

ASEAN – A New Economic Driving Force

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Asian economies – Diversified but not decoupled

Current economic data in good shape, but exports expected to decelerate

- Favourable base effect fading
- Weakness in US and Europe

Domestic consumption will remain as a foundation to growth

- Contributed 3-4 percentage points to headline growth across Asia
- Determined by job market, housing market and equity market

Large domestically driven v export oriented

- China, India and Indonesia outperform in tough times
- Singapore, HK, Taiwan, Malaysia experience larger swings over the cycle

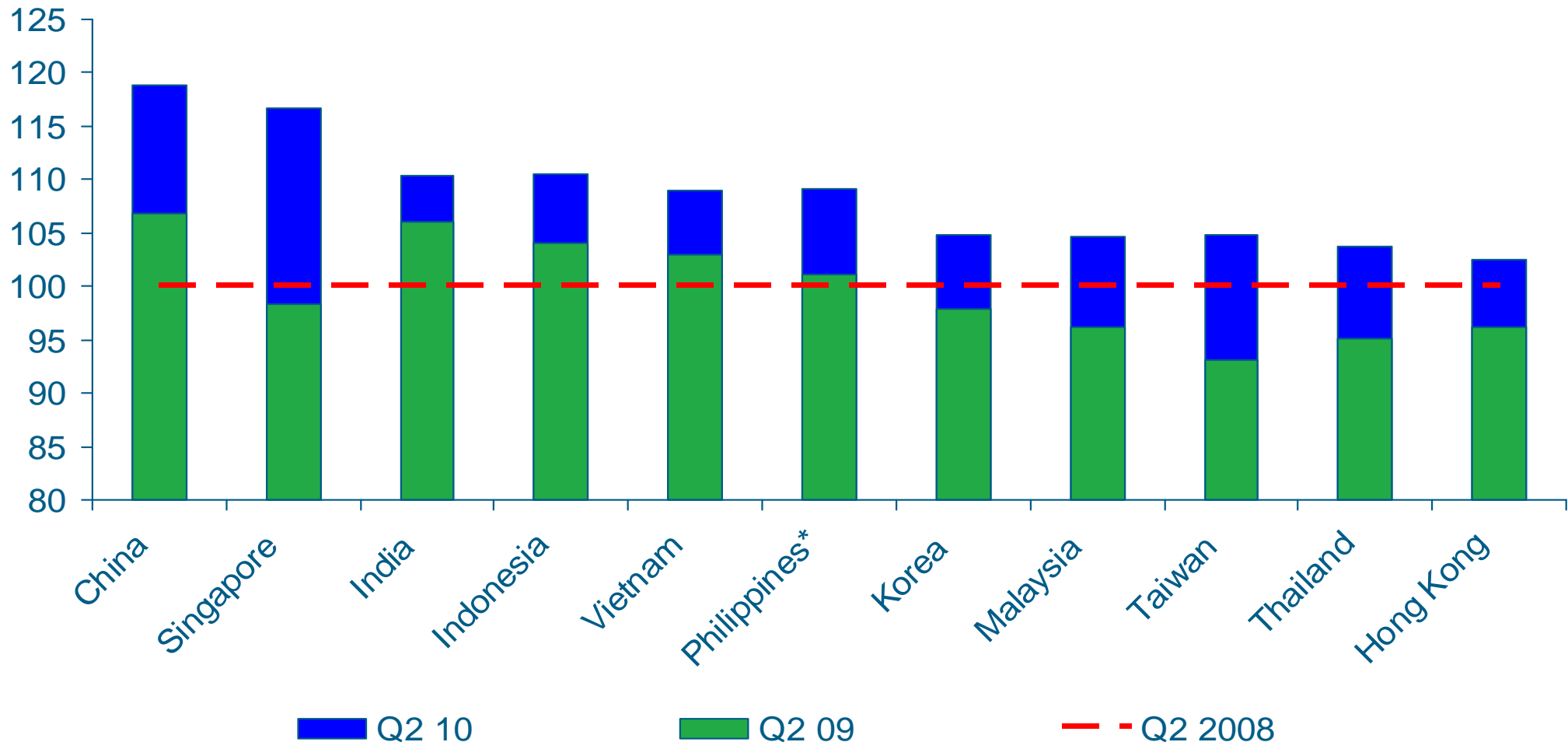
Asian growth to moderate in 2011, but double dip can be avoided even if US/Europe enter into a mild recession

Central banks are still in tightening mindset, but could become more neutral as growth decelerate

Asian currencies to continue to appreciate due to inflow, safety and growth outperformance

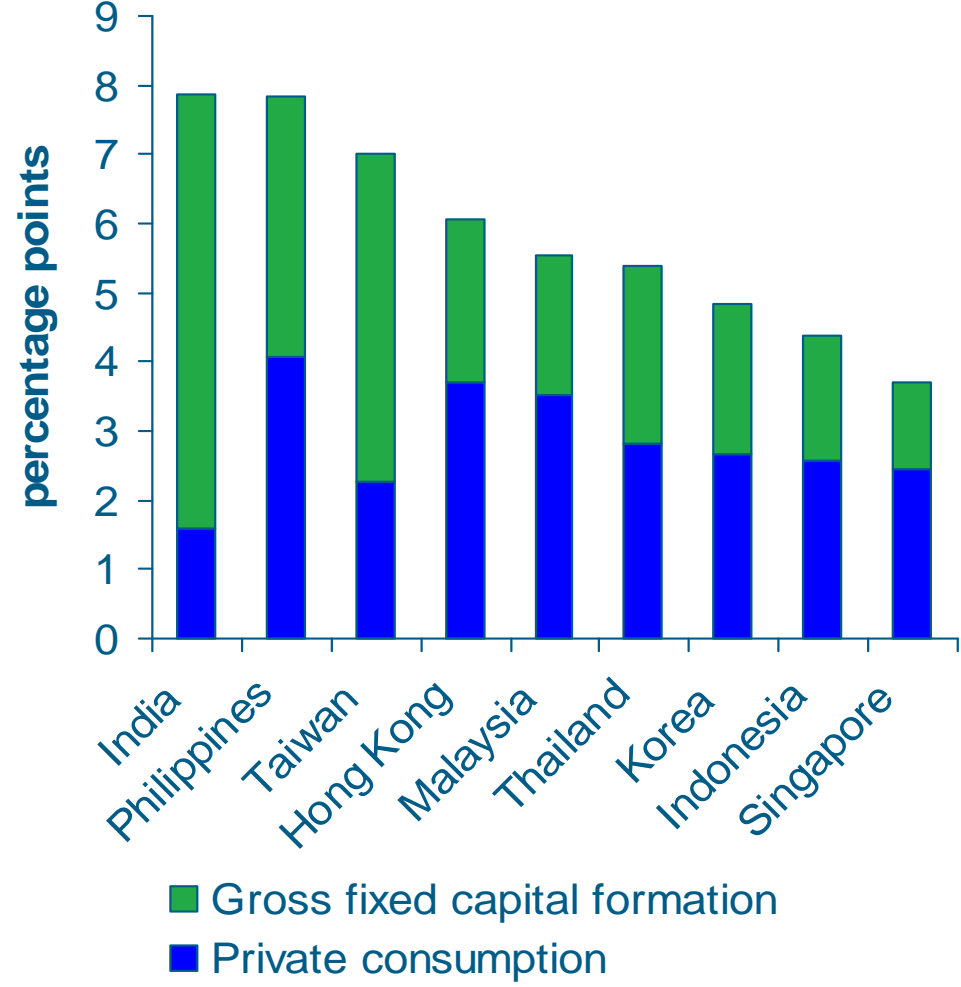
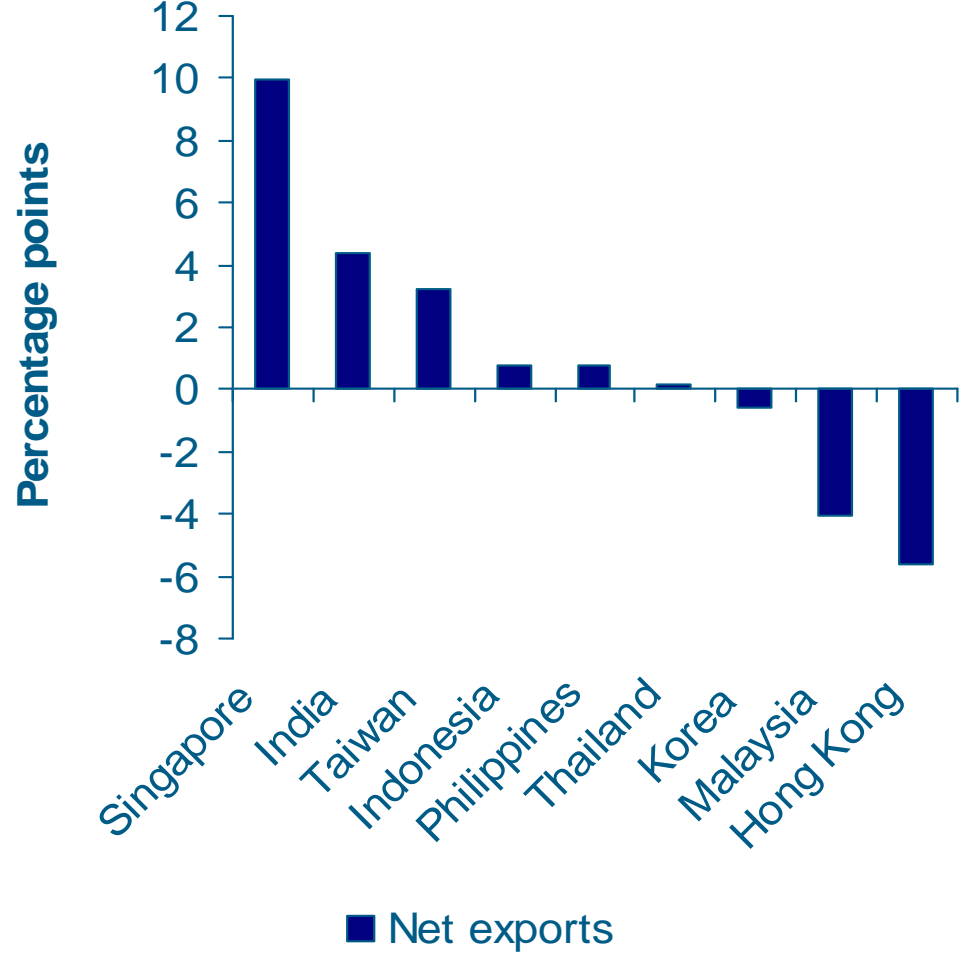
Asia: GDP recovery by country

This shows the level of economic activities, in real GDP terms, before the crisis (Q2 08), during the crisis (Q2 09) and after the crisis (Q2 10)



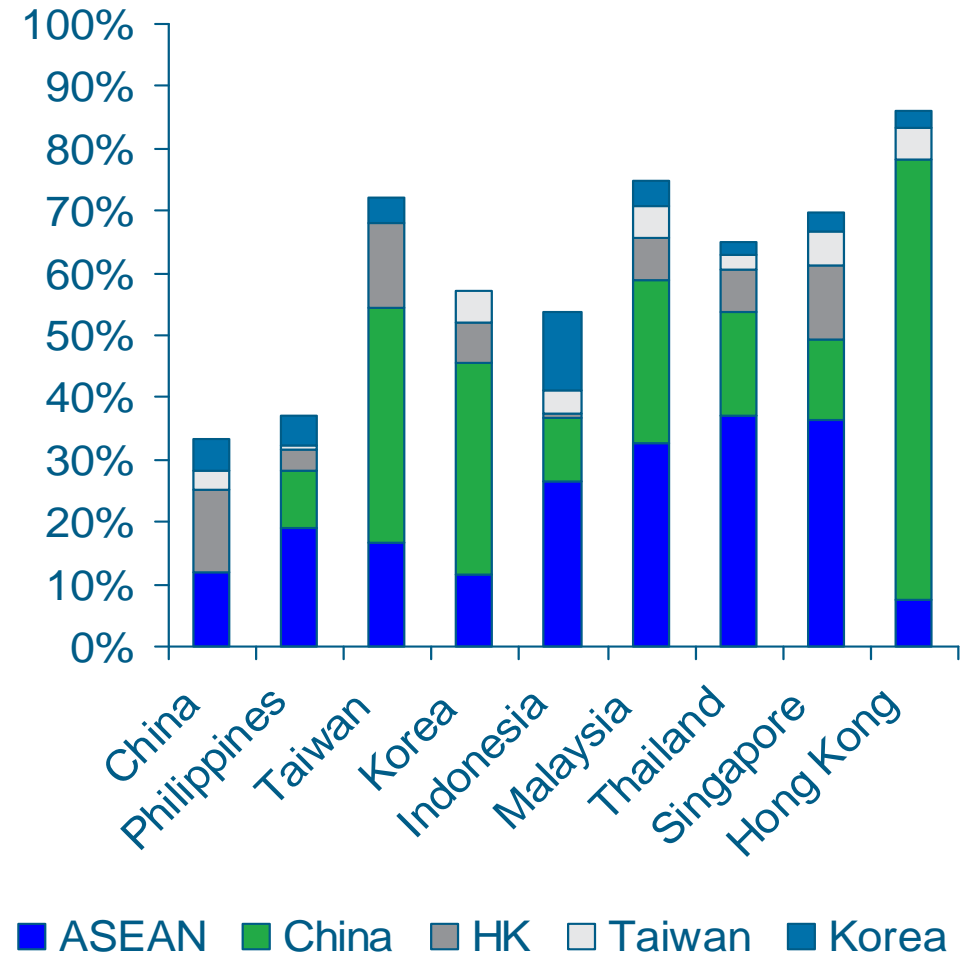
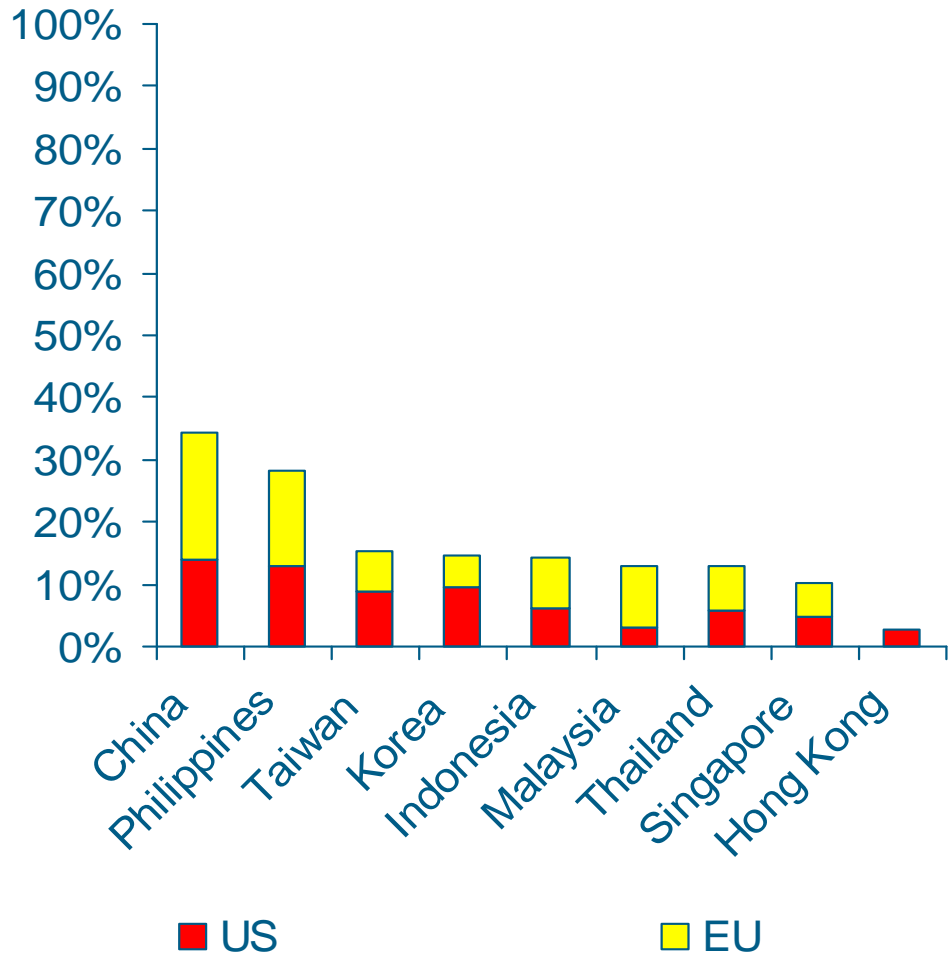
Contribution to headline GDP growth

Contribution to headline GDP growth from domestic demand and net exports



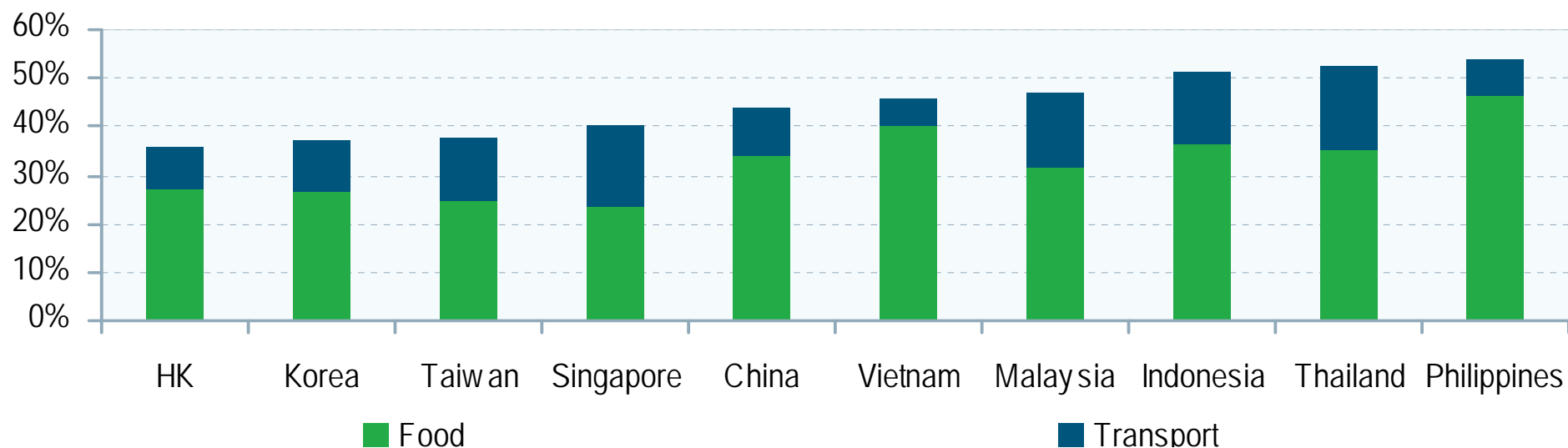
Contribution to export GROWTH

Intra-regional trade played a critical role in driving Asian export recovery

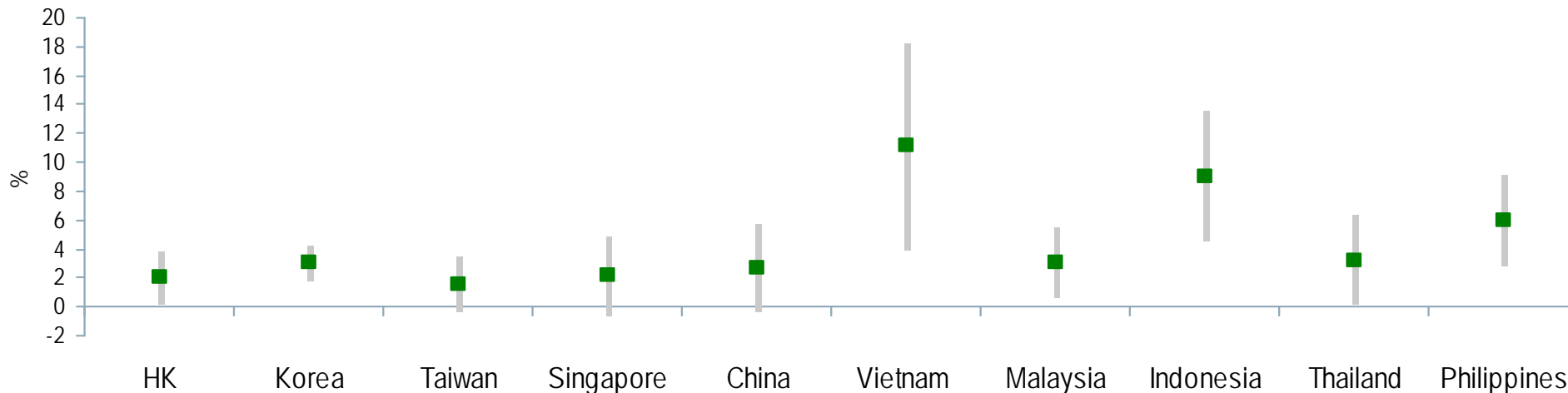


Inflation: Much depends on food and fuel

Weighting of food and transport costs in Asian CPI baskets

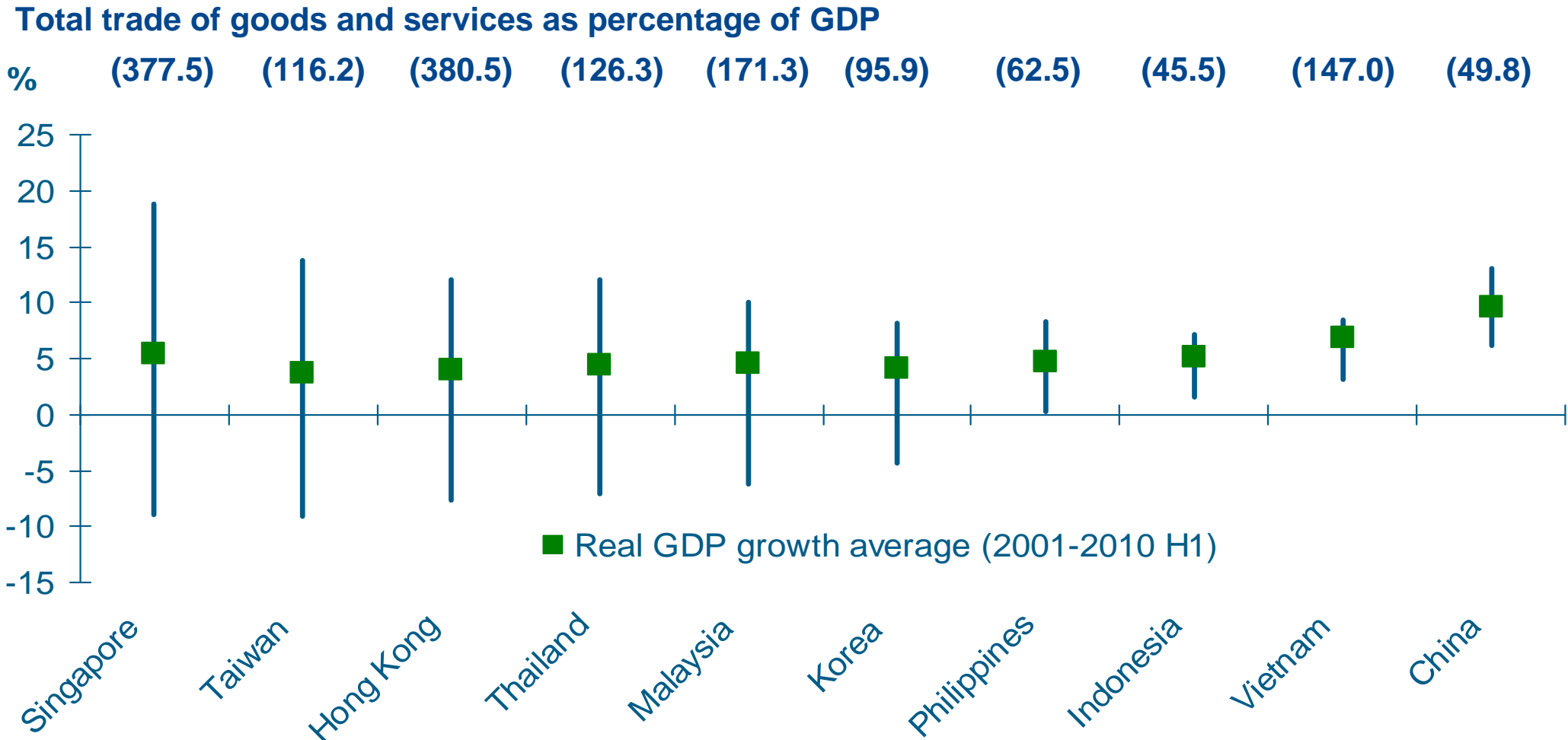


Higher inflation volatility may prompt central banks to start tightening earlier



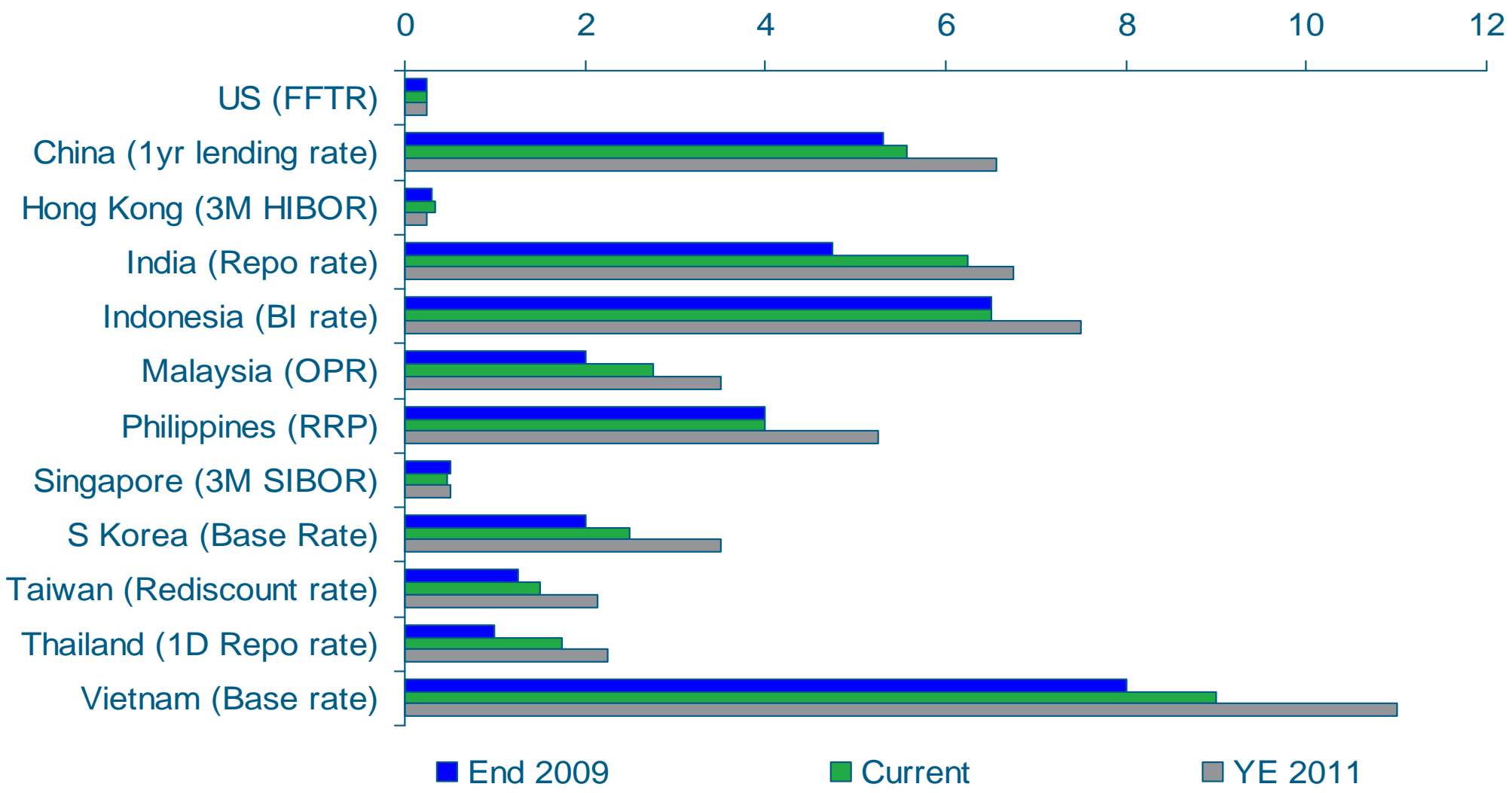
Average y/y inflation 2005-09, and +/- one standard deviation Source: Standard Chartered Research

Understanding growth volatility in Asia



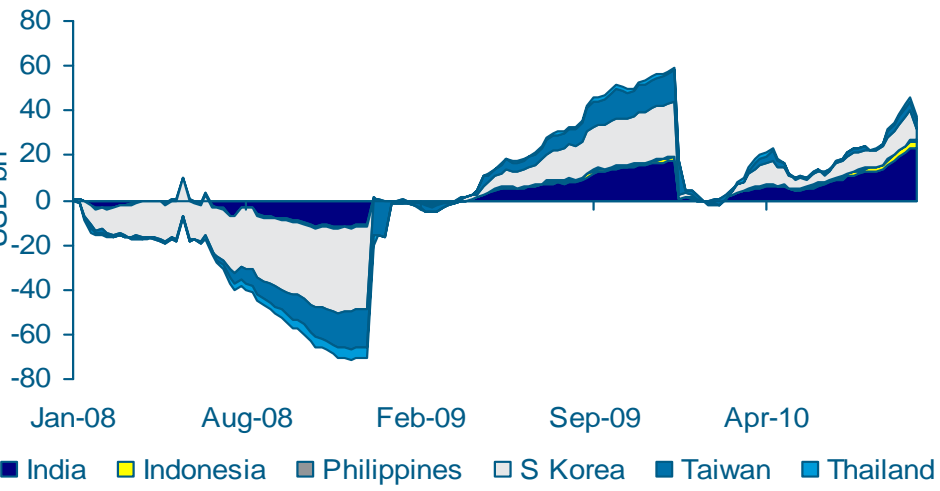
* Length of bar reflects the maximum and minimum of year-on-year growth between Q1 2001 and Q2 2010

Monetary policy outlook

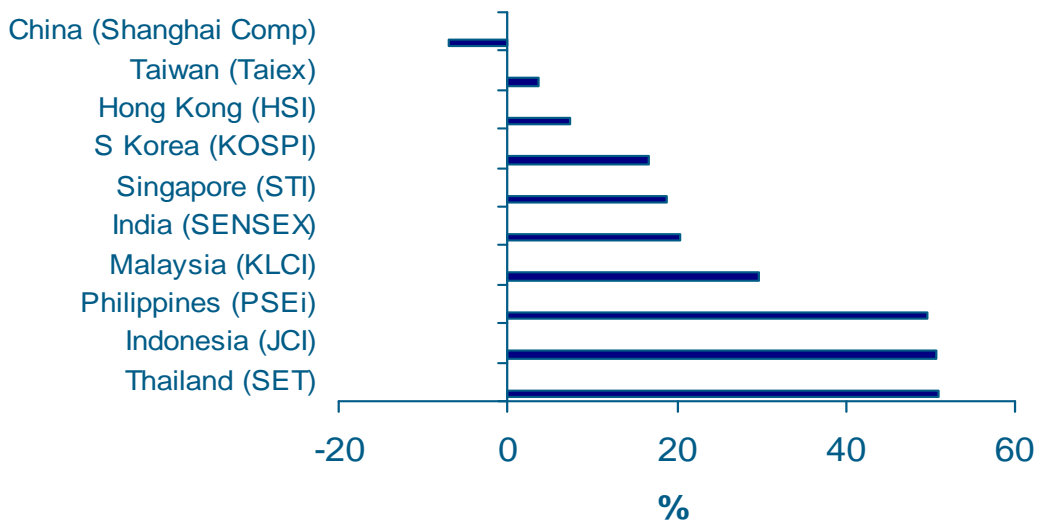


Capital inflows and controls warrant attention

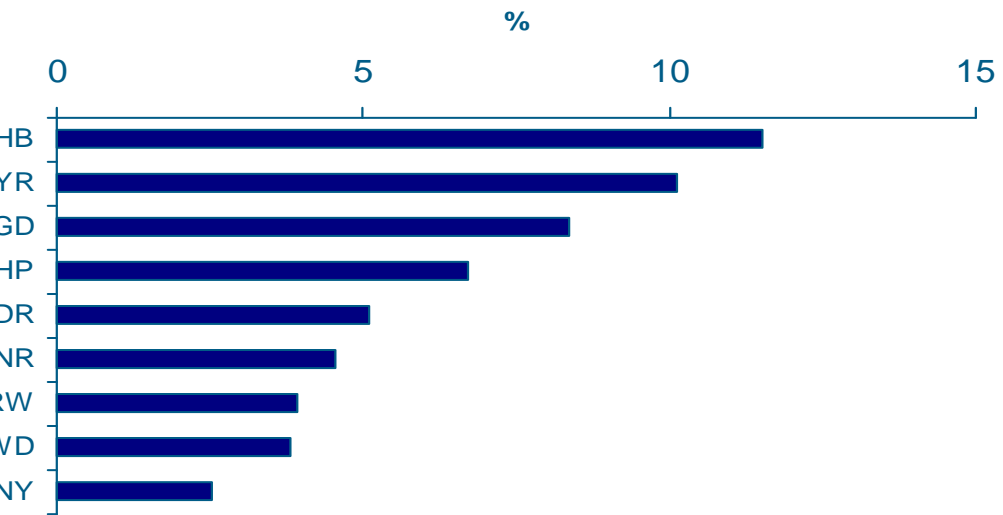
Net foreign equity purchase in selected Asian markets (YTD figures)



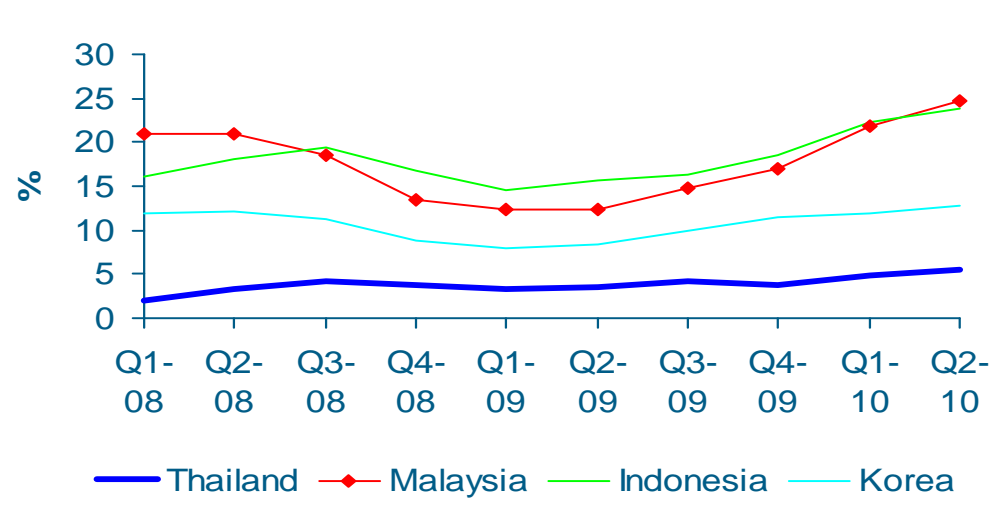
Benchmark equity index year-to-date performance (in USD term)



Year-to-date FX performance against USD



Foreign ownership of government bonds



Indonesia

- **One of two East Asian economies to see growth accelerate in 2011 (along w Vietnam)**
 - Consumer spending, commodities to lead the way
 - Infrastructure can also take off IF bureaucratic bottlenecks are reduced
- **Capital inflows to be sustained and hence supportive of exchange rate**
 - Capital flow measures under study but draconian controls will need parliamentary approval
 - En route to investment grade by 2012
- **Indonesia remains vulnerable to inflation risk**
 - Its inflation volatility is one of the highest in Asia
 - High exposure to food and energy prices despite its commodity production
 - Central bank reluctant to tighten monetary policy
- **Political stability to be maintained but questions on SBY's achievement in his second term and succession will begin to surface**

- Elections looming in 2011

- Ruling coalition BN to retain simple majority. To regain its 2/3 majority will be a close call
- If BN regains 2/3 majority, PM Najib will have a stronger mandate to push ahead economic reforms and transition programmes
- Economic policies in quarters ahead will be geared towards elections
 - Subsidy reforms to be postponed or delayed

- Exports of manufactured goods to slow in growth but commodity exports can provide some offset if price rises

- Firm labour market to support consumption

- BNM has been one of the most proactive central bank in monetary tightening and we expect more of the same in 2011 to pre-empt inflation risk

Philippines

- **Growth to stay robust at 5.4% in 2011, after a strong 7.2% rebound in 2010**
- **Remittance-driven consumption to be supported by growing investment and intra-regional exports**
- **Inflation to rise to 4.3%, driven partly by food but more by domestic overheating**
- **BSP will tighten by 125bps and allow PHP to appreciate, probably with some restraints on capital inflows**
- **Budget deficit may narrow further, though rising social welfare spending may undercut infrastructure spending**
- **Politics should remain calm, isolated conflicts with Muslim separatists unlikely to threaten political stability**

Singapore

- **Growth returning to trend after an incredible rebound in 2010 led by both manufacturing and services**
 - Growth in 2011 to decelerate to 4.6% from 14% in 2010
 - Manufacturing to see greater moderation but logistics, tourism and business services to maintain good momentum
- **MAS policy to stay focused on inflation, continue with SGD NEER appreciation**
 - Further real estate cooling measures on the cards
- **Government to continue with productivity drive**
 - Imports of professionals and skilled workers to continue but more cautious on manual labour
- **Elections on the cards but only likely to enforce political stability**

Thailand

- **2010 has shown Thailand's economic resilience amid political turmoil**
 - 9.1% y/y growth in Q2 2010 when the Bangkok protest took place
 - Low corporate leverage, strong external position reinforces economic resilience
- **But political uncertainty to remain for much of 2011**
 - Court case against ruling Democrat Party: Guilty verdict will see DP disbanded, PM Abhisit and senior executives banned from politics for five years
 - Stalemate over constitution reform
 - Elections in 2011
- **Authorities anxious of capital inflows and FX appreciation**
 - Withholding tax and capital gain tax on foreign bond purchase re-introduced
 - More measures under study but this will be a function of THB strength and volatility

Vietnam

- **Growth to accelerate further on domestic spending and investment**
- **Vietnam remains attractive foreign direct investment from Asian corporate**
 - Further improvements in infrastructure much needed to enhance competitiveness
- **Inflation and trade deficit concerns to continue to weigh on VND**
- **Central bank will be forced to raise interest rates to manage inflation and stabilise VND**
- **Communist Party Congress in January and political stability is likely to be maintained with focus on medium term economic growth and higher income**

Growth, inflation and current account forecasts

Forecasts – Economies

Forecasts in **BLUE** (**RED**) indicate *upward* (*downward*) revisions over the past month

Country	Real GDP growth (%)				Inflation (yearly average %)				Current Account (% of GDP)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Majors												
US ^A	2.6	1.9	2.7	3.0	0.9	0.5	1.0	1.5	-3.5	-3.6	-3.8	-4.0
Euro area	1.7	1.7	2.2	2.5	1.5	1.6	1.9	1.9	-0.5	-0.2	-0.2	-0.4
Japan	3.3	0.5	1.1	1.5	-0.8	-0.2	0.2	0.7	3.2	2.9	2.5	2.3
UK	1.8	1.4	1.9	2.3	3.1	3.1	1.9	1.9	-1.7	-1.6	-1.4	-1.6
Canada	3.0	2.2	2.5	3.0	1.6	2.1	2.5	2.5	-2.4	-2.2	-2.0	-1.8
Switzerland	2.7	2.2	2.4	2.8	0.5	0.0	1.0	1.3	12.5	11.0	10.5	10.7
Australia	3.2	3.4	3.8	3.8	3.0	3.4	3.9	4.1	-3.7	-3.6	-3.2	-2.8
New Zealand	1.7	2.0	3.0	3.0	2.3	3.9	2.4	2.9	-3.5	-4.0	-5.0	-5.0
Asia**												
Bangladesh*	5.5	6.0	6.6	6.9	7.3	6.8	6.3	5.0	3.7	0.8	0.3	0.0
China	10.0	8.5	9.0	8.0	3.2	5.5	3.0	3.0	5.5	5.8	5.8	5.9
Hong Kong	6.5	5.0	5.0	4.5	2.5	4.0	4.0	3.5	7.5	8.0	8.5	9.0
India*	8.1	8.5	8.8	9.0	8.2	5.0	4.5	4.5	-3.5	-3.0	-2.0	-1.8
Indonesia	6.0	6.5	7.0	7.0	5.0	6.0	6.2	5.0	0.9	0.5	0.5	0.0
Malaysia	6.8	5.1	6.0	5.0	1.7	3.4	2.5	2.5	17.0	15.0	15.5	16.5
Pakistan*	4.1	2.5	4.5	5.0	11.7	16.0	13.0	10.0	-2.0	-3.0	-3.4	-3.5
Philippines	7.2	5.4	6.0	6.0	3.8	4.3	5.4	5.8	6.5	6.1	5.5	4.2
Singapore	14.0	4.6	6.0	5.0	2.9	3.4	2.5	2.5	17.0	15.0	16.7	15.5
South Korea	6.1	4.0	5.2	4.6	2.9	2.8	3.0	3.0	3.0	2.0	1.0	1.0
Sri Lanka	6.8	7.1	7.5	8.0	5.7	6.5	7.0	7.2	-6.0	-3.5	-2.5	-2.0
Taiwan	9.7	4.6	6.0	4.6	1.0	2.2	2.2	1.8	9.6	8.4	7.5	7.0
Thailand	6.3	4.4	5.8	6.0	3.2	3.7	3.8	4.2	3.0	1.3	0.4	-0.8
Vietnam	6.7	7.2	7.0	6.5	8.9	10.5	9.5	8.0	-8.5	-10.5	-8.5	-7.5

FX, interest rate forecasts

Forecasts – Markets

Forecasts in **BLUE** (**RED**) indicate *upward* (*downward*) revisions over the past month

	Exchange rate vs. USD						Short-term interest rates					
	25-Nov-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11	25-Nov-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11
Majors												
US [^]	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.25 (FFTR)	0.25	0.25	0.25	0.25	0.25
Euro area	1.33	1.36	1.28	1.20	1.26	1.30	1.00 (Refi Rate)	1.00	1.00	1.00	1.00	1.75
Japan	83.5	84.0	87.0	90.0	92.0	94.0	0.10 (O/N Call Rate)	0.10	0.10	0.10	0.10	0.10
UK	1.58	1.60	1.53	1.45	1.48	1.52	0.50 (Bank Rate)	0.50	0.50	0.50	0.50	0.50
Canada	1.01	1.01	1.00	0.98	0.99	1.00	1.00 (O/N Lending Rate)	1.00	1.00	1.00	1.50	2.00
Switzerland	1.00	0.97	1.02	1.10	1.08	1.07	0.25 (LIBOR Target)	0.25	0.25	0.25	0.50	0.75
Australia	0.98	1.00	0.94	0.92	0.90	0.88	4.75 (OCR)	5.00	5.00	5.25	5.50	5.50
New Zealand	0.76	0.79	0.74	0.73	0.72	0.70	3.00 (OCR)	3.00	3.25	3.50	3.75	4.00
Asia												
Bangladesh*	70.35	70.2	69.8	70.5	70.5	70.8	5.50 (RP)	5.50	5.50	5.50	5.50	5.50
China	6.65	6.59	6.49	6.37	6.28	6.20	5.56 (1Y Base Lending)	5.81	6.31	6.56	6.56	6.56
Hong Kong	7.76	7.76	7.76	7.76	7.76	7.76	0.33 (3M HIBOR)	0.25	0.25	0.25	0.25	0.25
India*	45.75	45.50	44.00	45.80	44.20	43.00	6.25 (Repo rate)	6.25	6.25	6.25	6.50	6.75
Indonesia	8,960	8,900	8,900	9,100	8,800	8,500	6.50 (BI Rate)	6.50	6.75	7.50	7.50	7.50
Malaysia	3.13	3.10	3.10	3.18	3.12	2.98	2.75 (OPR)	2.75	3.00	3.50	3.50	3.50
Pakistan*	85.50	86.80	87.58	88.00	89.00	89.80	12.96 (6M KIBOR)	13.90	14.80	14.80	14.80	14.80
Philippines	44.11	43.50	43.50	44.50	43.00	41.00	4.00 (RRP)	4.00	4.25	4.50	4.75	5.25
Singapore	1.31	1.30	1.29	1.32	1.28	1.23	0.50 (3M SIBOR)	0.50	0.50	0.50	0.50	0.50
South Korea	1,144	1,120	1,075	1,100	1,050	1,025	2.50 (Base Rate)	2.50	2.50	3.00	3.25	3.50
Sri Lanka	111.22	111.5	111.0	111.6	110.9	110.2	7.25 (RP)	7.25	7.25	7.25	7.75	7.75
Taiwan	30.42	30.30	29.60	29.90	29.10	28.75	1.50 (Discount Rate)	1.63	1.75	1.88	2.00	2.13
Thailand	30.04	30.00	30.25	31.50	30.20	29.00	1.75 (1-day Repo)	1.75	1.75	1.75	1.75	2.25
Vietnam	19,480	19,900	20,000	20,400	20,500	20,800	9.00 (Base Rate)	9.00	9.00	10.00	11.00	11.00

Source: Standard Chartered Research

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