The 10-second briefing

# Taking the punchbowl away

Regional Economy


- Fed's policy normalisation is already bringing dislocations to markets globally; this continues to be our main theme in 2015
- Asia ex-Japan will have to brace for this impact; China's easing in response to Fed's tightening is to us not a fool-proof solution
- Lower oil prices are positive for growth but we are mindful of macro and geopolitical stresses coming from different angles

**Kevin Lai**
(852) 2848 4926
kevin.lai@hk.daiwacm.com

**Christie Chien**
(852) 2848 4482
christie.chien@hk.daiwacm.com

**Junjie Tang**
(852) 2773 8736
junjie.tang@hk.daiwacm.com

## ■ Summary

**One-legged G3 recovery and asymmetric monetary policies.** The underlying demand picture for the G3 looks a bit more encouraging in 2015. However, as the US remains the only economy to do better, the Fed is going to be the only G3 central bank ready to tighten, in our view. This backdrop spells troubles. The recent pullback in US Dollar liquidity globally has already led to serious dislocations in various financial markets, including oil and commodities. Many emerging economies have suffered. We expect the emerging world to go through another difficult time in 2015.

**Bracing for tightening and an extended period of US Dollar strength.** Money flows into Asia over the past 6 years have been driven significantly by money taking advantage of ultra-low US interest rates and chasing high-yielding and risky assets in Asia. While cheap US Dollar funding has supported growth, it has also raised borrowers' interest-rate, rollover and currency risks. The leveraged positions might well be unwound more rapidly than many in the market expect. A larger impact could be felt by those economies with weaker fundamentals and greater credit exposures. China, India, Indonesia and Hong Kong are most exposed.

**China's easing to cope with money outflows but risking sending the CNY lower.** Money outflows from China are now a reality, not our projection anymore. Our estimate of carry-trade or hot-money inflows is USD1tn since QE1. This money is sensitive to the Fed's tightening. Together with conventional capital flows, potential outflows in 2015 could be thick and fast. We look for the PBOC to keep easing and allow the CNY to dip further. However, allowing the CNY to slide could trigger market panic, leading to more outflows and negative feedback loops. If that happens, the PBOC may have to reverse to tightening again.

**Reverse oil shock, benefiting Asian industrialised nations but raising emerging markets' stress.** Key beneficiaries are Singapore, Thailand, India, Korea, Taiwan and Hong Kong. For them, we estimate gross gains from each USD10 oil-price drop are close to 0.5% of GDP. Malaysia should be the main loser, while benefits to China, Indonesia and the Philippines will likely not be too meaningful. We are also concerned about the second-round impact on Asia, as oil nations have been taking up a lot more Asian exports and recycling huge US Dollar surpluses in Asian markets. In addition to geopolitical ramifications, this oil shock could also lead to a bigger financial shock through global debt and derivatives markets, exacerbated by US Dollar strength.

■ Daiwa's GDP forecasts for 2015-16

| | 2015E | | 2016E | |
|---|---|---|---|---|
| (% YoY) | Daiwa | Consensus | Daiwa | Consensus |
| Asia ex Japan | 5.8 | 6.3 | 5.6 | 6.2 |
| China | 6.9 | 7.1 | 6.5 | 6.9 |
| Hong Kong | 1.8 | 3.0 | 1.6 | 3.2 |
| Taiwan | 3.2 | 3.6 | 3.0 | 3.6 |
| Korea | 3.0 | 3.7 | 3.0 | 3.7 |
| India | 5.2 | 6.2 | 4.8 | 6.7 |
| Singapore | 2.6 | 3.5 | 2.4 | 3.7 |
| Indonesia | 5.0 | 5.5 | 5.2 | 5.7 |
| Malaysia | 5.0 | 5.2 | 5.5 | 5.1 |
| Philippines | 5.3 | 6.4 | 4.9 | 6.2 |
| Thailand | 4.0 | 4.1 | 4.6 | 4.4 |

*Source: FocusEconomics, Daiwa (fiscal year for India)*

Overall, we still project Asia ex-Japan GDP growth to dip further to 5.8% YoY in 2015. Like 2014, we see room for the consensus to be disappointed. Sporadic bouts of growth fears occurred in 2014 and could happen again. Our underlying forecasts are based on the assumption of a more or less orderly market response to the Fed's actions. If for any reasons there are major reactions from the market and/or disorderly consequences to the financial and credit conditions in Asia, our underlying forecasts would be subject to much greater downside risk.

# Macro outlook for Asia ex-Japan

*The strong US Dollar already reflects the Fed's upcoming policy changes, affecting the oil market and having many ramifications. A further drying-up of US Dollar liquidity stands to affect many parts of Asia, leading to a range of credit and currency issues. The only good news is that lower oil prices should provide some GDP downside protection for the more industrialised Asian economies.*

## Five key macro themes

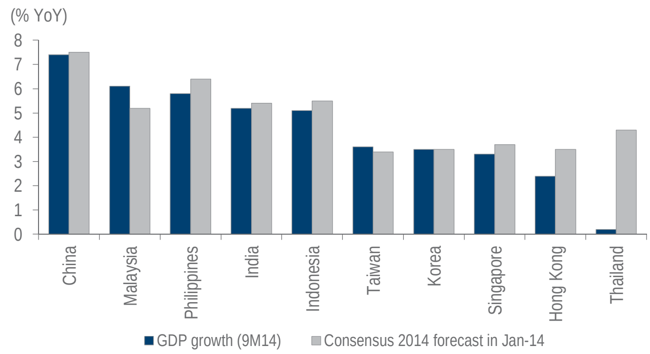
In retrospect, the 5 key macro themes we outlined a year ago for 2014 have played out broadly as we expected (see our report *G3 recovery versus Fed tapering*, of 17 December 2013). The Fed's tapering has had a major impact on money flows, credit conditions and growth dynamics in Asia. The US Dollar has entered a new phase of strength. Emerging and developing economies, led by BRICS, have continued to struggle. We have also seen positive and incremental structural forces coming out from China's new round of market reforms, keeping many investors excited about the country still. The major surprise has been the recovery in the G3 space. While the US has been doing well, both Europe and Japan have disappointed us, leaving our G3 recovery assumption a one-legged story.

Over 2014, global markets have been riding between sporadic GDP growth scares and stimulus excitements. Asia ex-Japan looks on track to achieve GDP growth of 6.0-6.2% YoY for 2014E, lower than the 6.4% YoY FocusEconomics consensus forecast set a year ago and weaker than growth of 6.3% YoY for 2013. The major disappointment continues to be China. For 9M14, China's GDP growth was only 7.4% YoY, putting it on course to reach just 7.2-7.3% growth for full-year 2014, versus the 7.6% YoY FocusEconomics consensus forecast set a year ago.

For 2015, we now look for these 5 key themes to dominate our regional outlook:

- A one-legged demand recovery in the G3 space, leading to asymmetric policies by central banks
- The Fed's policy normalisation (likely commencing in 2Q15) and its negative impact on money flows, credit conditions and growth dynamics in Asia
- An extended period of the US Dollar's strength
- China's monetary easing to cope with money outflows, but risking sending the CNY lower and hence even more money outflows from the country
- Oil and commodity prices staying low, benefitting the more industrialised economies but raising stress levels for many oil/commodity-exporting economies

■ **AEJ's 2014 GDP growth has mildly disappointed the consensus**




*Source: CEIC, Daiwa*
*Note: consensus = FocusEconomics*

## One-legged G3 recovery and asymmetric central-bank policies

We expect GDP growth to be just mildly better in 2015 across many advanced economies, with the US clearly standing out from the rest. We look for the US to see GDP growth pick up further from 2.9% YoY for 2014E to 3.1% for 2015E, on the back of: 1) a still-accommodative monetary stance by the Fed (albeit gradually being tightened from 2Q15), 2) a much reduced fiscal drag, and 3) strengthened household balance sheets. Current fundamentals for consumer spending remain reasonably good. Job growth has improved, increasing more than 250,000 per month for 9 consecutive months (March to November 2014). The decline in oil prices now underway should also provide a lift to demand (but a smaller one than in the past because oil producers – now much more active in the US – will be negatively affected by lower prices).

In the Euro area, the legacies of the sovereign debt crisis – inadequate demand, high debt, and elevated unemployment – continue to pose challenges to a robust and sustained economic recovery. Our GDP growth forecast is 0.7% YoY for 2015E, marginally weaker than our 0.8% YoY projection for 2014E. We continue to think that more easing action from the ECB is both needed and likely, and expect it to start buying corporate bonds from spring 2015 onwards. Policy rates, by contrast, will likely remain at their current "lower bound", while sovereign QE seems almost entirely out of reach given the evident scale of opposition in the ECB Council.

Japan's economy is now seen as having entered a period of recession since having peaked in January 2014. However, there is a good possibility that this will have been short-term but any recovery is likely to be slow and moderate, in our view, underpinned by: 1) JPY depreciation, 2) asset-price inflation, supported by QQE by the BOJ, and 3) the continuation of Abenomics. Our current outlook is that the BOJ will be unable to reach its targeted growth rate for consumer price inflation of 2% by its original deadline (April 2015). We expect additional monetary easing measures by the BOJ to take place in the October-December 2015 period.

**■ Global GDP forecasts**

| | 2014E | | 2015E | |
|---|---|---|---|---|
| (% YoY) | Daiwa | Consensus | Daiwa | Consensus |
| US | 2.9 | 2.2 | 3.1 | 3.0 |
| EU | 0.8 | 0.8 | 0.7 | 1.2 |
| Japan | 0.2 | 1.0 | 1.3 | 1.2 |
| G3 | 1.6 | 1.5 | 1.9 | 2.0 |

*Source: EMED, Daiwa forecasts*

## Fed's policy normalisation and extended US Dollar strength

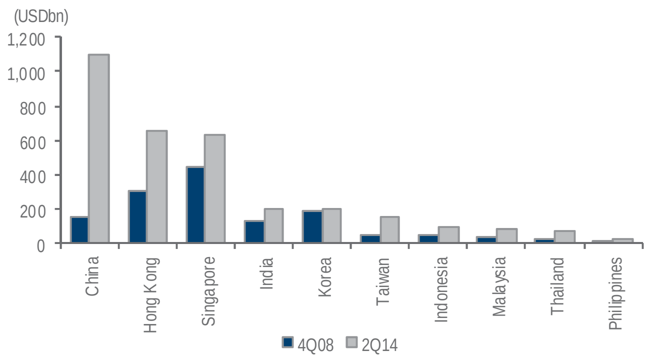
The biggest macro trend right now is certainly the extended strengthening of the US Dollar. The sharp price falls in oil, gold and other commodity markets seen since 2013 are mostly a manifestation of the US Dollar's strength, as low-cost US Dollar liquidity is being pulled back from these financial markets. Many high-growth and high-yielding financial markets in Asia are no different from these markets, in our view.

Since May 2013, the Fed's messages – albeit confusing at times, indicating that tapering of its asset-purchase plan would be on track and eventually followed by a tightening and exit schedule – have had a significant impact on global financial markets. Exchange rates have depreciated significantly in many parts of Asia. Asian financial conditions have tightened in many ways, even with cuts in policy interest rates.

International capital flows into Asia over the past 6 years have been driven significantly by money taking advantage of low interest rates of the US Dollar and chasing high-yielding (and riskier) assets in Asian markets. In many economies, corporates have opted to lock in low global interest rates and to take on more US Dollar debt. While cheap funding boosts corporate profits and GDP growth if it supports genuine investment projects, it inevitably raises the interest-rate, rollover and currency risks for the borrower.

According to data from the BIS, international banks' cross-border claims (all financial instruments including loans) to emerging economies amounted to USD3,934bn in mid-2014, mainly in US Dollars, compared to just USD2,430bn at end-2008. The rise of this US Dollar-based lending to China has been particularly extraordinary, surging from just USD154bn at end-2008 to USD1,103bn in mid-2014. However, many of the US Dollar-based liabilities are not fully captured by the BIS data due to the use of offshore subsidiaries. Neither can the data show the size of the US Dollar debts that borrowers in developed economies have taken on and brought to emerging economies.

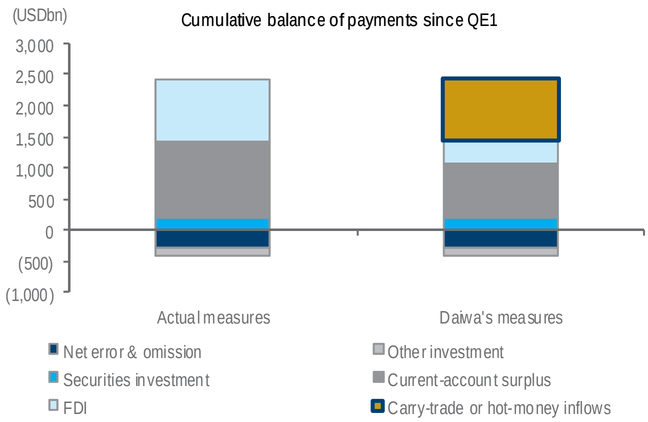
**■ Claims of international banks on Asian economies**




*Source: BIS banking statistics*

Furthermore, many corporates or even individuals may have borrowed heavily for purely speculative purposes, in our view. For instance, we estimate that USD1tn of carry-trade money in China has been built up by companies and individuals inside and outside China, mainly through US Dollar financing in Hong Kong (see our report on the China Economy of 27 October 2014, [Money outflows, policy constraints, currency pressure](#)). The leveraged positions that were built up during the period of extremely loose US monetary policy and high emerging-market economic growth might well be unwound more rapidly than many expect.

■ **USD1tn of carry-trade money has entered China since QE1**




*Source: CEIC, Daiwa*

A further tightening of global funding conditions is quite likely in our view, and could trigger renewed money outflows, asset-price corrections, and even tighter financial conditions as we progress through 2015. Positive effects on demand channels should help over time, as the US economy continues to strengthen. However, we believe the negative shocks through financial and credit channels are likely to be far greater. Adverse feedback loops could form between further growth disappointments from Asia, weakening balance sheets, and tighter external funding conditions — especially in economies with weaker fundamentals and relying heavily on external funding to support credit-driven growth. We continue to see China, Hong Kong, India and Indonesia as the most vulnerable Asian economies to these risks.

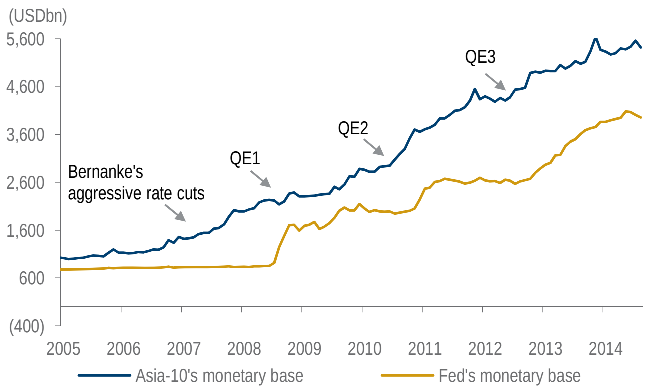
The impact of the tightening and eventual exit of the Fed's QE programme will depend on its magnitude and pace, and on how broadly the tightening affects domestic financial and credit conditions. Unfortunately, many money and credit links across Asia are indirect and cannot be easily recognised by investors.

## We remain of the view that the Fed will tighten in mid-2015

From the Fed's perspectives, it does not seem to be bothered by recent external weaknesses, which may delay or reduce the Fed's bias towards tightening. Neither has it altered its views on inflation despite declines in oil prices, a strong US Dollar and hints of lower inflation expectations. Over the past few months, the Fed's inflation hawks did not seem to resist the view that slack in the US labour market remains an issue, and doves did not seem to emphasise downside risks to US economic growth or inflation.

Some Fed members may be more concerned about the recent external developments. However, according to Daiwa's US Chief Economist, Mike Moran, there is no compelling evidence to suggest that the Fed is willing to change its view. We remain of the view that policy normalisation is likely to begin in the middle of next year. The FOMC appears on track to begin hiking interest rates in 2015, and mid-year seems to represent a reasonable balance between the preferences of the hawks and doves. We look for the Fed funds rate to reach 1.0% by end-2015 and 2.5% by end-2016, broadly in line with the latest FOMC median forecasts. We also believe that the Fed's exit programme will begin shortly after the Fed embarks on its rate hike cycle.

■ **Aggressive US policy has led to massive money printing in Asia**




*Source: CEIC, Daiwa*

## Second derivative will likely be a world of difference

For the past 6 years, 3 rounds of QE inflated the Fed's monetary base by USD45bn per month. The Fed's tapering process since January 2014 has slowed down this inflation to USD31bn per month. Tapering has ended in October 2014. The Fed's monetary base will begin to shrink when it starts the scale-down process, which is likely to happen shortly after the Fed implements its first rate hike in 2Q15, in our view.

The Fed's tapering and the resultant strengthening of the US Dollar have led to liquidity pullbacks from key markets, including gold, oil and many Asian economies. We see the odds of more rapid money outflows going into 2015, as the Fed finally begins to tighten and officially withdraws liquidity from the system. If we assume that the Fed will take its time and allow the whole scale-down process to last for another 6 years, this means the Fed's monetary base should be shrinking by about USD41bn each month.

## ■ Asia: growth in FX reserves, base money, M2 and credit between August 2008 and October 2014

| | FX reserves | | Monetary base | | M2 | | Total credit | | |
|---|---|---|---|---|---|---|---|---|---|
| (USDbn) | Abs. change | % change | Abs. change | % change | Abs. change | % change | Abs. change | % change | % of 2008' GDP |
| Asia-10 | 2,697* | 81% | 3,236 | 145% | 15,589 | 145% | 11,973 | 148% | 137% |
| China | 2,004* | 106% | 2,844 | 171% | 13,023 | 199% | 9,364^ | 206% | 207% |
| Hong Kong | 167 | 106% | 131 | 317% | 666 | 88% | 500 | 114% | 228% |
| Taiwan | 139 | 49% | 34 | 49% | 361 | 42% | 163 | 29% | 41% |
| Korea | 121 | 50% | 50 | 104% | 618 | 46% | 313 | 37% | 33% |
| Singapore | 94 | 55% | 20 | 96% | 171 | 75% | 284 | 149% | 149% |
| Thailand | 54 | 54% | 20 | 70% | 225 | 81% | 186 | 88% | 67% |
| Indonesia | 54 | 92% | 32 | 83% | 147 | 80% | 163 | 123% | 32% |
| Philippines | 43 | 116% | 28 | 144% | 85 | 122% | 55 | 121% | 32% |
| India | 21 | 7% | 62 | 27% | 95 | 36% | 756 | 85% | 59% |
| Malaysia | 1 | 1% | 16 | 81% | 199 | 76% | 188 | 89% | 81% |

*Source: CEIC, Daiwa   Note: *China's FX reserves are updated to September 2014; ^excluding shadow banking growth*

From expanding by USD45bn a month to shrinking by USD41bn a month, the second derivative will likely be very significant. Even if we assume the shrinkage will only be half of it, by USD20bn a month over 6 years, the real impact should still be significant.

## Currency mismatch and US Dollar debt exposure

The appreciation of the US Dollar against the backdrop of asymmetric central-bank policies, if persistent, will have a profound impact on the global economy, in particular on Asia. Recent developments in Ukraine and Russia have shown us how abruptly debt-sustainability dynamics can worsen when geopolitical and oil-price risks undercut the exchange rate, thus inflating the local currency value of foreign currency liabilities. There is a fresh question of how far the foreign exchange risks of rising foreign currency liabilities at Asian corporates are either financially hedged or naturally matched by foreign currency asset returns and revenue.

There is very limited information to tell us how much Asian corporates have hedged their foreign exchange exposures. According to the BIS (Quarterly Review, September 2014), however, commodity producers and export-oriented manufacturers, for example, earn much of their revenue in foreign currencies and are thus likely to weather the rising debt-service costs associated with currency depreciation better than issuers with mostly domestic incomes (eg, domestic telecoms, construction companies and utilities). Borrowers from countries such as Malaysia and Indonesia would be more likely to have at least partially matching foreign currency assets and liabilities, given the predominance of commodities producers and exporters among the largest issuers. In contrast, assets and liabilities are less likely to be matched at property developers in China or energy and utilities firms in India, which have been among the more active international debt issuers in recent years.

BIS experts have also warned that liquidity in hedging markets can also evaporate during times of market stress. Even longer-term exposures are often hedged with more liquid short-term contracts with the aim of reducing hedging costs. As the respective contracts have to be rolled over regularly, this could significantly reduce the value of financial hedges against large exchange rate fluctuations, since markets are bound to be at their shallowest when hedging needs are greatest.

## Negative feedback loops and spillovers

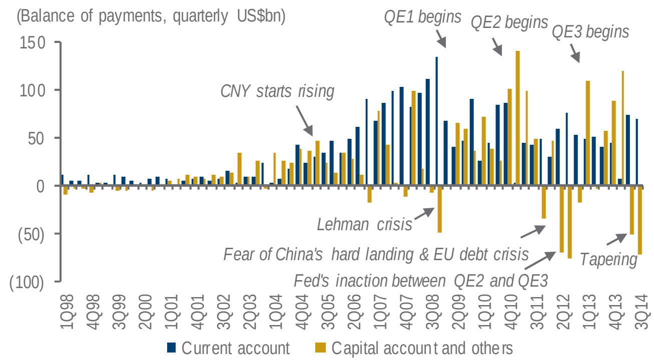
At some point, the risk of fractures could rise sharply. Various shockwave channels can work together, hence giving rise to potentially powerful and unexpected ripple effects. Currency mismatches tend to amplify both credit risk and the pressure to deleverage if borrowers are hit by sharp currency movements. Combined with uncertainties about the true extent of such mismatches, concerns about rising default risk could then result in a more widespread rout of international investors, loss of market access and spillovers into domestic interbank markets – exacerbating the financial and macroeconomic impact for Asia of the initial interest rate or foreign exchange shock.

If these risks were to materialise, stress on corporate balance sheets could rapidly spill over into other sectors, inflicting losses on banks and other financial institutions. This could be a source of powerful feedback loops in response to exchange rate and/or interest rate shocks, especially if credit risk concerns prevented the rollover of existing bank or bond market funding. Echoes of the Asian financial crisis of 1997-98 are easy enough to hear. The region could be at the start of a series of currency and credit crises, not unlike the experience of the 1990s.

## China's balance of payments deficit

China continues to be the main pressure point of these scenarios, in our view. Money outflows in China are now a reality, not our projection anymore. The latest balance-of-payments data confirms an outflow amount of USD123bn outside the country's current account for 2Q-3Q14. We believe these outflows were due to: 1) a drying up of US Dollar liquidity because of the Fed's tapering, 2) growing concerns about China's credit conditions and economic growth outlook, and 3) tempered market expectations for CNY appreciation. For 3Q14, China had a USD66m overall balance-of-payments deficit already.

**■ China's balance of payments (quarterly, to end-3Q14)**




Source: CEIC, Daiwa

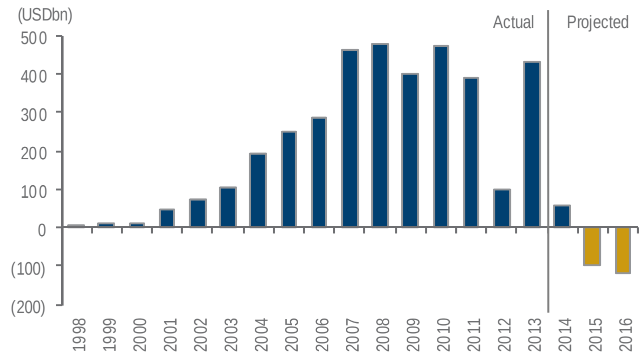
This trend has a significant impact on the PBOC's monetary policy, undermining its ability to expand its balance sheet. With hindsight, the PBOC's liquidity injection of CNY770bn (roughly USD123bn) into the banking system in September and October 2014 was to cope with the liquidity drainage caused by money outflows.

Our estimate of carry-trade/hot-money inflows for China is USD1tn since QE1. This money is most sensitive to the Fed's normalisation schedule. Together with other conventional capital flows, potential money outflows in 2015 and 2016 could be thick and fast. We look for a widening balance-of-payments deficit for China, as the structural current-account surplus would likely be insufficient to cover capital outflows. China is likely to see its balance-of-payments surplus come down sharply to USD60bn for 2014 and run into a deficit of USD100bn for 2015 and USD120bn for 2016, based on our forecasts. These changes will put persistent downward pressure on the CNY. The PBOC will probably be under pressure to sell forex reserves to stabilise its currency and market confidence.

Under this scenario, China's economy is likely to see a further liquidity squeeze and GDP growth slowdown, depending on how the PBOC reacts, by either following or ignoring the Fed's tightening. If it chooses to follow, the pressure will be on domestic credit conditions. If it chooses to ignore, the pressure will be on the CNY.

The first route is likely to be more painful than the second route. We think it is a little more likely that the PBOC will choose to print (money) its way out and allow the CNY to adjust downward. We still look for 2 reserve-ratio cuts (each of 50bps) and now forecast 2 interest-rate cuts over the course of 2015 (each of 25bps). We have to stress that, when money is flowing out of the country, much of this easing impact will likely be neutralised.

**■ China: overall balance of payments**




Source: CEIC, Daiwa estimate

We now forecast the CNY versus the USD to slide to 6.60 by end-2015 and 6.83 by end-2016 (revised down again from 6.60). The key question is whether allowing the CNY to slide will trigger market panic, leading to substantial money outflows and further negative feedback loops in the way we have described above. If this happens, all the PBOC's easing efforts will likely be in vain and the PBOC may have to tighten by raising interest rates significantly, similar to what the Central Bank of Russia has done most recently in order to stem money outflows and defend the Rouble.

This macro backdrop certainly looks unfavourable for China's economic growth and price trends. Disinflation has set in and we expect it to last. In October 2014, we already took down our CPI forecast to 1.5% YoY for 2015. Party leaders appear willing to bear more pain before they can declare a victory against corruption and other governance issues that threaten the legitimacy of the party's rule. We expect the government's GDP growth target to be lowered to 7.0% YoY only for 2015, from 7.5% for 2014. While we still think China can somehow muddle through a range of chronic issues, the odds of a financial crisis are never unlikely.

### ■ Daiwa's 4 scenarios for China

| | Scenario | How could it happen? |
|---|---|---|
| 1 | Base case: muddling through | • The PBOC continues to provide fresh liquidity support to minimise the risk of a credit crisis and facilitate an orderly deleveraging process.<br>• Continuous expansion of the base money puts persistent downward pressure on the CNY.<br>• The market is fine with gradual CNY depreciation, which would not lead to significant money outflows.<br>• In this case, we look for China's GDP growth to be down to 6.9% YoY for 2015E and the CNY vs. the USD to be down to 6.60 by end-2015. |
| 2 | Credit crisis | • Money begins to flow out, on the back of the Fed's QE exit.<br>• The government uses forex reserves aggressively to stabilise the CNY.<br>• A sell-down in forex reserves leads to a monetary-base contraction (China's own version of QE exit).<br>• A severe credit crunch ensues, leading to widespread bankruptcies and wealth destruction. |
| 3 | Currency crisis | • The government chooses to save credit at all costs.<br>• The only way to do this is to print more money, which will no longer be backed by US Dollar inflows.<br>• Excessive money supply will put the CNY under severe downward pressure.<br>• The market panics, leading to significant money outflows and a downward spiral for the CNY. |
| 4 | Worst case: credit-cum-currency crisis | • A credit crisis is quite likely to accompany a currency crisis, or vice versa.<br>• A sharp credit deterioration will lead to more money fleeing, sending the CNY into a tailspin.<br>• The government may announce tighter capital controls.<br>• Tighter capital controls will put Hong Kong under significant financial stress. |

*Source: Daiwa*

### ■ China: economic data trend and Daiwa's forecasts

| | | 1Q15E | 2Q15E | 3Q15E | 4Q15E | 2010 | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP growth | YoY % | 6.9 | 6.8 | 6.9 | 6.9 | 10.4 | 9.4 | 7.7 | 7.7 | 7.2 | 6.9 | 6.5 |
| CPI | YoY % | 1.6 | 1.5 | 1.5 | 1.3 | 3.3 | 5.4 | 2.7 | 2.6 | 2.0 | 1.5 | 1.0 |
| PPI | YoY % | -3.0 | -1.8 | -0.2 | 1.2 | 5.5 | 6.1 | -1.7 | -1.9 | -1.9 | -1.0 | 0.0 |
| Fixed assets investment (nominal, YTD) | YoY % | 15.4 | 15.0 | 14.7 | 14.5 | 24.5 | 23.8 | 20.6 | 19.6 | 15.7 | 14.5 | 14.0 |
| Retail sales (nominal) | YoY % | 11.8 | 11.8 | 11.4 | 11.1 | 18.4 | 17.1 | 14.3 | 13.1 | 11.9 | 11.6 | 11.3 |
| Industrial production | YoY % | 7.0 | 7.5 | 7.6 | 7.5 | 15.7 | 13.9 | 10.0 | 9.7 | 8.2 | 7.4 | 7.0 |
| Exports | YoY % | 4.4 | 0.7 | 3.7 | 0.8 | 31.3 | 20.3 | 7.9 | 7.8 | 5.8 | 2.3 | 5.2 |
| Imports | YoY % | -2.8 | 6.3 | 4.7 | 4.4 | 38.8 | 24.9 | 4.3 | 7.2 | 0.0 | 3.2 | 6.3 |
| Trade balance | USDbn | 52 | 60 | 128 | 139 | 182 | 155 | 230 | 259 | 387 | 379 | 377 |
| Exchange rate (end-of-period) | USD/CNY | 6.30 | 6.40 | 6.50 | 6.60 | 6.59 | 6.29 | 6.23 | 6.05 | 6.20 | 6.60 | 6.83 |
| M2 | YoY % | 12.2 | 11.7 | 11.4 | 11.0 | 19.7 | 13.6 | 13.8 | 13.6 | 12.1 | 11.0 | 10.5 |
| 1-year base lending rate | % pa | 5.60 | 5.35 | 5.10 | 5.10 | 5.81 | 6.56 | 6.00 | 6.00 | 5.60 | 5.10 | 5.10 |
| 1-year deposit rate | % pa | 2.75 | 2.50 | 2.25 | 2.25 | 2.75 | 3.50 | 3.00 | 3.00 | 2.75 | 2.25 | 2.25 |
| Required reserve ratio | % | 19.5 | 19.0 | 18.5 | 18.5 | 18.0 | 20.5 | 19.5 | 19.5 | 19.5 | 18.5 | 18.0 |
| Foreign reserves | USDbn | 3,835 | 3,800 | 3,760 | 3,700 | 2,847 | 3,181 | 3,312 | 3,821 | 3,800 | 3,700 | 3,580 |
| Overall balance of payments | USDbn | 35 | -35 | -40 | -60 | 472 | 388 | 97 | 431 | 60 | -100 | -120 |
| Current account balance | USDbn | 15 | 45 | 80 | 90 | 238 | 136 | 215 | 183 | 250 | 230 | 230 |
| Current account balance % of GDP | % | | | | | 4.0 | 1.9 | 2.6 | 2.0 | 2.5 | 2.3 | 2.2 |
| Fiscal balance % of GDP | % | | | | | -2.5 | -1.8 | -1.5 | -2.1 | -2.1 | -2.3 | -2.4 |

*Source: CEIC, Daiwa forecast*

## Reverse oil shock

Oil prices have continued to fall sharply since mid-2014. The same has occurred for the prices of gold, silver, iron ore, copper, platinum, sugar, cotton, soybean, etc. Virtually all US-Dollar commodity prices have fallen sharply over a similar period. The fact that this trend is so broad suggests that big-picture macroeconomic factors are at work. While it partly reflects weaker global economic growth and several specific supply issues, most importantly it is a response to the tapering pressure from the Fed as US Dollar liquidity is being pulled back from these markets and many leveraged financial instruments that are priced on successive years of oil and commodity price rise.

According to Professor Jeffrey Frankel from Harvard, today's oil price is closely related to anticipated future US interest rates. Higher US interest rates reduce the prices of storable commodities by increasing the incentive for extraction today rather than tomorrow, hence boosting the pace at which oil is pumped or gold is mined. Higher rates generally dampen firms' desire to keep inventories. Higher rates also strengthen the domestic currency, thereby reducing the prices of internationally traded commodities in domestic terms (even if their prices have not fallen in foreign-currency terms). Although US interest rates have not really risen, the market is acting ahead and shifting out of commodities today in anticipation of higher US interest rates in 2015 and beyond; the result has been to bring 2015's price change forward to today.

On balance, the overall impact on developed Asia of lower oil prices is likely to be positive (see table below). Net commodity-importing countries in particular should benefit, through improvements in their current accounts and reduced energy subsidies. But oil-exporting countries, especially those with weaker macroeconomic fundamentals, could be hit badly. The USD40 decline in oil prices since mid-2014 will have significant distributional consequences with a sharp decline in wealth transfers from oil-importing to oil-exporting countries.

## Asian industrialised economies stand to benefit from lower oil prices

According to our estimates, the group of Asian beneficiaries includes Singapore, Thailand, India, Korea, Taiwan and Hong Kong. Growing supply gaps have raised their dependence on oil imports. We estimate that their gains from each USD10 drop in oil prices exceed or are close to 0.5% of nominal GDP. Likewise, many countries in this group have seen further deregulations in their energy markets in recent years. Their domestic energy prices are now more responsive to external price drops.

On the other side of the spectrum, Malaysia stands to be the main loser of lower oil prices since it is the only net oil exporter in Asia. Indonesia has swung to a net importer of oil but the benefits of lower oil prices are negligible.

The impact on China and the Philippines is likely to be relatively small, and this is because their ratios of oil imports are relatively low. In addition, China is the most inefficient economy among all Asian countries in energy usage.

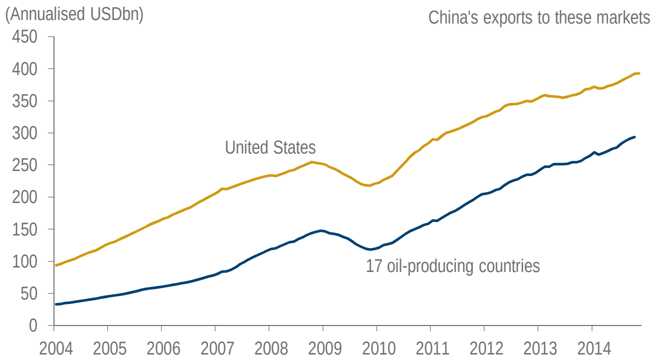
This reverse oil price shock should bring some positive surprises to a few Asian governments. India and Indonesia have already used the opportunity of this shock by reducing fiscally damaging subsidies on oil products. India's Prime Minister Narendra Modi was elected in May 2014 with a mandate to control deficits and kick-start the domestic economy. Since he came to the office, the macro backdrop has been supported by this reverse oil shock. With a significant decline in import expenses, he will be in a better position to meet the target to reduce the fiscal deficit and improve the country's current-account deficit. India's key inflation readings have come down substantially, to 4.4% YoY for CPI and 0.0% YoY for WPI for November 2014. This trend should allow the RBI to embark on some interest rate cuts in 2015.

## Second-round impact on Asian exports

As a result of oil price rises over the past 10 years, all oil-exporting countries have amassed significant fortunes in terms of US Dollar surpluses. They have recycled such surpluses via spending on Asian exports. Although Saudi Arabia and several of the Gulf states are more resilient to the current reverse oil price shock (due to their extremely low cost of extracting oil) the loss of the US Dollar surpluses will still be significant. China, for example, has benefited substantially from expanding its exports to the 17 oil-producing countries including OPEC, Russia, Norway, Mexico and Malaysia. China's exports to this group have surged seven-fold over the past decade, from USD33bn to USD294bn annually, as the next chart shows. In 2004, this group only consumed 6% of China's exports. The ratio has now gone up to 13%.

Finally, there will be some indirect negative impact for the labour-exporting ASEAN economies, especially the Philippines. There are more than 15m people from ASEAN currently working in the Middle East, mostly in those countries that are large oil exporters. The reverse oil shock stands to hurt these economies, thus reducing their demand for foreign workers and the incomes of these foreign workers. This is likely to have an adverse impact on the amount of funds the workers remit back home. Savings on the oil import bill by some ASEAN countries will be offset by the decline in the flow of overseas remittances.

■ **17 oil-producing nations: a market that has grown bigger over past decade**




*Source: CEIC, Daiwa*

## Geopolitical risks

The geopolitical ramifications on some oil-producing countries could also be significant. The reverse oil shock brings new pressure on Iran, which needs high oil prices to meet the challenge it faces because of the sanctions imposed by the West and the UN. The oil price drop will also hurt the Islamic State in Iraq and Syria (ISIS), which was generating significant revenue for running the fledgling 'state' by exporting oil from the fields it had captured in 2014.

Likewise, Venezuela and Russia are also heavily dependent on their oil revenue to support their governments' spending. If oil prices keep declining or even just stay as low as they are, there could be major geopolitical repercussions. For Russia, President Vladimir Putin would no longer be able to maintain the transfer programmes that currently sustain his populist support. There would be similar consequences for the governments in Venezuela and Iran. It is not clear whether these countries' current regimes could survive a substantial and sustained future decline in oil prices.

## Financial contagion

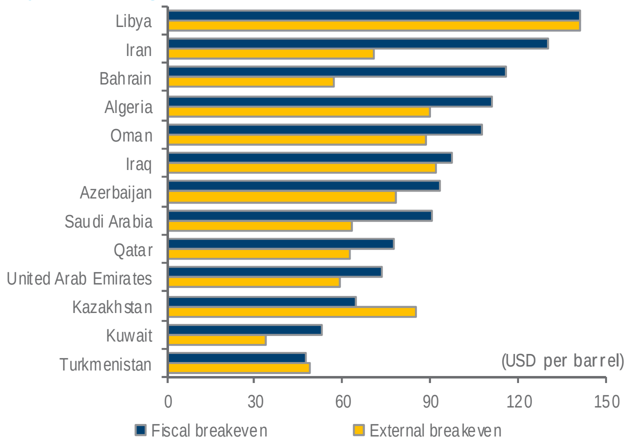
The reverse oil shock could also lead to a bigger financial shock through global debt and derivatives markets, exacerbated by the strength of the US Dollar. Fourteen per cent of the US high-yield debt market (USD1.5tn in total size) relates to energy companies. With oil prices staying at their current levels of USD50-60/bbl, many sub-investment grade energy companies, including many shale drillers and marginal oil drillers, could end up in default. The break-even oil-price levels in Libya, Iran, Venezuela, Russia, Algeria, Oman and Iraq are all above USD85/bbl. Meanwhile, over the past few months, the value of the US Dollar has been rising rapidly, relative to many other currencies. Debt repayment is likely to be a particular problem for those countries where substantial debt is denominated in US Dollars.

**■ Global oil price exposure: lower oil prices are generally good news for industrialised Asia**

| | Energy efficiency indicator | Annual net oil imports | Gain/loss for each USD10 drop in oil prices | |
|---|---|---|---|---|
| | GDP per unit of energy use (constant PPP USD per kg of oil equivalent) | '000 tonnes | USDm | % of annual nominal GDP |
| Singapore | 11.6 | 39,416 | 2,759 | 0.93% |
| Thailand | 7.2 | 39,712 | 2,780 | 0.72% |
| India | 8.0 | 184,674 | 12,927 | 0.69% |
| Korea | 6.0 | 120,147 | 8,410 | 0.64% |
| Taiwan | 9.0* | 42,497 | 2,975 | 0.58% |
| Hong Kong | 23.8 | 17,563 | 1,229 | 0.45% |
| South Africa | 4.3 | 19,205 | 1,344 | 0.38% |
| Japan | 9.5 | 165,631 | 11,594 | 0.24% |
| China | 4.9 | 296,610 | 20,763 | 0.22% |
| The Philippines | 13.4 | 7,647 | 535 | 0.20% |
| US | 7.1 | 355,057 | 24,854 | 0.15% |
| Indonesia | 9.8 | 2,102 | 147 | 0.02% |
| Brazil | 10.4 | -4,882 | -342 | -0.02% |
| Malaysia | 8.0 | -2,315 | -162 | -0.05% |
| Russia | 4.4 | -211,289 | -14,790 | -0.71% |

*Source: World Bank, International Energy Agency, Daiwa   Note: * Daiwa's estimate; PPP – purchasing power parity*

**■ Major exporting countries' oil-price breakeven levels**




*Source: IMF's projections for 2015*

Another effect of the reverse oil shock is that losses to banks on credit default swaps could be severe. If defaults from the energy sector spread out more widely across the high-yield debt markets, payouts on credit default swaps could be very significant, in our view. There are also other derivative products that have been sold by banks and are related to the oil price and could cause large losses. Increased volatility in commodity derivatives usually spreads across related asset classes and causes losses in interest rate derivatives and foreign exchange positions. Shocks in one segment of the market can become contagious because of the many inter-linkages between different asset classes.

# Implications and underlying forecasts

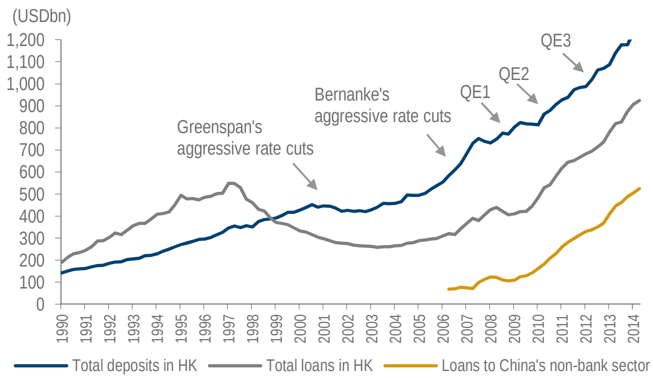
As we have highlighted above, 2015 looks set to be filled with even more complexities and uncertainties for global and Asian economies. The Fed's tapering has already done considerable damage to global markets and regional macroeconomic conditions. We see the odds of more escalations of these issues, especially when the Fed finally begins to tighten and withdraw liquidity from the system.

## The 4 most exposed Asia economies: China, Hong Kong, India and Indonesia

We expect that money outflows from China – be they conventional, carry-trade or hot-money flows – could be no less than USD330bn for 2015 and be higher still in 2016. Under these circumstances, our projected USD230bn surplus provided by China's current account would not be sufficient to act as a buffer. The line for China running into a downright balance-of-payments crisis could be very thin. If this happens, we would expect contagion effects on countries with similar weaknesses, including India and Indonesia.

Likewise, such a scenario would put Hong Kong under considerable stress since Hong Kong has been the main financial intermediary of bringing the US Dollar liquidity from the rest of the world to China. The existence of the USD:HKD peg makes the city highly efficient in raising US Dollar liquidity globally, as all the forex risks between the USD and HKD are fully hedged by the Hong Kong Monetary Authority. Inflows of USD175bn have entered Hong Kong since QE1. Over the same period, loans to China's non-bank sector have surged by USD421bn.

■ Hong Kong is an ATM for China to draw cheap US Dollars




*Source: CEIC, Daiwa*

## Developed Asia economies like Taiwan and Korea look better placed

On the other hand, Korea and Taiwan continue to be more resilient. These more developed economies are better positioned to stand against the Fed's tightening pressure, as they have not really been beneficiaries of QE money inflows. They continue to absorb healthy and sizable current-account surpluses from the rest of the world. As we have discussed above, they are also the key beneficiaries of lower oil prices. Nevertheless, they are also quite dependent on Chinese demand. If China's problems deteriorate, shockwaves will likely still be sent through the trade channels.

## Less room for policy manoeuvre

This macro backdrop in the region usually calls for more policy support through either monetary or fiscal tools. However, active policy responses have not been obvious in 2014. China has only launched a pocket-sized stimulus package, several selective liquidity injections and one interest rate cut. Korea has come up a similar fiscal package and 2 policy rate cuts at 50bps altogether. Thailand has cut its policy rate by 25bps only. In general, these effects have not been encouraging. To defend their currencies, both India and Indonesia have refrained from easing their monetary policies in 2014. On the other side, the Philippines has raised its policy rate twice by a total of 50bps in 2014, while Malaysia has hiked its policy rate once by 25bps.

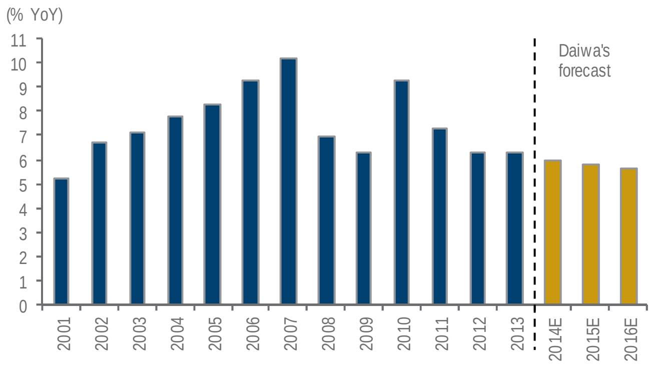
In most of the Asian economies, disinflation has set in, apparently giving room for the central banks to cut interest rates. On our underlying assumptions, we look for China and India to deliver various levels of rate cuts over the course of 2015. However, we believe the room is going to be quite limited. If Asian central banks keep easing while the Fed tightens, there will be a natural additional pressure on currency depreciation. The loss of yield advantages could lead to even more money outflows. In case of more serious money outflows, like the latest episode seen in Russia or the 2013 episodes in India and Indonesia, central banks may have no choice but to raise interest rates substantially. We look for policy rates in Indonesia and Thailand to be mildly higher by end-2015.

Policymakers should generally allow fiscal policy to respond more actively. But room for expansionary fiscal policy has generally declined. Fiscal deficits in many Asian economies remain appreciably above pre-Lehman crisis levels. Also, debt dynamics are turning less favourable. Against this backdrop, the case is now for many Asian policymakers to rebuild fiscal space rather than engage in another round of stimulus. Fiscal expansion will likely be more restricted when central banks cannot be too accommodative. The case looks particularly urgent for India, Malaysia, Thailand and the Philippines, where public debt is already elevated. We only see room for China, Hong Kong, Korea and Taiwan to run mildly larger fiscal deficits in 2015.

## Market consensus still weighs on the optimistic side

Overall, we maintain our forecast for Asia ex-Japan's GDP growth to moderate to 5.8% YoY for 2015, from a projected 6.0% YoY for 2014. As such, like 2014, we see room for the consensus (currently 6.3% YoY for 2015 by FocusEconomics) to be disappointed again. Sporadic bouts of growth fears have happened in 2014, and we believe 2015 will see similar rounds. On top of this, we expect more financial stresses in the region, especially in China and Hong Kong.

### ■ Asia ex-Japan: real GDP growth




*Source: CEIC, Daiwa forecasts*

We need to stress that our underlying GDP growth forecasts for the region, set out in the following table, are based on the assumption of a more or less orderly market response to the Fed's tightening actions. If for any reasons there are major reactions from the market and/or disorderly consequences to the financial and credit conditions in each country, our underlying forecasts would be subject to much greater downside risk. Barring any nasty global developments, we continue to look for Asia ex-Japan GDP growth to settle at 5.6% YoY for 2016.

### ■ Asia ex-Japan: real GDP growth

| (% YoY) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *2014E* | *2015E* | *2016E* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Asia ex-Japan | 9.3 | 10.2 | 6.9 | 6.3 | 9.3 | 7.3 | 6.3 | 6.3 | *6.0* | *5.8* | *5.6* |
| China | 12.7 | 14.2 | 9.6 | 9.2 | 10.4 | 9.2 | 7.8 | 7.7 | *7.2* | *6.9* | *6.5* |
| Hong Kong | 7.0 | 6.5 | 2.1 | -2.5 | 6.8 | 4.8 | 1.5 | 2.9 | *2.0* | *1.8* | *1.6* |
| Taiwan | 5.6 | 6.5 | 0.7 | -1.6 | 10.6 | 3.8 | 2.1 | 2.2 | *3.3* | *3.2* | *3.0* |
| Korea | 5.2 | 5.5 | 2.8 | 0.7 | 6.5 | 3.7 | 2.3 | 3.0 | *3.4* | *3.0* | *3.0* |
| India | 9.6 | 9.3 | 6.7 | 8.6 | 8.9 | 6.7 | 4.5 | 4.7 | *5.3* | *5.2* | *4.8* |
| Singapore | 8.9 | 9.1 | 1.8 | -0.6 | 15.2 | 6.1 | 2.5 | 3.9 | *3.0* | *2.6* | *2.4* |
| Indonesia | 5.5 | 6.3 | 6.0 | 4.6 | 6.2 | 6.5 | 6.3 | 5.8 | *5.1* | *5.0* | *5.2* |
| Malaysia | 5.6 | 6.3 | 4.8 | -1.5 | 7.4 | 5.2 | 5.6 | 4.7 | *5.8* | *5.0* | *5.5* |
| Philippines | 5.2 | 6.6 | 4.2 | 1.1 | 7.6 | 3.7 | 6.8 | 7.2 | *5.8* | *5.3* | *4.9* |
| Thailand | 5.1 | 5.0 | 2.5 | -2.3 | 7.8 | 0.1 | 6.5 | 2.9 | *1.1* | *4.0* | *4.6* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

### ■ Asia ex-Japan: CPI

| (% YoY) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *2014E* | *2015E* | *2016E* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Asia ex-Japan | 3.3 | 4.0 | 6.2 | 0.8 | 4.2 | 5.6 | 3.4 | 3.1 | *3.0* | *2.4* | *2.0* |
| China | 1.5 | 4.8 | 5.9 | -0.7 | 3.3 | 5.4 | 2.7 | 2.6 | *2.0* | *1.5* | *1.0* |
| Hong Kong | 2.0 | 2.0 | 4.3 | 0.5 | 2.4 | 5.3 | 4.1 | 4.3 | *3.4* | *2.0* | *1.0* |
| Taiwan | 0.6 | 1.8 | 3.5 | -0.9 | 1.0 | 1.4 | 1.9 | 0.8 | *1.3* | *0.8* | *1.1* |
| Korea | 2.2 | 2.5 | 4.7 | 2.8 | 2.9 | 4.0 | 2.2 | 1.3 | *1.3* | *1.3* | *1.5* |
| India | 6.6 | 4.7 | 8.1 | 3.9 | 9.6 | 9.0 | 7.4 | 6.0 | *7.0* | *6.0* | *5.5* |
| Singapore | 1.0 | 2.1 | 6.5 | 0.6 | 2.8 | 5.3 | 4.6 | 2.4 | *1.3* | *1.0* | *1.2* |
| Indonesia | 13.1 | 6.4 | 9.8 | 4.9 | 5.1 | 5.4 | 4.3 | 6.4 | *7.5* | *5.6* | *5.8* |
| Malaysia | 3.6 | 2.0 | 5.4 | 0.6 | 1.7 | 3.2 | 1.7 | 2.1 | *3.2* | *4.5* | *2.7* |
| Philippines | 6.2 | 2.8 | 9.3 | 3.2 | 3.8 | 4.7 | 3.1 | 2.9 | *4.2* | *3.6* | *3.1* |
| Thailand | 4.7 | 2.2 | 5.4 | -0.9 | 3.3 | 3.8 | 3.0 | 2.2 | *2.0* | *1.9* | *2.5* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

### ■ Asia ex-Japan: exports

| (% YoY) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *2014E* | *2015E* | *2016E* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 27.2 | 26.0 | 17.2 | -16.0 | 31.3 | 20.3 | 7.9 | 7.8 | *5.8* | *2.3* | *5.2* |
| Hong Kong | 9.5 | 8.7 | 5.3 | -12.2 | 22.5 | 9.9 | 2.9 | 3.7 | *3.9* | *2.6* | *3.2* |
| Taiwan | 12.9 | 10.1 | 3.6 | -20.3 | 34.8 | 12.3 | -2.3 | 1.4 | *3.0* | *3.5* | *4.3* |
| Korea | 14.4 | 14.1 | 13.6 | -13.9 | 28.3 | 19.0 | -1.3 | 2.1 | *2.5* | *3.8* | *4.1* |
| India | 22.7 | 29.0 | 13.7 | -3.5 | 40.5 | 21.8 | -1.8 | 4.5 | *3.0* | *4.0* | *5.0* |
| Singapore | 18.2 | 10.1 | 12.6 | -20.2 | 30.6 | 16.5 | -0.2 | 0.4 | *1.3* | *1.7* | *2.2* |
| Indonesia | 17.7 | 13.2 | 20.2 | -15.0 | 35.5 | 28.9 | -6.6 | -3.9 | *-2.4* | *0.0* | *3.0* |
| Malaysia | 9.9 | 2.6 | 9.7 | -16.7 | 15.6 | 9.2 | 0.7 | 2.5 | *6.8* | *5.0* | *6.0* |
| Philippines | 14.9 | 6.4 | -2.8 | -21.7 | 34.0 | -6.2 | 7.9 | 8.8 | *8.5* | *4.3* | *5.2* |
| Thailand | 16.9 | 17.2 | 15.9 | -14.3 | 28.1 | 14.0 | 3.0 | -0.3 | *0.0* | *3.4* | *5.0* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

## ■ Asia ex-Japan: imports

| (% YoY) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *2014E* | *2015E* | *2016E* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 19.9 | 20.8 | 18.5 | -11.2 | 38.7 | 24.9 | 4.3 | 7.2 | *0.0* | *3.2* | *6.3* |
| Hong Kong | 11.7 | 9.8 | 5.7 | -10.6 | 24.7 | 11.7 | 3.9 | 3.8 | *4.2* | *1.5* | *2.1* |
| Taiwan | 11.0 | 8.2 | 9.7 | -27.5 | 44.1 | 12.0 | -3.9 | -0.2 | *3.0* | *2.1* | *3.9* |
| Korea | 18.4 | 15.3 | 22.0 | -25.8 | 31.6 | 23.3 | -0.9 | -0.8 | *2.5* | *1.8* | *4.7* |
| India | 25.6 | 34.9 | 21.2 | -5.0 | 28.2 | 32.3 | 0.3 | -8.3 | *1.0* | *3.0* | *4.0* |
| Singapore | 19.1 | 10.2 | 21.2 | -23.1 | 26.8 | 17.7 | 3.9 | -1.8 | *-0.5* | *-0.3* | *3.1* |
| Indonesia | 6.5 | 15.4 | 37.0 | -24.9 | 40.1 | 30.8 | 8.0 | -2.6 | *-3.8* | *-3.3* | *2.0* |
| Malaysia | 10.5 | 5.0 | 3.5 | -16.4 | 21.7 | 8.5 | 5.8 | 6.9 | *6.0* | *5.8* | *6.5* |
| Philippines | 9.2 | 7.2 | 2.2 | -24.1 | 27.5 | 10.1 | 2.7 | 0.5 | *4.0* | *1.9* | *3.8* |
| Thailand | 7.9 | 9.0 | 25.8 | -25.4 | 36.8 | 25.1 | 9.3 | 0.3 | *-7.9* | *4.5* | *6.4* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

## ■ Asia ex-Japan: policy rates

| (%, end of period) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *2014E* | *2015E* | *2016E* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 6.12 | 7.47 | 5.31 | 5.31 | 5.81 | 6.56 | 6.00 | 6.00 | *5.60* | *5.10* | *5.10* |
| Taiwan | 2.75 | 3.38 | 2.00 | 1.25 | 1.63 | 1.88 | 1.88 | 1.88 | *1.88* | *2.13* | *2.25* |
| Korea | 4.50 | 5.00 | 3.00 | 2.00 | 2.50 | 3.25 | 2.75 | 2.50 | *2.00* | *1.75* | *2.00* |
| India | 7.75 | 7.75 | 5.00 | 5.00 | 6.75 | 8.50 | 7.50 | 8.00 | *7.75* | *7.25* | *7.00* |
| Indonesia | 9.75 | 8.00 | 9.25 | 6.50 | 6.50 | 6.00 | 5.75 | 7.50 | *7.75* | *8.00* | *8.00* |
| Malaysia | 3.50 | 3.50 | 3.25 | 2.00 | 2.75 | 3.00 | 3.00 | 3.00 | *3.25* | *3.25* | *3.50* |
| Philippines | 7.50 | 5.25 | 5.50 | 4.00 | 4.00 | 4.50 | 3.50 | 3.50 | *4.00* | *4.00* | *3.75* |
| Thailand | 5.00 | 3.25 | 2.75 | 1.25 | 2.00 | 3.25 | 2.75 | 2.25 | *2.00* | *2.50* | *3.00* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

## ■ Asia ex-Japan: fiscal balance

| (% of GDP) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *2014E* | *2015E* | *2016E* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China | -1.0 | 0.2 | -0.8 | -2.8 | -2.5 | -1.8 | -1.5 | -1.9 | *-2.1* | *-2.3* | *-2.4* |
| Hong Kong | 1.7 | 8.4 | 4.0 | -1.9 | 4.8 | 3.9 | 2.7 | 2.6 | *1.5* | *1.0* | *0.5* |
| Taiwan | -0.3 | -0.3 | -0.9 | -4.3 | -3.2 | -2.1 | -2.4 | -1.9 | *-1.7* | *-1.5* | *-1.4* |
| Korea | 0.6 | 3.6 | 1.4 | -1.5 | 1.3 | 1.4 | 1.3 | 1.0 | *0.7* | *0.0* | *0.5* |
| India | -3.3 | -2.5 | -6.0 | -6.4 | -4.8 | -5.7 | -4.8 | -4.5 | *-4.5* | *-4.3* | *-4.1* |
| Singapore | 0.5 | 3.0 | 1.4 | -0.9 | 0.2 | 1.2 | 2.0 | 1.3 | *0.6* | *0.2* | *0.0* |
| Indonesia | -0.9 | -1.3 | -0.1 | -1.6 | -0.7 | -1.1 | -1.9 | -2.5 | *-2.5* | *-2.5* | *-2.5* |
| Malaysia | -3.2 | -3.1 | -4.6 | -6.7 | -5.4 | -4.8 | -4.5 | -3.9 | *-3.5* | *-3.3* | *-3.0* |
| Philippines | -1.0 | -0.2 | -0.9 | -3.7 | -3.5 | -2.0 | -2.3 | -2.5 | *-2.0* | *-2.4* | *-2.6* |
| Thailand | 1.1 | -1.7 | -1.1 | -4.4 | -2.6 | -0.9 | -4.1 | -2.0 | *-2.7* | *-2.3* | *-2.2* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

## ■ Asia ex-Japan: current-account balance

| (% of GDP) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | *2014E* | *2015E* | *2016E* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 8.6 | 10.1 | 9.3 | 4.9 | 4.0 | 1.9 | 2.3 | 2.0 | *2.5* | *2.3* | *2.1* |
| Hong Kong | 12.7 | 13.0 | 15.0 | 9.9 | 7.0 | 5.6 | 1.6 | 1.9 | *-1.3* | *-1.0* | *-1.2* |
| Taiwan | 6.8 | 8.6 | 6.6 | 10.9 | 8.9 | 8.6 | 10.2 | 11.2 | *11.5* | *12.0* | *11.2* |
| Korea | 0.4 | 1.1 | 0.3 | 3.7 | 2.6 | 1.6 | 4.2 | 6.1 | *6.0* | *6.7* | *5.9* |
| India | -1.0 | -1.3 | -2.3 | -2.8 | -2.7 | -4.2 | -4.6 | -1.6 | *-1.5* | *-1.1* | *-0.9* |
| Singapore | 25.0 | 26.0 | 14.4 | 16.8 | 23.7 | 22.8 | 17.5 | 18.3 | *19.7* | *20.5* | *19.2* |
| Indonesia | 3.0 | 2.4 | 0.0 | 2.0 | 0.7 | 0.2 | -2.8 | -3.4 | *-3.0* | *-1.9* | *-1.5* |
| Malaysia | 16.1 | 15.4 | 17.1 | 15.5 | 10.9 | 11.6 | 5.8 | 4.0 | *4.8* | *4.2* | *4.5* |
| Philippines | 4.4 | 4.8 | 2.1 | 5.6 | 4.5 | 3.2 | 2.9 | 3.5 | *3.2* | *3.5* | *3.5* |
| Thailand | 1.1 | 6.4 | 0.8 | 8.3 | 3.1 | 1.2 | -0.4 | -0.7 | *3.4* | *3.1* | *2.0* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

## ■ Asia ex-Japan: exchange rates

| (National currency per USD, end of period) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | ***2015E*** | ***2016E*** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 7.81 | 7.30 | 6.83 | 6.83 | 6.62 | 6.30 | 6.29 | 6.05 | 6.20 | *6.60* | *6.83* |
| Hong Kong | 7.78 | 7.80 | 7.75 | 7.76 | 7.78 | 7.77 | 7.75 | 7.75 | 7.76 | *7.79* | *7.79* |
| Taiwan | 32.6 | 32.4 | 32.9 | 32.0 | 30.4 | 30.3 | 29.0 | 29.8 | 31.6 | *32.5* | *32.0* |
| Korea | 930 | 938 | 1,258 | 1,168 | 1,139 | 1,153 | 1,071 | 1,055 | 1,099 | *1,150* | *1,100* |
| India | 43.6 | 40.0 | 51.0 | 45.1 | 44.7 | 51.2 | 54.4 | 60.1 | 63.3 | *65.0* | *65.0* |
| Singapore | 1.53 | 1.44 | 1.44 | 1.40 | 1.29 | 1.30 | 1.22 | 1.27 | 1.33 | *1.38* | *1.37* |
| Indonesia | 9,020 | 9,419 | 10,950 | 9,400 | 8,991 | 9,068 | 9,670 | 12,189 | 12,440 | *11,500* | *11,200* |
| Malaysia | 3.53 | 3.31 | 3.46 | 3.42 | 3.08 | 3.18 | 3.06 | 3.28 | 3.50 | *3.38* | *3.35* |
| Philippines | 49.1 | 41.4 | 47.5 | 46.4 | 43.9 | 43.9 | 41.2 | 44.4 | 44.6 | *47.0* | *48.0* |
| Thailand | 36.0 | 33.7 | 34.9 | 33.3 | 30.2 | 31.7 | 30.6 | 30.7 | 33.0 | *32.8* | *33.0* |

*Source: CEIC, Daiwa forecasts*
*Note: fiscal year for India*

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| | | |
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| *Regional Research Head* | | |
| Kosuke MIZUNO | (852) 2848 4949 / (852) 2773 8273 | kosuke.mizuno@hk.daiwacm.com |
| *Regional Research Co-head* | | |
| John HETHERINGTON | (852) 2773 8787 | john.hetherington@hk.daiwacm.com |
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| Rohan DALZIELL | (852) 2848 4938 | rohan.dalziell@hk.daiwacm.com |
| *Regional Head of Product Management* | | |
| Kevin LAI | (852) 2848 4926 | kevin.lai@hk.daiwacm.com |
| *Chief Economist for Asia ex-Japan; Macro Economics (Regional)* | | |
| Christie CHIEN | (852) 2848 4482 | christie.chien@hk.daiwacm.com |
| *Macro Economics (Regional)* | | |
| Junjie TANG | (852) 2773 8736 | junjie.tang@hk.daiwacm.com |
| *Macro Economics (China)* | | |
| Jonas KAN | (852) 2848 4439 | jonas.kan@hk.daiwacm.com |
| *Head of Hong Kong and China Property* | | |
| Leon QI | (852) 2532 4381 | leon.qi@hk.daiwacm.com |
| *Banking (Hong Kong, China); Broker (China); Insurance (China)* | | |
| Anson CHAN | (852) 2532 4350 | anson.chan@hk.daiwacm.com |
| *Consumer (Hong Kong/China)* | | |
| Jamie SOO | (852) 2773 8529 | jamie.soo@hk.daiwacm.com |
| *Gaming and Leisure (Hong Kong/China)* | | |
| Lynn CHENG | (852) 2773 8822 | lynn.cheng@hk.daiwacm.com |
| *IT/Electronics (Semiconductor) (Greater China)* | | |
| Dennis IP | (852) 2848 4068 | dennis.ip@hk.daiwacm.com |
| *Power; Utilities; Renewables and Environment (Hong Kong/China)* | | |
| John CHOI | (852) 2773 8730 | john.choi@hk.daiwacm.com |
| *Head of Hong Kong and China Internet; Regional Head of Small/Mid Cap* | | |
| Joey CHEN | (852) 2848 4483 | joey.chen@hk.daiwacm.com |
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| Kelvin LAU | (852) 2848 4467 | kelvin.lau@hk.daiwacm.com |
| *Head of Transportation (Hong Kong/China); Transportation (Regional)* | | |
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| *Transportation – Transportation Infrastructure (Hong Kong/China)* | | |
| Jibo MA | (852) 2848 4489 | jibo.ma@hk.daiwacm.com |
| *Head of Custom Products Group* | | |
| Thomas HO | (852) 2773 8716 | thomas.ho@hk.daiwacm.com |
| *Custom Products Group* | | |

### PHILIPPINES

| | | |
|---|---|---|
| Bianca SOLEMA | (63) 2 737 3023 | bianca.solema@dbpdaiwacm.com.ph |
| *Utilities and Energy* | | |

### SOUTH KOREA

| | | |
|---|---|---|
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| Mike OH | (82) 2 787 9179 | mike.oh@kr.daiwacm.com |
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| *Oil; Chemicals; Tyres* | | |
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| | | |
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| Christine WANG | (886) 2 8758 6249 | christine.wang@daiwacm-cathay.com.tw |
| *IT/Technology Hardware (Automation); Pharmaceuticals and Healthcare; Consumer* | | |
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| | | |
|---|---|---|
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| *Head of India Research; Strategy; Banking/Finance* | | |
| Saurabh MEHTA | (91) 22 6622 1009 | saurabh.mehta@in.daiwacm.com |
| *Capital Goods; Utilities* | | |

### SINGAPORE

| | | |
|---|---|---|
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| *Telecommunications (China/ASEAN/India)* | | |
| Royston TAN | (65) 6321 3086 | royston.tan@sg.daiwacm.com |
| *Oil and Gas; Capital Goods* | | |
| David LUM | (65) 6329 2102 | david.lum@sg.daiwacm.com |
| *Property and REITs* | | |
| Evon TAN | (65) 6499 6546 | evon.tan@sg.daiwacm.com |
| *Property and REITs* | | |
| Jame OSMAN | (65) 6321 3092 | jame.osman@sg.daiwacm.com |
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