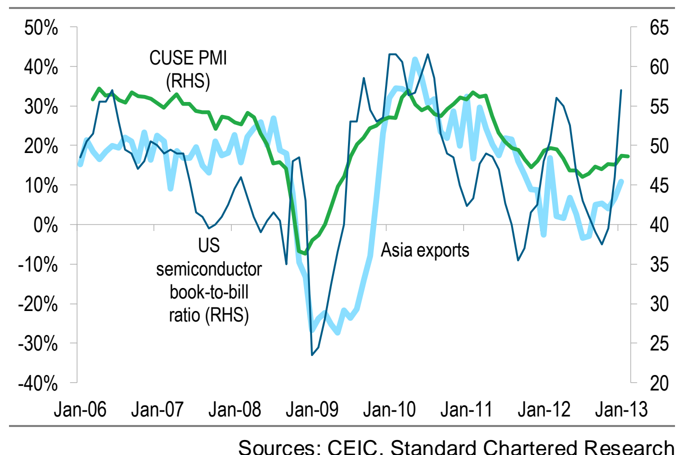
*% of total trade*




Sources: CEIC, Standard Chartered Research

### Figure 6: Asia – Are exports bottoming?

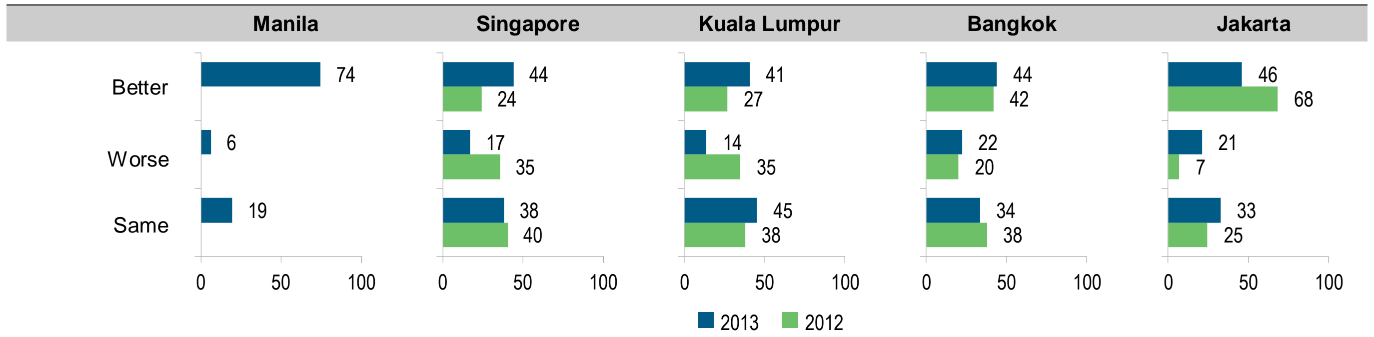
*y/y; CUSE – simple average of US, EU and China PMIs*




Sources: CEIC, Standard Chartered Research

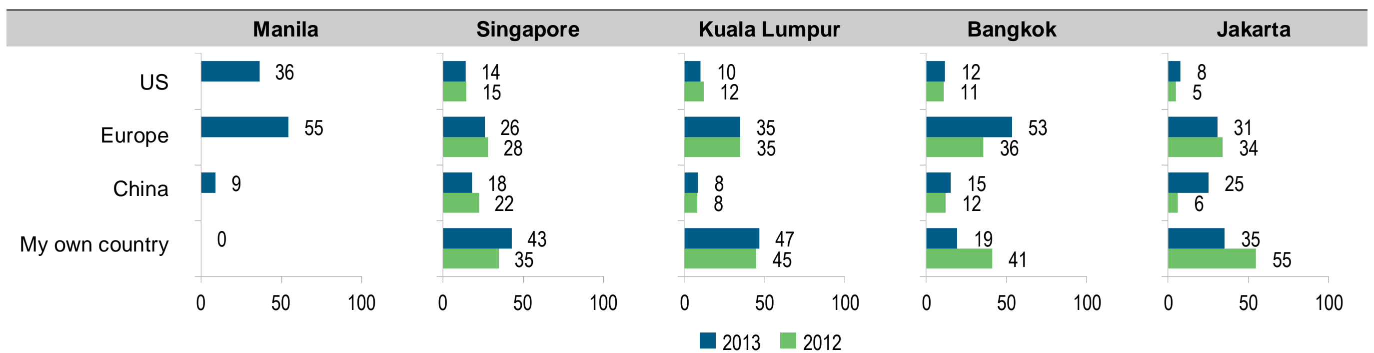
# Results of our 2013 client surveys

### Figure 1: Relative to last year, how do you see your business prospects this year?



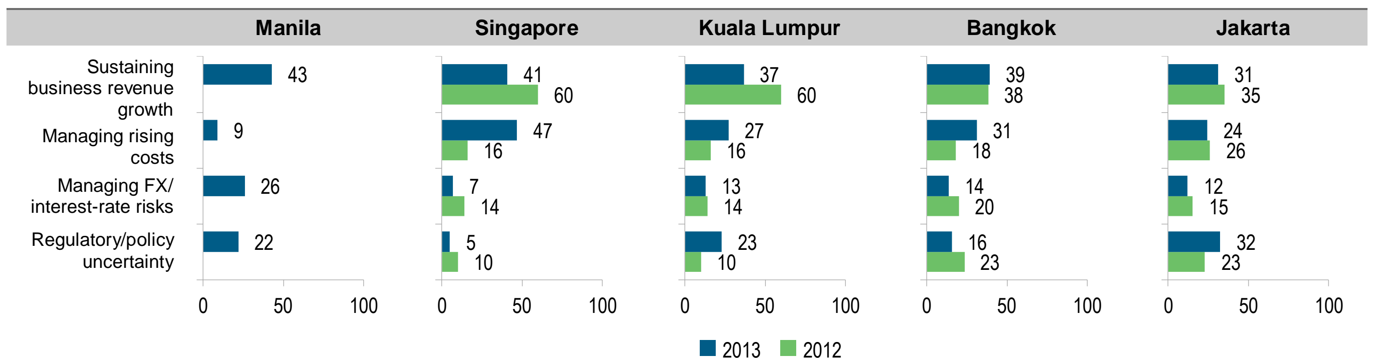

Source: Standard Chartered Research

### Figure 2: For your business, which market worries you the most for 2013?



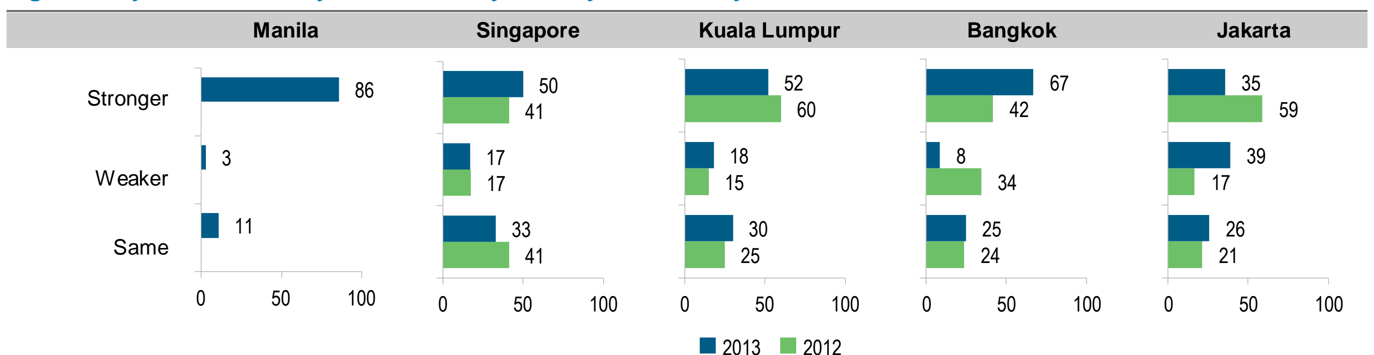

Source: Standard Chartered Research

### Figure 3: What will be the biggest challenge for your business in 2013?




Source: Standard Chartered Research

### Figure 4: By the end of the year, where do you see your currency vs. the USD?




Source: Standard Chartered Research

# Australia – Beyond mining

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## The periscope turns inwards

The 'lucky economy' is looking beyond its resource-fuelled boom to domestic demand to boost future growth. With inflation remaining well under control, the labour market soft but not alarming, and the economy growing consistently at over 3%, Australia remains among the best positioned of the advanced economies. Mining production and exports are likely to remain strong on the back of continued demand from China, even though data on planned capital expenditure suggests that mining investment is likely to peak in 2013 (earlier than previously expected), and commodity prices are expected to decline gradually from their current highs. As the economy undergoes structural change, we expect mining to continue to support growth as green shoots emerge in non-mining sectors. While exports remained the biggest contributor to GDP in 2012, interest rate-sensitive sectors are beginning to respond positively to the 175bps of rate cuts since November 2011.

*We see no immediate risk of a slowdown, rising inflation or soaring unemployment*

We expect residential construction to continue its modest growth as housing prices and rents rise. Private consumption, which remained weak for most of 2012, is likely to grow in 2013 (albeit at a slow pace) as consumer confidence picks up and household spending increases. We expect Australia's growth to remain close to trend, despite economic rebalancing. We forecast GDP growth of 2.5% in 2013, down from 3.6% in 2012, largely due to base effects.

*Contained inflation should allow the RBA to maintain its accommodative policy stance*

Persistent weakness in the labour market, however, is a source of concern for the central bank. The unemployment rate has steadily edged higher, while the participation rate has been on a downward trajectory since late 2010. As mining investment declines, workers involved in mine construction will rejoin the non-mining labour force, pushing up unemployment further. However, wage increases should be contained, keeping inflation in check. This may give the Reserve Bank of Australia (RBA) sufficient comfort to maintain its current accommodative monetary policy stance for longer.

The RBA has reiterated its comfort with the medium-term inflation outlook and expects inflation to remain within its target range of 2-3%. The combination of low wages and increased retail competition will continue to keep prices and inflation in

**Figure 1: Australia macroeconomic forecasts**

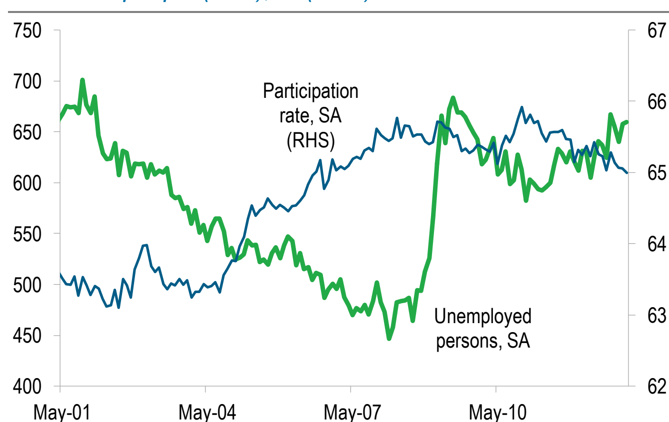
| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 3.6 | 2.5 (3.1) | 3.0 (3.3) |
| CPI (% annual average) | 1.8 | 2.6 | 2.7 (2.5) |
| Policy rate (%)* | 3.0 | 3.0 (3.25) | 3.75 (4.0) |
| AUD–USD* | 1.04 | 1.07 | 1.05 |
| Current account balance (% GDP) | -3.7 | -4.1 (-5.5) | -3.9 (-5.9) |
| Fiscal balance (% GDP)** | -2.8 | -1.2 (-1.0) | -0.3 |

**end-period; ** for fiscal year starting 1 July;*

Source: Standard Chartered Research

**Figure 2: Labour market has remained soft**

*Thousand people (LHS), % (RHS)*




Sources: ABS, Standard Chartered Research

check, even as the deflationary impact of the high exchange rate wears off. Inflation was subdued in Q4-2012 following a spike in Q3, confirming that the inflationary impact of the introduction of the carbon tax was temporary. We expect inflation to remain comfortably below 3% throughout 2013, and to edge higher in 2014 as the policy rate remains accommodative.

We expect the RBA to closely watch domestic non-mining sectors for continued signs that they can pick up the growth slack as the mining boom nears an end. As the domestic economy gathers momentum and business confidence rises, unemployment should ease, alleviating one of the central bank's key concerns. We maintain our view that the RBA is at the end of its current easing cycle. We expect it to maintain its current accommodative stance until the end of 2013 to support demand. As the domestic economy grows and inflation starts edging higher, we expect it to embark on a hiking cycle, with 75bps of rate hikes in 2014.

The government has dropped its pre-election promise of returning the budget to surplus, citing lower-than-expected revenues due to the strong local currency. Prime Minister Julia Gillard has announced that elections will be held in September; this coincides with the end of RBA Governor Glenn Stevens' seven-year term. We expect the election to be closely fought, and it is too early to predict a winner.

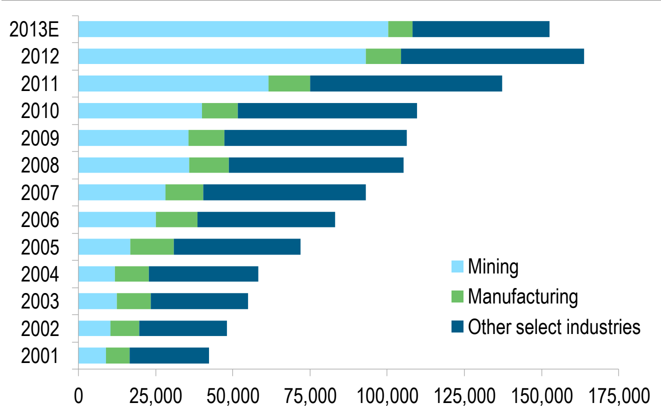
## Market outlook

***We maintain our Neutral FX rating on the AUD in the short term and expect a strong H2***

We maintain a *Neutral* FX rating on the Australian dollar (AUD) in the short term. A buoyant US dollar and risk aversion caused by the re-emergence of euro-area risks have led to some recent weakness in the currency. However, robust FDI inflows and the appeal of Australia's high-yield assets should limit the downside. While the RBA has again stepped up its rhetoric on AUD overvaluation, we believe its threshold for intervention remains quite high. A recent RBA data release revealed that the AUD is not massively overvalued according to most of the RBA's models. We continue to expect a strong H2 for the AUD on the back of a recovery in the global economy, improved risk appetite and higher price pressures.

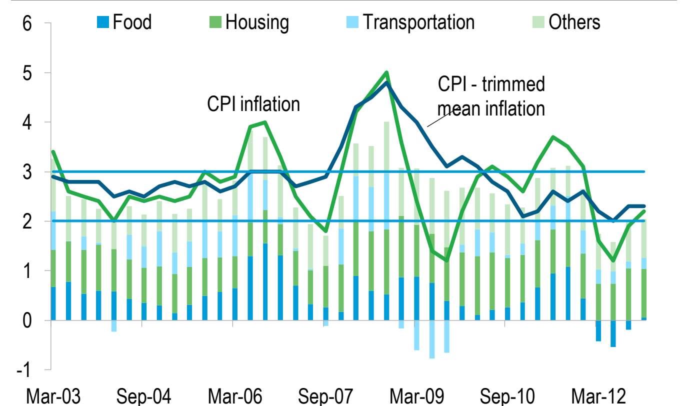
**Figure 3: Mining is approaching a peak**

*New private capital expenditure, actual and planned, AUD mn*




Sources: ABS, Standard Chartered Research

**Figure 4: Inflation is near the lower end of the RBA's 2-3% target band** *(%)*




Sources: ABS, Standard Chartered Research

# Bangladesh – Balancing act

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## Monetary easing to support growth

While the global economic situation remains fragile, Bangladesh's economy continues to show resilience, with growth expected to slow only moderately in FY13 (ends 30 June 2013). However, downside risks remain, arising mainly from a slowdown in exports to the EU (Bangladesh's largest export market), the spike in global commodity prices, a further deterioration in state bank finances, and election-year uncertainty.

*We expect growth to remain fairly stable in FY14, at 6.5%*

Balancing growth and inflation risks is the key near-term challenge for Bangladesh. While growth might edge higher with the expected improvement in the global economic environment, it is likely to fall short of the government's ambitious 7.2% growth target as the lingering euro-area crisis continues to hit exports. On the positive side, inflation is moderating and growth remains stable. With domestic macro conditions expected to become more supportive as the fiscal year progresses, supporting a rebound in private consumption, we forecast GDP growth at 6.3% in FY13, versus 6.1% in FY12. We expect growth to remain stable in FY14, at 6.5%. The main bottlenecks to growth are a lack of investment due to the sluggish global economy and infrastructure deficiencies.

*We expect a further 25bps rate cut, taking the repurchase rate to 7.00% by the end of FY13*

Bangladesh Bank (BB) has adopted a more dovish stance on monetary policy in FY13 to support growth. Headline inflation has continued to track lower in recent months, largely due to lower food inflation (c.60% of the CPI basket). This creates ample space for BB to cut policy rates further. We expect a further 25bps cut in FY13, taking the repurchase rate to 7.00% by the end of June. This would follow a 50bps cut in January 2013 in response to risks to growth. Key risks to our view of further monetary easing include IMF policy prescriptions and external commodity shocks (oil and food). The IMF approved a three-year Extended Credit Facility (ECF) for Bangladesh in April 2012; one of the conditions is that the central bank pursues restrained monetary policy to reduce aggregate demand pressure, stabilise inflation and rebuild reserves. We expect the repurchase rate to fall further to 6.75% by end-FY14, implying a 25bps cut next fiscal year. BB has indicated that its 7.5% inflation target appears achievable, though higher energy and food prices pose risks.

**Figure 1: Bangladesh macroeconomic forecasts**

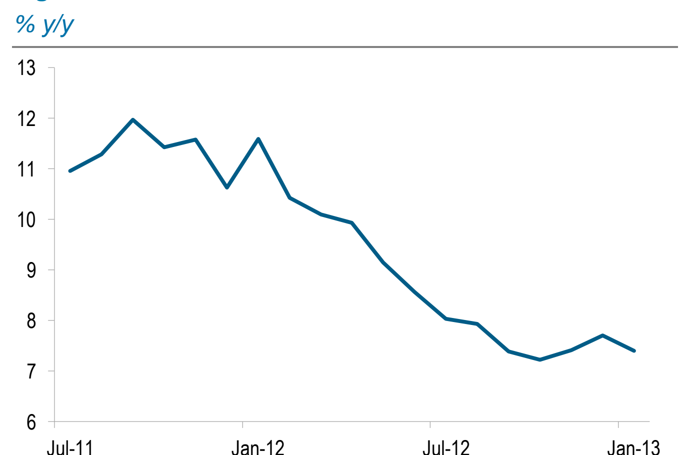
| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 6.1 | 6.3 | 6.5 |
| CPI (% annual average) | 10.6 | 8.1 | 8.5 |
| Policy rate (%)* | 7.75 | 7.00 | 6.75 |
| USD-BDT* | 80.5 | 83.5 | 87.0 |
| Current account balance (% GDP) | 1.5 | 0.7 | 0.5 |
| Fiscal balance (% GDP) | -4.5 | -5.0 | -4.8 |

*All forecasts except USD-BDT refer to the July-June fiscal year ending in the year in the column heading; * end-period*

Sources: Bangladesh Bank, Standard Chartered Research

**Figure 2: Headline inflation continues to trend lower**

*% y/y*




Sources: Bangladesh Bank, Standard Chartered Research

## BoP pressure eases, but risks remain

*Bangladesh has set its FY13 export target at USD 28bn; USD 20bn of this consists of ready-made garments*

Pressures on Bangladesh's balance of payments (BoP) continue to ease thanks to strong remittance inflows, low imports of food grains due to high domestic production, and external financing secured by the government for oil payments. Despite the recent slowdown in manpower exports, BB expects remittance growth to touch 15% in FY13. Most remittance inflows come from the Middle East, and growth was high in 2012: Saudi Arabia (16%), UAE (26%), and Oman (55%). Bangladesh has set an export target of USD 28bn for FY13, with ready-made garments making up about USD 20bn of this. Given the garment sector's heavy reliance on demand from the sluggish US and EU economies, near-term prospects for the industry are subdued. However, the longer-term outlook for the sector is bright due to structural factors such as better global market access and rising wages in competitor countries. Frequent labour unrest and underdeveloped infrastructure are likely to remain key obstacles.

The Bangladesh taka (BDT) has benefited significantly from the BoP improvement, with USD-BDT falling c.4% between 28 November 2011 and 7 March 2013. While the improvement in the BoP is positive for the BDT, external financing risks remain a source of concern.

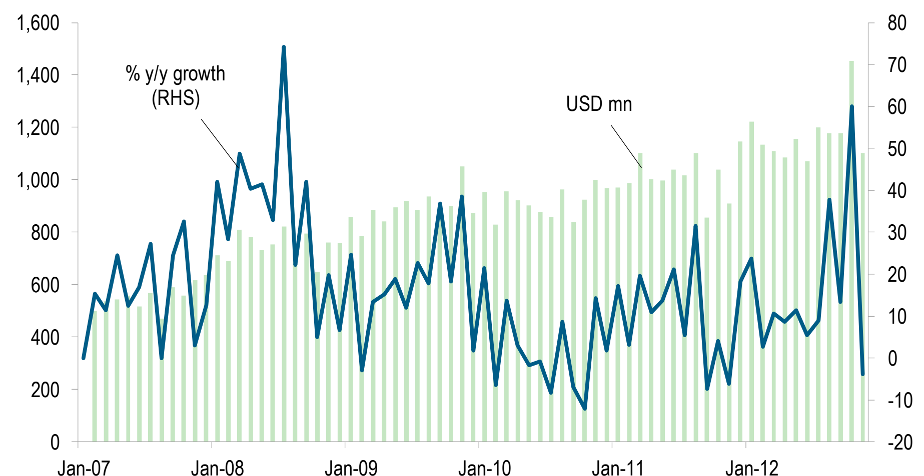
Fiscal policy has remained broadly on track, but underperformance in tax collection, mainly related to the trade slowdown, requires action to broaden the tax base and strengthen enforcement. Over the medium term, the new value-added tax is expected to increase revenues. Subsidy costs still weigh heavily on public finances.

## Market outlook

Easing CPI inflation and policy rates have turned the outlook for government bonds favourable for the remainder of FY13. The recent easing of inflation and policy rates has significantly eased overnight call money rates and the short end of the yield curve (3M-1Y segment). While continued supply in the 1Y-20Y segment has pushed yields higher, auction data suggests improved participation in H2-FY13. The proportion of the notified amount allotted to participants improved to 54% in H2-FY13 from 26% in H1-FY13, while the share devolved on primary dealers dropped to 22% from 38%. We expect further easing of inflation and, consequently, of policy rates to drive yields lower and cause the yield curve to bull steepen.

**Figure 3: Remittance inflows are still strong**

*USD mn, % y/y*




Sources: Bangladesh Bank, Standard Chartered Research

# China – Grinding out a recovery

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## Growth picks up

Entering 2013, there are clearer signs of a recovery in China's economy, supporting our 8.3% growth forecast for this year. Manufacturing is still expanding, the inventory cycle is bottoming out, and the credit environment remains supportive. Economic growth is likely to recover steadily throughout the year. We expect policy to remain supportive, while desiring to avoid surges in inflation, home prices and financial-system risk. The official 2013 GDP growth target of 7.5% (unchanged from 2012) and a higher fiscal deficit target of CNY 1.2tn reflect a pro-growth policy outlook. In the meantime, the new leadership will try to navigate the rebalancing of China's economy, avoiding overly aggressive investment.

*China's economic activity is sending positive signals*

Corporate earnings have started to improve along with the economy. Industrial profit growth rebounded strongly to 20% y/y in Q4-2012 from 1% in Q3. Sales revenue growth has re-accelerated, and the destocking process is coming to an end. We expect a sharp rebound in profit growth and margins in H1-2013 on increasing demand, cheaper raw materials, lower financing costs, and restocking (see *On the Ground, 17 January 2013, 'China – Here comes a more profitable 2013'*).

Credit conditions are likely to stay accommodative, in our view. Total social financing hit a record high of CNY 2.54tn in January 2013, suggesting still-strong credit appetite from corporates and investment projects. Credit growth outside the formal banking system has also picked up. As credit growth usually precedes broader economic growth in China, it is reasonable to believe this recovery has legs. We expect aggregate credit growth to remain strong in 2013, at around 14%.

*Positive growth momentum is likely to trigger higher inflation*

We maintain our long-held view that CPI inflation will accelerate soon and rebound to an average of 4% in 2013. The key drivers will be rising food and services prices and imported inflation resulting from quantitative easing in G4 economies. Lunar New Year distortions aside, February food prices showed initial signs of picking up. We expect inflation to be a serious concern from Q4-2013 through H1-2014. Accordingly, we expect the central bank to hike the benchmark interest rate once in Q4-2013, by 25bps, followed by four more hikes in 2014.

Beijing recently announced further housing-market tightening measures targeting Tier 1 cities, where channel checks suggest a 30% rebound in housing prices in H2-

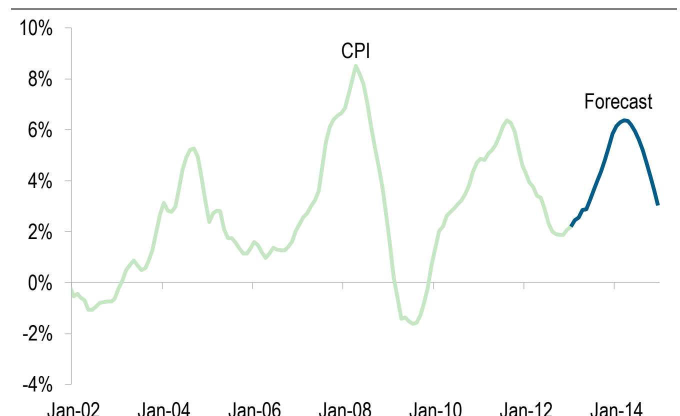
**Figure 1: China macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 7.8 | 8.3 | 8.2 |
| CPI (% annual average) | 2.6 | 4.0 | 5.0 |
| Policy rate (%)* | 6.00 | 6.25 | 6.75 |
| USD-CNY* | 6.28 | 6.10 | 5.97 |
| Current account balance (% GDP) | 2.6 | 3.3 | 3.7 |
| Fiscal balance (% GDP) | -1.6 | -2.1 | -2.0 |

* *end-period;* Source: Standard Chartered Research

**Figure 2: The inflation tide has turned**

*CPI inflation and forecasts, % y/y 3mma*




Sources: CEIC, Standard Chartered Research

2012. Housing markets in Tier 2 and 3 cities face a lower risk of re-inflating, and should therefore be less affected by the new measures. The measures are unlikely to move the market, despite hitting market sentiment and existing home transactions in the short term. In fact, the government's push to release more land and increase housing supply may benefit developers, builders and raw-material producers by boosting housing construction and commodity demand. Considering low deposit rates, huge real demand and local governments' reliance on land revenue, we expect the real-estate recovery to continue in 2013, despite this speed bump.

The market has high expectations for the new government appointed in March, including reforms to promote urbanisation, social security reform, services-sector liberalisation and SOE restructuring. Considerable progress has been made on financial-market reform, and we expect interest rate and Chinese yuan (CNY) liberalisation to continue, alongside moves to open up the capital account.

## Market outlook

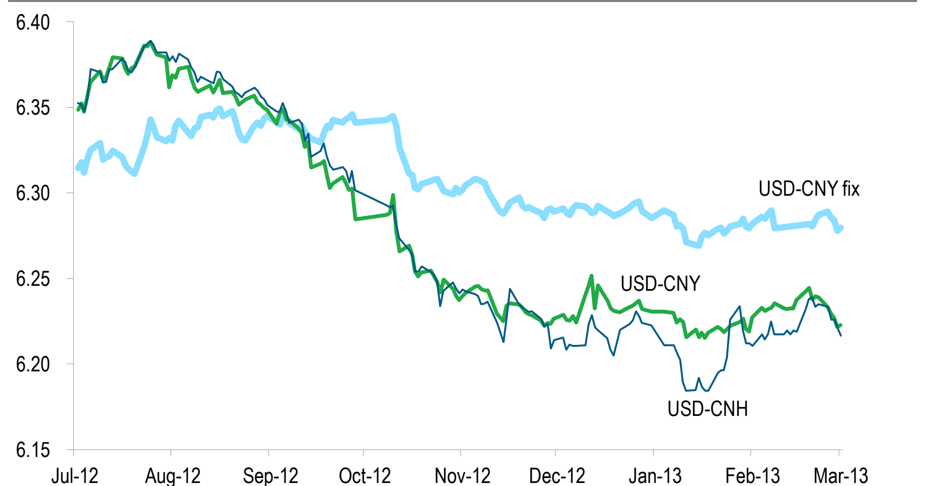
*The fundamentals behind CNY gains remain intact*

We look for 2-3% CNY appreciation against the USD this year, as fundamentals such as the trade surplus still point to moderate undervaluation. We forecast USD-CNY at 6.10 and USD-CNH at 6.08 at end-2013. This translates into net appreciation of 2.1% in the CNY and 2.3% in the offshore Renminbi (CNH) against the USD this year. We expect faster CNY gains in H2-2013 amid a broad-based recovery, better export prospects and rising inflation. We also see a possibility that the People's Bank of China (PBoC) may widen the CNY-USD trading band in 2013. Our forecasts reinforce the case for corporates to hedge USD receivables in the longer deliverable forwards. Leveraged investors should consider buying USD-CNY NDF short-expiry put options – the 1M ATMF (6.2805) put costs just 0.1302% (at 1.20 implied volatility) and has a breakeven of 6.2723, 0.89% above onshore spot.

We believe the PBoC's open-market operation rates are possible candidates to become China's future policy rates. Thus, we expect repo and reverse repo operations to be conducted on a regular basis in 2013 to maintain relatively stable liquidity conditions. A cut in the reserve requirement ratio is unlikely this year, in our view. The recently announced short-term liquidity operation facility should be able to address any shortfall in case of a sudden liquidity shortage. We expect the 7-day repo rate to edge slightly higher to 3.0-3.2% for the remainder of H1-2013.

**Figure 3: A stronger trajectory for the CNY**

*USD-CNY fix, USD-CNY spot and USD-CNH*




Sources: CEIC, Standard Chartered Research

# Hong Kong – Inflation worries loom

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## Focus shifts away from growth

Hong Kong's economy appears healthy; we forecast growth of 3.4% in 2013, up from 1.4% in 2012. The job market is tight, and the 3.4% unemployment rate equates to full employment. This, together with still-strong mainland tourist arrivals, is underpinning domestic consumption growth. Our *SME Leading Business Index* foresaw this turnaround, improving to 49.5 in Q1-2013 from 46.3 in Q4-2012 and 42.9 in Q3-2012, led by a more optimistic retail sector. The government's balance sheet is well positioned to support the recovery – it recently announced another stronger-than-expected fiscal surplus in FY13 (year ending 31 March 2013), at an estimated HKD 65bn, or over 3% GDP. The FY14 budget foresees spending growth of 15.6%, in part to finance the public construction boom. The expansion of the offshore Renminbi market is also set to be a bright spot for Hong Kong this year (*Economic Alert, 7 March 2013, 'CNH – RGI starts 2013 strongly'*).

***Inflation, led by food and rents, is set to head higher in 2013 amid the growth recovery and ample global liquidity***

Inflation is set to return as the primary concern for Hong Kong's households. Headline CPI inflation for January came in at 3.0% y/y, a figure that was heavily depressed by Lunar New Year distortions (Figure 2). We believe CPI inflation bottomed out in Q4-2012 and will trend higher throughout 2013. Private housing rents and basic food prices (mirroring China's) are likely to be the main inflation drivers. Capital inflows and ultra-accommodative US monetary policy are set to keep inflation expectations running high.

The Centa-city Leading Index of residential property prices was up around 20% in 2012, and has gained another 5% so far in 2013 (Figure 3). The January Policy Address by Chief Executive CY Leung, while promising more supply of land and apartments over time, failed to ease concerns about land shortages. This prompted the government and the Hong Kong Monetary Authority to roll out another round of market-cooling measures in February, including higher stamp duty rates and lower loan-to-value ratios. The idea is to limit speculation and leverage, while buying the government more time for new supply to come through. The new measures have so far weighed on sentiment and market turnover (Figure 4), but they have also deterred potential sellers as the cost of reinvesting rises, leading to further short-term market tightness. We believe local housing demand is set to stay strong given the lingering

**Figure 1: Hong Kong macroeconomic forecasts**

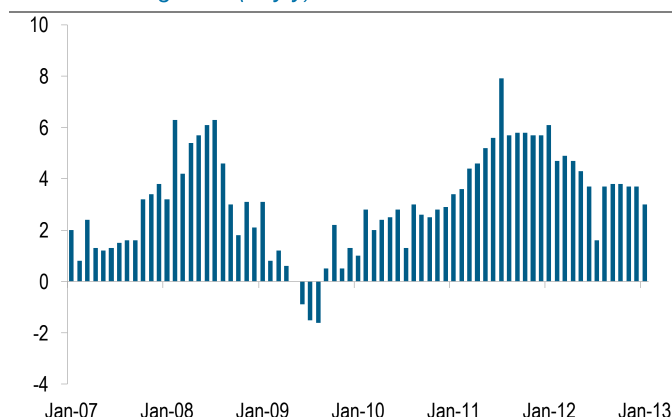
| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 1.4 | 3.4 | 4.5 |
| CPI (% annual average) | 4.1 | 4.5 | 4.5 |
| 3M HIBOR (%)* | 0.40 | 0.40 | 0.55 |
| USD-HKD* | 7.7503 | 7.770 | 7.785 |
| Current account balance (% GDP) | 3.0 | 3.5 | 4.5 |
| Fiscal balance (% GDP)** | 3.2 | 2.0 | 2.5 |

** end-period; ** for year starting 31 March;*

Source: Standard Chartered Research

**Figure 2: Inflation has likely bottomed out**

*Headline CPI growth (% y/y)*




Sources: Bloomberg, Standard Chartered Research

perception of a supply shortage and the fact that most first-time home-buyers are exempt from by the latest cooling measures. The recent scrapping of the land application list system – which makes the government solely responsible for releasing land for sale – sends a strong signal that the government is determined to introduce more land to the market. (We note, however, that very little new land has been sold via the land application list in recent years.)

## Market outlook

*The return of inflation is no reason to change the HKD peg*

Fears that unconventional US monetary policy would undermine the value of Hong Kong's Linked Exchange Rate System (LERS) have proven unfounded. Hong Kong dollar (HKD) valuation is close to its long-term averages, while the US dollar's role in international trade and capital markets is undiminished. The authorities are alert to the dangers of overheating in local asset markets after rapid growth in Hong Kong's monetary base in recent years (resulting from HKD sales under the Convertibility Undertaking), but the evidence suggests that there will be little pass-through to consumer prices. We believe that the LERS will stay in place for the foreseeable future. We expect USD-HKD to gradually grind higher from the lower Convertibility Undertaking limit without crossing the 7.80 mid-point of the Undertaking.

On the rates front, we expect the HIBOR-LIBOR cross-currency swap (CCS) curve to remain steep, with the front end anchored by flush HKD liquidity and the long end supported by ongoing hedging demand arising from local USD bond issuance. On the cash bond side, the government has continued its bond programme as it aims to promote Hong Kong's bond market. The capacity of the programme was increased in the recent budget announcement to HKD 200bn from HKD 100bn (of which HKD 94.5bn has been issued). A third inflation-linked bond of up to HKD 10bn is planned for this year. After the recent sharp rise in yields, we are looking for a period of consolidation before rates trend higher again later in 2013, along with US Treasury yields. Meanwhile, the spread differential between Hong Kong government bonds and exchange fund notes could reverse after the sharp outperformance of the former – the 10Y government bond is now trading 5bps inside the 10Y EFN, versus c.30bps throughout 2012.

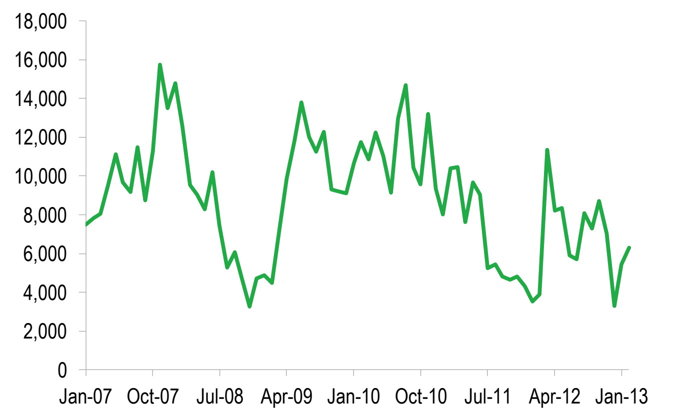
**Figure 3: Residential property prices keep rising**

*Centa-city Leading Index*

Sources: Bloomberg, Standard Chartered Research

**Figure 4: Cooling measures weigh on transactions**

*Monthly residential property transactions, units*




Sources: Bloomberg, Standard Chartered Research

# India – Holding FY14 GDP growth at 6% for now

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## Growth risks exist, but silver lining should not be ignored

India's growth woes are far from over, as reflected in the disappointing Q3-FY13 GDP print of 4.5% y/y and the Central Statistical Office's 5.0% growth projection for FY13 (ends 31 March 2013). The slowdown was concentrated in the industrial sector until early FY13, but has since spread across the economy. Growth in the services sector – which contributes 55-60% of GDP – has slowed to an 11-year low of 6.5% y/y in FY13 on the lagged impact of sluggish industrial growth (which slowed to 2% from an already dismal 2.7% in FY12) and weaker global growth. Delayed monsoon rains have weighed further on economic activity.

***Recent growth indicators are not encouraging***

The market fears that India's growth has yet to bottom, particularly since the government slashed expenditure in the last few months of FY13 to meet its fiscal deficit target of 5.2% of GDP. The lack of measures to boost capex in the FY14 budget has weighed further on sentiment. Proxy indicators such as same-store sales growth, auto sales and fast-moving consumer goods volume growth confirm that consumption continues to slide. The OECD's Composite Leading Indicator (CLI) for India also continues to signal below-trend growth. This is in contrast with G7 countries and other emerging economies like Brazil, where the CLI is more positive.

While we acknowledge these downside risks to growth, we maintain our FY14 GDP growth forecast of 6.0%, premised on the factors outlined below.

***Measures may be announced outside the budget to kick-start the investment cycle***

The government projects aggressive expenditure growth of 16.2% in FY14, well above the five-year average of 15.1% and the single-digit growth rates of the previous two years. This should provide significant support, especially to rural consumption. And while the budget has failed to boost confidence in the capex cycle, we expect the investment environment to improve slightly as pending projects are approved by the Cabinet Committee on Investment (the CCI, headed by the prime minister, is aimed at resolving inter-ministerial differences holding back project implementation). Finance Minister P Chidambaram has delivered several reforms outside the budget, and we expect more in the coming quarters.

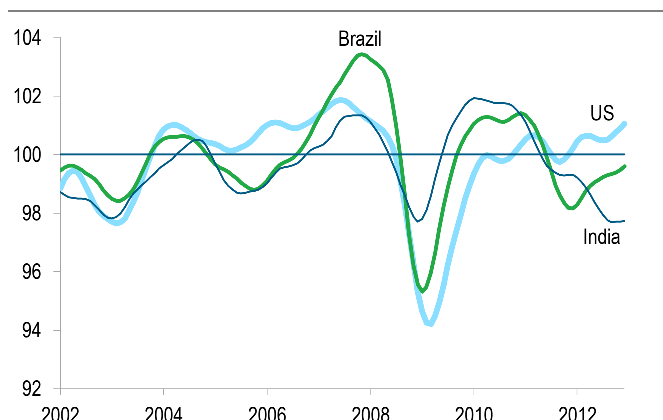
**Figure 1: India macroeconomic forecasts**

| | FY13 | FY14F | FY15F |
|---|---|---|---|
| GDP (real % y/y) | 5.2 | 6.0 | 6.8 |
| WPI (% annual average) | 7.5 | 6.5 | 6.0 |
| Policy rate (%)* | 7.50 | 7.00 | 7.00 |
| USD-INR* | 54.5 | 53.0 | 53.2 |
| Current account balance (% GDP) | -5.3 | -4.1 | -3.8 |
| Fiscal balance (% GDP) | -5.2 | -4.8 | - |

* *end-period;* Sources: CEIC, Standard Chartered Research

**Figure 2: CLI for India still signals below-trend growth**

*OECD CLI*




Sources: CEIC Standard Chartered Research

*Lower policy rates, better global growth and a favourable base effect should support a mild improvement in FY14 GDP growth*

Reduced fears of a sovereign rating downgrade should also help the investment environment, especially if domestic borrowing rates decline in FY14. We expect the Reserve Bank of India (RBI) to reduce the repo rate by another 75bps in 2013, to 7.00% by year-end, as inflation cools to an average of 6.5% in FY14 from 7.5% in FY13. Our policy rate outlook is contingent on our expectation that the current account deficit will narrow to 4.1% of GDP in FY14 from 5.3% in FY13. Easier liquidity conditions, at least in early FY14, and lower borrowing rates should also encourage corporate-sector investment. While we do not expect a strong investment rebound, a slight improvement – magnified by a favourable base effect – should help headline GDP growth. The one-off impact of delayed monsoon rains on FY13 GDP should also fade in FY14, assuming timely and normal monsoons.

Better global growth in FY14 should support the industrial sector via higher export demand. We forecast global growth at 1.3% in 2013 and 2.0% in 2014, up from 1.2% in 2012. Taking all of these factors into account, we expect India's GDP growth to improve marginally in FY14, particularly in the latter half of the year, unless policy mistakes are made and the CCI fails to effectively implement infrastructure projects.

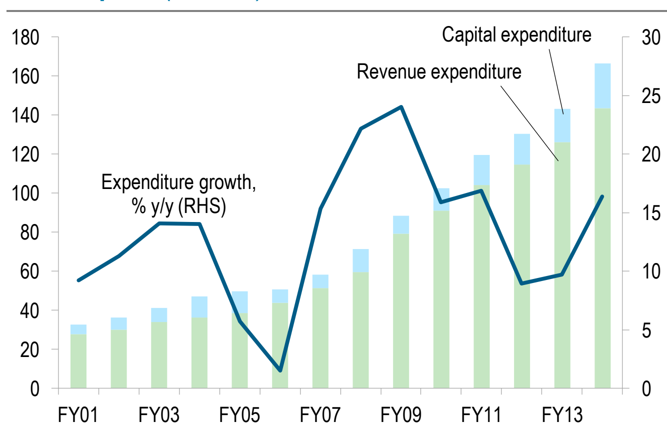
## Market outlook

*We remain Overweight GoISecs and we are Neutral on the INR in the short term*

We remain *Overweight* GoISec duration on the back of easing WPI inflation, slowing GDP growth and our expectation of a further 75bps of repo rate cuts. Given that the government's budgeted FY14 gross market borrowing of INR 5.79tn (net borrowing of INR 4.84tn) is only c.4% higher than in FY13, we believe this will not lead to supply pressure in the GoISec market. We see the government's planned INR 500bn debt switch as a positive step towards reducing future funding risk. Although the timing of the switch is uncertain, we expect it to pivotally steepen the GoISec yield curve, with a minimal impact on the 6Y-10Y segment.

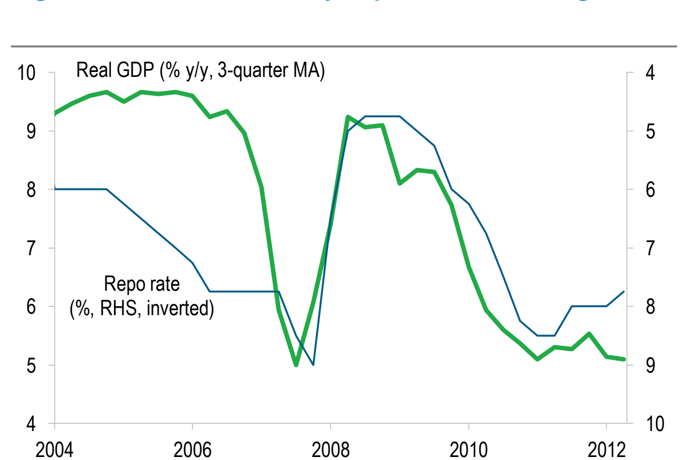
We have a short-term FX rating of *Neutral* on the Indian rupee (INR). In our view, market pessimism surrounding the budget is overdone, as the possibility of further policy reforms cannot be ruled out. The government's adherence to fiscal consolidation supports additional rate cuts, which should provide a floor to growth expectations. That said, we expect persistent external financing risks to limit the upside for the INR until there are signs of a discernible narrowing in the current account deficit. This is unlikely to occur in H1-2013, in our view.

**Figure 3: Higher government expenditure to boost rural consumption** *(USD bn)*




Sources: OECD, Standard Chartered Research

**Figure 4: Rate cuts are likely to provide a floor to growth**




Sources: Bloomberg, Standard Chartered Research

# Indonesia – Trade curbs, monetary tightening

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## Fighting the current account deficit

The government and central bank have sought ways to narrow the current account deficit after it widened to USD 24.2bn (2.8% of GDP) in 2012, following a USD 1.7bn (0.2%) surplus in 2011. The government has used trade policy to achieve this goal, banning imports of 13 agricultural commodities for six months (effective from January 2013) and imposing anti-dumping tariffs on steel imports from countries including China and Singapore from October 2012. The government also set a maximum number of stores that can be owned by foreign franchises in Indonesia at 150 or 250, depending on the amount of capital; this may protect local enterprises from competition and discourage imports of consumer goods. Such policies are likely to receive support from members of parliament who seek re-election in 2014.

*Government has imposed trade restrictions and BI has tightened monetary policy*

Meanwhile, Bank Indonesia (BI) has tried to indirectly narrow the current account deficit by tightening credit growth (responsible for strong import demand) without hiking the policy BI rate; a hike would be politically sensitive, as it could be perceived as unsupportive of economic growth. Last year, BI imposed a minimum loan-to-value ratio for automotive loans in June and hiked the BI overnight deposit facility (FASBI) rate by 25bps to 4.00% in August. We expect it to continue to tighten policy this year – we forecast that BI will hike the FASBI rate by 25bps in both Q3 and Q4 to 4.50% by end-2013, while keeping the BI rate unchanged at 5.75%.

*Even so, we expect the current account to remain in deficit this year*

We expect Indonesia's current account deficit to narrow to USD 14bn (1.5% of GDP) in 2013; the ongoing weak trade balance will prevent it from turning to a surplus (Figure 1). Indonesia's export recovery is likely to be slow, while government and BI policies aimed at slowing imports are unlikely to be effective, in our view. Demand for imported raw materials and capital goods will remain strong, as domestic production of such goods will be unable to substitute for imports in the short run in either quantity or price terms.

### Accelerating inflation, but solid economic growth

*Inflation is set to accelerate to the upper limit of BI's target range*

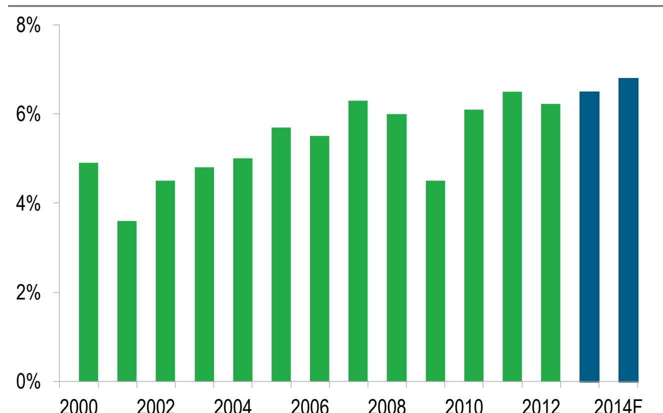
Inflation is likely to accelerate in 2013 for various reasons. Basic electricity tariffs will be raised 15% this year; an initial 4.3% hike was implemented in January, to be followed by further hikes in April, July, and October. Minimum wages were raised in

**Figure 1: Indonesia macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 6.2 | 6.5 | 6.8 |
| CPI (% annual average) | 4.3 | 5.2 | 5.1 |
| Policy rate (%)* | 5.75 | 5.75 | 6.25 |
| USD-IDR* | 9,793 | 9,500 | 8,900 |
| Current account balance (% GDP) | -2.8 | -1.5 | -0.6 |
| Fiscal balance (% GDP) | -1.8 | -1.6 | -1.7 |

* *end-period;* Sources: Bank Indonesia, Ministry of Finance, Standard Chartered Research

**Figure 2: Growth is set to accelerate in 2013-14 after slowing in 2012** *(Indonesia's real GDP growth)*




Sources: National Statistics Agency (BPS), Standard Chartered Research

January, and food prices rose significantly in January and February. Later in 2013, pressures from higher household consumption during Ramadan (Q3) and election-related spending (Q4) are likely to push inflation higher. Assuming the government does not hike subsidised fuel prices, we project inflation at 5.5% y/y by end-2013, at the upper limit of BI's target range of 3.5%-5.5%, and up from 4.3% at end-2012. This would translate into average inflation of 5.2% in 2013, up from 4.3% in 2012.

*GDP growth is likely to remain strong this year*

Despite faster inflation, we expect real GDP growth to accelerate from 6.2% in 2012 to 6.5% in 2013 and 6.8% in 2014 (Figure 2), driven by household consumption (around 55% of GDP) and investment. The pick-up in inflation is likely to have a minimal impact on household purchasing power, as household income is also rising, aided by the minimum wage increase and an annual salary increase for civil servants. The economy will also receive a boost from election-related spending by political parties in Q4-2013 and Q1-2014.

## Market outlook

*Stay Underweight cash and Neutral duration on IDR bonds*

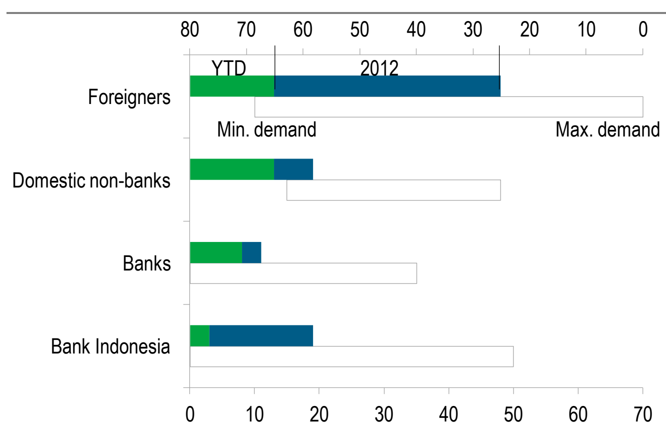
Investors should stay *Underweight* cash and *Neutral* duration on IDR government bonds. We expect the Indonesian rupiah (IDR) to continue to underperform regional peers given the projected current account deficit in 2013, but expect a sharp turnaround in USD-IDR when trade data stabilises or when BI raises the FASBI rate. The near-term demand/supply outlook is constructive for bonds, but we see limited scope for a rally at current levels given the expected pick-up in CPI inflation and FASBI rate hikes later in the year.

*Demand/supply dynamics are constructive, but we see limited scope for bonds to rally from current levels given FX risk and rate-hike expectations*

Supply has been well absorbed by the market, and we expect supply risk to remain benign in Q2-2013. As of 7 March, the government had raised 19% of its gross funding requirements for 2013, or 20% on a net basis – slightly above the target run rate of 18.6%. Demand from onshore banks and non-banks has been robust – their net purchases in January-March 2013 reached 73% and 68%, respectively, of total net purchases in 2012. Net foreign inflows were 27% of net inflows in 2012 (Figure 3). Despite strong uptake YTD, we believe demand risk is manageable, as net purchases are still well below the potential maximum demand we estimate from each investor group (see Figure 3 and *ACT, 22 January 2013, 'Positive Asian bond demand vs. supply'*).

**Figure 3: Strong uptake in 2013**

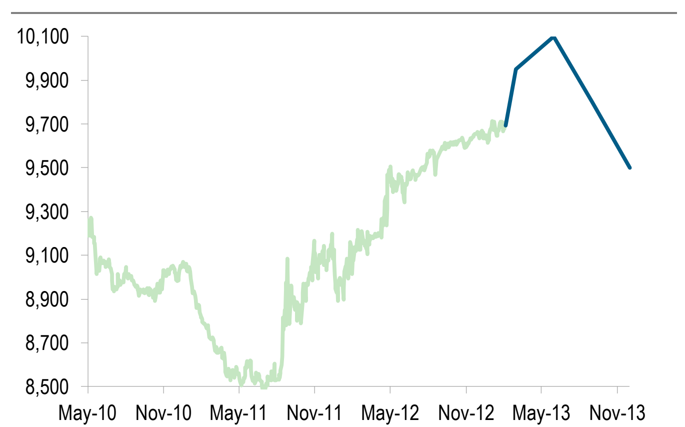
*Net bond purchases in 2013 vs. 2012, vs. estimates (in white), IDR tn*




*Note: Up to 5 March 2013*; Source: Standard Chartered Research

**Figure 4: IDR set to peak at 10,100, fall to 9,500 in H2**

*USD-IDR; blue line denotes forecasts*




Source: Standard Chartered Research

# Japan – A long way to go

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## Can Abe save Japan?

It has been two years since the Fukushima earthquake and tsunami threw Japan's economy back into contraction. While the post-earthquake recovery was not strong enough to overcome global headwinds in 2012, confidence in the recovery has risen since Prime Minister Shinzo Abe took office in December 2012. His economic policy, known as 'Abenomics', is an aggressive mix of monetary policy and fiscal policy, with a long-term growth strategy. This has boosted market sentiment in the short term, but it remains to be seen whether it will be effective in the longer term.

*Monetary policy is an important component of 'Abenomics'*

Abe has identified ending deflation as the top policy priority, and sees monetary policy as the most effective way to achieve this. He successfully urged the Bank of Japan (BoJ) to raise its inflation target to 2% in January (from 1%), and nominated three doves as BoJ governor and deputy governors to implement aggressive monetary easing. BoJ governor nominee Haruhiko Kuroda is confident that he can achieve the 2% inflation target in two years; if approved, he would likely bring forward open-ended asset purchases (currently due to start in January 2014) and shift to buying longer-term and riskier assets.

On the fiscal side, Abe has committed to a JPY 13.1tn supplementary budget for the current fiscal year and proposed a JPY 92.6tn draft budget for FY13 (starts in April 2013), although opposition parties in the upper house might try to obstruct his budget plans. The 3% planned reduction in bond issuance for budget financing is insufficient to reduce the country's ballooning debt burden, and the government has not addressed the question of how medium-term fiscal consolidation will be achieved.

*Abe's growth strategy will be closely watched and will be critical to achieving sustainable growth*

Abe's long-term growth strategy, likely to be announced this summer, will be closely watched by the market. The lack of such a strategy has been seen as a limitation of Abenomics. A practical and credible long-term growth strategy is crucial to narrowing Japan's output gap, overcoming deflation and raising potential growth in a sustainable way.

**Figure 1: Japan macroeconomic forecasts**

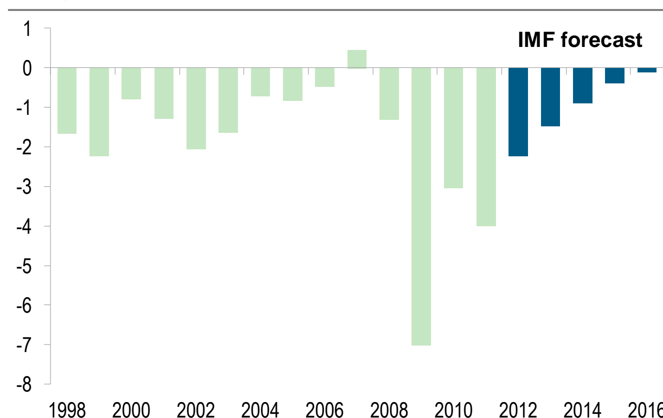
| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 1.9 | 1.7 | 0.8 |
| CPI (% annual average) | 0.0 | 0.1 | 1.8 |
| Policy rate (%)* | 0-0.1 | 0-0.1 | 0-0.1 |
| USD-JPY* | 86.1 | 95.0 | 94.5 |
| Current account balance (% GDP) | 1.0 | 2.0 | 2.3 |
| Fiscal balance (% GDP)** | -11.8 | -9.0 | -7.0 |

**end-period, **for fiscal year starting 1 April*

Sources: CEIC, Standard Chartered Research

**Figure 2: Output gap is expected to remain negative**

*% of potential GDP*




Sources: IMF, Standard Chartered Research

In its February monthly report, the government said it believes the economy is bottoming out. However, we believe it is too early to conclude that the economy has reached a turning point and is poised for a strong recovery. Industrial production and investment have shown some improvement, with the pace of declines moderating. In the consumer sector, retail sales and household spending are relatively firm. However, we remain concerned about the job market, which currently shows little sign of improvement. Abe's government has acknowledged the need to raise wages, though it has not provided details.

*A victory in the upper house election will be crucial in allowing the LDP to consolidate power*

Upper house elections are expected in July 2013. The ruling LDP/New Komeito coalition currently lacks a majority in the upper house; winning the election would help the LDP to consolidate power and push through its economic policies. The cabinet approval rate rose in February to its highest level since September 2009, according to Kyodo News.

Energy is a swing factor for the economic recovery. Japan closed all of its nuclear power plants (which previously accounted for 30% of electricity generation) after the Fukushima earthquake. It has relied increasingly on imported energy, exposing it to higher import costs; energy imports rose to 5.1% of GDP in 2012 from 3.6% in 2010. Abe intends to restart nuclear reactors sometime in the future, once their safety is confirmed.

The ruling LDP is reconsidering joining the US-led Trans-Pacific Partnership (TPP) talks on a multilateral free trade agreement after Abe's recent visit to the US. However, LDP lawmakers have not arrived at a consensus, as some are concerned that the elimination of tariffs may dampen the interests of Japan's politically influential farmers.

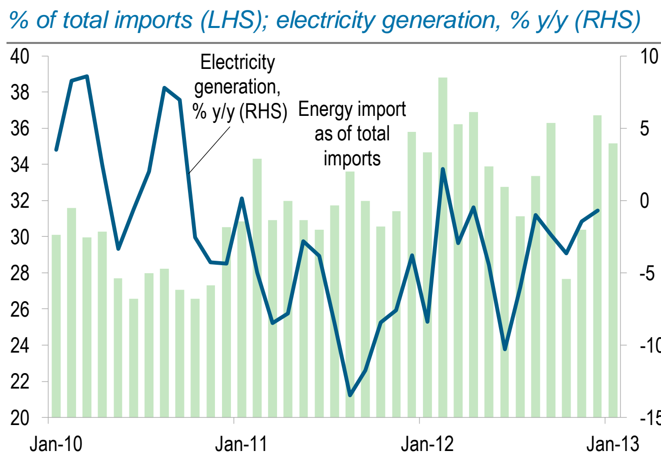
## Market outlook

*We expect further JPY weakness to be front-loaded in H1*

We remain bearish on the JPY in H1-2013. The key fundamental driver of trend weakness in the JPY is the massive deterioration in Japan's current account balance, mainly due to the deteriorating trade balance. Expectations of more aggressive policy easing by the BoJ and 'verbal intervention' by Japan's government have accelerated the JPY's slide. We expect further weakness to be front-loaded in H1, with the JPY stabilising to some degree in H2 as the current account balance recovers. We maintain our *Underweight* FX rating on the JPY, both in the short and medium term.

**Figure 3: Rising energy imports are a swing factor for the economy**

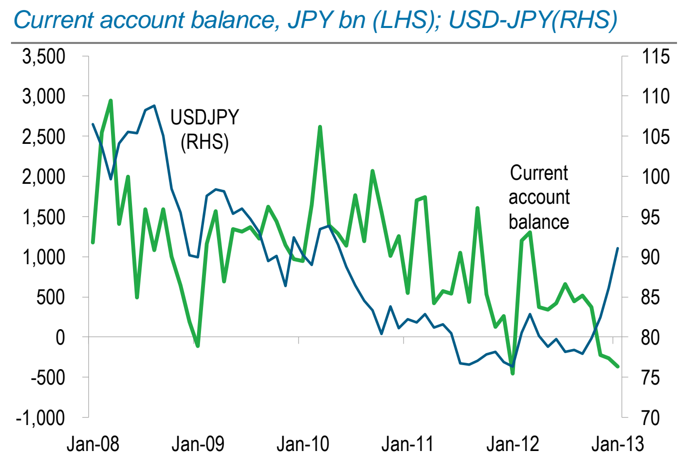
*% of total imports (LHS); electricity generation, % y/y (RHS)*




Sources: CEIC, Standard Chartered Research

**Figure 4: Deteriorating current account balance is the main driver of JPY weakness**

*Current account balance, JPY bn (LHS); USD-JPY(RHS)*




Sources: Bloomberg, Standard Chartered Research

# Malaysia – Broader-based growth

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## Better external conditions to add to firm domestic growth

Malaysia, one of ASEAN's strongest domestically driven economies, is likely to enjoy sustained investment growth in 2013, while also benefiting from an improvement in external conditions. Positive and stable growth-inflation dynamics should keep policy rates on hold for most of 2013; we expect a 25bps rate hike in Q4.

*More growth engines are likely to propel the economy this year*

Malaysia is likely to enjoy more broad-based growth in 2013. We forecast that GDP growth will slow to 4.7% this year from 5.6% in 2012, entirely due to base effects (see Figure 1). GDP growth has been relatively stable since H2-2010, after recovering from an externally driven slowdown in 2009 (see Figure 2). This year, we expect the divergence between Malaysia's domestically and externally driven growth paths to narrow. Improved trade conditions should bring an improvement in the current account. By industry, the services sector (including financial and business services) will remain an important pillar of growth, while agriculture, mining and manufacturing are likely to increase their contributions after a weak year in 2012.

Our upbeat views are in line with the results of the corporate surveys we conducted in the region in January (see *On the Ground, 17 January 2013, 'Southeast Asia – What ASEAN corporates think'*). 41% of our respondents in Malaysia expect their businesses to perform better this year, versus 24% in 2012. Fewer respondents are concerned about sustaining business revenue growth this year (37% versus 60% in 2012), with the challenges now shifting to rising costs and regulatory/policy uncertainty.

*Export growth is likely to start slow but pick up as the year progresses*

The external outlook remains cloudy in the near term. We recently launched the Leading Trade Index (LTI) for Malaysia (see *On the Ground, 4 March 2013*). The index points to only a marginal pick-up in export growth momentum in Q1-2013, but the external outlook should improve as the year progresses. On the investment front, the government's flagship Economic Transformation Programme (ETP) should help to sustain domestically driven investment growth in 2013. Investment growth was just below 20% in 2012, outpacing the 7.7% rise in domestic consumption (for a review of 2012 GDP, see *Economic Alert, 21 February, 'Malaysia – 2012 ended on a high'*). According to the ETP website, announced investments in entry-point projects totalled MYR 32.747bn in 2012. This should provide further upside for industries in 'national

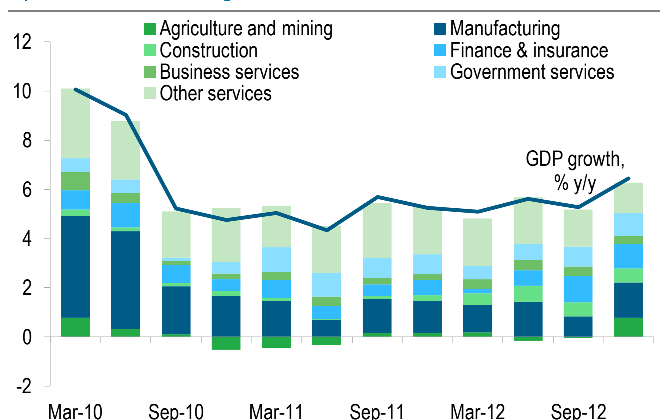
**Figure 1: Malaysia macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 5.6 | 4.7 | 5.3 |
| CPI (% annual average) | 1.7 | 2.6 | 3.4 |
| Policy rate (%)* | 3.00 | 3.25 | 3.25 |
| USD-MYR* | 3.06 | 2.95 | 2.82 |
| Current account balance (% GDP) | 6.4 | 8.0 | 10.0 |
| Fiscal balance (% GDP) | -4.5 | -4.0 | -3.5 |

* *end-period;* Source: Standard Chartered Research

**Figure 2: Broad-based growth is expected in 2013**

*Ppt contributions to growth*




Sources: CEIC, Standard Chartered Research

key economic areas' including tourism, health care, electrical and electronics, business services and energy. Consumption may suffer from a high base effect this year after wage hikes and fiscal transfers provided a boost in 2012. The fiscal impulse should be smaller in 2013, as the government targets a fiscal deficit of 4% of GDP, narrowing from 4.5% in 2012. This is in line with fiscal consolidation efforts aimed at capping the government debt-to-GDP ratio at below 55% and narrowing the fiscal deficit to 3% of GDP by 2015.

*Inflation likely to trend higher, especially in H2-2013*

While we expect inflation to climb to 2.6% in 2013 from 1.7% in 2012, it is still low relative to some of Malaysia's neighbours. Inflation has been relatively well managed under the government's Administered Price Scheme (APS); inflation for APS items has been much lower than for non-APS items (see Figure 3). However, negative inflation rates for APS items during parts of H2-2012 are likely to boost inflation readings in H2-2013. The good news is that non-APS inflation has remained relatively benign, which should allow relatively low inflation rates to continue in 2013.

Underlying cost pressures are evident, however. The implementation of minimum wage hikes, the strong domestic economy and the potential resumption of subsidy rationalisation in H2-2013 add to inflation risks. Given that inflation should trend higher in H2-2013, our core scenario for the overnight policy rate is a pre-emptive 25bps hike in Q4-2013.

General elections, which are required to be held in H1-2013, had not yet been called at the time of writing. In the previous election in 2008, the ruling Barisan National party won 140 federal seats out of the 222 available.

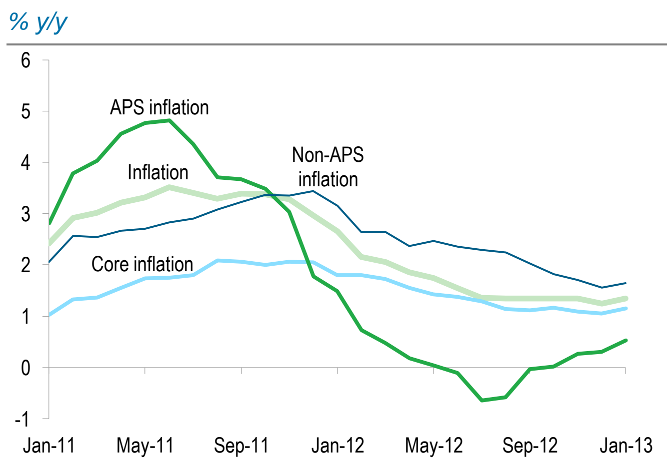
## Market outlook

*We are more bullish on the MYR in the medium term*

We have a *Neutral* short-term FX rating and an *Overweight* medium-term rating on the Malaysian ringgit (MYR). In the short term, heavy positioning and Japanese yen (JPY) weakness are likely to introduce volatility to the MYR. Our *Standard Chartered Transaction Flows* (SCTF) data shows that our clients' largest short USD-AXJ positioning as of end-January was in USD-MYR. We are more bullish in the medium term, as China's recovery, an expected pick-up in palm oil prices, and a rebound in the global electronics cycle are likely to boost the MYR. Moreover, a weaker JPY will benefit Malaysia given its commodity exports to Japan and its machinery imports from Japan.

**Figure 3: Lack of inflation drivers in the short term**

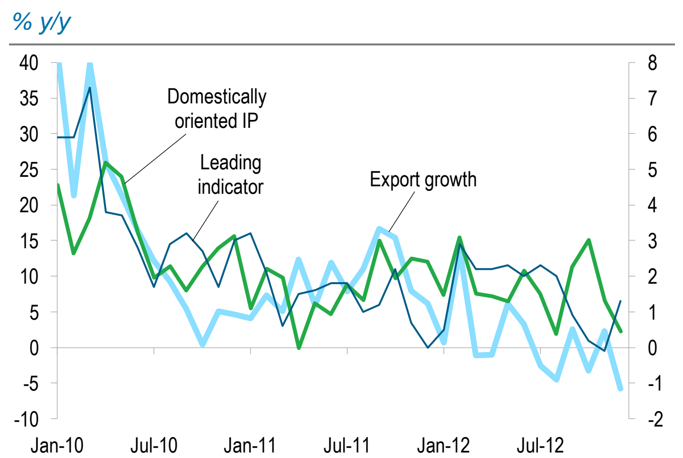
*% y/y*




Sources: CEIC, Standard Chartered Research

**Figure 4: Watching for a pick-up in H2-2013**

*% y/y*




Sources: CEIC, Standard Chartered Research

# Myanmar – Making the right moves

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## Positive headlines continue

Myanmar has continued to make positive headlines this year, particularly on the investment and growth fronts. These changes have established a more investor-friendly climate. Meanwhile, stronger-than-expected rice exports are a potential source of upside surprise for Myanmar's economic growth in 2013.

*The clarity of the new investment framework should help to facilitate and accelerate foreign direct investment*

Following the passage of the Foreign Investment Law (FIL) in November 2012, Myanmar recently issued foreign investment rules clarifying the scope and implementation of the FIL. This should address concerns among foreign investors about unclear investment regulations, and provides more clarity on foreign business ownership in Myanmar. Foreign ownership of up to 80% is allowed in restricted businesses (especially related to natural resources) through a joint venture with Myanmar entity.

Separately, Myanmar reached an agreement with the Paris Club of creditors (mainly Germany, France and the Netherlands) in January 2013 that will effectively clear about 60% of its existing foreign debt. This will enable Myanmar to seek new loans and financial assistance from other sources in order to fund economic and social development initiatives such as education and health care.

*Larger-than-expected rice exports should provide another boost to consumption*

We expect FDI inflows to be a key driver of growth in 2013 and beyond, with further diversification of investment from the energy sector to the manufacturing, tourism, agricultural, and banking sectors. Stronger-than-expected rice exports could provide an upside surprise for economic growth in 2013. Agriculture – rice in particular – continues to play a key role in driving Myanmar's economy. It accounts for about one-third of GDP, employs the majority of the workforce, and makes up nearly 30% of the country's total exports. Thanks to stronger demand for rice from Japan, Indonesia, and the euro area, the Myanmar Rice Industry Association expects the country's rice exports to hit 1.5 million tonnes in 2013, up about 88% from 2012. This should provide another boost to consumption in the form of higher farmer incomes this year.

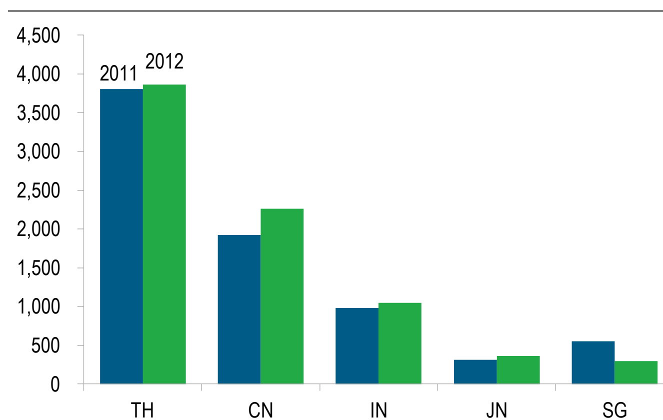
**Figure 1: Myanmar macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 6.2 | 6.4 | 6.6 |
| CPI (% annual average) | 5.8 | 6.5 | 6.8 |
| Policy rate (%)* | 12 | 10 | 10 |
| USD-MMK* | 849 | 875 | 875 |
| Current account balance (% GDP) | -4.4 | -4.8 | -5.0 |
| Fiscal balance (% GDP) | -9.2 | -8.6 | -7.8 |

* *end-period;* Sources: IMF, Standard Chartered Research

**Figure 2: Myanmar's top trading partners**

*USD mn*




Sources: CEIC, Standard Chartered Research

# New Zealand – Rebuilding the economy

## Housing prices are a mild concern

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New Zealand continues to rebuild its economy slowly but steadily after the twin earthquakes of 2010 and 2011. Construction activity picked up in 2012 and business confidence continues to increase, indicating that the economic recovery still has legs. Data on building permits indicates a continued recovery, supported by rebuilding in Canterbury and rising residential demand in Auckland.

*Unemployment rate breached 7% for the first time since 1999*

The labour market remains a concern, as unemployment rose to a 13-year high of 7.3% in Q3-2012. Inflation remained low throughout 2012 as the economy restarted. The Reserve Bank of New Zealand (RBNZ) noted at its Q1-2013 policy meeting that headline inflation remained below the bottom of its target range, with the high exchange rate helping to keep inflation in check. We expect inflation to remain muted for most of 2013 and to rise towards the mid-point of the 1-3% target band by the end of the year.

While the inflation outlook provides scope for the RBNZ to maintain its current accommodative stance, the consequences of easy credit could have the opposite effect. Rapidly rising housing inflation has been a source of concern for the RBNZ. It is now considering introducing macro-prudential measures to prevent excessive credit from leading to asset-price growth amid the current low-rate environment.

*Muted inflation gives the RBNZ room to keep the policy rate at 2.5% until the end of the year*

We expect the RBNZ to keep the policy rate at 2.5% until the end of 2013, when it may begin a hiking cycle with a modest 25bps hike. Macro-prudential measures may also be introduced if mortgage credit growth continues at the current pace.

## Market outlook

We are *Neutral* on the New Zealand dollar (NZD) short-term and *Overweight* medium-term. We expect the NZD to weaken in H1 due to the deteriorating current account balance and a stronger US dollar. However, improving global sentiment and risk appetite, combined with expectations of RBNZ rate hikes, could trigger a strong rebound in the currency in the medium term.

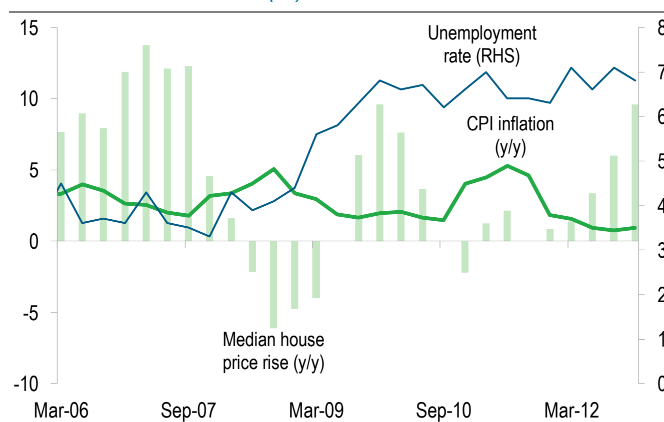
**Figure 1: New Zealand macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 2.4 | 2.7 (3.1) | 2.8 (2.7) |
| CPI (% annual average) | 1.1 | 1.8 (2.4) | 2.4 |
| Policy rate (%)* | 2.50 | 2.75 (3.0) | 3.25 |
| NZD-USD* | 0.83 | 0.89 | 0.84 |
| Current account balance (% GDP) | -5.0 | -5.6 | -5.8 |
| Fiscal balance (% GDP)** | -4.3 | -3.6 | -1.5 |

** end-period; ** for fiscal year starting 1 July*

Source: Standard Chartered Research

**Figure 2: Rising housing prices and high unemployment are cause for concern** *(%)*




Sources: CEIC, Standard Chartered Research

# Pakistan – Countdown to 2013 elections

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## Long road to reforms

The government's term ends on 16 March, and the countdown to the general election scheduled for May 2013 has begun. According to various opinion polls, the elections are likely to be a close race between President Zardari's PPP party and former PM Nawaz Sharif's PMLN. The swing factor is the PTI, a relatively new party headed by popular former Pakistan cricket captain Imran Khan; it has held several massive public rallies across Pakistan. All opinion polls point to a hung parliament, leading to another weak coalition government with little appetite for reform.

*Elections will be a close three-way race between President Zardari's PPP, former PM Nawaz Sharif's PML, and popular former cricket captain Imran Khan's PTI*

Economic reform is critical to building investor confidence, limiting the unsustainable fiscal deficit and sustaining the higher growth needed to absorb 2mn new entrants to the labour force every year. In the absence of reform, the economy will continue to underperform. Investment spending declined sharply to 12.5% of GDP in FY12 (year ended June 2012), from a peak of 22.5% in FY07. The energy crisis has reached critical levels, with the shortfall between peak demand and supply at over 6,000MW – one-third of total demand. As a result, growth remains weak; the central bank forecasts GDP growth at 3.8% in FY13, versus 3.7% in FY12.

Risks to macroeconomic stability are high, primarily due to a widening fiscal deficit and large external debt repayments over the next two years. The fiscal deficit ballooned to a record PKR 1.7tn (8.6% of GDP) in FY12, against a budget target of 4.7% of GDP. This was driven by higher energy subsidies and below-target tax collection. Government spending has increased sharply ahead of the 2013 elections, and the IMF expects a FY13 deficit of 7.5% of GDP, significantly higher than the budget target of 4.7%.

Unsustainable fiscal deficits have made debt dynamics challenging. Large debt payments are scheduled for FY13 and FY14, putting significant pressure on finances. External debt payments scheduled for FY13 total USD 5.8bn (2.5% of GDP), including nearly USD 3bn to the IMF. Official FX reserves declined to USD 7.8bn at end-February 2013 (equivalent to 2.4 months of import cover) from USD 9bn at end-2012. We see a strong possibility that, following current discussions, Pakistan will request a new IMF programme in 2013, primarily because of large debt payments.

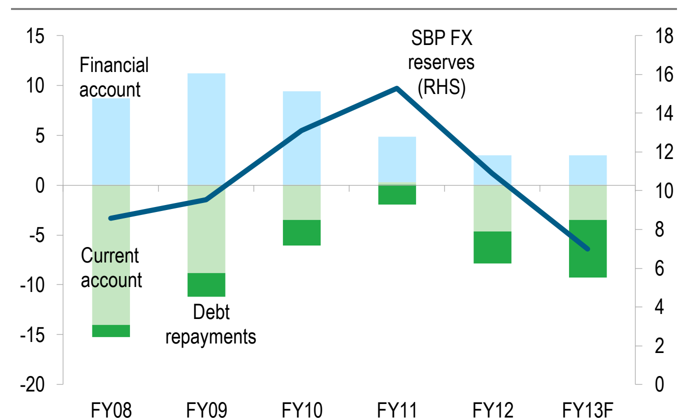
### Figure 1: Pakistan macroeconomic forecasts

| | FY12 | FY13F | FY14F |
|---|---|---|---|
| GDP (real % y/y) | 3.7 | 3.8 (3.7) | 4.0 |
| CPI (% annual average) | 10.8 | 8.5 (9.5) | 11.0 |
| Policy rate (%)* | 12.0 | 9.5 | 11.0 |
| USD-PKR* | 89.4 | 101 | 111 |
| Current account balance (% GDP) | -2.1 | -1.0 | -2.0 |
| Fiscal balance (% GDP) | -8.6 | -7.5 | -6.0 |

* *end-period;* Sources: SBP, Standard Chartered Research

### Figure 2: FX reserves decline on large debt payments

*USD bn*




Sources: SBP, Standard Chartered Research

## New IMF loan is in the pipeline

### New government to take the final decision

Given pressure on the FX reserves and large external debt payments, the government is in talks with the IMF for a new three-year, USD 5bn Extended Fund Facility (EFF). This is a positive step and will boost foreign investors' confidence in the economy. However, the IMF wants the government to fast-track tough and deeply unpopular tax and energy-sector reforms as a precondition for the new loan facility.

*The government is in talks with the IMF for a new three-year, USD 5bn EFF*

The outgoing government is unlikely to risk these unpopular steps ahead of the elections, and the decision on the new IMF loan has been left to the new government. The new government should take office by June, and we expect it to seek IMF support by September 2013. Election delays due to the deteriorating security environment and difficulty in holding together the coalition government may further complicate matters.

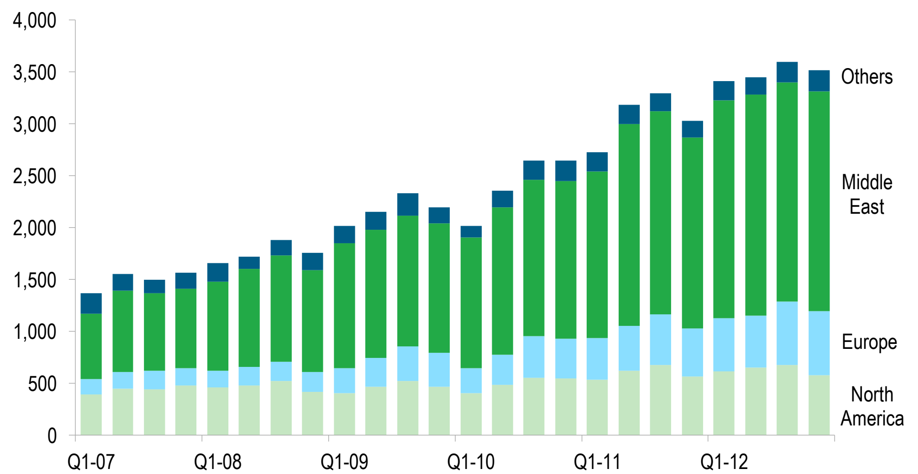
Delays in obtaining the IMF loan increase the risk of a balance-of-payments crisis. For the first seven months of FY13 (July 2012 to January 2013), the current account posted a USD 62mn surplus, compared with a USD 2.8bn deficit in the year-earlier period. This was primarily due to record remittances from overseas Pakistani workers and a USD 1.8bn payment from the US under the Coalition Support Fund (CSF). However, despite the current account improvement, official FX reserves declined sharply to USD 7.8bn in February from USD 10.8bn in June 2012. This was primarily due to large external debt payments and slowing FDI and multilateral aid flows.

## Market outlook

On 4 March, the Pakistani rupee (PKR) stood at 98.2 versus the US dollar, down 8% y/y from 90.9 in March 2012. The slide in the PKR is likely to accelerate due to heightened political uncertainty ahead of the 2013 elections and large debt payments. Total external debt maturities for 2013 stand at USD 6.2bn, including USD 3.6bn owed to the IMF. Government plans to raise USD 1bn via 3G auctions and USD 500mn via an international bond issue are unlikely to materialise. We forecast that USD-PKR will weaken to 101 by June 2013 and 105 by December 2013.

**Figure 3: Record workers' remittances sustain Pakistan**

*USD mn*




Source: SBP

# Philippines – Positively positioned

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## Another year closer to investment grade

2013 is likely to be another year of domestically driven growth for the Philippines. Upside risks to inflation remain moderate. We expect no changes to the key policy rate for most of the year, with the central bank likely to hike rates only in Q4 as inflation rises.

*We expect economic growth in 2013 to be above the 10-year average*

We are optimistic that the Philippines will outperform the region and enjoy another year of strong growth momentum in 2013. We expect GDP to grow 5.8% this year, higher than the 10-year average of 5.2% for 2003-12 (see Figure 1 for our forecasts). While domestic consumption is likely to remain the biggest growth driver, we expect investment growth to pick up this year (see Figure 2). Net exports, on the other hand, are likely to act as a negative (but limited) drag on growth. Fiscal consolidation continues with the implementation of the 'sin' tax in January, and we expect the fiscal deficit to narrow gradually over the next few years.

We expect at least two of the three main credit rating agencies to upgrade the Philippines to investment grade by end-2014, although the specific timing is difficult to predict. The case for investment grade is supported by a number of factors, including a resilient economy, a current account surplus, stable fiscal policy, and the narrowing of the budget deficit. More investment is needed, however (see Figure 4).

*Positive local sentiment to fuel domestic economic activity*

On a recent trip to the Philippines, we found that local businesses and investors are very optimistic about 2013 and beyond. Generally, there was little concern that the economic growth momentum seen in 2012 would fade in 2013. Concerns are focused on infrastructure development and investment growth, though many believe that progress has been made (see *On the Ground, 8 February 2013, 'Philippines – Bullish local sentiment'*). This is reflected in our surveys, where 77% of corporate respondents in the Philippines see their businesses doing better this year than in 2012. None of our respondents cited the Philippines as a market of concern in 2013 (see *On the Ground, 5 February 2013, 'ASEAN – What ASEAN corporates think – Part 2'*).

*Low inflation to keep policy rates steady for now*

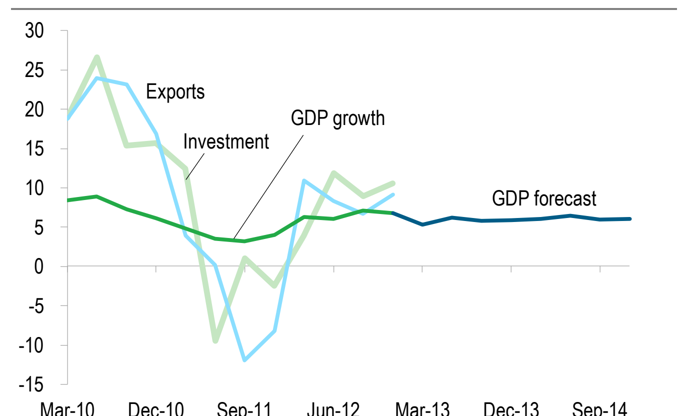
We lower our inflation forecasts for 2013 and 2014 slightly. We now expect inflation to be 3.6% in 2013 (down from 3.9% previously), at the lower end of the central bank's 3-5% target range. Inflation may accelerate, particularly in Q4, due to higher food and

**Figure 1: Philippines macroeconomic forecasts**
*Previous forecasts in brackets*

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 6.6 | 5.8 | 6.1 |
| CPI (% annual average) | 3.2 | 3.6 (3.9) | 4.0 (4.2) |
| Policy rate (%)* | 3.50 | 4.00 | 4.00 |
| USD-PHP* | 41.2 | 39.0 | 38.0 |
| Current account balance (% GDP) | 4.0 | 4.2 | 4.2 |
| Fiscal balance (% GDP) | -2.3 | -1.8 | -1.6 |

* *end-period;* Source: Standard Chartered Research

**Figure 2: Potential upside for investment growth**
*% y/y*




Sources: CEIC, Standard Chartered Research

energy inflation, consumer spending, and base effects. Even so, it should remain manageable and is unlikely to breach the inflation target. The key upside risk to our forecast is a sudden shock in energy and food prices, which is not our core scenario.

Due to the benign inflation outlook for most of 2013, we expect Bangko Sentral ng Pilipinas (BSP) to hike rates only in Q4 as inflation rates rise (see Figure 3). To slow speculation and capital inflows, BSP may continue to make minor adjustments to other macro-prudential policies, such as special deposit account rates.

*PPP projects and current account surplus provide upside to growth*

We expect further progress under the government's Public-Private Partnership (PPP) investment model, after eight projects – mainly in infrastructure, transport and power – were successfully rolled out in 2012. Seven projects are currently in the bidding phase, with others in the pipeline. The government is also working to enhance policies and improve capacity to improve the outlook for high-quality PPP projects.

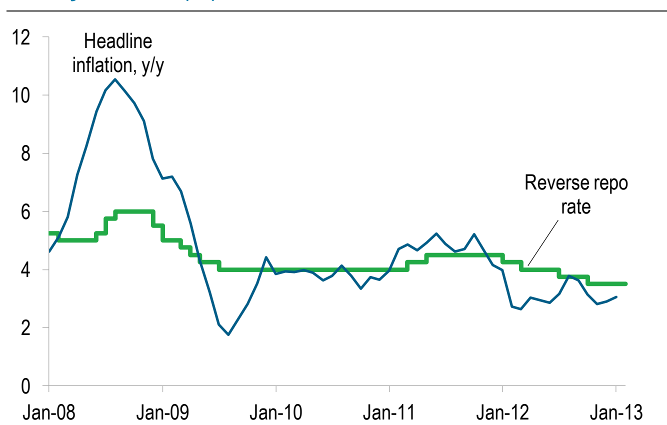
While the goods trade deficit is likely to widen this year due to import growth, we expect the impact on the current account to be limited (see *Economic Alert, 6 March 2013, 'Philippines – Positives for current account outlook'*). The growth outlook for exports of goods and services is favourable, as remittances remain the most significant contributor to the current account surplus.

Another probable source of upside to growth is the peace deal in the Autonomous Region of Muslim Mindanao (ARMM). Based on the results of a recent study, we estimate that a full peace deal will add 0.1ppt to national GDP growth in the first year, and up to 0.3ppt by the fifth (see *On the Ground, 18 January 2013, 'Philippines – Peace and prosperity'*). The economic benefits of a deal would will also likely spill over to the entire Mindanao island group.

## Market outlook

We maintain our bullish views on the Philippine peso (PHP) and the PHP bond market. Our *Overweight* short- and medium-term FX weightings on the PHP are underpinned by strong growth in domestic consumption and the current account surplus. Near-term, the potential for further macro-prudential measures is likely to curb the pace of capital inflows and PHP appreciation.

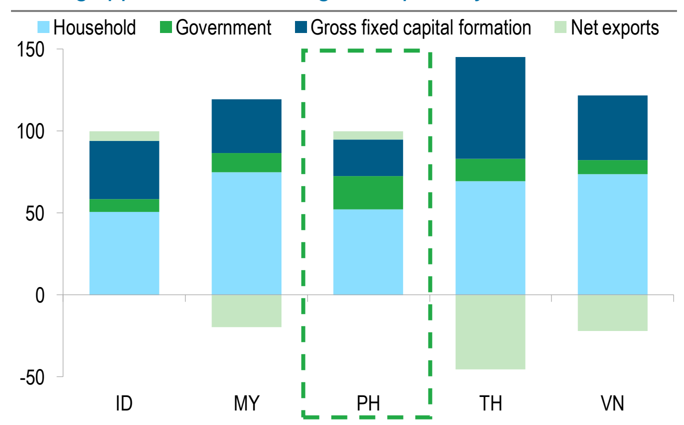
**Figure 3: Low inflation rates are likely to keep policy rates steady for now** *(%)*




Sources: CEIC, Standard Chartered Research

**Figure 4: Lagging the region in investment growth**

*Average ppt contributions to growth, past 5 years*




Sources: CEIC, Standard Chartered Research

# Singapore – Growth remains lacklustre

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## Strong supply-side constraints

Singapore's growth outlook for 2013 remains subdued. We expect still-lacklustre GDP growth of 3.2% this year, following a weak 1.3% in 2012. Slightly more constructive global demand and low base effects underpin our expectation of faster growth this year than in 2012, but our forecast is still low compared to the average 6.1% growth registered over the past decade.

***Subdued external demand and domestic supply-side constraints are impeding growth***

An improvement in the external picture is crucial for Singapore given that trade (goods plus services) make up 425% of GDP. In the meantime, the domestic sector is not doing much heavy lifting. Domestic activity rose only 2.9% in 2012. While this helped to offset the negative growth contribution from external demand (net exports subtracted 5ppt from 2012 growth), domestic growth was far lower than the average 4.6% registered over the past decade.

Singapore's ongoing economic restructuring will not be supportive of domestic activity in the near term. We expect higher labour and transport costs arising from restructuring-related measures such as restrictions on foreign labour to weigh on local businesses. In our latest survey of businesses in Singapore, there was a 31ppt increase in respondents citing 'managing costs' as their biggest challenge for 2013 (see *On the Ground, 5 February 2013, 'What ASEAN corporates think – Part 2'*).

The government appears intent on reducing Singapore's reliance on foreign labour and boosting productivity. In the budget for FY13 (starts 1 April 2013), the government plans to raise levies on foreign workers further in 2014 and 2015, among other measures (see *Economic Alert, 26 February 2014, 'Singapore – Economic and social restructuring'*). In the Population White Paper published in January, the government estimated that the non-resident population growth rate would slow to 3.8% p.a. from the 5.9% average since 2000 (this assumes that the non-resident population rises to 2.9mn by 2030; a range of numbers was provided, and we use the highest one). Having said that, the government will help companies weather this transition by providing assistance under programmes such as the Wage Credit Scheme (see *On the Ground, 15 February 2013, 'Singapore – Continued restructuring'*).

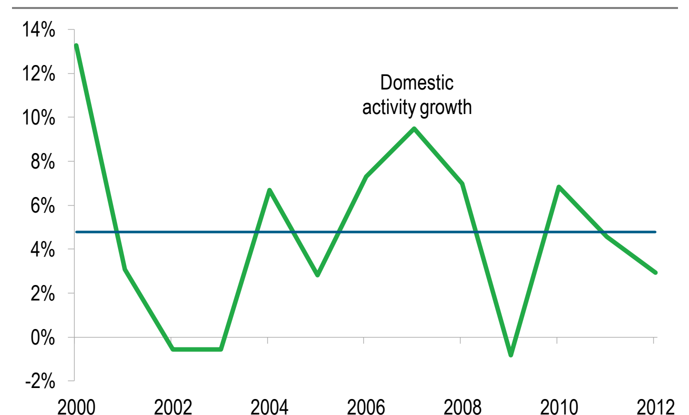
**Figure 1: Singapore macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 1.3 | 3.2 | 5.4 |
| CPI (% annual average) | 4.6 | 3.9 | 3.5 |
| Policy rate (%)* | - | - | - |
| USD-SGD* | 1.22 | 1.20 | 1.18 |
| Current account balance (% GDP) | 18.6 | 17.0 | 19.0 |
| Fiscal balance (% GDP) | 10.5 | 6.0 | 8.0 |

* *end-period;* Sources: CEIC, Dept. of Statistics, Standard Chartered Research

**Figure 2: Domestic activity is not helping much**

*% y/y*




Sources: CEIC, Standard Chartered Research

*Property market-cooling measures, while prudent, may hold back growth in the near term*

Measures to curb leverage in the economy may also affect near-term growth. The government introduced a seventh round of property market-cooling measures in January 2013, including an additional stamp duty for citizens purchasing their second residential properties and a further reduction in loan-to-value (LTV) limits for residential property purchases. In addition, measures to curb car purchases, including the introduction of LTV limits, were introduced in February. While such measures may be effective in preventing excessive leverage, they may hold back near-term growth. For example, the business services sector, which registered the second-fastest growth rate (3.9%) in 2012 after construction, is closely tied to the real-estate segment. (The construction sector should stay buoyant this year despite market-cooling measures, supported by public housing and mass transit projects.)

## Market outlook

*We expect the MAS to maintain its current monetary policy stance in April*

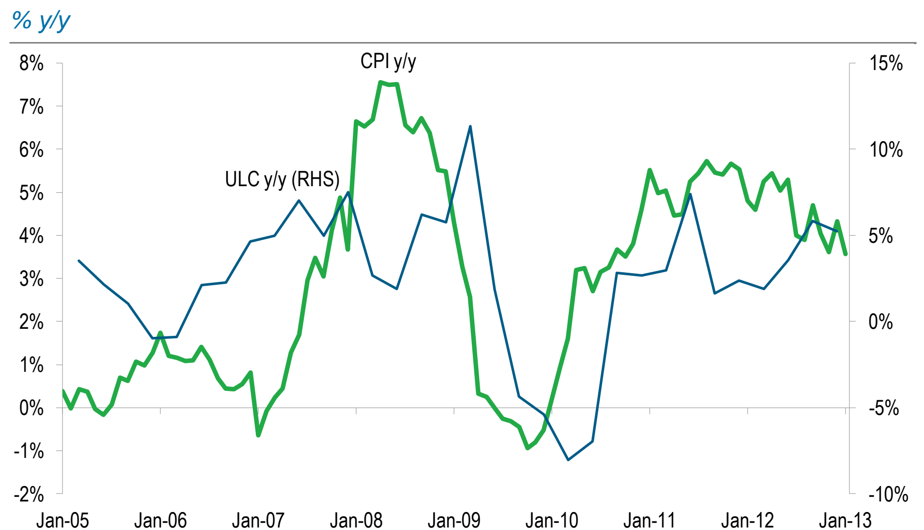
Despite the weak growth environment, we expect the Monetary Authority of Singapore (MAS) to maintain its current policy stance in its April Monetary Policy Statement. We estimate that the Singapore dollar nominal effective exchange rate (SGD NEER) policy band slope will remain at 2% p.a., with the width of the band kept at +/-2% on either side. Recent comments by the finance minister, who is also the MAS chairman, support this view. He noted that Singapore does not have an output gap given full employment, and that this precludes the introduction of easy monetary policy.

Moreover, while we expect inflation to be lower in 2013 than in 2012 (helped by a high base effect in transport and housing prices), it remains above trend. Ongoing wage increases due to tight labour conditions also require the MAS to be vigilant against second-round pass-through of inflation.

Although the MAS is likely to maintain its 2% p.a. appreciation stance for the SGD NEER policy band, the current underperformance of the domestic economy is negative for the SGD. Moreover, the SGD NEER is currently in the stronger half of the policy band and has room to weaken. As such, we are *Underweight* in SGD on a three-month view and *Neutral* on a 12-month view.

**Figure 3: Firm labour costs may limit downside to inflation**

*% y/y*




Sources: CEIC, Standard Chartered Research

# Sri Lanka – Less optimistic on growth rebound

## Fiscal deficit target remains challenging

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We see three reasons for a slower-than-expected recovery as the economy adjusts to bold central bank policy measures aimed at addressing growing imbalances: (1) more fiscal consolidation is required; (2) inflation is elevated, limiting room for near-term policy easing; and (3) the recovery in Sri Lanka's main trading partners, the EU and US, remains slow. That said, Sri Lanka looks well positioned to achieve slightly faster growth in 2013 than 2012's 6.5% given that the policy bias is shifting towards supporting growth.

*We have lowered our GDP growth forecast for 2013 to 6.7% from 7.2%*

The Ministry of Finance is confident that GDP growth in the 7.0-7.5% range is achievable given 15% projected growth in money supply. We are less optimistic for several reasons. Inflation is high, public debt remains elevated at c.80% of GDP, and tax revenue collection is less than 11.5% of GDP (among the lowest in Asia) as a consequence of falling imports and tax administration issues. The government relied heavily on capital spending cuts and delays in cash payments to achieve its fiscal deficit target of 6.2% of GDP in 2012; this is a concern, as lower capital spending may stifle growth. The 2013 deficit target of 5.8% of GDP will be challenging to meet unless significant revenue-generating reforms are implemented. In light of these concerns, we lower our 2013 GDP growth forecast to 6.7% from 7.2%; this also reflects the fact that 2012 was likely 6.5%, below our most recent 6.8% forecast.

*We have revised the timing of an expected 50bps rate cut to Q3-2013*

CPI inflation has been at or above 9% for the past six months, partly on account of adverse weather conditions and related food-price shocks. We expect inflation to moderate from Q2-2013 onwards, largely due to base effects and improved food supply. This should counter potential fuel price rises expected in the coming months. The slowing of credit and domestic demand growth to a more sustainable pace has created some room for monetary easing. However, high inflation continues to limit this near-term. We expect further rate cuts in 2013 to stimulate growth (following a 25bps cut in December 2012), taking the repurchase rate to 7.00%. However, we now expect a 50bps rate cut in Q3-2013, versus Q2-2013 previously, amid concerns that further policy easing could fuel inflationary pressures.

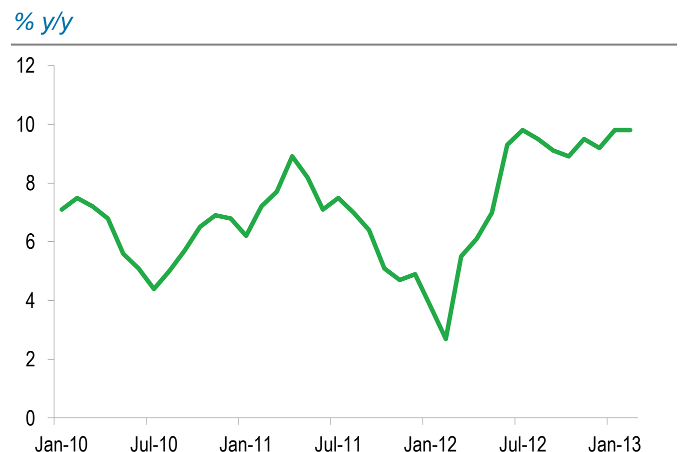
**Figure 1: Sri Lanka macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 6.5 | 6.7 (7.2) | 7.2 (7.7) |
| CPI (% annual average) | 7.6 | 7.5 | 7.2 |
| Policy rate (%)* | 7.50 | 7.00 | 6.75 |
| USD-LKR* | 127.7 | 126.5 | 124.0 |
| Current account balance (% GDP) | -6.1 | -4.5 | -4.0 |
| Fiscal balance (% GDP) | -6.2 | -6.5 | -6.0 |

* *end-period;* Sources: CBSL, Standard Chartered Research

**Figure 2: Headline inflation remains elevated**

*% y/y*




Sources: CBSL, Standard Chartered Research

## BoP surplus to support LKR gains

*The central bank expects a BoP surplus of USD 500mn in 2013*

Prolonged weakness in the global economy continues to undermine external demand; however, the balance of payments (BoP) is likely to remain in surplus in 2013. The central bank expects a USD 500mn BoP surplus, marginally higher than the USD100mn surplus achieved in 2012, as lower imports narrow the trade deficit further and higher tourism earnings and workers' remittances continue to offset weak export demand. The current account should continue to improve marginally in 2013, as oil prices are relatively stable and energy imports show signs of a structural decline on increased hydropower generation.

The capital account should also pose limited risk to the Sri Lankan rupee (LKR). The government has signalled that it does not intend to issue a sovereign bond in 2013, and the authorities are unlikely to support another year of LKR depreciation in light of debt dynamics. As such, we are constructive on the LKR, forecasting USD-LKR at 126.5 by end-2013.

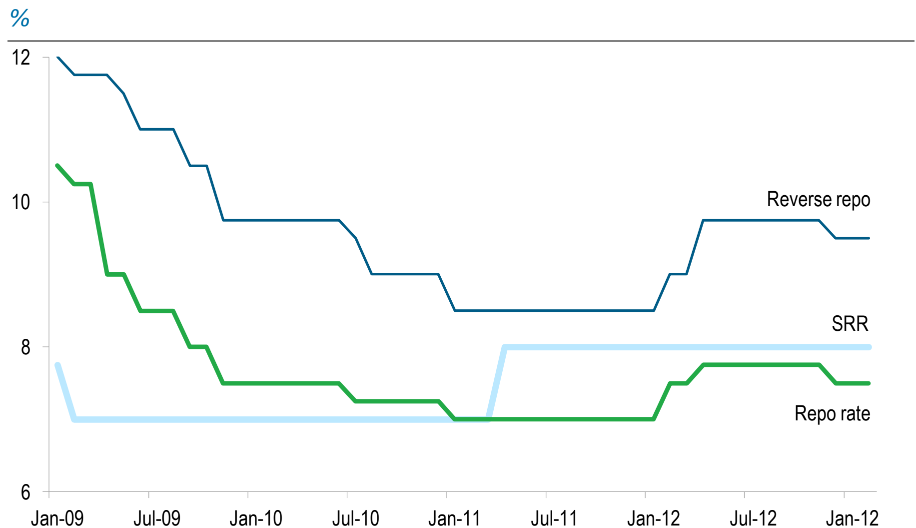
At the conclusion of its Article IV consultation with Sri Lanka in February 2013, the IMF said that the government still needs to implement significant reforms such as improving tax administration, reducing losses at state-owned enterprises, and promoting exports to strengthen revenue streams. This may have contributed to Sri Lanka not obtaining a fresh USD 1bn IMF loan to provide budget support for infrastructure projects. The key risk arising from not getting the new loan is that Sri Lanka's FX reserves may again dwindle due to higher import spending.

## Market outlook

Given still-high CPI inflation and the reduced likelihood of policy rate cuts before Q3-2013, we remain *Neutral* on T-bond duration. Although the surprise rate cut in December pushed the 5Y T-bonds to a one-year high in mid-January, the gains were not sustained. Since then, the 5Y T-bond yield has increased by c.40bps, bear steepening the yield curve. We expect demand and supply in the T-bond market to be balanced, and look to shift our duration stance to *Overweight* once CPI inflation eases.

**Figure 3: Limited room for further policy easing**

%




Sources: CBSL, Standard Chartered Research

# South Korea – Policy is still key

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## Slower growth and lower inflation call for stimulus

We revise down our 2013 GDP growth forecast to 2.5% from 3.0% to reflect recent downside surprises in key activity indicators. However, our base-case scenario remains a gradual recovery in exports and domestic demand, and we maintain our 2014 growth forecast of 3.8%. We also lower our 2013 inflation forecast to 2.2% from 2.4% to reflect recent data. Slower growth and lower inflation clearly call for macro stimulus, which we expect will be introduced in Q2-2013.

Recent GDP and activity data has reflected a rather disappointing pace of recovery. Q4 GDP growth was just 0.4% q/q, failing to bear out the recovery in exports and industrial production (IP) shown in monthly data. Investment activity continued to decline, while consumption growth picked up strongly to 0.8% q/q, thanks in part to a temporary tax cut on durable goods. January activity data showed m/m contractions in both IP and domestic demand, and the pace of the export recovery was lukewarm as of February. These signs do not bode well for Q1-2013 GDP.

*We expect exports to recover with the global economy; rising inventories in the manufacturing sector are a key negative factor*

We expect exports to recover throughout 2013 amid an improving global economic outlook. The negative impact of the weak Japanese yen (JPY) is currently a source of concern among businesses and policy makers. However, Korea's leading electronics makers have surpassed their Japanese rivals in global markets. Direct competition between Korea and Japan is now concentrated in the auto sector, which accounts for just 13% of Korea's exports. We are more concerned about rising inventories (Figure 1) in the manufacturing sector, led by the electronics industry.

*Policy measures are still key to a domestic demand recovery; housing-market conditions have yet to improve*

Supportive policy measures are a key condition for a domestic demand recovery. The strong consumption recovery seen in Q4-2012 may be difficult to sustain given the structural headwinds of weak income growth, a low savings rate and high household debt. The housing market has failed to show signs of improvement – prices and transaction volumes are still on a downtrend, and the number of unsold new homes has picked up recently (Figures 2 and 3). Housing-market weakness is taking a toll on construction, with construction orders falling 53% y/y in January 2013. It is also negative for the consumption outlook.

**Figure 1: South Korea macroeconomic forecasts**

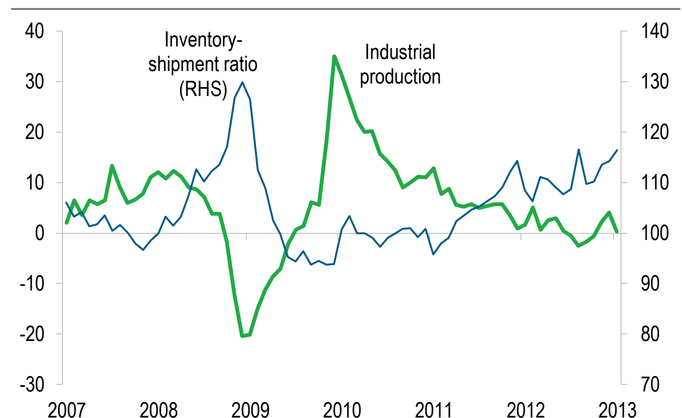
*Previous forecasts shown in brackets*

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 2.0 | 2.5 (3.0) | 3.8 |
| CPI (% annual average) | 2.2 | 2.2 (2.4) | 2.7 |
| Policy rate (%)* | 2.75 | 2.50 | 3.00 (3.50) |
| USD-KRW* | 1,071 | 1,025 | 990 |
| Current account balance (% GDP) | 3.8 | 3.0 | 2.5 |
| Fiscal balance (% GDP) | 1.0 | 0.5 | 1.0 |

* *end-period;* Source: Standard Chartered Research

**Figure 2: IP and inventory-shipment ratio**

*% y/y, SA (IP), 2010=100 (inventory-shipment ratio)*




Source: Statistics Korea

Uncertainty about economic policy remains following the December 2012 presidential election. Most economists are strongly urging stimulus policies, but key figures in the Park administration have not indicated a clear stance on macroeconomic policy. We believe major decisions are made by President Park herself.

*KRW 20tn supplementary budget and a 25bps BoK rate cut are likely in Q2-2013*

We expect macroeconomic stimulus measures to be rolled out in Q2, and the government is likely to propose a KRW 20tn supplementary budget. With the launch of key welfare measures likely to be postponed until next year, the government will not have to worry about financing such programmes this year. But there is still a strong need to increase spending to boost domestic demand. In addition, the 2013 budget unrealistically (in our view) assumes that the fiscal surplus will rise despite sluggish growth, so it is likely to be revised anyway. We expect the Bank of Korea (BoK) to cut the base rate by 25bps to 2.5% in Q2-2013 as a part of a policy mix of monetary and fiscal easing.

*We do not expect significant changes in FX policy; mortgage-related regulations are likely to be eased*

We do not expect FX policy to change significantly from the long-held approach of conducting smoothing operations to moderate volatility. In other words, we do not expect the Park administration to intentionally strengthen or weaken the Korean won (KRW). We see the introduction of a financial transactions tax or a Tobin tax as unlikely, as it could cause market turmoil by unnecessarily weakening the KRW. Meanwhile, the argument for a strong KRW to support domestic demand is overwhelmed by concerns about JPY weakness.

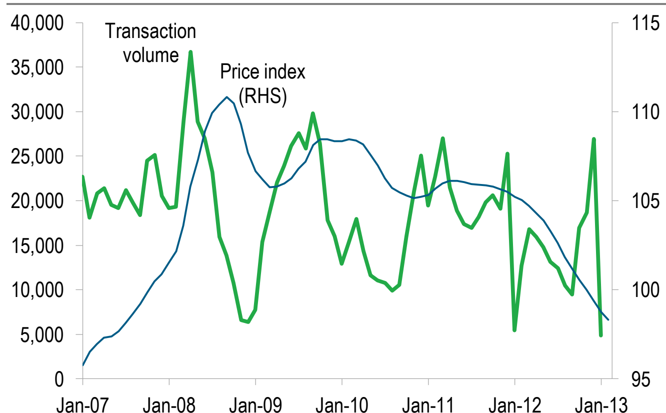
We continue to expect measures to boost the housing market. The reduction of the property acquisition tax is likely to be extended until the end of 2013, and the capital gains tax on property is likely to be cut. The most powerful measures to boost housing prices are likely to involve easing mortgage-related regulations such as the limit on loan-to-value and debt-to-income ratios. We expect these to be rolled out this year, despite remaining concerns about household debt.

## Market outlook

We recently downgraded our short-term FX weighting on the KRW to *Neutral* from *Overweight*, reflecting greater USD strength within North Asia than we had previously forecast and the likelihood of additional broad USD gains into mid-year. We maintain our long-term *Overweight* weighting, reflecting Korea's consistent current account surpluses. We also recommend a KRW IRS 2Y/10Y curve steepener, based on our call for a 25bps BoK rate cut and a KRW 20tn supplementary budget in Q2-2013.

**Figure 3: Housing price index and transaction volume**

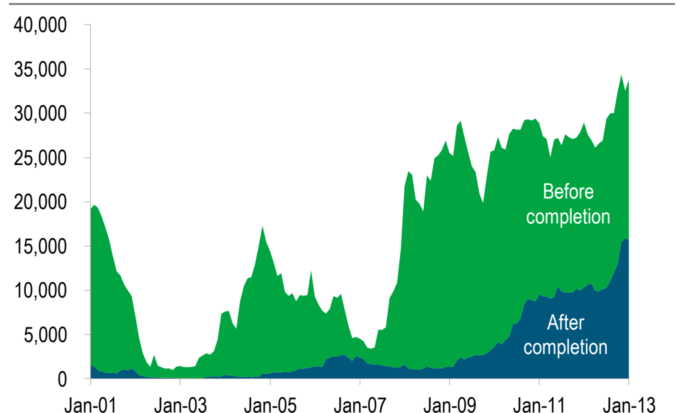
*Apartments, Seoul metropolitan area*




Sources: Ministry of Land and Transport, Korea Appraisal Board

**Figure 4: Unsold new homes**

*Units, Seoul metropolitan area*




Source: Ministry of Land and Transport

# Taiwan – Improving confidence

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## A better 2013 outlook; inflation stays elevated

We expect Taiwan's real GDP growth to rebound to 3.9% in 2013 after a disappointing 2012. This is slightly better than the official growth forecast of 3.59%. We forecast that fixed capital investment will rebound strongly in 2013 after a decline in 2012 amid growing signs of improving market confidence, whereas the government expects a milder investment rebound.

*We expect Taiwan's growth to rebound to 3.9% in 2013 on steady recovery in the US and mainland China and the improving tech-sector outlook*

Recent data shows the economy gaining strength: export sales, industrial production, and capital-goods imports are all up. The leading indicators index – a key gauge of domestic economic activity over the next two to three months – also points to firmer growth (Figure 2) amid signs of a steady recovery in the US and mainland China. The rebound in consumer confidence, alongside a steady job market, is likely to lift private consumption. We expect the unemployment rate to fall below 4% in 2013 for the first time since 2008.

The recent signing of the long-awaited cross-straits currency settlement and investment protection agreement is also boosting sentiment. Foreign investors have net-purchased more than USD 1.7bn of Taiwan equities since January 2013, driving the benchmark equity index 3.4% higher YTD. Ongoing efforts by the ruling Nationalist (KMT) Party to normalise bilateral trade with mainland China are yielding positive results. Visitor arrivals from mainland China reached a record 2.5mn in 2012, boosting sales and employment in Taiwan's retail and services sectors. We see further upside in 2013, as the two sides have agreed to increase the number of mainland Chinese tourists travelling on group visas to 5,000 per day from 4,000. Taiwan and mainland China has also reached an agreement to increase the number of weekly direct cross-straits flights by 98 to 616 to meet surging demand.

*Following the February cabinet reshuffle, the new Premier has said boosting the economy will be the top priority*

The government will want to maintain the current growth momentum in 2014, when Taiwan will hold nationwide '7'-in-1' elections. Newly appointed Premier Jiang Yih-huah, who was named to the post after a cabinet reshuffle in February, reiterated that boosting the economy will be the government's top priority. According to local media reports, the government is studying pro-growth policies including relaxing restrictions on the hiring of foreign labour by local businesses, making it easier for qualified overseas companies to acquire land, and reducing interest rates on loans.

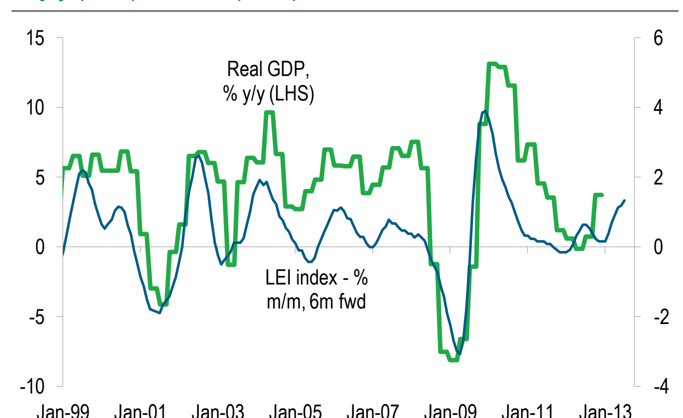
**Figure 1: Taiwan macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 1.3 | 3.9 | 4.3 |
| CPI (% annual average) | 1.9 | 1.8 | 1.3 |
| Policy rate (%)* | 1.88 | 2.25 | 2.75 |
| USD-TWD* | 29.0 | 28.5 | 27.9 |
| Current account balance (% GDP) | 10.2 | 8.0 | 7.0 |
| Fiscal balance (% GDP) | -1.5 | -1.5 | -1.2 |

* *end-period;* Sources: Bloomberg, Standard Chartered Research

**Figure 2: Economic growth momentum is picking up**

*% y/y (LHS); % m/m (RHS)*




Sources: Bloomberg, Standard Chartered Research

### Rate hikes are likely to resume in June

*We see a rising possibility that the central bank will resume rate hikes in H2-2013, given upside risks to inflation*

With the growth recovery intact, there will be growing pressure on policy makers to shift their policy focus to curbing inflation risks. This is especially true considering Taiwan's prolonged period of negative interest rates, which may raise the risk of an asset-price bubble.

We expect headline CPI inflation to stay elevated at 1.8% y/y in 2013, little changed from 1.9% in 2012. Although the government has raised its 2013 inflation forecast for a second time to 1.37%, we believe achieving this would be a challenge. A recent hike in medical fees pushed up core CPI inflation to a four-year high in February 2013. The government may push for another round of hikes in retail fuel and electricity prices, and implement a 5-10% increase in tuition fees starting in H2-2013.

## Market outlook

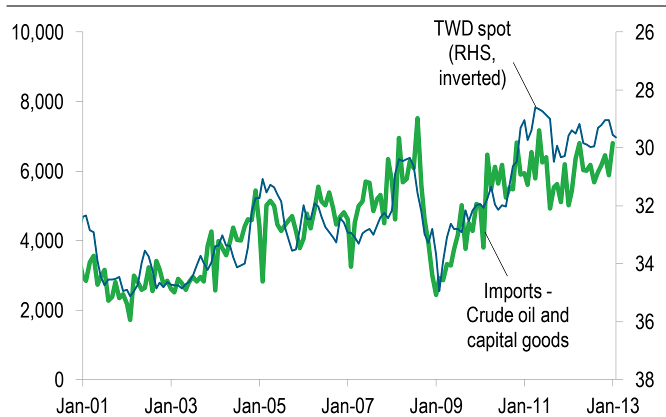
*We have a short-term Neutral weighting on the TWD and a Neutral outlook on TWD rates*

We have a short-term *Neutral* FX weighting and a medium-term *Overweight* weighting on the Taiwan dollar (TWD), forecasting USD-TWD at 28.50 by the end of 2013. Further cross-straits liberalisation will boost investor confidence, and the improving fundamental backdrop – reflected in the recovery in industrial production and exports – supports TWD appreciation against the USD (see Figure 3). Elevated inflation risk also argues for the need for greater tolerance of strength in the TWD nominal effective exchange rate (NEER), shown in Figure 4 (see *FX Alert, 18 February 2013, 'The TWD in the Year of the Snake'*).

We also have a *Neutral* duration recommendation on Taiwan Government Bonds (TGBs). Despite improving risk appetite, we expect onshore demand for TGBs to remain robust *(ACT, 22 January 2013, 'Positive Asian bond demand vs. supply in 2013')*. There are four scheduled auctions in Q2-2013, with total gross supply estimated at TWD 125-155bn, or about half the level in Q1. However, firm demand from the Postal Savings Bank (PSB) and local life insurers will continue to cap yields firmly. We maintain a *Neutral* duration outlook on the market and expect the curve to flatten further towards the long end.

**Figure 3: Strengthening economic fundamentals support the TWD outlook**

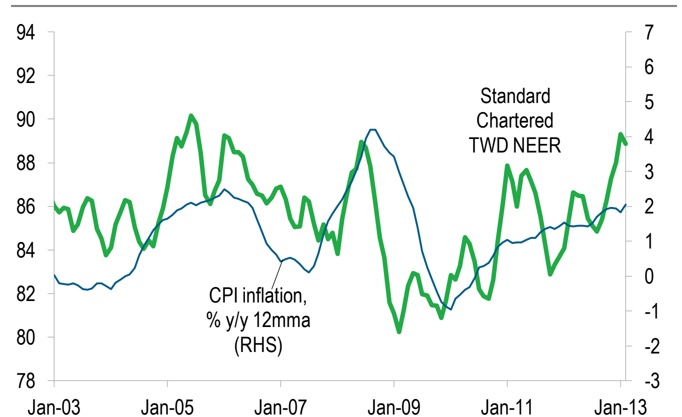
*USD mn (LHS); USD-TWD (RHS)*




Sources: Bloomberg, Standard Chartered Research

**Figure 4: Policy makers are seen tolerating TWD strength amid relatively high inflation**

*Index (LHS); % y/y (RHS)*




Sources: Bloomberg, Standard Chartered Research

# Thailand – Uneven recovery ahead

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## Consumption-led growth may not be sustainable

We maintain our 2013 GDP growth forecast of 4.0%, even as the Thai authorities have indicated that they may revise up their forecast range to 5-6%. We believe that consumption-led growth may not be sustainable given higher household debt, while Thai baht (THB) appreciation is not supportive of the export outlook.

*The economy was boosted in 2012 by post-flood reconstruction and a one-off boost to household consumption from a tax rebate for first-time car buyers*

Bank of Thailand (BoT) Governor Prasarn Trairatvorakul and Finance Minister Kittirat Na Ranong have both hinted recently that Thailand's 2013 GDP forecast should be revised up, following robust growth of 6.4% in 2012. We believe this view of the country's growth prospects may be too optimistic, and see risks of an uneven economic recovery in 2013.

Growth in 2012 was boosted by factors such as reconstruction following the 2011 floods and a tax rebate for first-time car buyers. A closer look at the components of last year's 6.4% expansion shows that the economy may not have been as healthy as the headline number suggests. Growth surged to 18.9% y/y in Q4-2012 after averaging a moderate 2.6% y/y in the first three quarters of the year. This was largely a result of the base effect, created by the sharp 8.9% y/y contraction in Q4-2011 due to the floods.

More importantly, Q4 growth was driven entirely by consumption, which expanded 2.6% q/q, seasonally adjusted (SA). Private investment saw zero growth, government spending contracted 0.8% q/q SA, and net exports fell 2.1% q/q SA. Strong consumption growth was driven by the tax rebate for first-time car buyers (which expired at the end of 2012); this was evident in a significant increase in auto production and sharp growth in passenger car sales (Figure 2).

## Strengthening THB is not supportive of exports

*The recovery in manufacturing production was driven largely by the auto sector*

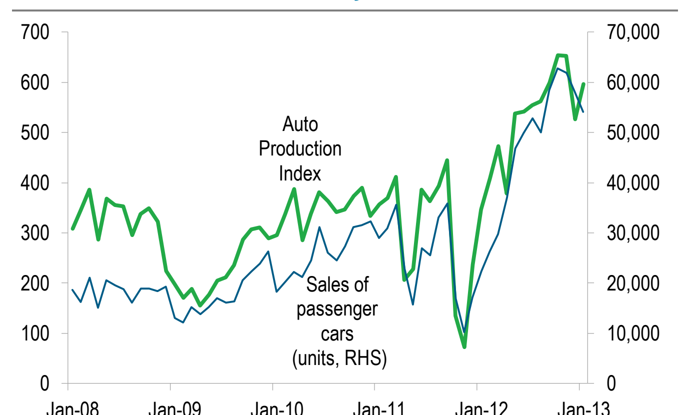
In 2013, we see signs of slower growth momentum unless the government expedites public investment projects and/or the global economic environment surprises on the upside. We expect manufacturing production to grow a modest 3-4% this year given the recovery in the electronics sector. Although auto production surged 73.1% in 2012, the overall manufacturing production index rose a moderate 2.5%. Production

**Figure 1: Thailand macroeconomic forecasts**

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 6.4 | 4.0 | 5.5 |
| CPI (% annual average) | 2.9 | 3.1 | 3.6 |
| Policy rate (%)* | 2.75 | 2.50 | 3.50 |
| USD-THB* | 30.7 | 29.5 | 29.8 |
| Current account balance (% GDP) | 0.6 | -0.4 | -0.9 |
| Fiscal balance (% GDP)** | -3.2 | -2.6 | -2.0 |

** end-period; ** for fiscal year ending 30 September;*
Sources: BoT, Standard Chartered Research

**Figure 2: Consumption growth was driven mainly by the tax rebate for first-time car buyers**




Sources: BoT, Standard Chartered Research

of textiles and electronics products continued to shrink by 17.7% and 14%, respectively – despite the delivery of the backlog of export orders after the floods. This suggests that the production recovery in 2012 was not broad-based, but was driven largely by auto sector, likely as a result of the one-off tax rebate.

On the expenditure front, household consumption is unlikely to maintain its growth momentum given the higher household debt burden and the expiry of the tax rebate. Consumer loan growth accelerated to 21.6% in 2012 from 15.8% in 2011, driven by auto leasing and personal loans. Private investment is also expected to cool given higher inventories in Q4-2012 and fading reconstruction demand. Manufacturers were running at 65% capacity on average in 2012, suggesting no urgent need for new investment to expand capacity.

*Export growth is likely to gather momentum only gradually, while public investment may not take place until Q4-2013*

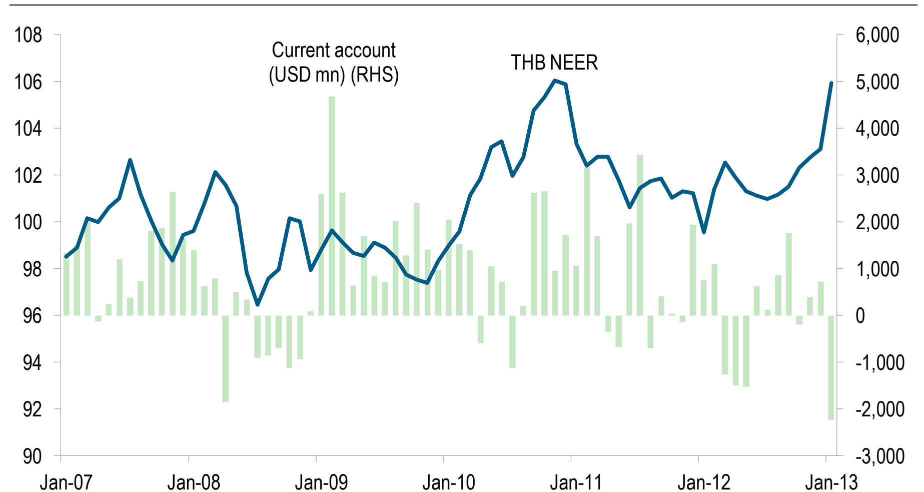
Export growth is likely to gather momentum only gradually. Although the global economic outlook is improving, ongoing THB appreciation is not supportive of exports. The THB nominal effective exchange rate has strengthened by an average 8% against trading-partner currencies since the end of 2008 (Figure 3). At the same time, the current account has deteriorated as import growth has consistently outpaced export growth, particularly in 2012. Against this backdrop, Thailand's recovery may not be smooth unless the government executes a long-awaited THB 2tn public investment plan. The passage of special bills to finance such investment projects will take time, and actual investments may not take place until Q4-2013.

## Market outlook

We currently have *Neutral* short-term and medium-term FX weightings on the THB. We forecast that the THB will continue to appreciate versus the US dollar, reaching 29.50 by end-Q1, before weakening in Q2 due to seasonal factors.

In the rates market, we have an *Overweight* duration stance on THB bonds. The market is supported by a solid demand/supply outlook and a dovish central bank. We expect the BoT to cut the policy rate by 25bps to 2.50% in Q2, while we expect demand from local pension and insurance firms to remain strong. We recommend that real-money funds buy 10Y THB government bonds, as local demand should cap risks of a sell-off.

**Figure 3: Current account has deteriorated along with THB appreciation**
*THB NEER; USD mn*




Sources: BoT, Standard Chartered Research

# Vietnam – Striking the right balance

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## Inflation, growth and structural reforms are key themes

We expect a mild recovery in Vietnam in 2013 after below-trend growth in 2012. Striking a balance between controlling inflation and stimulating growth will be a tough task for policy makers this year, while pushing through structural reforms is key to achieving sustainable longer-term growth, in our view.

We expect the pace of the recovery to be gradual, with GDP growth picking up to 5.5% in 2013 from 5.0% in 2012. Economic data for January and February points to a subdued start to the year. Retail sales registered record-low y/y growth, industrial production and exports were volatile, credit growth was negative, and money supply increased only 3% between December 2012 and February 2013. However, considering the distortion from the Lunar New Year holidays and expectations of more supportive economic policies and a stabilising global environment this year, business activity is likely to recover.

*We raise our 2013 inflation forecast to 8% from 7%*

Vietnam has been dealing with bouts of high inflation since 2008. While headline inflation fell back below 10% y/y in H2-2012 from above 20% due to earlier tightening by the State Bank of Vietnam (SBV), managing inflation remains a tough challenge – CPI inflation rebounded to above 7% in January and February, and food prices are on an uptrend. Increases in minimum wages and electricity prices are likely to pose upside risks to domestic prices. We raise our inflation forecast for 2013 from 7.0% to 8.0%, the same as the government's current target.

*We expect economic policy to be supportive of growth this year*

The SBV cut rates by 600bps in 2012 in response to sluggish economic momentum. The government also indicated that it would continue to offer tax concessions to corporates, and has recently pressed the central bank to ease monetary policy further to support the business sector. We now see a high possibility of one more 100bps cut in H1-2013, taking the policy rate to 8%. We expect this to be the final cut of the current cycle given remaining inflation risks.

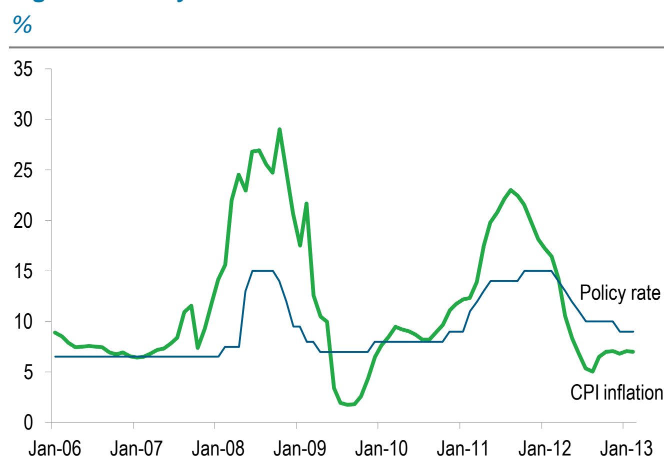
Vietnam has approved a master plan to boost the economy, focusing on restructuring the banking sector and state-owned enterprises over the 2013-20 period. Addressing banks' NPLs, reforming SOEs and managing the property-market slowdown will be crucial to achieving sustainable long-term growth (for more details, see *On the*

**Figure 1: Vietnam macroeconomic forecasts**
*Previous forecasts in brackets*

| | 2012 | 2013F | 2014F |
|---|---|---|---|
| GDP (real % y/y) | 5.0 | 5.5 | 6.2 |
| CPI (% annual average) | 9.2 | 8.0 (7.0) | 6.0 |
| Policy rate (%)* | 9.0 | 8.0 (10.0) | 8.0 (10.0) |
| USD-VND* | 20,840 | 21,000 | 20,600 |
| Current account balance (% GDP) | 0.3 | 0.4 | -0.5 |
| Fiscal balance (% GDP) | -4.8 | -4.7 | -4.5 |

* *end-period;* Sources: CEIC, Standard Chartered Research

**Figure 2: Policy rate tracks volatile inflation**
*%*




Sources: CEIC, Standard Chartered Research

*Ground, 26 February 2013, 'Vietnam – Navigating the macro landscape'*). We welcome positive developments so far, including a proposal to increase foreign ownership in the banking sector, the establishment of an asset management company to deal with banks' NPLs, measured loosening of restrictions on the real-estate sector, and equitisation of SOEs.

## Market outlook

*Benign CPI inflation and an improvement in the current account balance should support the VND in the event that the SBV lowers interest rates further*

The Vietnamese dong (VND) has weakened since mid-February. The government has denied FX manipulation and has committed to maintaining a stable FX market. We forecast that CPI inflation will fall modestly to 8% in 2013 in from 9.6% in 2012, while the current account surplus is likely to improve to 0.4% of GDP from 0.3% in 2012. Hence, we maintain our USD-VND forecast of 21,000 for the rest of 2013.

*Refinance rate cut to drive VGB yields lower; funding pressure remains minimal*

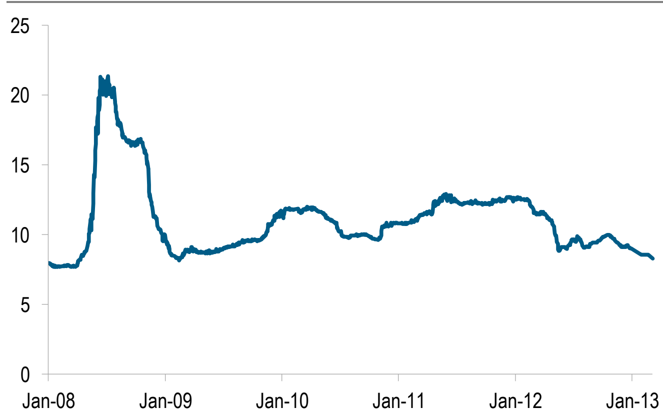
Vietnam Government Bond (VGB) yields have fallen to four-year lows following rate cuts in 2012, and we expect them to continue to trend lower in 2013 if the refinance rate is lowered to 8% from 9% currently. Demand/supply dynamics are supportive of bonds. Funding needs amount to VND 162tn, or 4.8% of GDP (the same as in 2012). We estimate gross 2013 marketable VGB supply at VND 120tn, and net supply at VND 60tn (versus VND 149tn and VND 84tn, respectively, in 2012). Issuance will be skewed towards the front end of the curve, which is the most liquid. We expect 25% of supply to be in the 1Y, 2Y and 3Y tenors (each), 15% in the 5Y, and 10% in the 10Y. Supply risk remains low, as the government can tap official development assistance and bilateral loans when market-based fund-raising rates rise.

*Demand from onshore banks is robust as liquidity conditions ease*

Banks are the largest holders of VGBs, with estimated ownership of more than 95% of the total outstanding, and we expect fresh demand to easily absorb 80-90% of supply. Liquidity conditions have eased significantly since mid-2012 amid liquidity injections from the central bank and slowing credit growth. The current focus on banking-sector restructuring is likely to further curb risk appetite and support demand for VGBs. At 8.2%, the 2Y VGB offers 5.8% carry p.a. over the interbank overnight funding rate, or 1.2% over the 7-day reverse repo rate offered by the SBV. We expect the 2Y VGB to bottom at 7.7% in Q2-2013, before rising marginally to 8% by the year-end.

**Figure 3: 2Y government bond yield has trended lower**

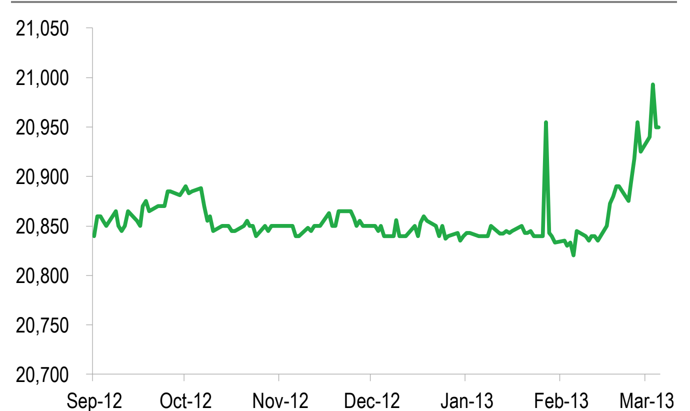
*2008 to present*




Sources: Bloomberg, Standard Chartered Research

**Figure 4: VND depreciation has accelerated lately**

*USD-VND*




Sources: Bloomberg, Standard Chartered Research

# Forecasts – Economies and FX

***Forecasts in BLUE (RED) indicate upward (downward) revision***

| Country | Real GDP growth (%) | | | | | Inflation (yearly average %) | | | | | Current account (% of GDP) | | | | | FX | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | Q1-13 | Q2-13 | Q3-13 | Q4-13 |
| **Majors** | **1.3** | **1.2** | **1.1** | **2.0** | **1.5** | **1.9** | **1.8** | **1.5** | **1.8** | **1.9** | **-0.9** | **-1.0** | **-0.6** | **-0.7** | **-0.8** | | | | |
| US^ | 1.7 | 2.2 | 2.0 | 3.0 | 2.5 | 1.4 | 1.8 | 1.7 | 2.0 | 2.0 | -3.1 | -3.0 | -3.0 | -3.1 | -2.9 | N.A. | N.A. | N.A. | N.A. |
| Euro area | 1.4 | -0.4 | -0.5 | 1.3 | 1.5 | 2.7 | 2.5 | 1.7 | 1.5 | 1.9 | 0.3 | 0.9 | 1.5 | 1.3 | 1.0 | 1.29 | 1.27 | 1.30 | 1.35 |
| Japan | -0.7 | 1.9 | 1.7 | 0.8 | 1.3 | -0.2 | 0.0 | 0.1 | 1.8 | 1.4 | 2.0 | 1.0 | 2.0 | 2.3 | 2.1 | 93.00 | 98.00 | 96.00 | 95.00 |
| UK | 0.9 | -0.1 | 1.1 | 1.7 | 1.9 | 4.4 | 2.8 | 2.5 | 2.0 | 2.1 | -1.9 | -3.8 | -2.0 | -1.8 | -2.5 | 1.55 | 1.55 | 1.59 | 1.63 |
| Canada | 2.5 | 1.8 | 2.1 | 2.5 | 3.0 | 2.5 | 2.1 | 2.0 | 2.2 | 2.2 | -3.0 | -3.2 | -2.8 | -2.6 | -2.3 | 0.99 | 1.00 | 0.98 | 0.98 |
| Switzerland | 1.9 | 0.9 | 1.2 | 2.1 | 1.9 | 0.3 | -0.7 | 0.4 | 0.9 | 0.9 | 10.5 | 12.7 | 12.3 | 10.5 | 10.0 | 0.95 | 0.98 | 0.96 | 0.93 |
| Australia | 2.5 | 3.6 | 3.1 | 3.3 | 3.3 | 3.3 | 1.8 | 2.6 | 2.5 | 2.6 | -2.4 | -3.7 | -5.5 | -5.9 | -5.9 | 1.03 | 1.04 | 1.06 | 1.07 |
| New Zealand | 1.5 | 2.4 | 2.7 | 2.8 | 2.6 | 4.1 | 1.1 | 1.8 | 2.4 | 2.3 | -4.0 | -5.0 | -5.6 | -5.8 | -6.4 | 0.82 | 0.83 | 0.86 | 0.89 |
| **Asia** | **7.3** | **6.2** | **6.7** | **7.0** | **6.7** | **5.8** | **3.7** | **4.3** | **4.8** | **3.7** | **2.3** | **1.8** | **2.3** | **2.7** | **2.9** | | | | |
| Bangladesh* | 6.7 | 6.1 | 6.3 | 6.5 | 6.5 | 8.8 | 10.6 | 8.1 | 8.5 | 8.7 | 0.9 | 1.5 | 0.7 | 0.5 | 0.7 | 80.50 | 81.50 | 82.50 | 83.50 |
| China | 9.2 | 7.8 | 8.3 | 8.2 | 7.5 | 5.4 | 2.6 | 4.0 | 5.0 | 3.0 | 2.8 | 2.6 | 3.3 | 3.7 | 3.9 | 6.21 | 6.18 | 6.14 | 6.10 |
| *CNH* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 6.195 | 6.160 | 6.120 | 6.080 |
| Hong Kong | 5.0 | 1.4 | 3.4 | 4.5 | 4.5 | 5.3 | 4.1 | 4.5 | 4.5 | 4.0 | 5.2 | 3.0 | 3.5 | 4.5 | 5.0 | 7.760 | 7.765 | 7.760 | 7.770 |
| India* | 6.5 | 5.2 | 6.0 | 6.8 | 7.0 | 8.7 | 7.5 | 6.5 | 6.0 | 6.0 | -4.2 | -5.3 | -4.1 | -3.8 | -3.7 | 54.50 | 55.00 | 53.50 | 53.00 |
| Indonesia | 6.5 | 6.2 | 6.5 | 6.8 | 6.7 | 5.4 | 4.3 | 5.2 | 5.1 | 4.8 | 0.2 | -2.8 | -1.5 | -0.6 | 1.0 | 9,950 | 10,100 | 9,800 | 9,500 |
| Malaysia | 5.1 | 5.6 | 4.7 | 5.3 | 5.0 | 3.2 | 1.7 | 2.6 | 3.4 | 2.7 | 11.0 | 6.4 | 8.0 | 10.0 | 10.0 | 3.12 | 3.05 | 3.00 | 2.95 |
| Mongolia | 17.3 | 12.5 | 17.5 | 17.8 | 10.0 | 9.2 | 14.0 | 12.5 | 10.0 | 10.0 | -15.1 | -15.0 | -10.0 | -7.0 | -4.0 | 1,340 | 1,320 | 1,340 | 1,350 |
| Pakistan* | 2.4 | 3.7 | 3.8 | 4.0 | 4.5 | 13.9 | 10.8 | 8.5 | 11.0 | 11.0 | 0.3 | -2.1 | -1.0 | -2.0 | -2.2 | 98.00 | 101.00 | 103.00 | 105.00 |
| Philippines | 3.8 | 6.6 | 5.8 | 6.1 | 5.5 | 4.8 | 3.2 | 3.6 | 4.0 | 4.0 | 2.8 | 4.0 | 4.2 | 4.2 | 4.3 | 40.00 | 41.00 | 40.50 | 39.00 |
| Singapore | 5.3 | 1.3 | 3.2 | 5.4 | 5.0 | 5.1 | 4.6 | 3.9 | 3.5 | 3.5 | 21.9 | 18.6 | 17.0 | 19.0 | 20.0 | 1.23 | 1.22 | 1.21 | 1.20 |
| South Korea | 3.6 | 2.0 | 2.5 | 3.8 | 3.6 | 4.0 | 2.2 | 2.2 | 2.7 | 2.8 | 2.4 | 3.8 | 3.0 | 2.5 | 2.2 | 1,085 | 1,080 | 1,045 | 1,025 |
| Sri Lanka | 8.3 | 6.5 | 6.7 | 7.2 | 8.0 | 6.7 | 7.6 | 7.5 | 7.2 | 7.5 | -7.6 | -6.1 | -4.5 | -4.0 | -3.8 | 128.5 | 128.0 | 127.0 | 126.5 |
| Taiwan | 4.0 | 1.3 | 3.9 | 4.3 | 4.8 | 1.4 | 1.9 | 1.8 | 1.3 | 1.4 | 8.8 | 10.2 | 8.0 | 7.0 | 7.5 | 29.40 | 29.00 | 28.90 | 28.50 |
| Thailand | 0.1 | 6.4 | 4.0 | 5.5 | 6.0 | 3.8 | 2.9 | 3.1 | 3.6 | 4.0 | 3.7 | 0.6 | -0.4 | -0.9 | -1.5 | 29.50 | 30.25 | 29.75 | 29.50 |
| Vietnam | 5.9 | 5.0 | 5.5 | 6.2 | 6.5 | 18.6 | 9.3 | 8.0 | 6.0 | 5.8 | -5.5 | 0.3 | 0.4 | -0.5 | -0.8 | 21,000 | 21,000 | 21,000 | 21,000 |
| **Africa** | **4.9** | **4.9** | **5.0** | **5.2** | **5.4** | **8.5** | **8.5** | **7.1** | **7.7** | **7.5** | **1.6** | **-1.8** | **-2.1** | **-2.5** | **-2.6** | | | | |
| Angola | 3.7 | 6.8 | 7.4 | 5.5 | 5.5 | 15.0 | 10.7 | 8.5 | 8.0 | 7.5 | 12.0 | 8.5 | 8.0 | 6.0 | 5.5 | 95.80 | 96.00 | 96.30 | 96.50 |
| Botswana | 8.0 | 3.8 | 4.1 | 4.2 | 4.3 | 6.9 | 7.5 | 6.3 | 5.9 | 5.7 | -1.5 | 3.9 | 3.4 | 2.7 | 2.4 | 8.09 | 8.05 | 8.03 | 7.98 |
| Cameroon | 3.5 | 4.7 | 4.7 | 4.5 | 4.5 | 2.6 | 3.0 | 3.0 | 2.5 | 2.5 | -3.8 | -4.0 | -3.8 | -3.5 | -3.5 | 525 | 525 | 517 | 505 |
| Côte d'Ivoire | -5.8 | 8.0 | 6.5 | 6.5 | 6.5 | 3.0 | 2.0 | 2.5 | 2.5 | 2.5 | 1.0 | -3.0 | -1.5 | -3.0 | -3.0 | 525 | 525 | 517 | 505 |
| The Gambia | -5.0 | -1.7 | 9.7 | 8.3 | 6.0 | 6.0 | 5.0 | 6.0 | 4.0 | 4.0 | -17.0 | -14.0 | -13.0 | -13.0 | -13.0 | 28.50 | 29.00 | 30.00 | 31.00 |
| Ghana | 14.4 | 7.8 | 8.2 | 7.6 | 7.2 | 9.0 | 9.4 | 10.9 | 9.3 | 7.4 | -9.2 | -9.8 | -8.5 | -9.5 | -8.2 | 1.94 | 1.92 | 1.88 | 1.90 |
| Kenya | 4.9 | 5.1 | 5.5 | 5.9 | 6.2 | 14.0 | 9.6 | 5.2 | 6.5 | 6.2 | -9.3 | -13.7 | -12.2 | -11.0 | -9.0 | 88.00 | 87.00 | 86.50 | 87.00 |
| Nigeria | 7.2 | 6.9 | 6.6 | 7.3 | 7.5 | 10.9 | 12.3 | 9.9 | 13.1 | 13.3 | 12.2 | 6.0 | 3.8 | 2.1 | 1.0 | 156.8 | 156.3 | 155.0 | 155.3 |
| Sierra Leone | 5.2 | 20.0 | 8.0 | 7.0 | 5.0 | 16.0 | 11.0 | 10.0 | 10.0 | 8.0 | -50.0 | -9.0 | -7.0 | -6.0 | -7.0 | 4,330 | 4,340 | 4,350 | 4,360 |
| South Africa | 3.5 | 2.4 | 2.8 | 3.4 | 3.8 | 5.0 | 5.6 | 5.4 | 5.1 | 4.9 | -3.4 | -6.3 | -5.9 | -5.5 | -5.4 | 9.30 | 9.10 | 8.95 | 8.70 |
| Tanzania | 6.1 | 6.5 | 6.8 | 7.0 | 7.2 | 11.3 | 15.6 | 9.8 | 7.4 | 6.7 | -9.5 | -16.0 | -13.4 | -11.5 | -10.2 | 1,615 | 1,620 | 1,625 | 1,630 |
| Uganda | 4.4 | 5.1 | 5.3 | 5.0 | 5.6 | 18.7 | 14.6 | 6.6 | 8.1 | 8.0 | -10.2 | -11.0 | -12.5 | -11.7 | -9.9 | 2,680 | 2,700 | 2,720 | 2,750 |
| Zambia | 6.6 | 7.0 | 7.4 | 7.5 | 7.8 | 8.8 | 6.4 | 7.3 | 7.4 | 6.2 | 3.2 | 1.2 | 2.6 | 2.9 | 3.0 | 5.30 | 5.20 | 5.10 | 5.05 |
| **MENA** | **6.3** | **3.5** | **3.8** | **4.1** | **4.3** | **5.2** | **5.9** | **5.2** | **5.0** | **4.9** | **7.4** | **8.3** | **7.2** | **6.9** | **6.3** | | | | |
| Bahrain | 1.9 | 3.9 | 3.5 | 4.5 | 4.5 | -0.4 | 3.2 | 3.0 | 2.8 | 2.8 | 12.0 | 10.5 | 10.0 | 10.0 | 10.0 | 0.38 | 0.38 | 0.38 | 0.38 |
| Egypt* | 1.8 | 2.2 | 2.0 | 3.5 | 4.5 | 11.3 | 8.7 | 7.7 | 8.5 | 8.0 | -1.2 | -3.1 | -2.9 | -2.5 | -2.1 | 6.79 | 6.88 | 6.95 | 6.98 |
| Jordan | 2.4 | 2.9 | 3.2 | 3.5 | 4.0 | 4.6 | 4.5 | 5.0 | 5.2 | 5.0 | -12.0 | -14.1 | -9.9 | -8.0 | -6.5 | 0.71 | 0.71 | 0.71 | 0.71 |
| Kuwait* | 4.7 | 3.0 | 3.0 | 3.5 | 4.0 | 5.0 | 4.4 | 2.6 | 3.7 | 3.6 | 30.0 | 40.0 | 35.0 | 35.0 | 30.0 | 0.27 | 0.27 | 0.27 | 0.27 |
| Lebanon | 1.5 | 1.5 | 2.5 | 4.5 | 4.5 | 5.0 | 5.5 | 5.5 | 5.0 | 4.5 | -17.5 | -19.5 | -16.0 | -15.0 | -14.0 | 1,500 | 1,500 | 1,500 | 1,500 |
| Oman | 4.1 | 4.7 | 4.0 | 4.0 | 4.3 | 4.0 | 3.0 | 3.3 | 3.5 | 3.6 | 10.0 | 12.0 | 7.5 | 7.0 | 7.0 | 0.39 | 0.39 | 0.39 | 0.39 |
| Qatar | 16.9 | 4.5 | 4.9 | 4.8 | 4.8 | 2.4 | 2.1 | 3.8 | 5.1 | 3.4 | 32.0 | 30.0 | 27.0 | 25.0 | 24.0 | 3.64 | 3.64 | 3.64 | 3.64 |
| Saudi Arabia | 6.8 | 6.8 | 4.8 | 4.2 | 3.9 | 6.1 | 4.9 | 4.9 | 5.0 | 4.2 | 22.0 | 21.0 | 19.5 | 18.7 | 18.7 | 3.75 | 3.75 | 3.75 | 3.75 |
| Turkey | 8.5 | 3.0 | 4.0 | 4.5 | 4.8 | 6.5 | 9.0 | 7.6 | 6.8 | 7.0 | -9.8 | -7.5 | -8.0 | -7.2 | -7.6 | 1.83 | 1.85 | 1.85 | 1.80 |
| UAE | 4.2 | 3.4 | 3.5 | 3.3 | 3.2 | 0.9 | 1.5 | 2.9 | 2.8 | 3.2 | 11.2 | 10.2 | 8.5 | 7.4 | 7.1 | 3.67 | 3.67 | 3.67 | 3.67 |
| **Latin America** | **3.8** | **2.3** | **3.9** | **4.1** | **4.0** | **5.7** | **6.8** | **6.6** | **6.2** | **6.0** | **-1.7** | **-1.7** | **-2.0** | **-2.3** | **-1.5** | | | | |
| Argentina | 6.3 | 1.0 | 3.0 | 3.0 | 3.5 | 9.2 | 24.5 | 25.0 | 22.0 | 21.0 | 0.1 | 0.5 | 0.7 | 0.0 | 0.0 | 5.05 | 5.25 | 5.45 | 5.65 |
| Brazil | 2.7 | 1.1 | 3.8 | 4.0 | 3.6 | 6.5 | 5.8 | 5.8 | 5.5 | 5.3 | -2.5 | -2.2 | -2.8 | -3.2 | -1.6 | 1.95 | 1.95 | 1.92 | 1.92 |
| Chile | 6.0 | 4.5 | 4.8 | 5.0 | 5.0 | 4.4 | 3.0 | 3.0 | 3.0 | 3.0 | -1.0 | -2.5 | -2.0 | -1.0 | -1.0 | 480 | 475 | 470 | 465 |
| Colombia | 5.7 | 4.6 | 4.8 | 5.0 | 5.0 | 3.7 | 3.3 | 3.1 | 3.1 | 3.0 | -2.7 | -3.0 | -2.8 | -3.0 | -3.0 | 1,795 | 1,775 | 1,760 | 1,760 |
| Mexico | 3.9 | 3.8 | 3.6 | 4.0 | 4.5 | 3.8 | 3.6 | 3.8 | 3.8 | 3.8 | -0.7 | -0.7 | -1.0 | -1.2 | -1.4 | 12.50 | 12.40 | 12.20 | 11.80 |
| Peru | 6.9 | 6.2 | 5.7 | 5.5 | 5.3 | 4.7 | 3.3 | 2.7 | 2.5 | 2.5 | -1.6 | -2.5 | -2.0 | -2.0 | -2.0 | 2.55 | 2.55 | 2.55 | 2.54 |
| **Global** | **3.1** | **2.5** | **2.8** | **3.4** | **3.1** | **3.8** | **3.3** | **3.2** | **3.4** | **3.8** | **--** | **--** | **--** | **--** | **--** | | | | |

** Fiscal year starts in April in India and Kuwait, July in Bangladesh, Pakistan, and Egypt ^ Inflation: Core PCE deflator used for US*

Source: Standard Chartered Research

# Forecasts – Rates

***Forecasts in BLUE (RED) indicate upward (downward) revision***

| End-period | | Current | Q1-13 | Q2-13 | Q3-13 | Q4-13 | Q1-14 |
|---|---|---|---|---|---|---|---|
| | | | % | % | % | % | % |
| United States | Policy rate | 0-0.25 | 0-0.25 | 0-0.25 | 0-0.25 | 0-0.25 | 0-0.25 |
| | 3M LIBOR | 0.28 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 |
| | 10Y bond yield | 1.93 | 1.80 | 1.90 | 2.00 | 2.00 | 2.25 |
| Euro area | Policy rate | 0.75 | 0.75 | 0.50 | 0.50 | 0.50 | 0.50 |
| | 3M EURIBOR | 0.21 | 0.25 | 0.20 | 0.30 | 0.40 | 0.60 |
| | 10Y bond yield | 1.46 | 1.50 | 1.55 | 1.70 | 1.80 | 2.10 |
| United Kingdom | Policy rate | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| | 3M LIBOR | 0.51 | 0.55 | 0.60 | 0.70 | 0.80 | 0.90 |
| | 10Y bond yield | 1.96 | 2.10 | 2.10 | 2.20 | 2.35 | 2.70 |
| Australia | Policy rate | 3.00 | 3.00 | 3.00 | 3.00 | **3.00** | **3.50** |
| | 3M LIBOR | 3.17 | 3.25 | 3.25 | 3.25 | **3.25** | **3.75** |
| China | Policy rate | 6.00 | 6.00 | 6.00 | 6.00 | 6.25 | 6.75 |
| | 7-day repo rate | 3.01 | 3.35 | 3.40 | 3.45 | 3.60 | 4.00 |
| | 10Y bond yield | 3.60 | 3.65 | 3.80 | 3.90 | 4.00 | 4.10 |
| Hong Kong | 3M HIBOR | 0.38 | 0.38 | 0.38 | 0.40 | 0.40 | 0.40 |
| | 10Y bond yield | 1.21 | 1.20 | 1.30 | 1.40 | 1.50 | 1.60 |
| India | Policy rate | 7.75 | 7.50 | 7.25 | 7.00 | 7.00 | 7.00 |
| | 91-day T-bill rate | 8.12 | 7.40 | 7.20 | 7.00 | 7.00 | 7.20 |
| | 10Y bond yield | 7.86 | 7.50 | 7.25 | 7.25 | 7.25 | 7.50 |
| Indonesia | Policy rate | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 |
| | FASBI rate | 4.00 | 4.00 | 4.00 | 4.25 | 4.50 | 4.50 |
| | 10Y bond yield | 5.33 | 5.20 | 5.30 | 5.50 | 5.70 | 5.80 |
| Malaysia | Policy rate | 3.00 | 3.00 | 3.00 | 3.00 | 3.25 | 3.25 |
| | 3M KLIBOR | 3.21 | 3.20 | 3.20 | 3.20 | 3.45 | 3.45 |
| | 10Y bond yield | 3.47 | 3.40 | 3.50 | 3.60 | 3.70 | 3.75 |
| Mongolia | Policy rate | 13.25 | 13.00 | 13.00 | 13.00 | 13.00 | 13.00 |
| Philippines | Policy rate | 3.50 | 3.50 | 3.50 | 3.50 | 4.00 | 4.00 |
| | 3M PDST-F | 0.51 | 0.50 | 0.50 | 0.75 | 1.00 | 1.50 |
| | 10Y bond yield | 3.25 | 4.60 | 4.50 | 4.60 | 4.70 | 4.70 |
| Singapore | 3M SGD SIBOR | 0.38 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| | 10Y bond yield | 1.54 | 1.40 | 1.45 | 1.50 | 1.55 | 1.60 |
| South Korea | Policy rate | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 | 2.75 |
| | 91-day CD rate | 2.82 | 2.85 | 2.60 | 2.60 | 2.60 | 2.85 |
| | 10Y bond yield | 2.96 | 2.85 | 2.80 | 3.00 | 3.00 | 3.15 |
| Taiwan | Policy rate | 1.88 | 1.88 | 2.00 | 2.13 | 2.25 | 2.38 |
| | 3M TAIBOR | **0.88** | 0.90 | 0.95 | 1.00 | 1.05 | 1.10 |
| | 10Y bond yield | **1.23** | 1.30 | 1.40 | 1.50 | 1.60 | 1.60 |
| Thailand | Policy rate | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 | 2.50 |
| | 3M BIBOR | 2.88 | 2.70 | 2.55 | 2.60 | 2.65 | 2.70 |
| | 10Y bond yield | 3.64 | 3.35 | 3.30 | 3.30 | 3.30 | 3.30 |
| Vietnam | Policy rate (Refi rate) | 9.00 | 9.00 | **8.00** | **8.00** | **8.00** | **8.00** |
| | Overnight VNIBOR | 2.43 | 6.00 | **6.00** | **6.00** | **6.00** | **6.00** |
| | 2Y bond yield | 8.28 | 7.80 | 7.70 | 7.90 | 8.00 | 8.10 |
| Ghana | Policy rate | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 14.50 |
| | 91-day T-bill rate | 23.12 | 21.57 | 21.00 | 19.00 | 16.40 | 15.20 |
| | 5Y bond yield | 15.50 | 16.00 | 15.00 | 15.00 | 14.00 | 13.00 |
| Kenya | Policy rate | 9.50 | 9.00 | 8.50 | 8.50 | 8.50 | 8.50 |
| | 91-day T-bill rate | 9.75 | 9.90 | 10.20 | 9.25 | 8.75 | 8.50 |
| | 10Y bond yield | 12.00 | 13.00 | 12.50 | 12.00 | 11.50 | 11.70 |
| Nigeria | Policy rate | 12.00 | 12.00 | 12.00 | 12.00 | 12.00 | 13.00 |
| | 91-day T-bill rate | 10.72 | 12.24 | 12.80 | 12.40 | 12.20 | 12.90 |
| | 10Y bond yield | 10.62 | 10.80 | 11.00 | 12.00 | 11.50 | 11.70 |
| South Africa | Policy rate | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| | 91-day T-bill rate | 5.10 | 5.18 | 5.72 | 5.74 | 5.76 | 5.78 |
| | 10Y bond yield | 6.77 | 6.80 | 7.00 | 6.70 | 6.60 | 6.80 |

Source: Standard Chartered Research

# Forecasts – Commodities

| | Market close | m/m | Change YTD | y/y | Q4-12 | Q1-13 | vs Fwd | Q2-13 | vs Fwd | Q3-13 | vs Fwd | Q4-13 | vs Fwd | Q1-14 | vs Fwd | Q2-14 | vs Fwd | Q3-14 | vs Fwd | 2012 | 2013 | vs Fwd | 2014 | vs Fwd |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 11-Mar-13 | % | % | % | A | F | % | F | % | F | % | F | % | F | % | F | % | F | % | A | F | % | F | % |
| **Energy** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Crude oil (nearby future, USD/b)** | | | | | | | | | | | | | | | | | | | | | | | | |
| NYMEX WTI | 92.1 | -5.5 | 0.4 | -13.3 | 88 | 95 | 1% | 95 | 3% | 100 | 7% | 106 | 15% | 109 | 19.5% | 111 | 23.6% | 116 | - | 94.2 | 99 | 6% | 112 | 25% |
| ICE Brent | 110.2 | -7.2 | -0.9 | -12.1 | 110 | 114 | 1% | 111 | 2% | 112 | 5% | 116 | 10% | 116 | 11.3% | 117 | 14.1% | 121 | - | 111.7 | 113 | 5% | 118 | 16% |
| Dubai spot[1] | 106.1 | -5.6 | -0.6 | -14.1 | 107 | 111 | - | 108 | - | 109 | - | 113 | - | 113 | - | 115 | - | 118 | - | 108.9 | 110 | - | 116 | - |
| **Refined oil products cracks and spreads** | | | | | | | | | | | | | | | | | | | | | | | | |
| Singapore naphtha (USD/b)[1] | -0.9 | 0.0 | -77.6 | -71.2 | -3.9 | -4 | - | -3 | - | -2 | - | 2 | - | 0 | - | 0 | - | 0 | - | -5.5 | -1.8 | - | - | - |
| Singapore jet kerosene (USD/b)[1] | 22.9 | 0.0 | 30.1 | 73.7 | 19.2 | 20 | - | 21 | - | 22 | - | 23 | - | 0 | - | 0 | - | 0 | - | 17.8 | 21.5 | - | - | - |
| Singapore gasoil (USD/b)[1] | 21.7 | 0.0 | 47.8 | 58.1 | 17.5 | 19 | - | 21 | - | 22 | - | 21 | - | 0 | - | 0 | - | 0 | - | 17.1 | 20.8 | - | - | - |
| Singapore regrade (USD/b)[1] | 1.2 | 0.0 | -59.1 | -316.4 | 1.8 | -2 | - | -2 | - | -1 | - | -1 | - | 0 | - | 0 | - | 0 | - | 0.6 | -1.1 | - | - | - |
| Singapore fuel oil 180 (USD/b)[1] | -8.4 | 0.0 | -25.7 | 17.2 | -8.9 | -5 | - | -6 | - | -7 | - | -6 | - | 0 | - | 0 | - | 0 | - | -3.3 | -6.0 | - | - | - |
| Europe jet (USD/b)[1] | 27.7 | 42.2 | 63.8 | 98.9 | 20.0 | 15 | - | 14 | - | 15 | - | 14 | - | 0 | - | 0 | - | 0 | - | 18.4 | 14.6 | - | - | - |
| Europe gasoil (USD/b)[1] | 14.4 | -25.8 | 8.4 | 7.6 | 17.4 | 16 | - | 17 | - | 17 | - | 17 | - | 0 | - | 0 | - | 0 | - | 16.3 | 16.3 | - | - | - |
| Rotterdam 3.5% barges (USD/b)[1] | -10.5 | -43.8 | -48.4 | -24.1 | -17.3 | -12 | - | -13 | - | -11 | - | -13 | - | 0 | - | 0 | - | 0 | - | -12.4 | -12.0 | - | - | - |
| **Coal (USD/t)** | | | | | | | | | | | | | | | | | | | | | | | | |
| API4 | 84 | -1.8 | -6.0 | -19.2 | 87 | 91 | 6% | 91 | 7% | 93 | 8% | 95 | 8% | 96 | 6.5% | 96 | 4.5% | 96 | - | 93 | 93 | 7% | 96 | 4% |
| API2 | 88 | -0.2 | -2.5 | -10.2 | 90 | 95 | 9% | 93 | 8% | 93 | 6% | 96 | 6% | 98 | 5.7% | 98 | 3.7% | 98 | - | 94 | 94 | 7% | 98 | 2% |
| globalCOAL NEWC*[1] | 94 | 1.3 | -0.1 | -19.3 | 87 | 91 | - | 95 | - | 95 | - | 98 | - | 100 | - | 100 | - | 100 | - | 97 | 95 | - | 100 | - |
| **Metals** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Base metals (LME 3m, USD/t)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Aluminium | 1,952 | -7.5 | -5.5 | -12.1 | 2,020 | 2,100 | 4% | 2,100 | 8% | 2,100 | 7% | 2,200 | 11% | 2,300 | 15.7% | 2,300 | 14.6% | 2,300 | - | 2,052 | 2,125 | 8% | 2,300 | 14% |
| Copper | 7,758 | -5.5 | -1.9 | -7.9 | 7,921 | 8,000 | 1% | 8,250 | 6% | 8,250 | 6% | 8,800 | 13% | 9,500 | 21.3% | 9,500 | 21.0% | 9,500 | - | 7,948 | 8,325 | 6% | 9,500 | 21% |
| Lead | 2,196 | -8.2 | -4.9 | 3.6 | 2,203 | 2,150 | -7% | 2,300 | 5% | 2,300 | 4% | 2,300 | 4% | 2,500 | 12.4% | 2,500 | 12.1% | 2,500 | - | 2,074 | 2,263 | 2% | 2,500 | 12% |
| Nickel | 16,895 | -8.3 | -1.3 | -12.6 | 17,032 | 18,000 | 4% | 18,000 | 7% | 18,000 | 6% | 18,000 | 6% | 20,000 | 17.2% | 20,000 | 16.9% | 20,000 | - | 17,583 | 18,000 | 6% | 20,000 | 17% |
| Tin | 23,700 | -5.0 | 0.9 | 0.6 | 21,579 | 23,000 | -5% | 24,000 | 1% | 24,000 | 1% | 24,000 | 1% | 24,500 | 3.7% | 24,500 | 4.0% | 24,500 | - | 21,113 | 23,750 | 0% | 24,500 | 4% |
| Zinc | 1,961 | -10.5 | -4.9 | -5.4 | 1,981 | 2,100 | 3% | 2,150 | 10% | 2,150 | 9% | 2,250 | 13% | 2,400 | 19.3% | 2,400 | 18.7% | 2,400 | - | 1,965 | 2,163 | 9% | 2,400 | 18% |
| **Iron ore (USD/t)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Iron ore[2] | 120 | 5.3 | - | -11.8 | 121 | 140 | - | 140 | - | 133 | - | 140 | - | 125 | - | 125 | - | 125 | - | 129 | 138 | - | 125 | - |
| **Steel** (CRU assessment, USD/t)** | | | | | | | | | | | | | | | | | | | | | | | | |
| HRC, US[1] | 683 | 3.9 | - | 1.6 | 671 | 700 | - | 730 | - | 730 | - | 770 | - | 0 | - | 0 | - | 0 | - | 725 | 733 | - | - | - |
| HRC, Europe[1] | 600 | -7.5 | - | -11.1 | 624 | 590 | - | 590 | - | 570 | - | 590 | - | 0 | - | 0 | - | 0 | - | 669 | 585 | - | - | - |
| HRC, Japan[1] | 752 | -8.9 | - | -19.6 | 789 | 800 | - | 800 | - | 790 | - | 820 | - | 0 | - | 0 | - | 0 | - | 829 | 803 | - | - | - |
| HRC, China[1] | 658 | 9.1 | - | -2.8 | 630 | 664 | - | 717 | - | 788 | - | 795 | - | 0 | - | 0 | - | 0 | - | 653 | 741 | - | - | - |
| **Precious metals (spot, USD/oz)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Gold (spot) | 1,582 | -4.1 | -5.5 | -6.9 | 1,718 | 1,675 | 3% | 1,700 | 8% | 1,750 | 11% | 1,800 | 14% | 1,900 | 19.8% | 1,900 | 19.6% | 1,900 | - | 1,669 | 1,731 | 9% | 1,900 | 19% |
| Palladium (spot) | 779 | 0.8 | 10.4 | 10.8 | 654 | 750 | 1% | 800 | 3% | 800 | 3% | 850 | 9% | 950 | 21.6% | 950 | - | 950 | - | 645 | 800 | 4% | 950 | 22% |
| Platinum (spot) | 1,605 | -6.4 | 4.5 | -5.1 | 1,598 | 1,650 | 1% | 1,700 | 6% | 1,800 | 12% | 1,800 | 12% | 2,000 | 24.1% | 2,000 | 24.1% | 2,000 | - | 1,552 | 1,738 | 8% | 2,000 | 24% |
| Silver (spot) | 29 | -6.8 | -4.4 | -13.8 | 32.6 | 30 | 0% | 32 | 11% | 34 | 17% | 35 | 21% | 37 | 27.3% | 37 | 27.1% | 37 | - | 31.2 | 33 | 12% | 37 | 27% |
| **Agricultural products** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Softs (nearby future)** | | | | | | | | | | | | | | | | | | | | | | | | |
| NYBOT cocoa, USD/t | 2,129 | -2.3 | -4.8 | -11.8 | 2,421 | 2,250 | 4% | 2,300 | 8% | 2,350 | 9% | 2,350 | 9% | 2,400 | 10.8% | 2,400 | 10.3% | 2,400 | - | 2,346 | 2,313 | 7% | 2,400 | 10% |
| LIFFE coffee, USD/t *** | 2,136 | -2.3 | 8.8 | 7.8 | 1,961 | 2,050 | 0% | 2,075 | -5% | 2,100 | -4% | 2,100 | -3% | 2,100 | -2.8% | 2,100 | -3.1% | 2,100 | - | 2,016 | 2,081 | -3% | 2,100 | -3% |
| NYBOT coffee, USc/lb | 143 | 1.7 | -0.5 | -21.7 | 152 | 150 | 3% | 140 | -3% | 140 | -6% | 145 | -5% | 150 | -4.5% | 150 | -6.2% | 150 | - | 175 | 144 | -3% | 150 | -7% |
| NYBOT sugar, USc/lb | 19 | 4.1 | -3.5 | -20.8 | 19.7 | 18 | -3% | 19 | 1% | 22 | 15% | 23 | 16% | 25 | 25.4% | 25 | 24.8% | 25 | - | 22 | 21 | 7% | 25 | 24% |
| TOCOM RSS3 rubber#, JPY/kg | 301 | -10.8 | -2.2 | -12.5 | 264.7 | 300 | - | 315 | - | 320 | - | 320 | - | 315 | - | 320 | - | 325 | - | 274.3 | 314 | - | 323 | - |
| **Fibres** | | | | | | | | | | | | | | | | | | | | | | | | |
| NYBOT cotton No.2, USc/lb | 87 | 5.8 | 15.2 | -1.6 | 73 | 75 | -9% | 76 | -13% | 73 | -16% | 75 | -13% | 80 | -7.0% | 80 | -6.7% | 80 | - | 80 | 75 | -13% | 80 | -6% |
| **Grains & oilseeds (nearby future)** | | | | | | | | | | | | | | | | | | | | | | | | |
| CBOT corn (maize), USc/bushel | 735 | 5.4 | 5.1 | 9.3 | 736 | 710 | -1% | 700 | 0% | 680 | 15% | 680 | 22% | 720 | 27.5% | 700 | 22.1% | 700 | - | 694 | 693 | 8% | 710 | 27% |
| CBOT soybeans, USc/bushel | 1,515 | 6.1 | 6.2 | 13.3 | 1,482 | 1,450 | -1% | 1,400 | -5% | 1,450 | 6% | 1,500 | 18% | 1,350 | 5.9% | 1,400 | 9.6% | 1,350 | - | 1,464 | 1,450 | 4% | 1,375 | 9% |
| CBOT wheat, USc/bushel | 694 | -5.2 | -10.8 | 6.3 | 845.6 | 760 | 4% | 750 | 7% | 780 | 10% | 790 | 9% | 790 | 7.6% | 750 | 2.3% | 750 | - | 750.3 | 770 | 7% | 760 | 3% |
| CBOT rice, USD/cwt | 15 | -2.3 | 2.9 | 8.2 | 15.1 | 16 | 4% | 16 | 4% | 16 | 5% | 16 | 4% | 15 | -2.4% | 15 | - | 15 | - | 14.9 | 16 | 4% | 15 | -2% |
| Thai B rice 100%, USD/tonne*[1] | 600 | 0.3 | -0.7 | 2.9 | 597 | 600 | - | 600 | - | 625 | - | 625 | - | 630 | - | 630 | - | 630 | - | 589 | 613 | - | 630 | - |
| **Edible oils (nearby future)** | | | | | | | | | | | | | | | | | | | | | | | | |
| Palm oil (MDV,MYR/t) | 2,440 | -2.7 | 4.1 | -27.2 | 2,412 | 2,600 | 8% | 2,500 | 2% | 2,750 | 12% | 2,900 | 17% | 2,900 | 15.5% | 2,900 | 14.3% | 2,800 | - | 2,959 | 2,688 | 10% | 2,856 | 12% |
| Soyoil (CBOT, USc/lb) | 50 | -1.7 | 2.2 | -6.3 | 50 | 52 | 2% | 53 | 5% | 51 | 1% | 50 | 0% | 53 | 5.7% | 47 | -6.6% | 57 | - | 53 | 52 | 2% | 54 | 8% |

*weekly quote **monthly average ***10 tonne contract; [1]no forward price comparison available; [2]cost and freight at China's Tianjin port, (

Sources: Bloomberg, Standard Chartered Research

# Forecasts – GDP growth and inflation

## Quarterly forecasts

| | Real GDP growth (y/y) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1-11A | Q2-11A | Q3-11A | Q4-11A | Q1-12A | Q2-12A | Q3-12A | Q4-12A | Q1-13F | Q2-13F | Q3-13F | Q4-13F |
| US* | 0.1 | 2.5 | 1.3 | 4.1 | 2.0 | 1.3 | 3.1 | 0.1 | 1.6 | 2.5 | 2.8 | 3.2 |
| Euro area | 2.4 | 1.6 | 1.3 | 0.6 | -0.1 | -0.5 | -0.6 | -0.9 | -1.0 | -0.9 | -0.5 | 0.5 |
| Japan* | -7.0 | -3.4 | 10.6 | 0.4 | 6.1 | -0.9 | -3.7 | 0.2 | 2.4 | 3.6 | 4.8 | 4.4 |
| UK | 1.3 | 0.8 | 0.7 | 0.9 | 0.3 | -0.2 | 0.2 | 0.3 | 0.6 | 1.3 | 0.7 | 1.4 |
| Bangladesh | 6.6 | 6.3 | 6.7 | 6.5 | 5.9 | 5.5 | 5.8 | 6.0 | 6.5 | 6.7 | 6.3 | 6.5 |
| China | 9.7 | 9.5 | 9.1 | 8.9 | 8.1 | 7.6 | 7.4 | 7.9 | 8.0 | 8.3 | 8.5 | 8.3 |
| Hong Kong | 7.6 | 5.1 | 4.0 | 3.0 | 0.8 | 1.0 | 1.4 | 2.5 | 3.0 | 3.3 | 3.5 | 3.8 |
| India | 9.2 | 7.5 | 6.5 | 6.0 | 5.3 | 5.5 | 4.5 | 5.0 | 5.4 | 5.8 | 6.2 | 6.3 |
| Indonesia | 6.5 | 6.5 | 6.5 | 6.5 | 6.3 | 6.4 | 6.2 | 6.1 | 6.2 | 6.4 | 6.8 | 6.7 |
| Malaysia | 5.0 | 4.3 | 5.7 | 5.2 | 5.1 | 5.6 | 5.3 | 6.4 | 4.2 | 4.4 | 4.8 | 5.7 |
| Philippines | 4.9 | 3.6 | 3.2 | 4.0 | 6.3 | 6.0 | 7.2 | 6.8 | 5.3 | 6.2 | 5.8 | 5.9 |
| Singapore | 9.9 | 1.8 | 5.7 | 3.6 | 1.5 | 2.3 | 0.0 | 1.5 | 1.0 | 1.8 | 4.7 | 5.2 |
| South Korea | 4.2 | 3.5 | 3.6 | 3.3 | 2.8 | 2.3 | 1.5 | 1.5 | 1.5 | 2.0 | 3.0 | 3.5 |
| Sri Lanka | 7.9 | 8.2 | 8.4 | 8.3 | 7.9 | 6.4 | 4.8 | 6.7 | 6.8 | 6.4 | 6.7 | 6.9 |
| Taiwan | 7.4 | 4.6 | 3.5 | 1.2 | 0.6 | -0.1 | 0.7 | 3.7 | 4.6 | 5.2 | 3.5 | 2.2 |
| Thailand | 3.2 | 2.7 | 3.7 | -8.9 | 0.4 | 4.4 | 3.1 | 18.9 | 3.8 | 4.1 | 4.8 | 3.2 |
| Vietnam | 5.4 | 5.7 | 6.1 | 6.4 | 4.1 | 4.7 | 5.4 | 5.5 | 4.8 | 5.2 | 5.8 | 6.0 |

| | Consumer price inflation (y/y) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1-11A | Q2-11A | Q3-11A | Q4-11A | Q1-12A | Q2-12A | Q3-12A | Q4-12A | Q1-13F | Q2-13F | Q3-13F | Q4-13F |
| US* | 1.1 | 1.3 | 1.6 | 1.7 | 1.9 | 1.8 | 1.6 | 1.5 | 1.4 | 1.5 | 1.7 | 1.9 |
| Euro area | 2.5 | 2.8 | 2.7 | 3.0 | 2.7 | 2.5 | 2.5 | 2.3 | 1.8 | 1.6 | 1.6 | 1.6 |
| Japan | -0.5 | -0.4 | 0.1 | -0.3 | 0.3 | 0.2 | -0.4 | -0.2 | -0.2 | 0.0 | 0.3 | 0.4 |
| UK | 4.1 | 4.4 | 4.7 | 4.7 | 3.5 | 2.7 | 2.4 | 2.7 | 2.5 | 2.6 | 2.7 | 2.2 |
| Bangladesh | 9.8 | 10.3 | 11.4 | 11.2 | 10.7 | 9.2 | 7.7 | 7.4 | 8.3 | 8.7 | 7.8 | 7.4 |
| China | 5.1 | 5.7 | 6.3 | 4.6 | 3.8 | 2.9 | 1.9 | 2.1 | 2.7 | 3.2 | 4.4 | 5.6 |
| Hong Kong | 3.8 | 5.2 | 6.4 | 5.7 | 5.2 | 4.2 | 3.1 | 3.8 | 4.0 | 4.3 | 4.7 | 5.0 |
| India | 9.6 | 9.6 | 9.7 | 9.0 | 7.5 | 7.5 | 7.9 | 7.2 | 6.5 | 6.2 | 6.6 | 6.7 |
| Indonesia | 6.7 | 5.5 | 4.6 | 3.8 | 4.0 | 4.5 | 4.3 | 4.3 | 5.4 | 5.1 | 5.3 | 5.5 |
| Malaysia | 2.8 | 3.3 | 3.4 | 3.2 | 2.3 | 1.7 | 4.1 | 1.3 | 1.5 | 2.4 | 3.0 | 3.3 |
| Philippines | 4.5 | 4.9 | 4.9 | 4.7 | 3.1 | 2.9 | 3.5 | 3.0 | 3.3 | 3.1 | 3.4 | 4.7 |
| Singapore | 5.2 | 4.7 | 5.5 | 5.5 | 4.9 | 5.3 | 4.2 | 4.0 | 3.8 | 3.6 | 3.8 | 4.3 |
| South Korea | 3.8 | 4.0 | 4.3 | 4.0 | 3.0 | 2.4 | 1.6 | 1.7 | 1.7 | 2.3 | 2.5 | 2.3 |
| Sri Lanka | 7.0 | 8.1 | 7.4 | 7.3 | 4.0 | 7.5 | 9.5 | 9.2 | 9.3 | 7.1 | 6.3 | 7.4 |
| Taiwan | 1.3 | 1.7 | 1.3 | 1.4 | 1.3 | 1.7 | 2.9 | 1.9 | 1.9 | 1.8 | 1.7 | 1.7 |
| Thailand | 3.0 | 4.1 | 4.1 | 4.0 | 3.4 | 2.5 | 2.9 | 2.8 | 3.2 | 2.8 | 3.0 | 3.3 |
| Vietnam | 12.8 | 19.4 | 22.5 | 19.8 | 16.0 | 8.6 | 5.6 | 6.7 | 7.2 | 7.7 | 8.4 | 8.3 |

**q/q SAAR ;* Source: Standard Chartered Research

## Economy

| | Size (USD bn) | Population (mn) | Private consumption (% of GDP) | Government spending (% of GDP) | Investment (% of GDP) | Exports of goods (% of GDP) | Imports of goods (% of GDP) | FX reserves (USD bn, latest) |
|---|---|---|---|---|---|---|---|---|
| Bangladesh | 104.2 | 164.5 | 75.6 | 5.4 | 25.0 | 18.5 | 24.9 | 12.7 |
| China | 8,230.0 | 1,354.0 | 33.8 | 28.0 | 49.0 | 26.0 | 24.0 | 3,311.6 |
| Hong Kong | 263.0 | 7.1 | 65.0 | 9.1 | 26.3 | 175.5 | 201.8 | 304.8 |
| India | 1,840.0 | 1,202.0 | 56.9 | 11.8 | 29.9 | 24.3 | 31.3 | 290 |
| Indonesia | 875.9 | 244.5 | 55.4 | 7.8 | 27.5 | 47.7 | 38.4 | 105.2 |
| Malaysia | 303.9 | 29.3 | 50.7 | 13.2 | 26.7 | 95.3 | 86.6 | 140.2 |
| Philippines | 250.6 | 95.8 | 74.1 | 10.4 | 19.7 | 30.2 | 33.9 | 85.3 |
| Singapore | 276.8 | 5.3 | 39.2 | 9.2 | 24.1 | 200.7 | 178.5 | 258.8 |
| South Korea | 1,116.4 | 50.0 | 52.9 | 15.4 | 29.5 | 49.7 | 46.6 | 327.4 |
| Sri Lanka | 59.0 | 20.8 | 69.8 | 21.4 | 29.9 | 23.1 | 37.6 | 6.8 |
| Taiwan | 474.0 | 23.3 | 60.3 | 12.4 | 19.5 | 73.7 | 66.2 | 404.0 |
| Thailand | 371.0 | 67.5 | 52.4 | 10.2 | 23.9 | 73.4 | 59.9 | 181.6 |
| Vietnam | 123.6 | 89.3 | 66.5 | 6.5 | 38.9 | 77.5 | 87.8 | 15.0 |

Sources: National Statistics Offices, CEIC, Bloomberg, Standard Chartered Research

## Policies

| | Politics and fiscal policy | | | Monetary policy | | |
|---|---|---|---|---|---|---|
| | Date of next election | Type of election | Date of next budget announcement | Policy objectives | Explicit inflation target | Key monetary policy tools |
| Bangladesh | 2014 | Parliamentary | Jun-13 | Ensuring growth and price stability | NA | Repo and reverse repo rates |
| China | Late 2017 | Party Congress | Mar - 13 | Stable economic growth and price levels | 3.5% | 1Y benchmark deposit and lending rates |
| Hong Kong | 2016 | Legislative Council | Feb-14 | Exchange rate stability | NA | Linked Exchange Rate System |
| India | 01-May-2014 | Parliamentary | Feb-14 | Ensuring growth, price and financial stability | NA | Repo rate, CRR |
| Indonesia | 2014 | Parliamentary and presidential | Jul-13 (2013 revised budget) | Price stability | 3.5-5.5% | BI rate, overnight deposit facility rate (FASBI) |
| South Korea | 04-Jun-2014 | Local | Sep-13 | Price stability and financial stability | 2.5-3.5% | Base rate |
| Sri Lanka | 2016 | Parliamentary and presidential | Nov-13 | Ensuring growth and price stability | N/A | Repo rate, Statutory required reserve |
| Taiwan | 2014 | City mayors, councillors and township governors | Oct-13 | Promote growth and ensure price stability | N/A | Rediscount rate |
| Thailand | 01-Jul-2015 | Parliamentary | Oct-13 | Price stability | 0.5-3.0% (core) | 1-day repo |
| Vietnam | 2016 | National Party Congress | Q4-2013 | Price stability | N/A | Refinance rate |

Source: Standard Chartered Research

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