# Executive Summary

## In Search Of Silver Linings Amidst A Cloudy Outlook

### Key Themes in 2016

It is hard to be optimistic for 2016's outlook. Back in late 2014, we projected that the lacklustre global growth story of 2014 would extend into 2015. Indeed, global growth has been consistently revised lower throughout 2015. Based on the latest IMF forecasts, global growth is set to come in at 3.1% in 2015, down from 3.4% in 2014. While IMF expects the pace to improve to 3.6% globally in 2016, we think the risk of disappointment remains high. A large part of the tepid environment in 2015 is attributed to the emerging market economies, hurt by lower commodity prices, slower China growth and domestic currency volatility. **The continued slower global and Asian economic environment looks set to remain true for 2016**, driven by the key themes set out below.

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#### 1. Monetary Policy Divergence Taking Shape

Central banks all over the world (except Brazil) have adopted easier monetary policies throughout 2015 and even though the US Federal Reserve was expected to normalize interest rates sometime in 2015, Fed Chair Janet Yellen has left it to late in the game at the 15/16 December FOMC meeting for Fed rate liftoff action. That has been a long period of anticipation and (hopefully) finally, **we will see monetary policy divergence between the US and the rest of the central banks getting off the ground**. That said, the clear emphasis on the shallow nature of the Fed's rate trajectory, coupled with limited further easing from ECB and BOJ should imply a milder divide. At the end of the day, it is all about expectations and ECB's December monetary policy disappointment is a good reminder that markets may get too far ahead of themselves, asking too much of central bankers when there is not that much left on the table to be given.

#### 2. Longevity Of The USD Strength

And now with the Fed hike in sight, the one question in investors' mind is that **whether and how far the USD would continue to rally after the first hike?** Looking into the last 2 tightening cycles of the Federal Reserve (1994 and 2004), it may seem counter-intuitive but it turned out that the US dollar fell and Asian currencies (collectively represented by ADXY) appreciated when Fed started hiking rates during the last two cycles. In the upcoming tightening cycle, the Fed's dot plot chart indicated only 100bps of rate hikes in 2016 (as of Sep 2015 FOMC) while the more skeptical market only priced in an even more shallow trajectory of just 50bps worth of hikes. We think that this initial disparity in rate trajectory expectation may be sufficient to sustain the US dollar strength in the first half of 2016. But once the Fed has effectively communicated its rate trajectory preference and the market crystalize these expectations, we anticipate the dollar rally petering out by 2H2016 and the Asian currencies ending the year on a firmer footing. Thus, one should be prudent not to be overly positive on the USD or overly negative on Asian currencies, although the abrupt move in the EUR/USD pair – which surged from 1.05 to nearly 1.10 – in a matter of hours in reaction ECB's Dec policy decision on 3 Dec – is a clear reminder of the volatility that could erupt at the most unexpected place.

#### 3. Concerns Over China's Outlook and Currency

China was, and remains, to be a crucial part of the equation about how we see the global economy and financial markets will fare. **The unresolved concerns about China "hard landing" and CNY devaluation will linger on in 2016.** These are persistent concerns that have been roiling financial markets from time and time are largely due to 1) generally lack of comprehensive, quality and timely economic data (will be resolved over time after China subscribed to IMF's Special Data Dissemination Standard – or SDDS – on 7 Oct 2015); 2) poor understanding of China's economic/social/political system (again, time is needed to as China's system opens up further); and 3) overly concerned of existing economic/financial imbalances and the doubts that these problems could be resolved. While there are risks and imbalances just like any other economies, it should be noted that the authorities are taking steps to address these issues and more by liberalizations and reforms, and to connect with the global system, with SDR being the latest example. Our view is that the probability is low for a China hard landing scenario and/or large scale RMB depreciation or devaluation, as the implementation of the new SDR basket will only take place on 1 Oct 2016, among other factors.

#### 4. Few Bright Spots For Commodity Prices

Depressed commodity prices has been the bane of many emerging markets in 2015 because a huge chunk of their exports are commodity-based, and contributed to the weak growth outcomes in these regions. **Weather effects may work towards the favor of higher soft commodity prices in 2016 but industrial metals may continue to endure another year of weak prices** as long as demand from China remains lackluster. We continue to see crude oil market suffering from oversupply while the expected increase in global oil demand remains unable to match the supply glut and close up the imbalances of the market. We continue to expect US crude oil price to hover near the US$40 per barrel but the risk is to the downside (at US$30-35).

#### 5. Political And Geopolitical Factors Coming Into Play

Meanwhile, if we assume a moderate US growth outlook in 2016 holds true, then the focus for US in 2016 will be all about year-end elections. In less than 1 year, we will have a whole bunch of elections taking place on 8 Nov 2016, the most important one will of course be the US Presidential elections. We will definitely be getting a new US President as Obama (Democrat) fulfills his 2 terms and will step down but it is unclear at this stage whether the next President is going to be Republican or Democrat. **One thing we are sure of is that in a US election year, 2016 will be free of threats of government shutdowns, debt ceiling negotiations and US government default risks, and that's a relief.** And in terms of global geo-politics, the threat posed by the Islamic State in Iraq and Syria (ISIS) will continue to weigh upon the security issues for all parts of the world. And in 2016, we have two big sporting events, the UEFA EURO football tournament in France (10 Jun-11 Jul) and the 2016 Summer Olympics in Brazil (5-21 Aug). Expect to see heightened security concerns as the games begin.

**We wish all our readers happy holidays and a good year in 2016!**

**FOCUS I:**
**What We Need To Know About the Trans-Pacific Partnership Agreement (TPPA)**
The Trans-Pacific Partnership Agreement concluded in late 2015 is one of the biggest trade deals in the last two decades. The countries involved represent US$9.6tn or 25% of total trade and close to 40% of global GDP. The pact has the potential to yield annual global income gains of US$295bn (including US$78bn for the US), and enhanced free trade flows in the Asia-Pacific to yield gains of US$1.9tn. The TPPA is as much about geopolitics as it is about trade and economy, and with the giant powers exert their influences, ASEAN will be well placed to benefit in trade and investment.

**ASEAN IN FOCUS II:**
**Trade And Investment Opportunities**
In the first part of this series (published in 2015 Q4 Quarterly Report), we discussed the economic potential of ASEAN in view of the implementation of the ASEAN Economic Community (AEC) at end-2015. We had also highlighted the favourable demographic and income trends that will promote ASEAN economies as one of the top regions to invest as a key production base and as a large consumer market of 630mn population with a rising middle income/consumer class. In this second part, we point out that the lack of infrastructure development in ASEAN today remains the biggest challenge but also presents immense opportunities for foreign direct investment. With better infrastructure and facilities, higher levels of manufacturing and services activities can be generated and that will bring forth increased trade volumes in goods and services for ASEAN members.

**CHINA IN FOCUS:**
**To The SDR And Beyond**
As widely expected, IMF Executive Board approved China's RMB inclusion into the SDR basket of currencies at its decision on 30 Nov, with a weight of 10.92%, effective from 1 Oct 2016. IMF also implements a new weighting formula for the SDR, which means that China is likely to stay on its market reform track to improve its weightage, as it eyes capital account and currency convertibility by 2020. With the implementation of the SDR basket extending to Oct 2016 and also the 5-year review cycle of the SDR, it is unlikely that China would pursue a weak currency or "currency war" to boost exports or domestic growth, knowing full well the futility of such strategy. Measures taken by the central bank since the 11 Aug central parity reform suggests that it is in fact concerned about excessive expectations of RMB depreciation. While we see a low probability of large scale or sharp depreciation of the RMB in the next 1-2 years, the more important point which is often overlooked is that ongoing reforms and uncertainty in the global markets, as well as the end of one-way appreciation trend for the RMB would result in further two-way moves and flexibility of the RMB exchange rate. This means that risk management/control and hedging is an increasingly important part of business operations.

**US IN FOCUS:**
**Who Matters In 2016 FOMC?**
Expectations are high that the US Fed Reserve will finally normalize its ultra-low policy rates this December 2015, and thus, there will be a sharper intensity in market's Fed watching, not just the FOMC decisions and the minutes, but also Fed officials' public commentary. The hawkish tone in Fed Chair Janet Yellen's testimony to Congressional Joint Economic Committee on 3 December reaffirmed the December Fed liftoff expectations.

In the 2015 FOMC so far, Jeffrey Lacker was the only dissenter in the September and October FOMC (asking for 25bps hike). Based on the recent commentaries from the FOMC voters, if Fed Chair Janet Yellen chooses to propose a rate hike in Dec 2015, she will be able to press ahead with majority support but she may not get an unanimous agreement as there are 3 clear doves: Fed Board Governor Lael Brainard, Fed Board Governor Daniel Tarullo and Chicago Fed President, Charles Evans. Our base case scenario is 7-3 votes in favor of a 25bps hike in Dec 2015 FOMC.

Prior to 2008, both Fed Reserve Bank Presidents and Fed Reserve Board Governors dissented. But since 2008, only Fed Reserve Bank Presidents dissented. That said, we may have come to an interesting juncture of Fed monetary policy-making especially into 2016 where we may see more Fed Reserve Bank Presidents dissenting because they want to see tighter monetary policy but at the same time, we may also see the first Fed Reserve Governor dissent since 2008 in the upcoming December 2015 FOMC because at least two Governors favor easier policy for longer.

**FX STRATEGY:**
**A Preview Of Regional Currencies In 2016**
Now, as we head into December where the US Federal Reserve is expected to deliver the first rate hike since the Global Financial Crisis in 08/09, the one question in investors' mind now is that whether the USD would continue to rally after the first hike. To answer that, we did a study of how Asian currencies collectively (ADXY) has fared in the last 2 tightening cycle of the Federal Reserve, namely in 1994 and 2004. Counter-intuitively, the US dollar declined and Asian currencies (represented by ADXY) appreciated when the US Fed started hiking rates in 1994 and 2004. In the upcoming tightening cycle, the Fed's "Dot Plot" only inked in one percent (100bps) of rate hikes in 2016 while the more skeptical market only priced in 50bps worth of hikes. With the past history as reference and the gradual nature of the upcoming hikes, one should be prudent not to be overly positive on the USD or overly negative on Asian currencies, and volatility could be pronounced as both sides tussle it out.

**RATES STRATEGY:**
**The Big Picture**
**On 2016 SGS Auction Calendar**
The shift into a FED rate hike cycle externally and absence of positive growth catalysts domestically will create an

environment that is tilted in favour of higher short term interest rates in Singapore. Thus, it is reasonable to expect that price appreciation for shorter maturity SGS may face persistent headwinds in 2016. However, with sizeable maturities on tap, we should be mindful that there remains potential for significant counter trend episodes in shorter maturity SGS prices.

**Global FX**

**EUR/USD:** Expectations of a big package by the ECB have been running high ahead of the December meeting. Instead, the ECB disappointed. EUR/USD has spiked sharply higher since. We think the latest measures by the ECB were designed to strike a balance between the hawks and doves within the ECB governing council. Whilst Draghi said there was a 'clear majority' in favour of the latest decision, he admitted that they were not unanimous. We continue to believe that the hurdle for further ECB stimulus is high, and following the December meeting, expect the ECB to maintain a status quo policy for some time. As such, although we may see some choppy moves into December and early-2016, EUR/USD, in our view, is unlikely to reverse significantly at this point. We also think that the gradual path of monetary tightening by the Fed is likely to see any appreciation of the USD limited.

**GBP/USD:** Our confidence in the timing of the first rate increase by the BoE has weakened, and until we see a greater dissent within the MPC, GBP could remain at a risk of further downside on the back of a delayed monetary policy tightening. Besides, political risk can be significant for the sterling as the Scottish referendum and UK general election earlier this year showed, with events like these holding the potential to create market volatility. In this regard, the risk of an earlier referendum on UK membership of the European Union continues to hang over the medium term outlook for the GBP. That said, with a good portion of advanced economies looking to cut rates, the BoE stands apart with the next move on rates to be higher. This creates a yield advantage that should support the currency.

**AUD/USD:** We do not see a strong recovery in the AUD from here, yet at the same time, do not look for the currency to tumble significantly. We are thus looking for an end-1Q16 target of 0.7400, just a tad above current levels; bearing in mind though that downside risks remain, including uncertainty regarding the Chinese outlook, which could persist into 2016 as economic growth is likely to slow. Pressure on the AUD could also grow as the tightening cycle of the Fed takes hold, although we think the appreciation in the USD could be limited.

**NZD/USD:** NZD/USD returned to a depreciating trend in November following October's appreciation following two consecutive Global Dairy Trade auctions that resulted in dairy prices falling in the last weeks. This partially offset the recovery that began in August. Still, the NZD has been one of the strongest G10 performers over the last quarter. Going forward, the Kiwi remains highly attuned to central bank policies. Selling pressure will likely continue to swell as a dovish RBNZ monetary policy announcement fuels rate cut speculation even as bets on near-term Fed tightening grow more confident. As such, the risk profile for the NZD/USD is still soft for now.

**USD/JPY:** The yen endured a year of significant volatility even as the BOJ refrained from any new easing so far in 2015 with the USD/JPY pair trading from the low of 115.86 (16 Jan) to the high of 125.86 (5 Jun) and is currently at the 122-123 range (as of 26 Nov). We keep our view for USD/JPY to push fresh multi-year highs and to break conclusively above 125 when the Fed finally delivers the first rate action in Dec 2015. For 2016, the JPY is likely to stay on weakening trend with more BOJ easing likely in 2H, driving the USD/JPY to 129 by end-2016..

**Asian FX**

**USD/CNY:** The inclusion into SDR (announced 30 Nov) could mean less intervention from PBoC but we do not see much convincing evidence for large scale or prolonged RMB depreciation/ devaluation in the next 1-2 years, whether it is from the angle of underlying domestic economic data, political stability, financial market developments, or debt or capital flows dynamics. Politically and from IMF's standpoint, it is difficult for China to return to the one way appreciation (or depreciation) trend as it did in the past. As such, we are keeping our RMB forecasts for now, with end-2015 USD/CNY at 6.40, end-2016 projection of 6.45, and to 6.36 at end-2017.

**USD/SGD:** We maintain our view that the Monetary Authority of Singapore (MAS) will keep the current policy stance of a "modest and gradual appreciation" of the SGD NEER unchanged at our estimated 0.5% pa pace until their next April 2016 meeting. We also rule out any possibility of another one-off policy action ala Jan 2015 surprise, and maintain our USD/SGD forecast of 1.43/USD by end of 2015 and onto 1.46/USD by mid-2016, where the catalyst will come from the divergence in the monetary policies between the US Federal Reserve (where we hold on to our 'rate hike in Dec' view) and the MAS.

**USD/IDR:** We expect Indonesia's current account deficit to widen again in 2016 with the export outlook clouded by global uncertainties and the persistent weakness in commodities as well as an expected increase in imports due to stronger domestic demand and infrastructure needs. The current account deficits, high foreign holdings of the government bonds (37.1% of total outstanding in Oct) and relatively thin reserve coverage to external debt (0.4 in Jun) will expose Indonesia to greater risks from any liquidity jitters. While IDR has been surprisingly resilient in October and November despite stronger market conviction of a rate lift-off in the US this December, we think USD/IDR could head back above 14,000 by the early part of 2016. Our USD/IDR forecast is at 14,100 end-1Q16 and 14,300 end-2Q16.

**USD/KRW:** USD/KRW has pulled back after the pair rose above 1,200 in September. Despite the recovery, KRW is still down by 5.1% YTD (as at 30-Nov). While we expect USD strength to prevail in 1H16, an earlier top is possible if US Fed is able to communicate a more gradual rate normalization process. For now, we are expecting USD/KRW to rise towards 1,190 by end-1Q16 and top out at around 1,220 by end-2Q16.

**USD/MYR:** The Ringgit strengthened 4.5% against the dollar since end-September, marking the second best performing currency in the region after the Rupiah. We think higher US interest rates as a driver of Ringgit weakness has largely played out. We have also ruled out another sharp bout of Renminbi devaluation. While markets continue to watch domestic political developments, there is growing consensus that the current government administration is likely to remain until the next General Election in 2018. In any case, rating agencies do not expect politics to interfere with prudent economic policy-making. Meanwhile plans to resolve 1MDB's debt via asset sales is underway and we expect a conclusion to the 1MDB chapter by early next year. This leaves oil prices as the wild card given its high correlation with USD/MYR. We continue to expect the USD/MYR to trend lower towards 3.96 by end-2016 with bouts of volatility through the year.

**USD/THB:** Volatility in the global financial market is likely to persist in 2016. Despite recent positive developments in the US, the Fed is likely to raise the policy rates slowly. We maintain our view that there would be downward pressure on THB going forward with Thailand's interest rates expected to remain low going into 2016. For now, we expect THB to depreciate against USD towards 36.2 at end-1Q16 from around the 35.80 level currently.

**USD/INR:** The Reserve Bank of India (RBI) had kept the policy rate unchanged during the 1 Dec 2015 meeting, after a four rate cuts (total of 125 bps) this year to stimulate investment. Although India's inflation rate had remained quite benign for most part of 2015, the latest October inflation (5% y/y) showed that prices could start moving higher due to higher food prices. Going forward, the RBI will probably keep the current repurchase rates unchanged at least until 3Q 2016. The INR had fallen 5.6% against the USD year-to-date, and should the US start their interest rate normalization in December, the INR may weaken further and result in higher capital outflows. We recall the period of capital outflow and the quick depreciation of the INR during May 2013 when the US Fed started the 'taper talk'. Any further RBI rate cuts will only worsen the outflow of capital. Even without any further rate cuts in our forecasts, our expectations of a stronger USD from the US interest rates normalization will likely see the **USD/INR trading at 69.5/USD by the middle of 2016.**

### Global Interest Rates

**Federal Reserve:** We expect the first Fed rate hike to take place in the 15-16 Dec 2015 FOMC bringing the FFTR to 0.5% by end-2015. The Oct FOMC minutes reinforced the notion that Dec FOMC meeting is very live for policy action and the mostly hawkish comments by senior Fed officials recently.

In 2016, we expect the Fed to hike at a slow, gradual pace, likely with another four 25bps hike in each quarter to bring the FFTR to 1.5% by end-2016. That said, the Fed has provided many false dawns on the rate normalization timeline and its continued emphasis that their monetary policy formulation is data-dependent. And as there is a clear emphasis on the shallow nature of the FFTR trajectory, we may see further downside to the 2016 rate forecast via the Dec 2015 dot-plot chart.

**European Central Bank:** Although the ECB eased at its final policy review for 2015, the modest deposit rate cut and lack of expansion in the pace of Asset Purchase Program (APP) undershot expectations. What was surprising was also the fact that Draghi did not deliver with his usual emphasis that there will be more measures to come. He did reiterate that the ECB remains willing to act with all its tools if needed, but he described the current level of the deposit rate as 'adequate', and refused to answer the question of whether the new deposit rate represents a lower bound. As far as the APP is concerned, Draghi mentioned that the size, composition and duration could be changed but mentioned that 'if there is ever any need to extend'. Given the downside risks to the near-term inflation forecast (since November's lower-than-expected inflation print was not factored into its December projection), speculation could rise again for further ECB easing next year.

**Bank of England:** The BoE gave no sign that it was in any hurry to raise interest rates at its November Monetary Policy Committee (MPC) meeting, predicting near-zero inflation would pick up only slowly even if borrowing costs stay on hold all of next year. Indeed, the BoE had been expected to start raising borrowing costs in early 2016, but since the BoE published its last outlook on the economy, markets have pushed back bets on the timing of a rate hike to late 2016, largely reflecting British inflation falling back below zero. We have thus pushed back our expectations for the first rate hike to 3Q16 from 1Q16 previously.

**Reserve Bank of Australia:** As was widely expected, the RBA refrained from slashing the 2.00% cash rate at its final meeting of 2015, extending its interest-rate pause for a seventh month now. The accompanying statement offered little new. However, the RBA left the potential for further easing intact. We continue to see the OCR remaining at 2.00% for now, although we acknowledge that the risk of lower inflation, coupled with the weak investment outlook, could eventually force the hands of the RBA.

**Reserve Bank of New Zealand:** The RBNZ decided to keep the official cash rate at 2.75% at the October Interim Review. The central bank retained an explicit easing bias though. Whilst inflation remains low, the RBNZ seems to be confident that there will be some pickup in non-tradeables inflation from current low levels given continued economic expansion. We also believe the central bank probably wants more time to observe the domestic housing market. That said, we are still expecting another cut at some point, most likely at the 10 December meeting, although the fact that the RBNZ's announcement is scheduled before the Fed's December announcement could complicate matters.

**Bank of Japan:** For 2016, the BOJ will adopt a new monetary policy meeting framework which reduces the number of meetings to 8 per year (from 14), introduce quarterly outlook report (to replace the current semi-annual outlook report known as The Bank's View) and doing away with the monthly economic report. While all these look much like the current FOMC framework (and also the ECB's), the BOJ is going a step further by releasing a document that contains summary of opinions presented at each MPM in about a week after the meeting. It will also release each MPM member's forecasts and risk assessments in addition to the publication of the forecasts for the economy and prices of the majority of Policy Board members so as to increase transparency of BOJ's MPM policy making process. The important 2016 MPM meetings will be 28/29 Jan, 27/28 Apr, 28/29 Jul and 31 Oct/1 Nov which include outlook reports.

In 1Q 2016, the key event that Kuroda will monitor closely that have a direct impact on domestic inflation developments & BOJ policy direction will be Shuntō (the annual spring wage negotiations) which typically starts at the beginning of March. In addition, Japan PM Abe wants Japan to increase the minimum wage by 3% each year starting in FY2016 and eventually to JPY1000 per hour (from JPY780 in 2015). Thus, we continue to expect the BOJ to keep monetary policy in the current status quo mode for the last meeting of 2015 (18 Dec) and probably in 1H 2016 pending the outcome of the 2016 Shuntō.

Going into 2H, the key consideration for BOJ may be the 2nd sales tax hike. In late 2014, PM Abe deferred it to April 2017 as private consumption looked crippled by the first hike in 2014. A further delay in the 2nd sales tax hike may keep BOJ from doing more in 2H 2016 because the government will be seen as not fulfilling its promise of working towards fiscal balance. But conversely, an Abe promise to fulfill the sales tax hike to 8% in Apr 2017 may be enough for BOJ to add more easing in late 2016, the question is what kind of stimulus?

**Asian Interest Rates**

**People's Bank of China:** PBoC last changed policy on 23 Oct, the sixth interest-rate cut in a year (depo rate 1.50%; lending 4.35%), and the fourth reserve requirement ratio (RRR) cut this year (to 17.5%). We still see further room for interest rate and RRR reductions ahead into mid-2016, and are still expecting one final 25bps reduction in RRR before end-2015.

**Monetary Authority of Singapore:** We maintain our view that the Monetary Authority of Singapore (MAS) will keep the current policy stance of a "modest and gradual appreciation" of the SGD NEER unchanged at our estimated 0.5% pa pace until their next April 2016 meeting. Although Singapore's headline inflation had contracted for the past 12 months, core inflation remained steady and we think that there could be upside surprises in core inflation in 2016 from the low base effects of oil/commodity prices, the dissipation of base effects from government's healthcare subsidies, as well as higher food inflation from the El Nino impact on food supplies. We thus rule out any possibility of another one-off policy action ala Jan 2015 surprise, and maintain our 3-month SIBOR forecast to trend higher towards 1.50% by the end of 2016, on the back of the upward move in the USD LIBOR.

**Bank Indonesia:** As the monthly inflation rate is set to drop further to around 3.5% y/y in December from peak of 7.3% earlier this year, markets are watching out for potential rate cuts in Indonesia. Bank Indonesia's (BI) move to reduce the primary reserve requirement for banks to 7.50% from 8.00%, effective 1 December, shows the immense pressure to boost growth while remaining wary of the risks of a policy divergence with the US. Indonesia's December monetary policy decision is scheduled a day after the US FOMC decision and failure to lift-off will likely increase the probability of a rate cut in Indonesia this December. However, we are maintaining our view that BI will be on hold at 7.50% in the next few months to avoid risks for the domestic economy as US starts to normalize interest rates.

**Bank of Korea:** As the economy continues to recover, albeit at a slow pace, the Bank of Korea (BoK) will find less need, if any, to loosen its monetary policy further. In fact, there is limited room to cut interest rates as the base rate is already at record low of 1.50% after the last 25 bps cut in June. With the improvement in growth and higher inflation, we think that the BoK is likely more inclined to stay on hold at least in 1H16 given additional consideration of the high household debt which is expected to increase as the real estate market recovers further. This can potentially become destabilizing when global interest rates rise. BIS data showed that South Korea's household debt at 84% of GDP in 2014, was well above the average of 73% for 26 developed countries.

**Bank Negara Malaysia:** The central bank has maintained a neutral stance on interest rates albeit cautioned against high downside risks to growth at its final monetary policy meeting for the year. We see inflation edging higher next year due to low base effects and cost related adjustments. However modest demand pressures are likely to keep inflation in check. As such we continue to expect the policy rate to remain on hold for most of next year. The risk is tilted on the downside but only if growth heads further south. We think BNM is unlikely to hike rates to defend the currency.

**Bank of Thailand:** The Bank of Thailand (BoT) is likely to keep the policy rates unchanged at 1.50% in 2016. Looking forward, monetary policy stance should continue to be sufficiently accommodative to support Thailand's economic recovery, while maintaining long-term economic and financial stability. Moreover, the limited policy space should be preserved for future utilization as there remain downside risks to economic growth from both external and internal sources.

**Reserve Bank of India:** RBI had kept the policy rate unchanged during the 1 Dec 2015 meeting, after a four rate cuts (total of 125 bps) this year to stimulate investment. Although India's inflation rate had remained quite benign for most part of 2015, the latest October inflation (5% y/y) showed that prices could start moving higher due to higher food prices. Going forward, the RBI will probably keep the current repurchase rates unchanged at least until 3Q 2016, as any further RBI rate cuts will only worsen the outflow of capital.

Real GDP Growth Trajectory

| y/y % change | 2014 | 2015F | 2016F | 3Q15F | 4Q15F | 1Q16F | 2Q16F | 3Q16F | 4Q16F |
|---|---|---|---|---|---|---|---|---|---|
| China | 7.3 | 6.9 | 6.8 | 6.9 | 6.9 | 6.8 | 6.9 | 6.8 | 6.7 |
| Eurozone | 0.9 | 1.5 | 1.7 | 1.6 | 1.7 | 1.5 | 1.6 | 1.7 | 1.8 |
| Hong Kong | 2.5 | 2.6 | 2.3 | 2.3 | 2.9 | 2.1 | 2.3 | 2.1 | 2.8 |
| Indonesia | 5.0 | 4.8 | 5.4 | 4.7 | 4.9 | 5.4 | 5.5 | 5.5 | 5.3 |
| Japan | -0.1 | 0.5 | 1.0 | 1.0 | 1.0 | 1.5 | 1.0 | 0.8 | 0.7 |
| Malaysia | 6.0 | 4.9 | 4.8 | 4.7 | 4.3 | 4.5 | 4.6 | 4.9 | 5.1 |
| Philippines | 6.1 | 5.7 | 6.2 | 6.0 | 5.8 | 6.5 | 5.7 | 6.3 | 6.2 |
| India | 6.9 | 7.4 | 7.7 | 7.3 | 7.5 | 7.8 | 7.9 | 7.7 | 7.8 |
| Singapore | 2.9 | 2.0 | 2.7 | 1.9 | 2.0 | 2.6 | 2.6 | 2.9 | 2.7 |
| South Korea | 3.3 | 2.6 | 2.9 | 2.6 | 2.9 | 2.9 | 3.1 | 2.8 | 2.8 |
| Taiwan | 3.9 | 1.2 | 1.8 | -0.6 | 0.7 | 0.2 | 2.2 | 2.6 | 2.5 |
| Thailand | 0.9 | 2.7 | 3.2 | 2.9 | 2.1 | 3.0 | 3.1 | 3.3 | 3.2 |
| US (q/q SAAR) | 2.4 | 2.5 | 2.5 | 2.5 | 2.8 | 0.8 | 3.5 | 3.0 | 2.8 |

Source: CEIC, UOB Global Economics & Markets Research Estimates