

Macro outlook 2017:

Global recovery underway, but there are downside risks

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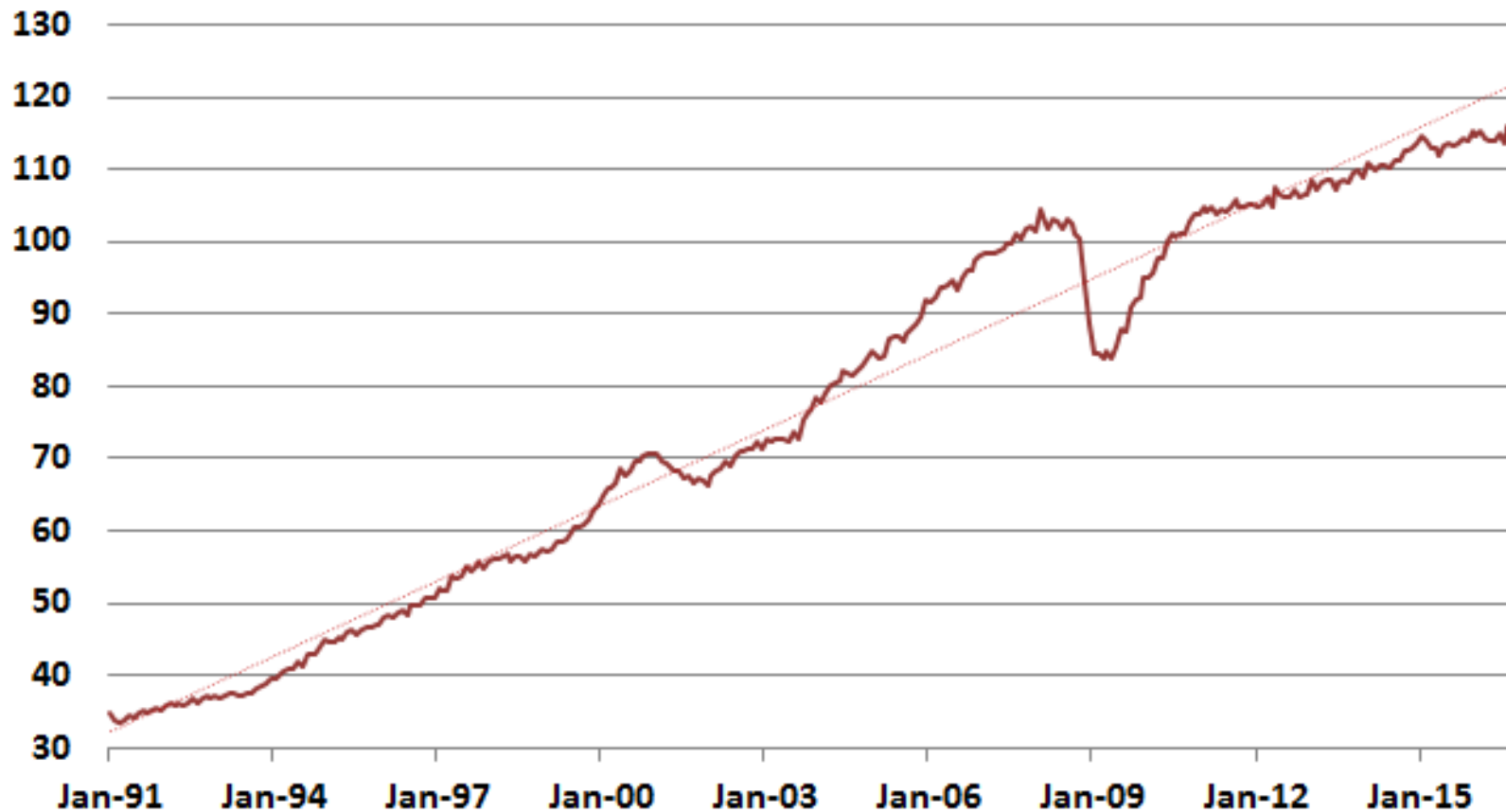
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Global trade growth slowed in 2016

- **Global trade** in goods & services on track to slow to ~1.4% in 2016 from 2% in 2015 & 2.7% in 2014. The drag on growth was especially pronounced over Jan-Oct 2016 (0.8% growth)

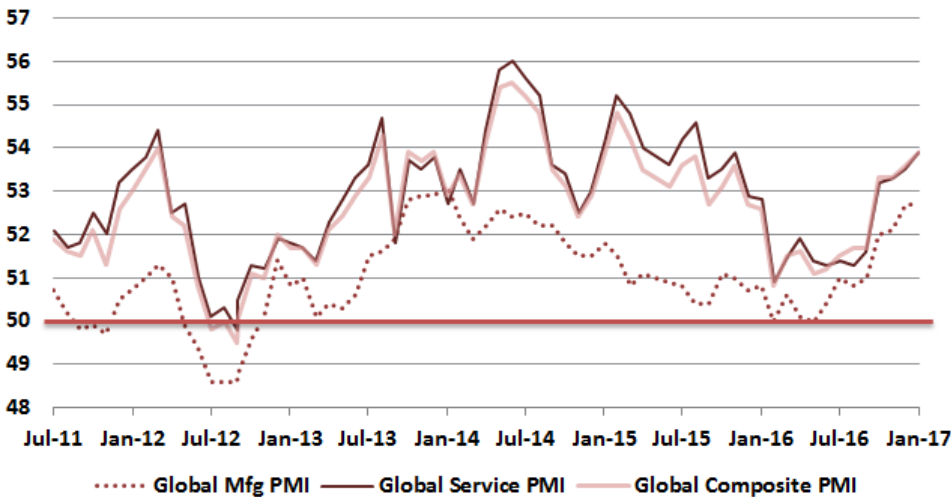
Global Trade Volume Index (2010=100)



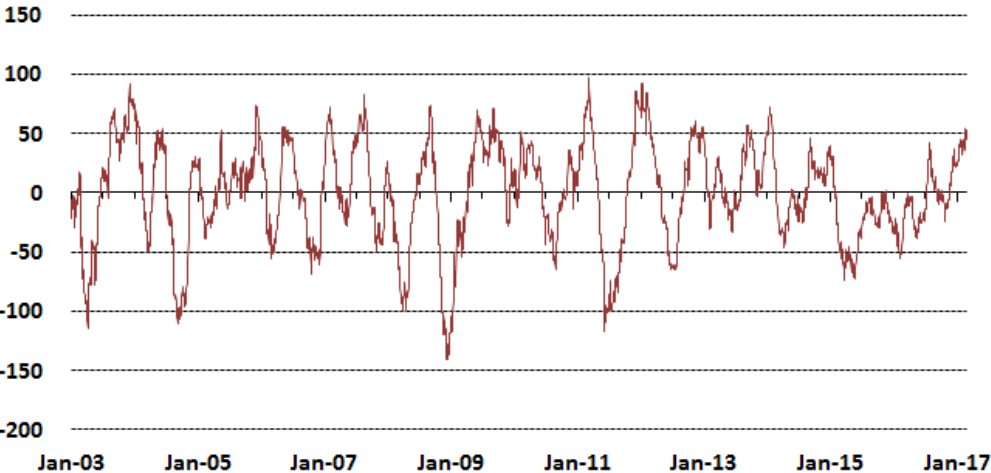
Source: CPB World Trade Monitor, various issues

Macro Snapshot at start of 2017

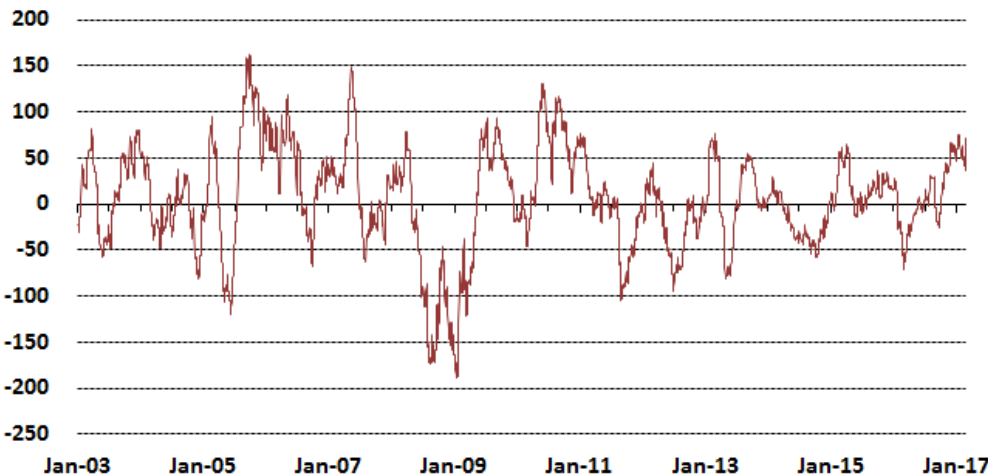
Markit Global PMI



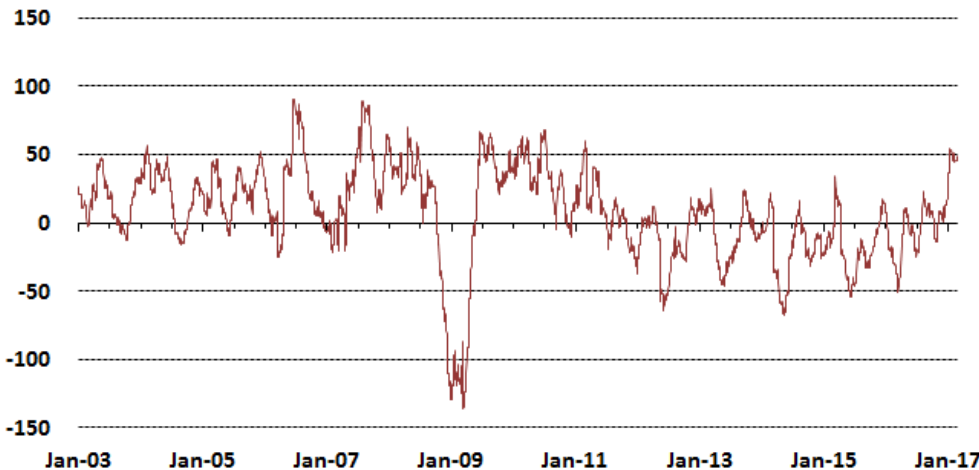
Citibank Economic Surprise Index: US



Citibank Economic Surprise Index: Europe



Citibank Economic Surprise Index: Asia Pacific



Source: Markit, Bloomberg, CEIC

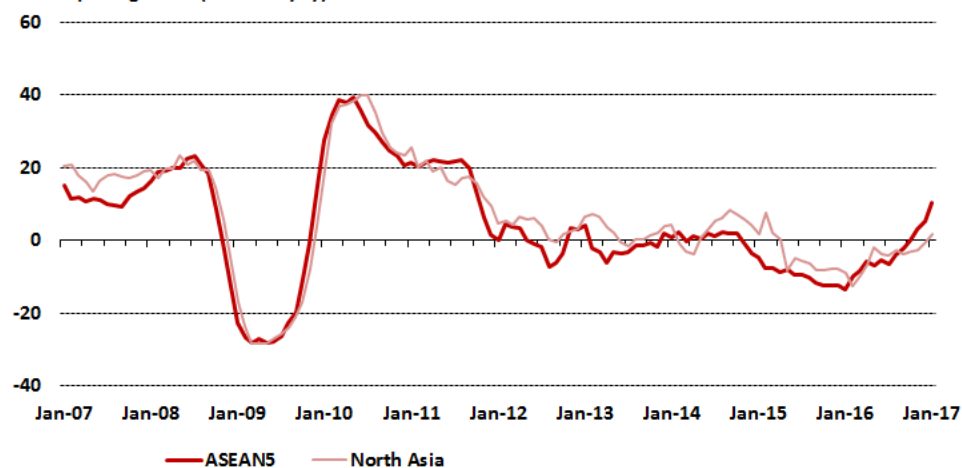
Macro Asia: Encouraging start to 2017

Nikkei ASEAN Manufacturing PMI

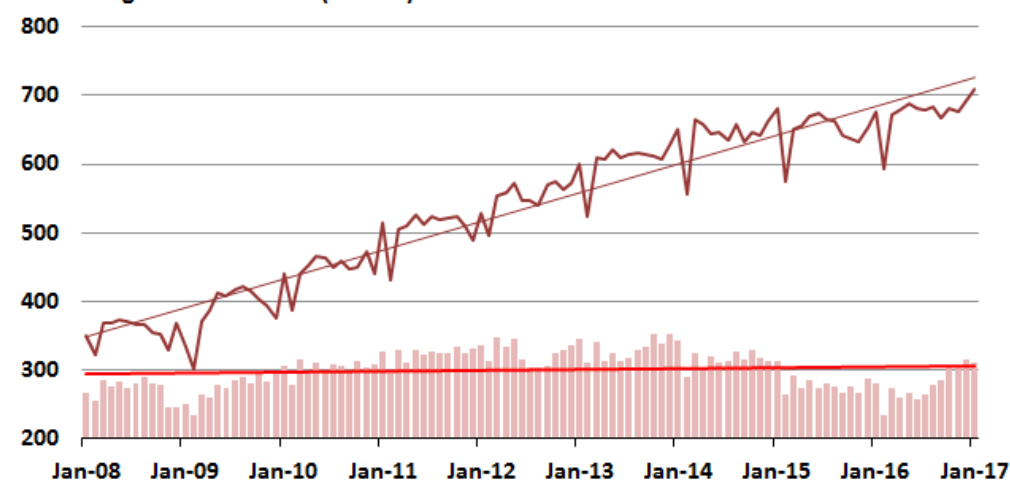
Countries	Jan Mfg PMI	Remarks
P'pines	52.7	Lowest on record
Vietnam	51.9	3-mth low
Myanmar	51.7	12-mth high
Indonesia	50.4	4-mth high
Thailand	50.6	Steady after Nov's record low
M'sia	48.6	4-mth high
S'pore	45.0	2-mth high
Overall ASEAN	50.0	4-mth high
Global Mfg PMI	52.7	Unchanged at 34-mth high

Source: Markit

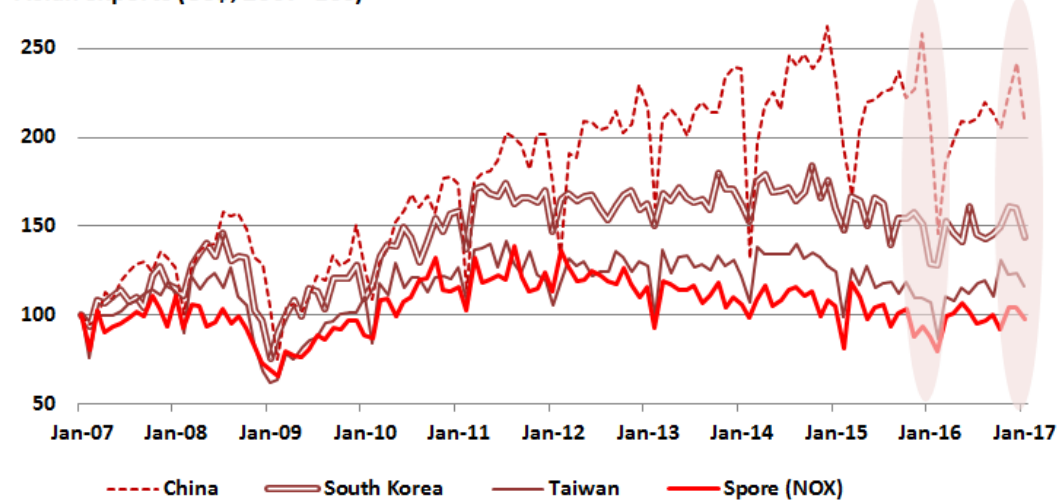
Asian exports growth (3MMA %yoy)



China: Cargo volume carried (mn ton)



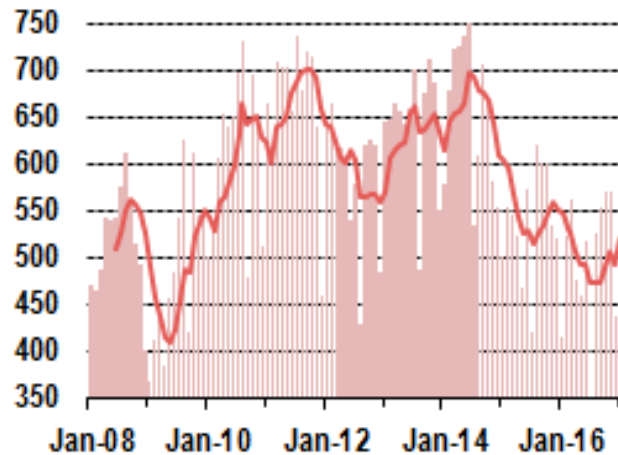
Asian exports (US\$, 2007=100)



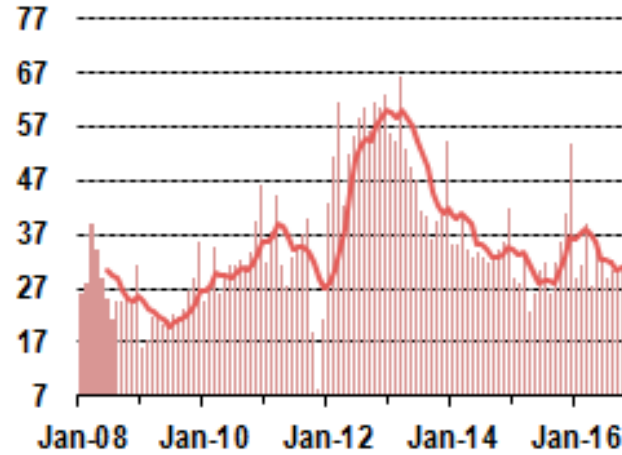
* Excluding Japan, Source: Bloomberg

Motor vehicle/bike sales as proxy of economic activity

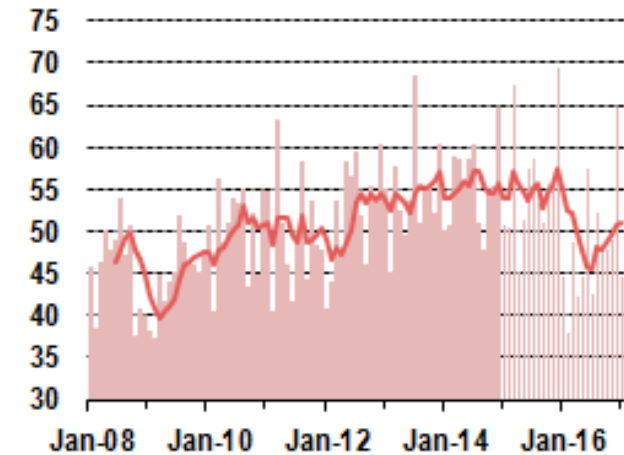
Indonesia Motorbike Sales ('000)



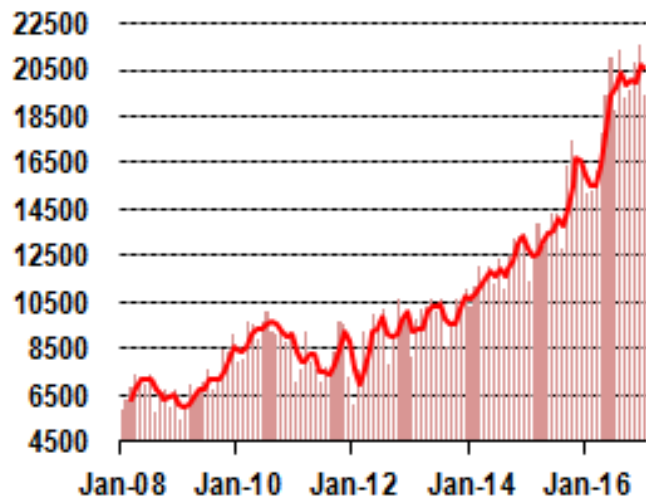
Thailand Pickup Trucks ('000)



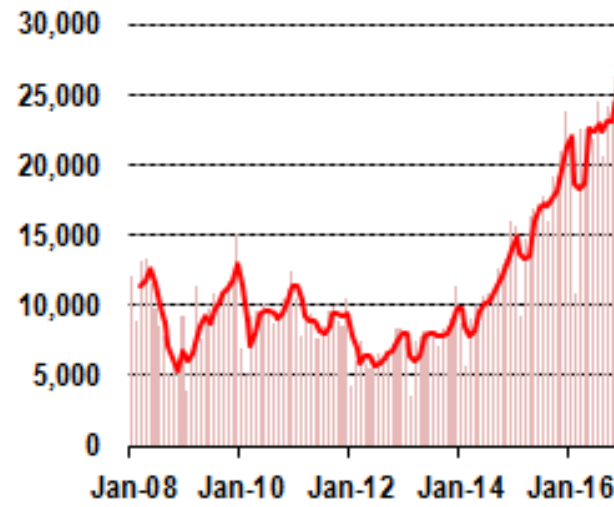
M'sia Auto Sales ('000)



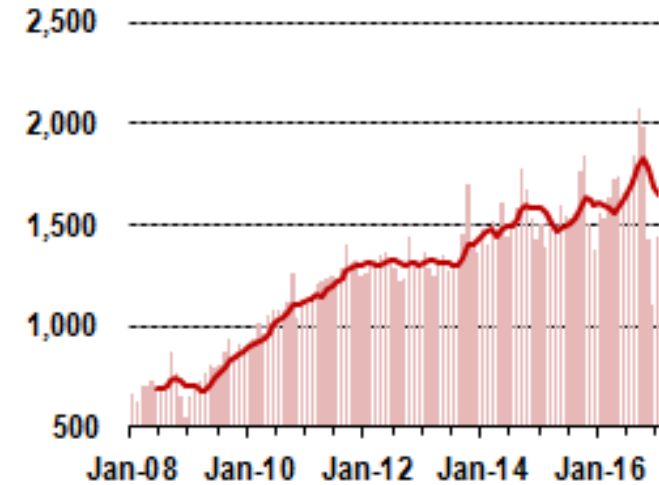
P'pines Commercial Vehicle Sales



Vietnam: Auto Sales



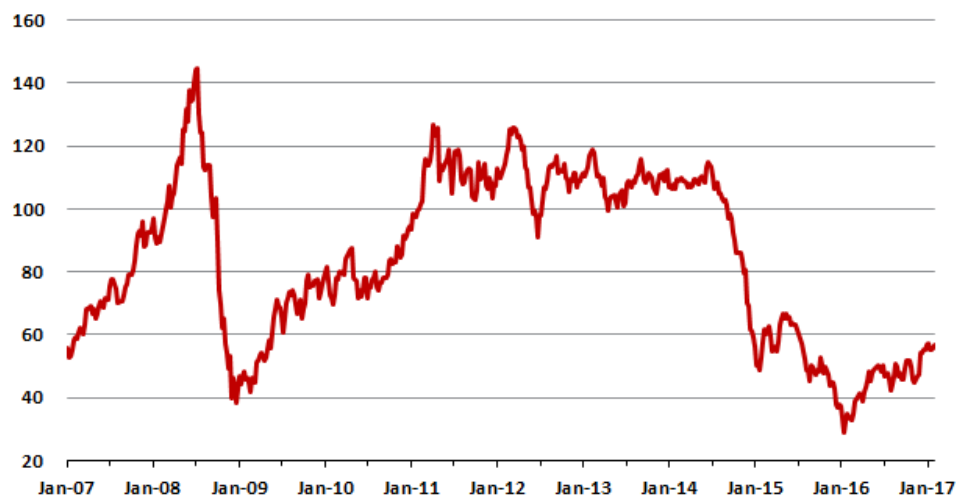
India Motorbike Sales ('000)



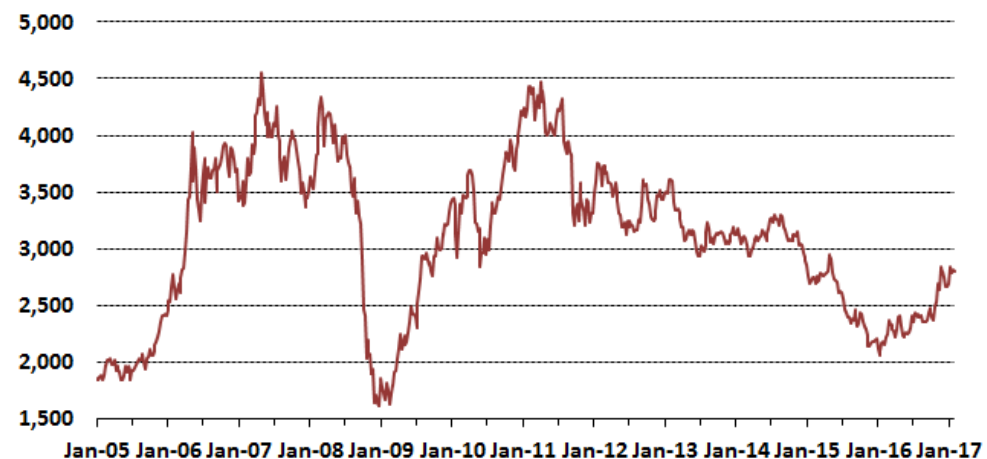
* Excluding Japan, Source: Bloomberg

More positive macro snapshots

Brent Crude (US\$/barrel)

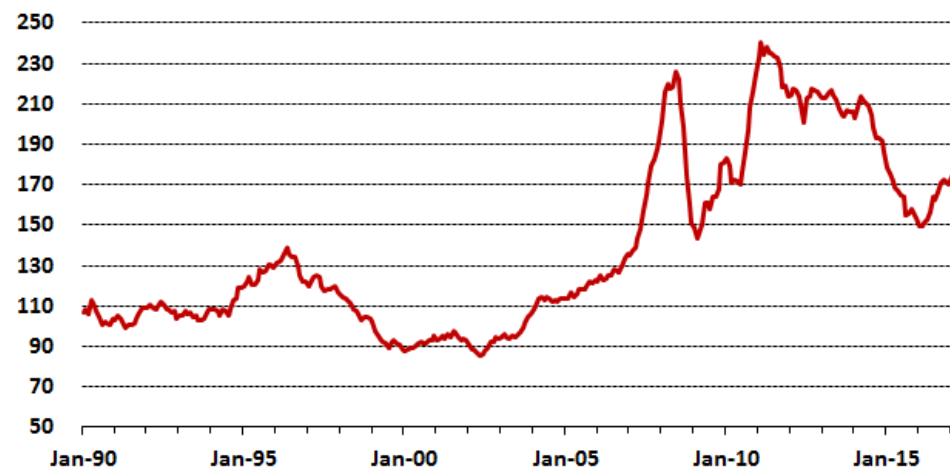


London Metals Index*



*composite price of copper, aluminum, lead, tin, zinc & nickel

UN Food & Agri Index (2002-2004=100)



Baltic Dry Index



Source: Markit, Bloomberg, CEIC

2017 Outlook: Moderate recovery underway

						Difference from ADB ADO Sep16's forecasts (pts)	
GDP growth (%YoY)	2013	2014	2015	2016f	2017f	2016	2017
Developing Asia	6.4	6.3	5.9	5.6	5.7	-0.1	0.0
East Asia	6.8	6.6	6.1	5.8	5.6	0.0	0.0
China	7.7	7.3	6.9	6.6	6.4	0.0	0.0
S Korea	2.9	3.3	2.6	2.6	2.7	0.0	-0.1
Taiwan	2.2	3.9	0.6	1.2	1.6	0.3	0.1
South Asia	6.2	6.7	7.0	6.6	7.3	-0.3	0.0
India	6.6	7.2	7.6	7.0	7.8	-0.4	0.0
Pakistan	3.7	4.0	4.0	4.7	5.2	0.0	0.0
Southeast Asia	5.0	4.5	4.4	4.5	4.6	0.0	0.0
Brunei	-2.1	-2.3	-0.6	0.8	2.5	-0.2	0.0
Cambodia	7.4	7.1	7.0	7.1	7.1	0.1	0.0
Indonesia	5.6	5.0	4.8	5.0	5.1	0.0	0.0
Loas	7.8	7.5	6.7	6.8	7.0	0.0	0.0
Malaysia	4.7	6.0	5.0	4.2	4.4	0.1	0.0
Myanmar	8.4	8.7	7.2	8.3	8.3	-0.1	0.0
Philippines	7.1	6.1	5.9	6.8	6.4	0.4	0.2
Singapore	4.7	3.3	2.0	1.6	2.0	-0.2	0.0
Thailand	2.7	0.8	2.8	3.2	3.5	0.0	0.0
Vietnam	5.4	6.0	6.7	6.3	6.3	0.3	0.0
GDP growth (%YoY)	2013	2014	2015	2016f	2017f	2016	2017
Developed economies		1.5	2.1	1.5	1.8	0.1	0.0
USA		2.4	2.6	1.6	2.4	0.1	0.0
Euro area		0.9	1.9	1.6	1.4	0.1	0.0
Japan		-0.1	1.2	0.8	0.8	0.2	0.0

Source: ADB's Asian Development Outlook 2016, Supplement Update (Dec16)

						Difference from IMF Oct16's forecasts (pts)		
	2014	2015	2016e	2017f	2018f	2016	2017	2018
Global GDP growth (%YoY)	3.4	3.2	3.1	3.4	3.6	0.0	0.0	0.0
Advanced economies	1.9	2.1	1.6	1.9	2.0	0.0	0.1	0.2
USA	2.4	2.6	1.6	2.3	2.5	0.0	0.1	0.4
Eurozone	1.1	2.0	1.7	1.6	1.6	0.0	0.1	0.0
Emerging/Developing Asia	6.8	6.7	6.3	6.4	6.3	-0.2	0.1	0.0
China	7.3	6.9	6.7	6.5	6.0	0.1	0.3	0.0
India	7.2	7.6	6.6	7.2	7.7	-1.0	-0.4	0.0
ASEAN5	4.6	4.8	4.8	4.9	5.2	0.0	-0.2	0.0
Global trade volume	3.7	2.7	1.9	3.8	4.1	-0.4	0.0	-0.1

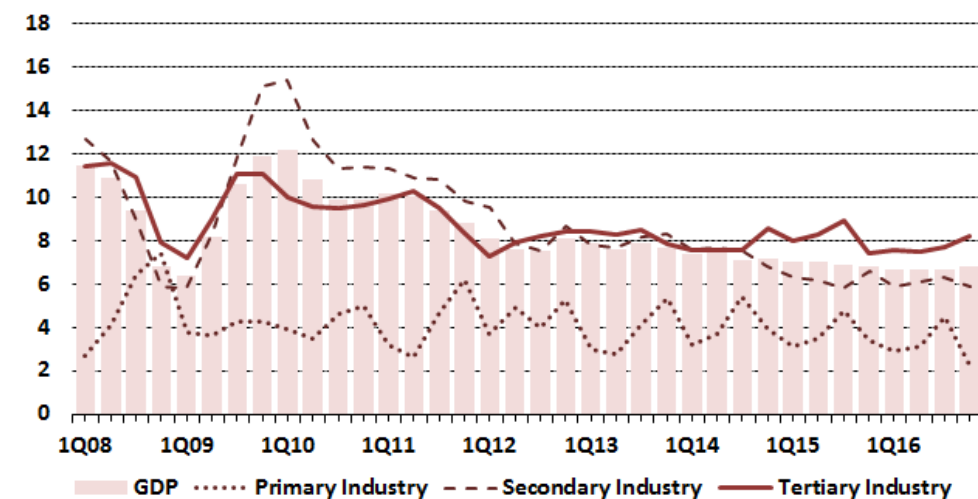
Source: IMF's WEO Jan 2017, e = estimate, f= forecast

- **World Bank:** Moderate recovery expected in 2017 driven by improvement in emerging markets and developing economies. However, downside risks still dominate global growth economic prospects and are associated with heightened policy uncertainty, protectionist pressures, and risk of financial market disruptions. (World Bank's Global Economic Prospects, Jan 2017)

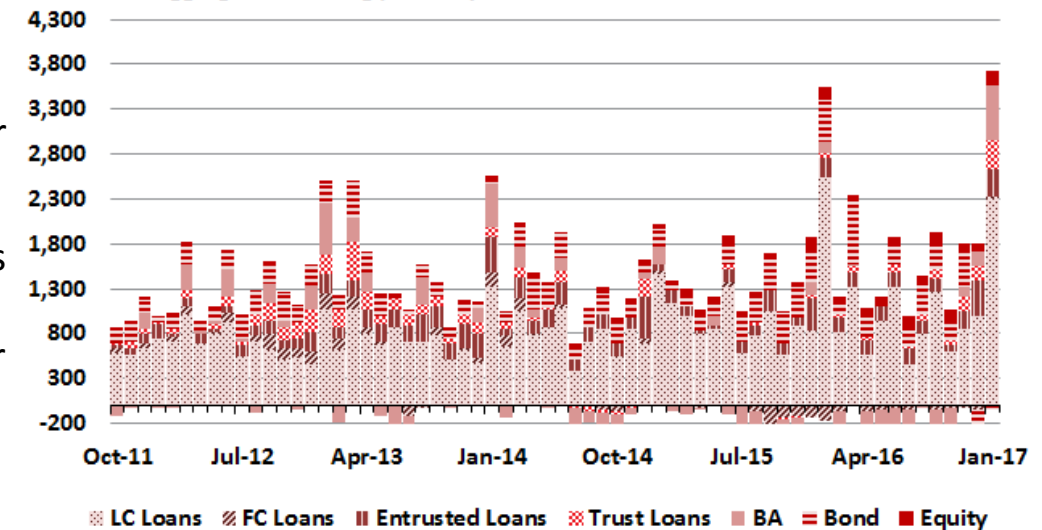
China on steadier growth path

- China is still on a multi-year slower growth trajectory that will be exacerbated by uneven external demand. Nonetheless, the economy is still expected to expand 6.2% in 2017 (6.6% in 2016), according to the IMF.
- Among the main policy challenges is to manage the impact of slower growth while rebalancing demand from exports and investment to domestic consumption. There is also a pressing need to reduce leverage, and in areas where credit growth has been exceptionally high. PBOC had also warned that the government's push to reduce debt levels and overcapacity could increase bond default risks and make it more difficult for companies to raise funds. On a positive note, China's financial system is largely funded by retail deposits, and many banks and borrowers were "either state-owned or heavily state-influenced".
- Key political event in 2017 is the 19th National Congress of the Communist Party of China. This twice-a-decade congress to be held in Beijing will be closely watched for a gauge of President Xi Jinping's powerbase which will have an impact of China's on-going restructuring efforts.
- ...and then there's President Trump...

China's GDP growth (%yoy)



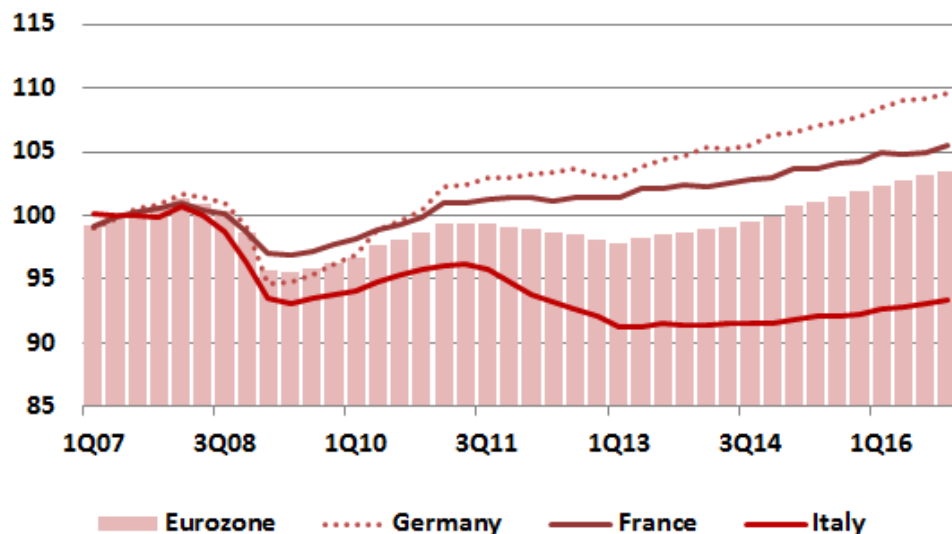
China: Total Aggregate Financing (Rmb bn)



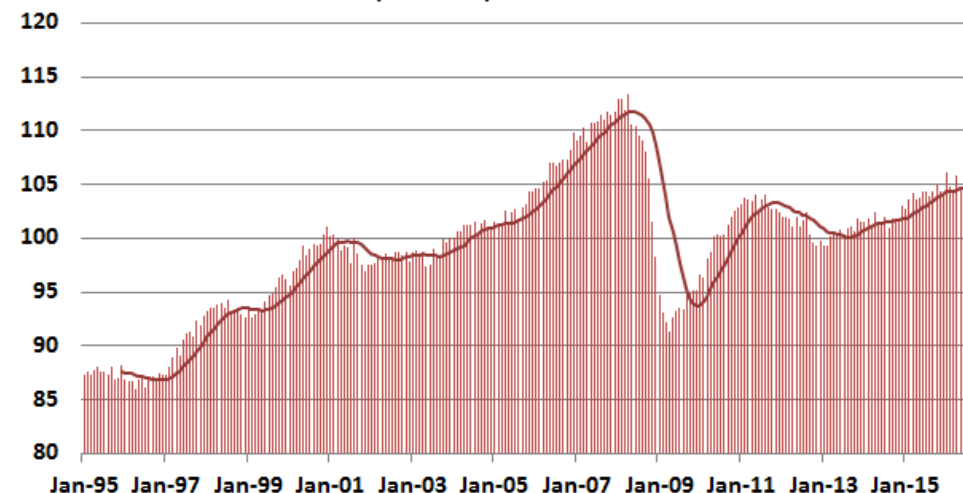
Source: Bloomberg and CEIC

Eurozone? ECB is still trying to protect the fragile recovery of the largest single market amid weak growth

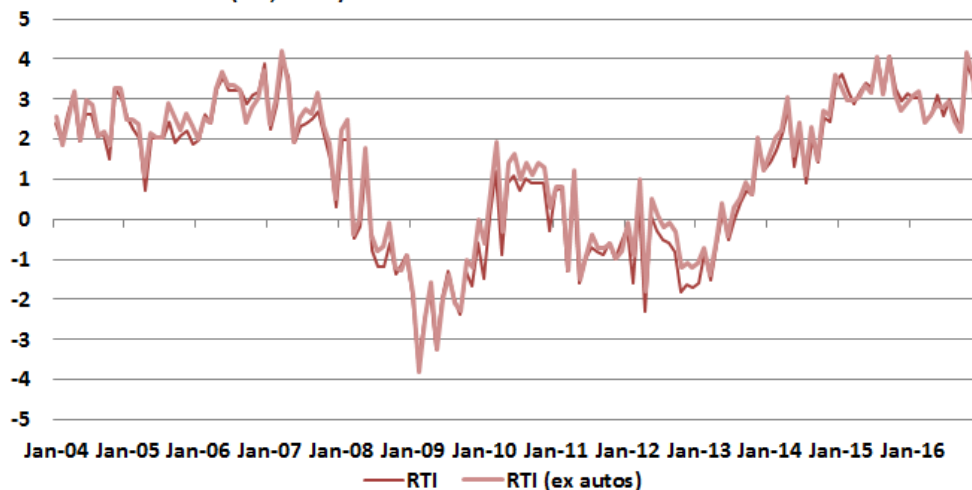
Eurozone GDP (2007=100)



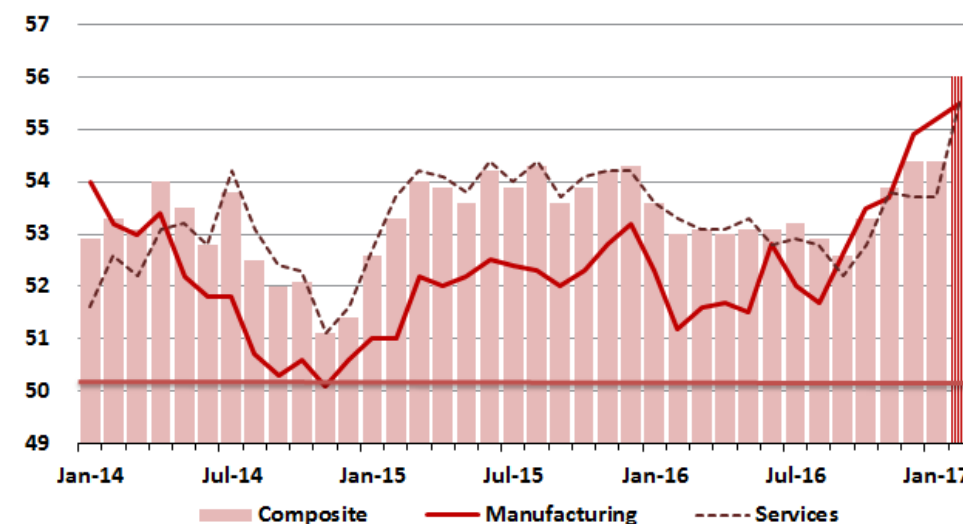
EU28 Industrial Production Index (2010=100)



EU Retail Trade Index (Vol, %YoY)



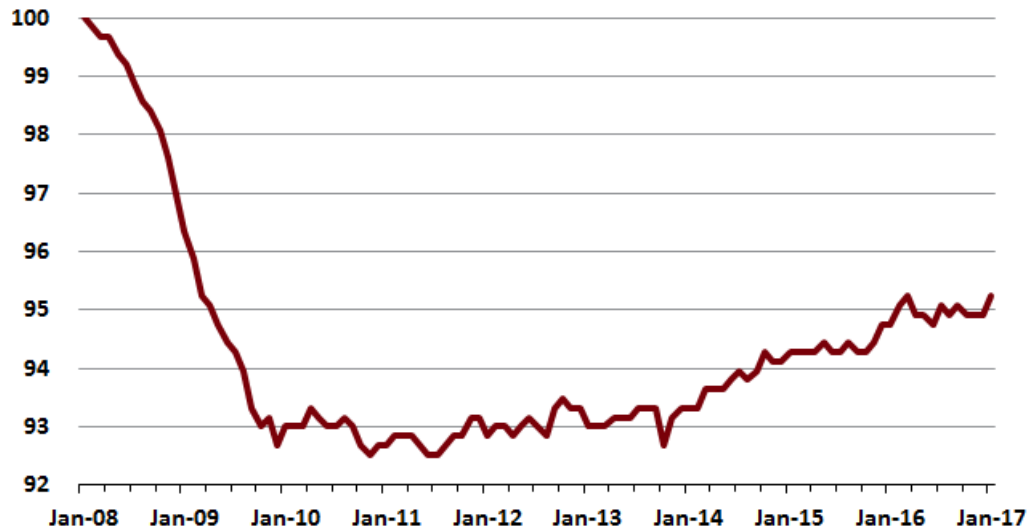
Markit Eurozone PMI



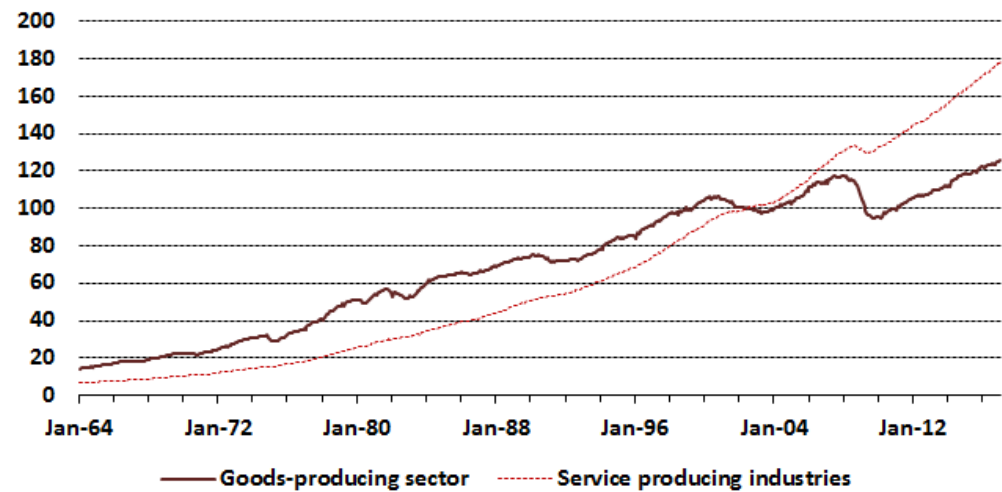
Source: CEIC, Bloomberg, and Markit

The US economy is on the mend, but...

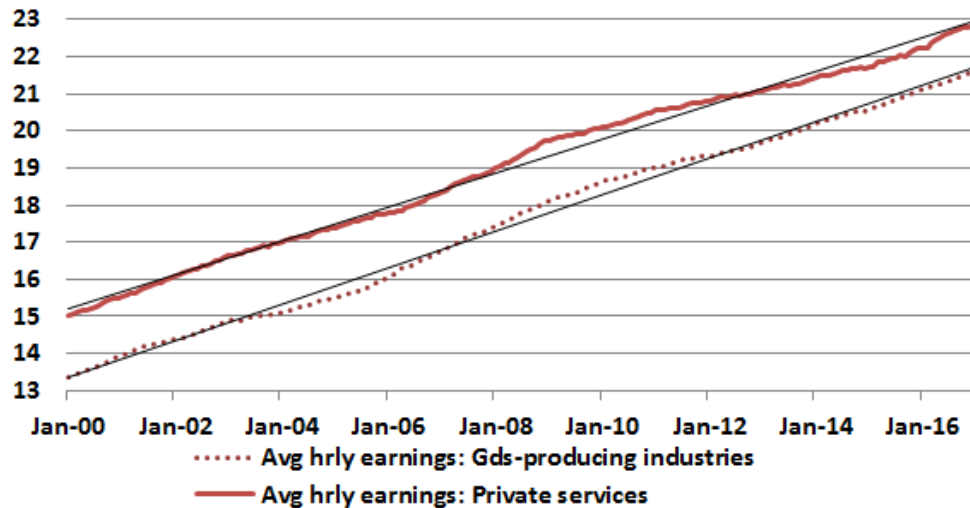
US Employment-Population Index (Jan08=100)



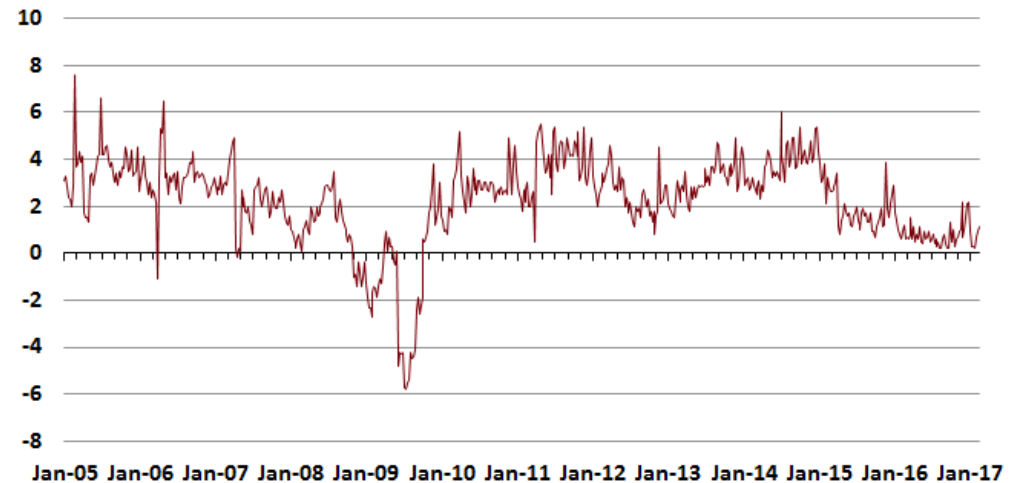
Average weekly payrolls index (2002 = 100)



US Workers' Average Wage (US\$ per hr, SA)



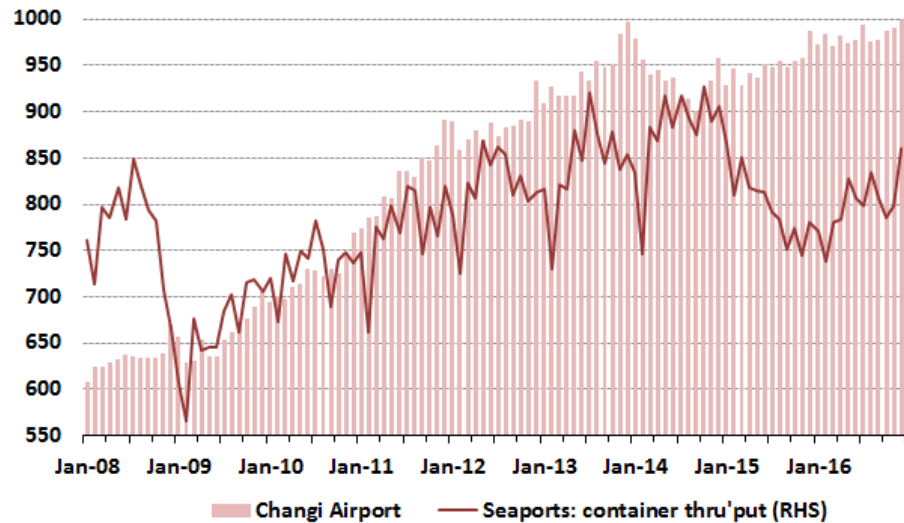
Johnson Redbook Wkly Same-Store Sales Index (%yoy)



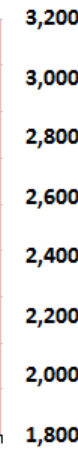
Source: Bloomberg, CEIC

S'pore: Awaiting sustained external demand recovery amidst on-going domestic structural adjustments

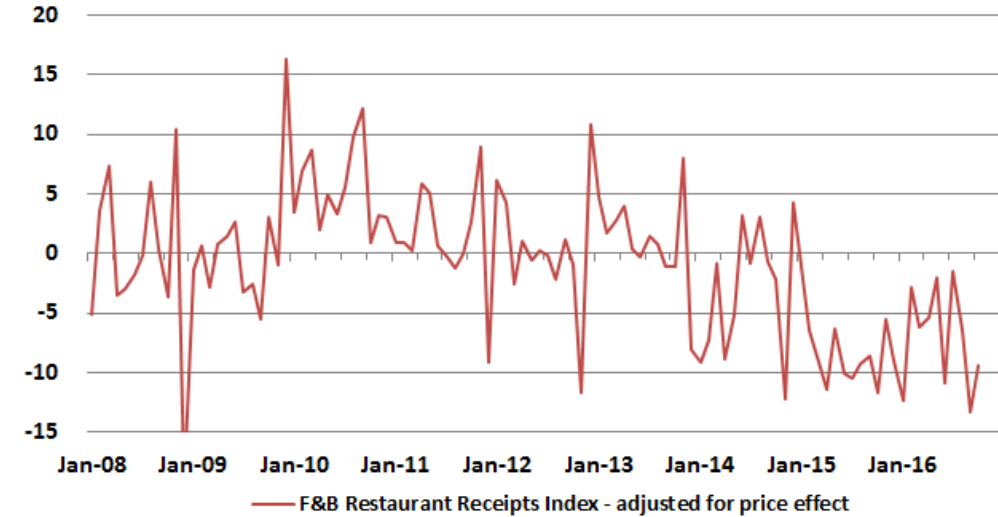
Changi airport: flights handled/day



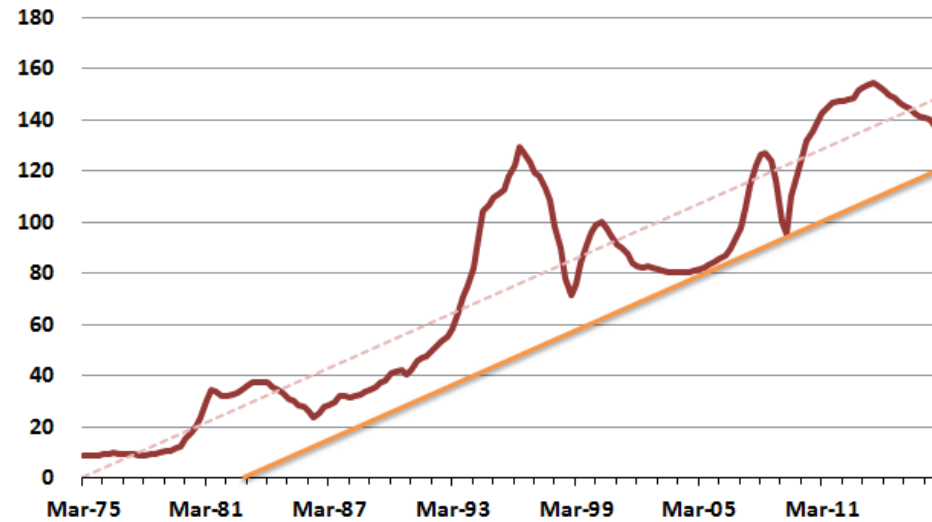
Sea ports: TEU '000



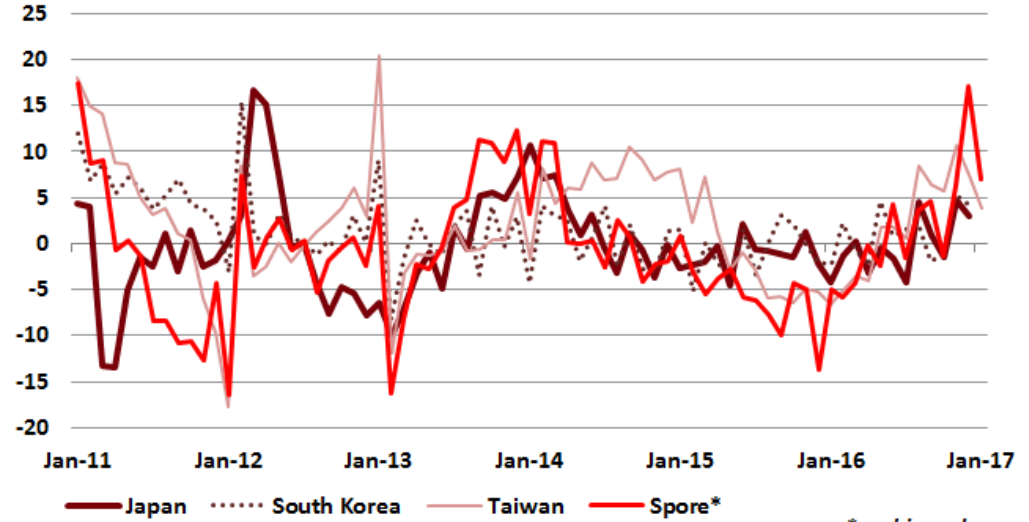
F&B receipts: Restaurants (%yoy)



Private Property Price Index (1Q2009=100)

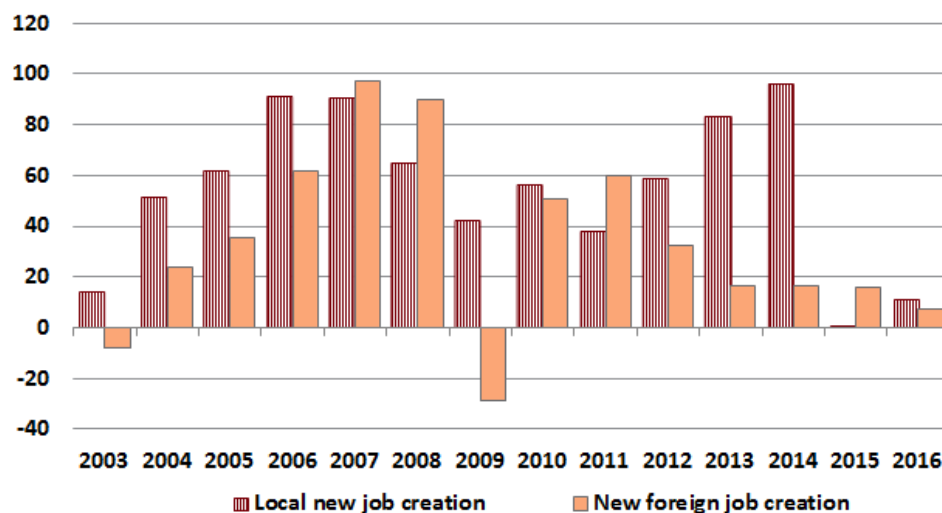


Factory Output (%YoY)

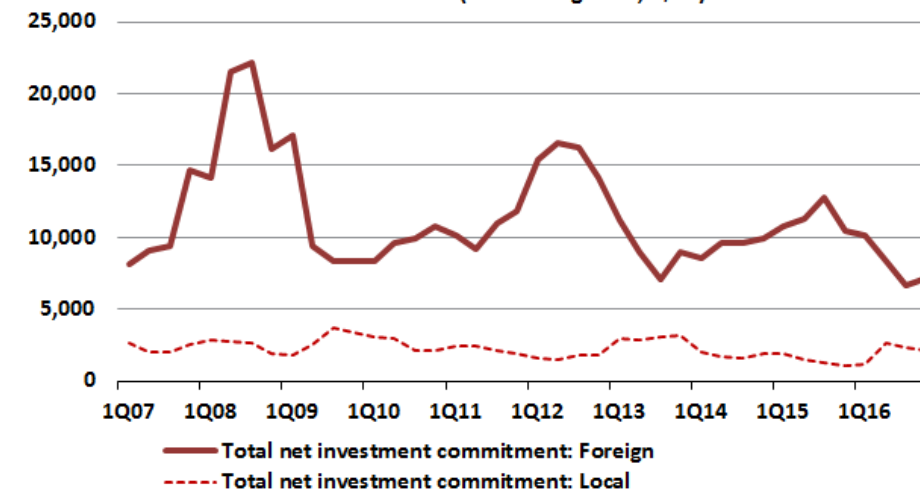


S'pore Budget 2017: Challenging macro backdrop

Overall employment change by residential status (ex FDWs and construction, '000)



Net Fixed Assets Investment Commitments (12M rolling total, S\$bn)



Singapore Govt Budget (S\$bn)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Operating revenue	28.2	31.3	40.4	41.1	39.5	46.1	51.1	55.8	57.0	60.8	64.8	68.7	69.5
% chge from previous yr	2.6	11.1	29.0	1.8	-3.7	16.5	10.9	9.3	2.2	6.7	6.6	5.9	1.1
Total expenditure	28.6	29.9	33.0	38.1	41.9	45.3	46.6	49.0	51.7	56.6	67.4	71.4	75.1
% chge from previous yr	-1.1	4.4	10.3	15.5	10.0	8.2	2.7	5.2	5.6	9.5	19.1	5.8	5.2
Operating expenditure	21.4	23.9	26.0	28.7	30.9	33.3	35.2	36.4	39.7	42.7	48.1	52.7	56.3
% chge from previous yr	5.4	11.6	8.5	10.7	7.6	7.6	5.6	3.6	9.1	7.5	12.7	9.5	6.9
Develpm. expenditure	7.2	6.0	7.0	9.4	11.0	12.1	11.4	12.6	12.0	14.0	19.4	18.7	18.8
% chge from previous yr	-16.4	-16.8	17.5	33.1	17.4	9.9	-5.4	10.3	-4.6	16.3	38.6	-3.3	0.3
Primary fiscal balance*	-0.5	1.4	7.4	3.0	-2.3	0.7	4.5	6.8	5.3	4.2	-2.6	-2.7	-5.6
% GDP	-0.2	0.6	2.7	1.1	-0.8	0.2	1.3	1.9	1.4	1.1	-0.7	-0.7	-1.4
ADD Net Investment Return (NIR)	2.8	2.8	2.4	4.3	7.0	7.4	7.9	7.9	8.3	8.6	9.9	14.4	14.1
LESS Special Transfers	2.7	3.6	2.1	7.1	5.5	7.1	8.4	8.9	8.6	12.8	10.5	6.5	6.6
Budget balance* (S\$bn)	-0.4	0.7	7.7	0.2	-0.8	1.0	4.0	5.8	5.0	-0.1	-3.3	5.2	1.9
% GDP	-0.2	0.3	2.8	0.1	-0.3	0.3	1.1	1.6	1.3	0.0	-0.8	1.3	0.5

NOTE: FY = Financial Year covering April 1 to March 31

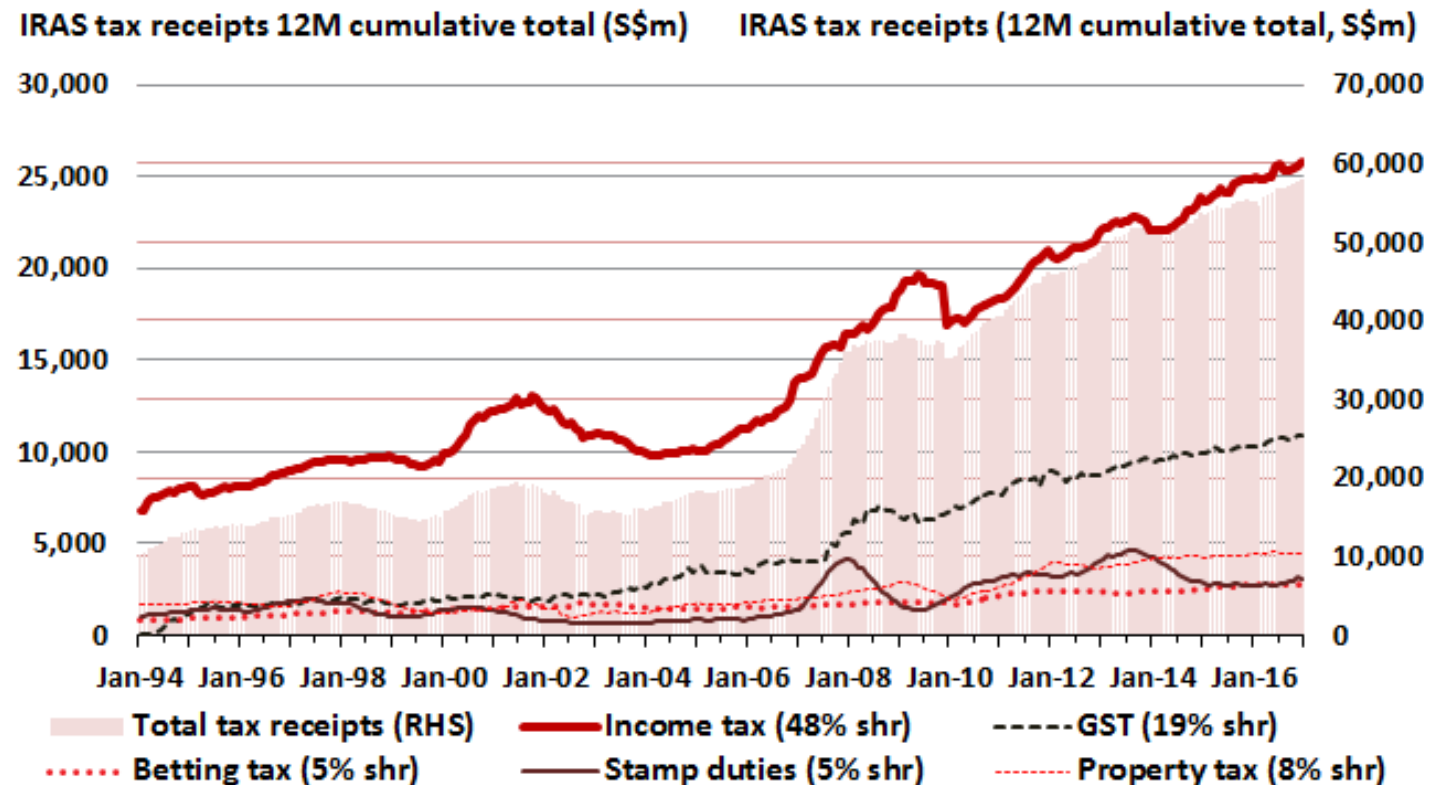
* excludes capital receipts

Source: CEIC, MoF, CIMB PB

Budget 2017: Keep Calm, Focus on the Long Run

➤ **Bottom Line:** No “fireworks” with the economy in transition to low single digit-growth. So another year of “calm” proposals to build on the long standing goal of weaning businesses off the heavy reliance on foreign labour, ensuring Singapore stays relevant as a globally connected, clean and efficient city-state with best infrastructure and a skilled (hopefully hungry) workforce.

- To fund growing spending, expect tweaks to direct (income tax, wealth tax) & indirect taxes (GST, carbon tax) to ensure sustainable fiscal policy.
- **Impact of disruptive technology on business will be more apparent in coming years. Future budgets will have to address this issue because it will drastically change live, work and do the business. Businesses must adapt to changing business conditions or become redundant. Depending on “economic handouts” merely delay the inevitable.**



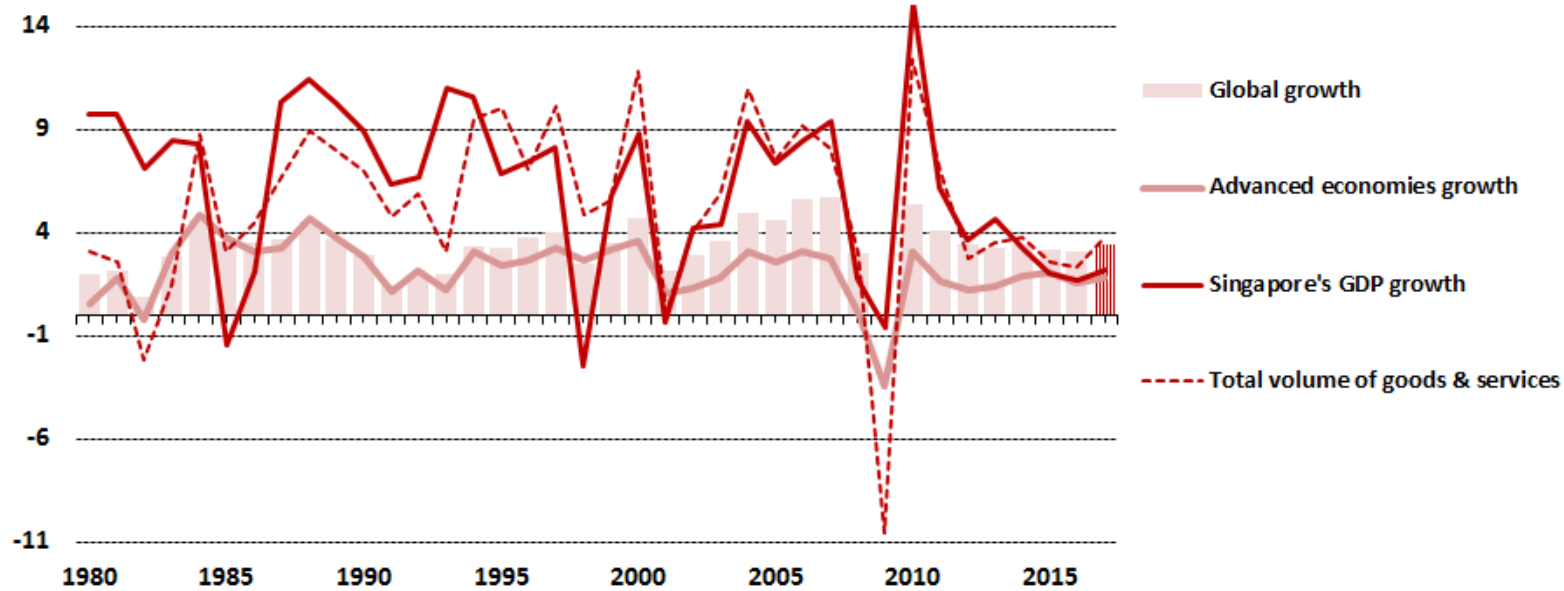
Source: CEIC, MoF, CIMB PB

Connecting Singapore to the world

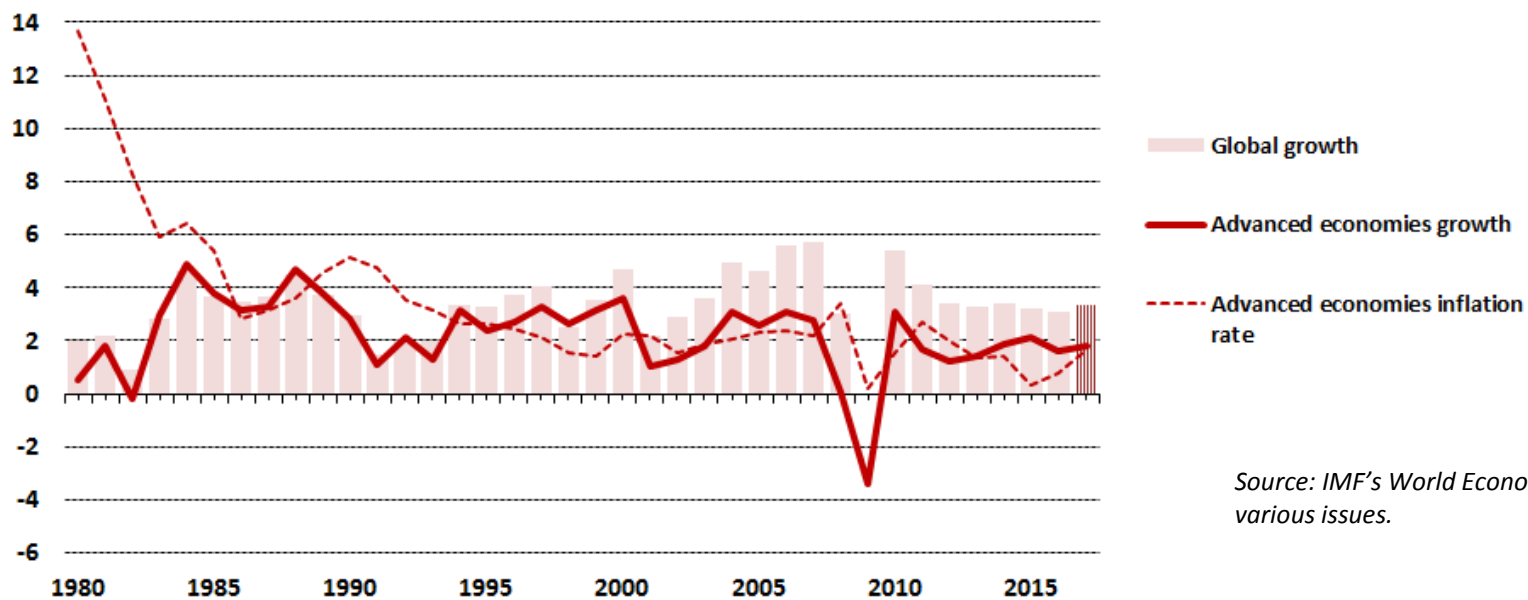
1. **Regional Comprehensive Economic Partnership (RCEP)** is a proposed free trade agreement (FTA) between the 10 member states of ASEAN and the six states with which ASEAN has existing FTAs (Australia, China, India, Japan, South Korea and New Zealand). RCEP negotiations were formally launched in Nov 2012 at the ASEAN Summit in Cambodia, to cover trade in goods, trade in services, investment, economic and technical co-operation, intellectual property, competition, dispute settlement and other issues. 15 rounds of talks have been held with the latest in Tianjin, China (11-22 Oct 2016)
 2. **The Trans-Pacific Partnership (TPP)** or Trans Pacific Partnership Agreement (TPPA) is a trade agreement among twelve of the Pacific Rim countries. The TPP began as an expansion of the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP or P4) signed by Brunei, Chile, New Zealand, and Singapore in 2005. Beginning in 2008, additional countries joined the discussion for a broader agreement: Australia, Canada, Japan, Malaysia, Mexico, Peru, USA, and Vietnam. Final agreement was reached on 5 October 2015.
 - The agreement cuts over 18k tariffs. It also includes **environment commitments**, prohibits exploitative child labour and forced labour, ensures the right to collective bargaining, **prohibits employment discrimination**, a **code of conduct for public officials**, as well as laying out a minimum level of **protection for intellectual property rights**. The TPP agreement also establishes an **investor-state dispute settlement (ISDS) mechanism**, which grants investors the right to sue foreign governments for treaty violations covering "freedom from discrimination", "protection against uncompensated expropriation of property", "protection against denial of justice" and "right to transfer capital".
- **Singapore:** S'pore has 20 implemented FTAs with 31 trading partners.
- **Regional FTAs:** ASEAN - Australia/NZ, ASEAN - China, ASEAN – India, ASEAN - Japan, ASEAN – S Korea
 - **Bilateral FTAs:** China, India, Japan, S Korea, NZ, Australia, Panama, Peru, Costa Rica, Jordan, USA
 - **Concluded/Signed FTAs:** European Union, Turkey, **TPP (TPP11 instead?)**
 - **FTAs undergoing negotiation:** Ukraine, Pakistan, Canada, Mexico, RCEP, ASEAN-India (Services & Investment), ASEAN-Japan (Services & Investment)

Fingers crossed for 2017...

GDP and Trade Growth (1980-2017, %YoY)



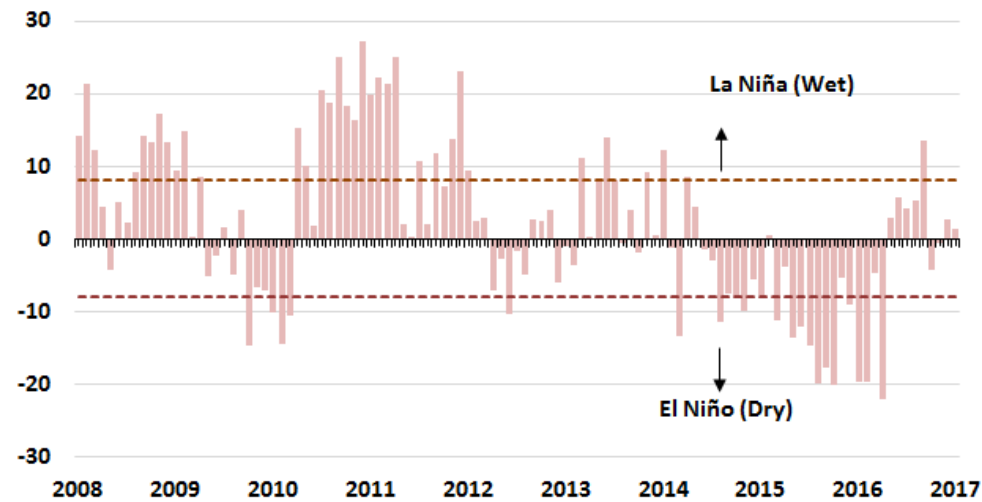
Advanced economies: GDP & Inflation (1980 - 2017, %YoY)



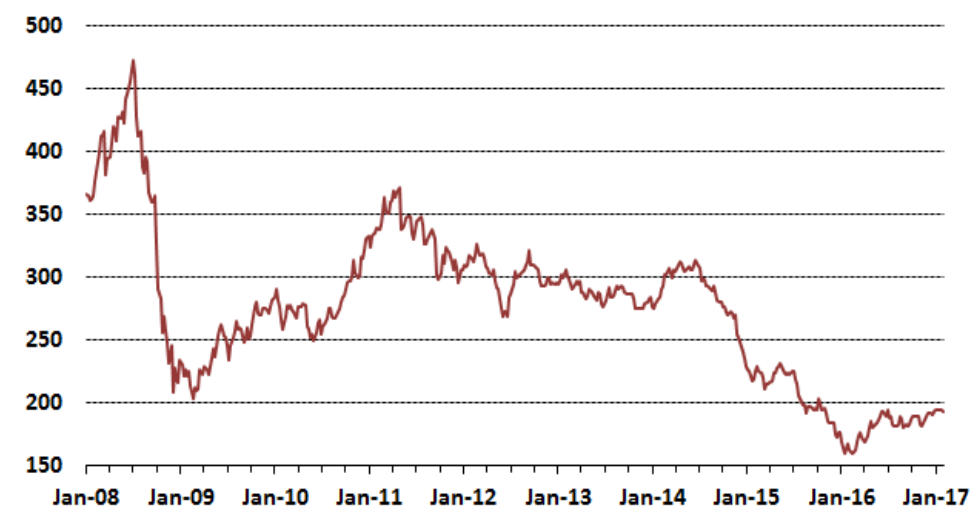
Source: IMF's World Economic Outlook, various issues.

...keep on eye on a return of mild inflation

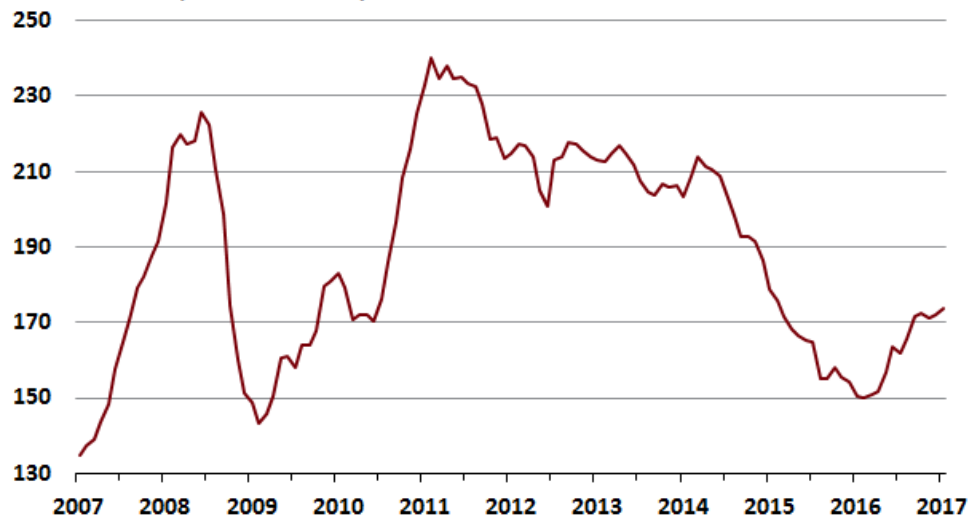
BOM's Southern Oscillation Index



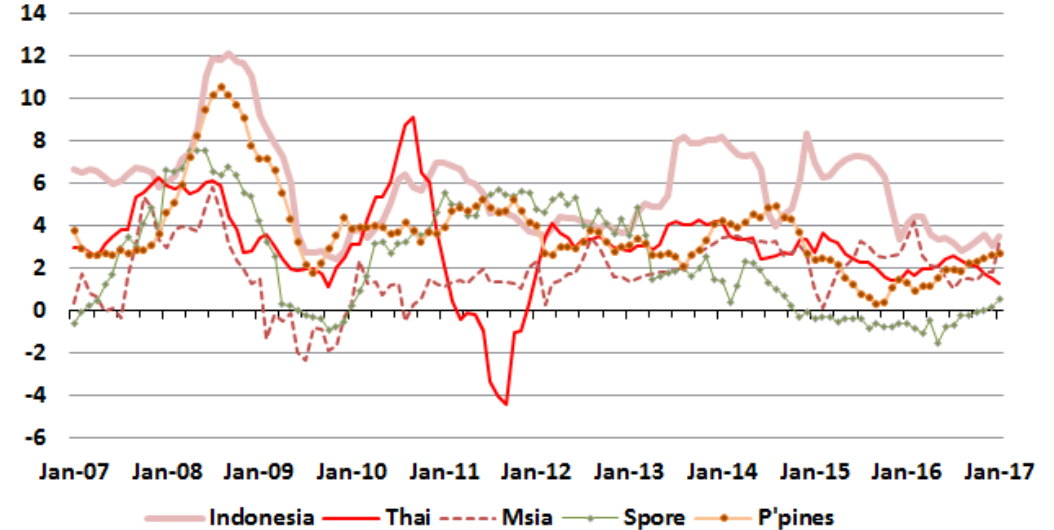
Reuters/Jeffries Commodity Price Index



UN Food Index (2002-2004 = 100)

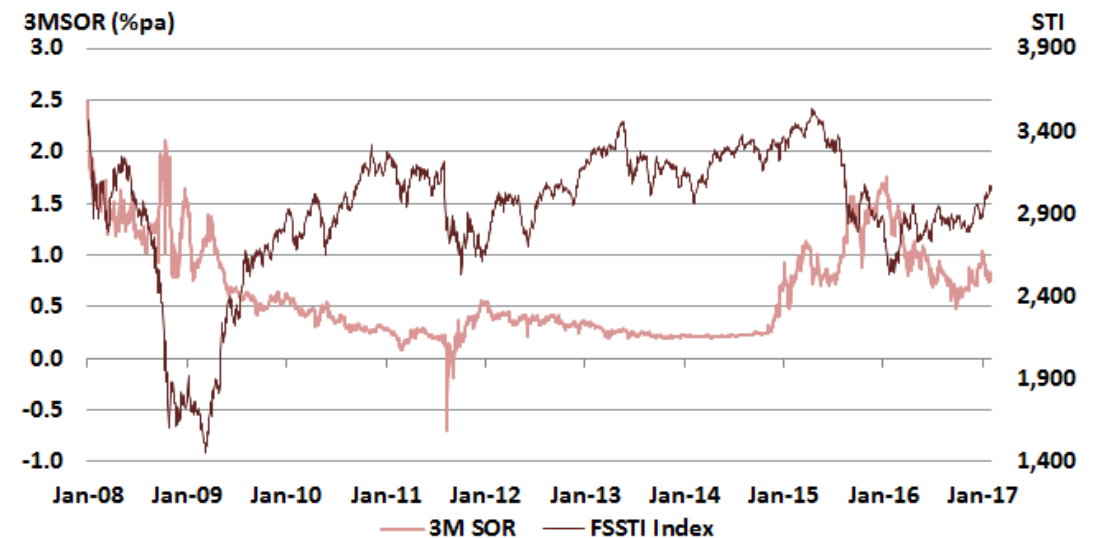
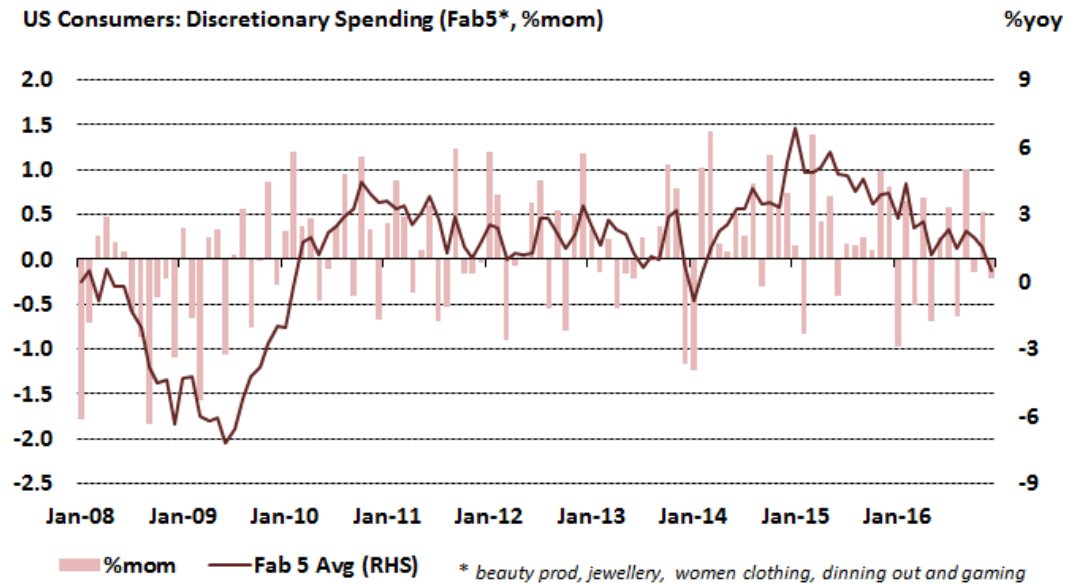


Selected ASEAN CPI (%yoy)



Summary: Potential impact of Trump presidency

- **Fiscal boost to US economy?** Much will depend on the multiplier effects from the jobs creation, the wage growth and spending. Will American spend to lift investment? Much will depend on the scale, speed, nature of spending, and “quality” of the jobs created.
- **A more protectionist US?** The prospect of a full-blown US trade war with China is small while the focus is on the domestic economy during the new administration’s first 100 days.
- **Bottom line:** Taking the likely return to the classic populist blend of ultra-loose fiscal and monetary policies where the expected effect is stronger domestic demand (consumption and investment), the inflation expectations has also risen on tighter immigration, driving up wages (and interest rates).
- The interest rate futures moved to price in a 34% probability of the US Fed raising the fed funds rates in Mar, 56% in May, 75% in Jun and 7% in July (Bloomberg calculations on 17 Feb 2017)



Source: CEIC and Bloomberg

**Xie
xie!**

**Thank
you!**

**Terima
kasih!**

