30 November 2016

HSBC Global Research

ASEAN Perspectives

US and ASEAN trade: What now?

ECONOMICS
ASEAN

- Following Mr. Trump's presidential election victory in the US, we take a closer look at the implications for US-ASEAN trade
- On a more retrospective note, 3Q16 GDP headlines were a mixed bag. Slow growth remained the theme, though the Philippines was an exception
- Central banks across the region kept policy on hold as expected in November; FX weakness sees us postponing our rate cut views for Indonesia and Malaysia, and removing them for Thailand

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3Q16 GDP headlines a mixed bag. Third-quarter growth in Thailand was a touch softer than market expectations, while Singapore and Malaysia beat consensus forecasts. Nevertheless the underlying theme continues to be one of slow growth, with Thailand expanding 3.2% y-o-y and Singapore contracting 2.0% q-o-q saar. After scratching beyond the surface, Malaysia's 4.3% y-o-y out-turn, too, revealed weak consumption and investment.

The Philippines was the only economy to report good quality, robust growth. The 7.1% y-o-y expansion beat consensus estimates, and resulted in us tweaking our 2016 GDP forecast higher to 6.8% from 6.5%. Significant contributions came from fixed capital investment and private consumption. Investment surged 23% y-o-y, mostly on the back of durable goods and construction, while private consumption rose 7.3% y-o-y, thanks to higher remittance flows and growth in domestic employment.

Central banks across the region kept policy on hold as expected. Concluding its meeting on the day Mr. Trump won the US Presidential election, the Bank of Thailand left its policy rate unchanged at 1.50%. Amidst the financial market volatility that ensued, the Philippines central bank, then Bank Indonesia followed by Bank Negara Malaysia subsequently also announced pauses, at 3.00%, 4.75% and 3.00% respectively.

We have postponed some of our rate-cut views, if not removed them altogether. With HSBC now forecasting further weakness in ASEAN currencies against the US dollar, we have pushed out our rate-cut view for Malaysia to 1Q17. In Indonesia, a cut at the 15 December meeting is possible, though the timing around the Fed is tricky, and financial markets stability will be key. We no longer expect rate cuts Thailand. In the Philippines, although there are upside risks to inflation, we continue to take the view that it will not have to act, since larger term deposit auction volumes are already resulting in incremental tightening.

Please turn to page 3 for this month's feature article on ASEAN and US trade.

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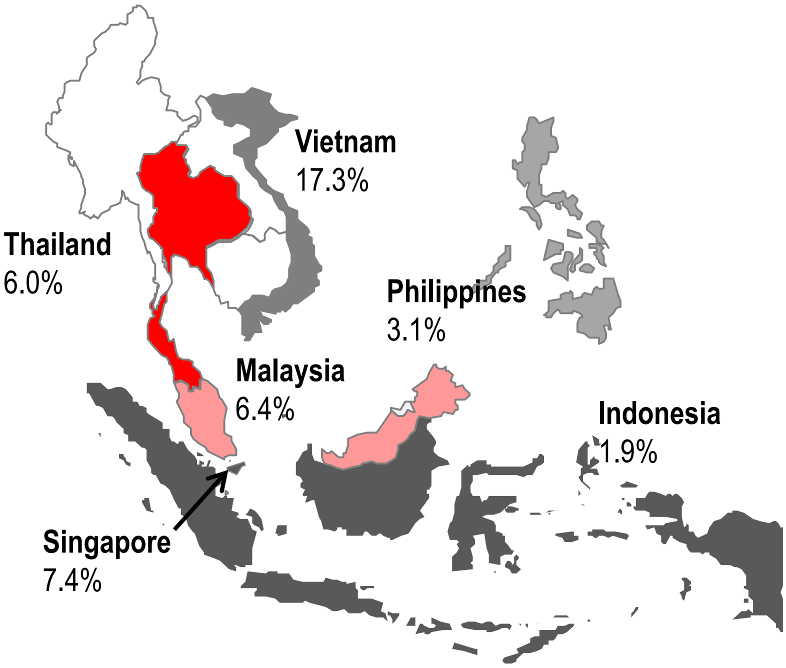
Exports to the US, % of GDP



Source: CEIC, HSBC

HSBC ASEAN research recent reports

	Date	Report
Indonesia	18-Nov	Indonesia: On hold as expected
	15-Nov	Bank Indonesia: No rate cut this week
Malaysia	23-Nov	Malaysia: Ending the year with a pause
	17-Nov	Malaysia Central Bank Watch: Postponing our rate cut view
	11-Nov	Malaysia: 3Q16 GDP worse than it looks
Philippines	17-Nov	Best in class: Philippines GDP expands 7.1% in 3Q
	10-Nov	Smooth sailing in the Philippines: BSP on hold; trade data improve
Singapore	24-Nov	Not as bad: Singapore 3Q GDP revised higher to -2.0% q-o-q saar
Thailand	28-Nov	Thailand Customs Trade (Oct): Good times didn't last: Exports fell 4.2% y-o-y
	21-Nov	Thailand GDP (Q3 2016): On track: GDP grew 3.2% y-o-y in Q3
	15-Nov	Bank of Thailand Watch: No more rate cuts expected
	9-Nov	Thailand Policy Rate: Little change in views: BoT holds policy rate at 1.5%
Vietnam	28-Nov	Vietnam at a glance: Cautiously optimistic on trade

Key data/event to look out for next month

Country	
Indonesia	BI meets on 15 December; we expect a 25bp rate cut to 4.50%, assuming stable financial market conditions
Malaysia	UMNO General Assembly takes place from 29 November to 3 December
Philippines	BSP to meet on December 22; we expect the policy rate to remain unchanged
Singapore	FY2017 budget to be announced in mid-February
Thailand	The Bank of Thailand is likely to keep policy rate on hold on 21 December. New forecasts will also be released
Vietnam	Fourth quarter GDP will be released between 25-31 December

Source: HSBC

US and ASEAN trade: What now?

- We now expect faster US GDP growth and faster Fed rate hikes, following Donald Trump's presidential election victory in the US
- But this may not translate to faster economic growth for ASEAN. In particular, Malaysia and Thailand could bear the brunt of more isolationist US trade policy
- In addition to this potentially new external challenge, some ASEAN central banks will find it difficult to continue shoring up growth, with local currency weakness limiting scope for further monetary easing

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The rising US tide…

Following Donald Trump's election victory, our US economics team has *upgraded its GDP forecasts*, on the view that modest fiscal stimulus − in the form of consumption-boosting tax cuts and higher government spending from 2H17 − will spur growth. They now expect US GDP growth to pick up from 1.6% this year, to 2.3% in 2017 and 2.7% in 2018; this compares to a flatter trajectory previously, of 2.1% and 2.2% respectively.

We expect faster US GDP growth, and also faster tightening by the Fed up to 2018

The faster growth outlook has also led our US economics team to pencil in faster monetary tightening by the Fed. We continue to look for a 25bp hike in the Fed funds rate at the upcoming 14-15 December meeting this year. For 2017, however, we now expect two 25bp rate hikes instead of one. For 2018, we still expect one rate hike, but it is more likely to come earlier, probably at mid-year rather than toward the end of the year. All up, this means that by the middle of 2018, we expect a Fed funds target range of 1.25-1.50%, a 100bp increase from the current target range of 0.25-0.50%.

…may not lift all boats in ASEAN

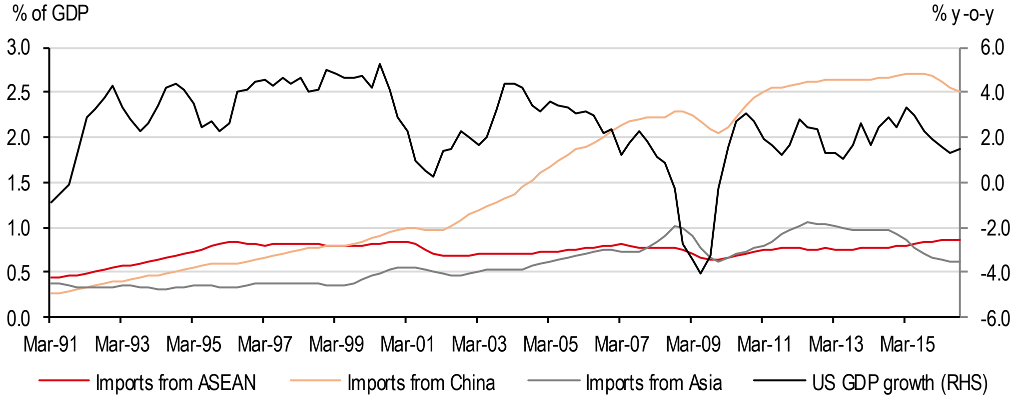
Unfortunately, we have doubts that the acceleration in US growth will necessarily translate into faster ASEAN growth.

US growth has historically not depended much on ASEAN imports…

To be sure, total trade between ASEAN and the US is not insignificant, with the exchange of goods between the two totalling USD212.3bn in 2015. This makes the US ASEAN's fifth largest trading partner (behind ASEAN, China, Japan and the EU), and ranks ASEAN ranks as the US' fourth-largest trading partner (behind China, Canada and Mexico).

But total trade is one thing, and ASEAN's exports to the US are another. Historically, there is little evidence to suggest that the US relies very much on ASEAN goods to fuel its growth. The pick-up in US GDP growth to around 5.0% in the latter half of the 1990s did correlate with an increase in ASEAN imports, from 0.5% to 0.8% of total US imports (Chart 1). Since then, however, the region has not made any headway in increasing its share of shipments to the US. In contrast, China – with its significantly larger scope, volume and value of products – has steadily grabbed the lion's share of exports to the US. Up until this year, its share of US imports had been in a structurally rising trend, ballooning from 0.3% of total US imports in 1991 to a peak of 2.7% in 2015.

1. US GDP growth versus imports from Asia, China and ASEAN



Source: CEIC, HSBC

…yet the US could still turn more protectionist against the region

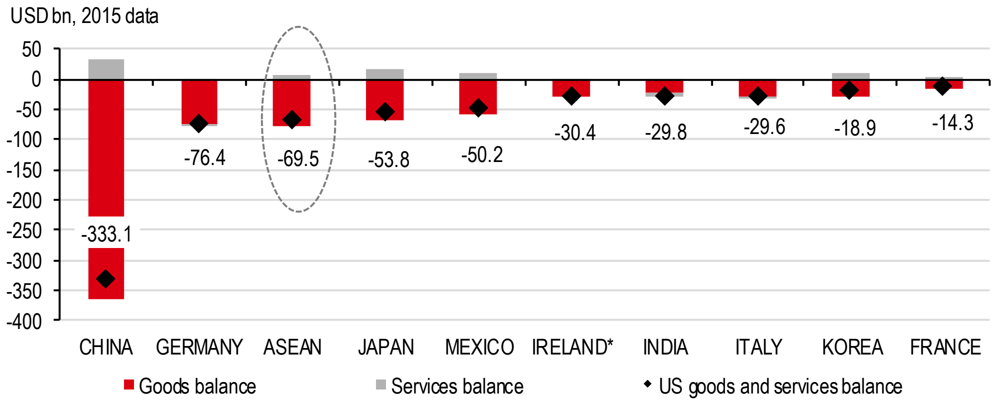
Most of the pick-up in US growth that we expect will be domestically rather than externally driven. Mr. Trump has already indicated that he wants to implement substantial individual and corporate tax cuts, as well as significant lift spending on infrastructure and the Defense Department. Trump has also declared that he would relax business regulations and encourage more domestic energy exploration and production.

If ASEAN were a country, the deficit the US runs against it would be the third largest, after China and Germany

But perhaps more worrying for ASEAN are Trump's intentions to try to lower US trade deficits with other countries, either through negotiations or through the imposition of tariffs and trade sanctions. Last year, the US ran a deficit of USD69.5bn with ASEAN – a shortfall of USD76.7bn in goods that was partially offset by a USD7.3bn surplus in services. This may sound small, particularly considering that, for the year, the US ran an overall trade deficit of USD483.5bn with the world (in both goods and services). Yet if ASEAN were a country, the deficit the US runs against it would be the third largest, behind China and Germany (Chart 2).

The good news is that, so far, ASEAN has hardly figured in Mr. Trump's policy plans. Instead, the President-elect has zeroed in on China from the outset, during his campaign pledging to

2. Who does the US run trade deficits with? The Top 10



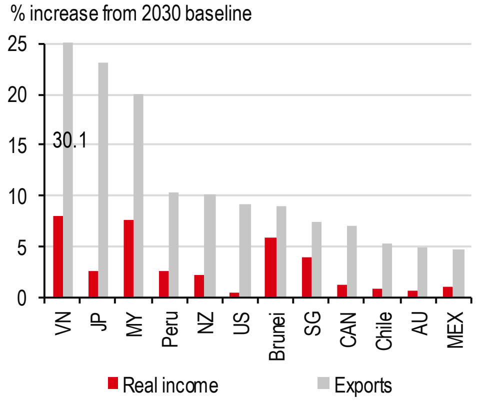
Source: CEIC, HSBC; *no services trade data available for Ireland reduce the US' deficit with China by bringing cases to the World Trade Organization (WTO) and slapping 45% tariffs on Chinese imports. US-China ties, too, are an important consideration for ASEAN, but more on that later.

Despite ASEAN having remained below Mr. Trump's radar, however, the region already looks set to suffer some fall-out from his more isolationist approach to trade. Last week, Mr. Trump declared that he would issue a note of intent to withdraw from the Trans-Pacific Partnership (TPP) on "day one" of entering office. Instead, he intends to "negotiate fair bilateral trade that brings jobs and industry back (to the US)."

ASEAN has not yet been 'targeted' by Mr. Trump, but his plans to withdraw from the TPP and introduce "border adjustments" already represents lost opportunity, if not potential damage, to ASEAN exports

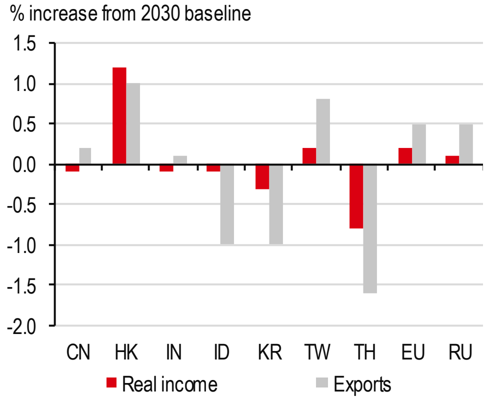
Although the TPP has not been concluded, the withdrawal of the US − the largest economy in the pact − effectively renders an agreement meaningless. It therefore also represents a significant loss of opportunity for the four ASEAN economies − Vietnam, Malaysia, Brunei, and to a smaller extent Singapore − that have signed up to the TPP. In particular, academics Peter Petri and Michael Plummer had published results earlier this year showing that "while the US will be the largest beneficiary of the TPP in absolute terms, the agreement will generate substantial gains for Japan, Malaysia, and Vietnam as well, and solid benefits for other members."[1] With the TPP catalytic to domestic reforms and providing access to protected foreign markets, Vietnam and Malaysia were forecast to experience the largest boost to real incomes by 2030, by 8.1% and 7.6% from baseline estimates respectively. They were also forecast to enjoy some of the largest gains in exports, of 30.1% and 20.1% respectively from baseline estimates (Charts 3 and 4).

3. Gains/losses for TPP members



Source: Petri and Plummer, January 2016

4. Gains/losses for non-TPP members



Source: Petri and Plummer, January 2016

Less attention-grabbing − but no less disconcerting − measures have also been proposed by the House Republicans. As part of plans for overhauling the corporate tax code, House Republicans have proposed the introduction of "border adjustments". This would exempt export receipts from business income, while disallowing the cost of imports as a business expense. In short, US firms would be discouraged from using imports.

A key question for US-ASEAN trade ties going forward is whether Mr. Trump and his administration will simply take a passive position of decreased engagement with the region or, more damagingly, an aggressive approach of actively reducing the US' deficits with ASEAN. Arguably, this is where Mr. Trump's preference for bilateral rather than multilateral trade deals could keep the region "safe" − although the US' trade deficit with ASEAN is large, no US-ASEAN trade pact currently exists, and so there is nothing to be "reviewed". In fact, even on a

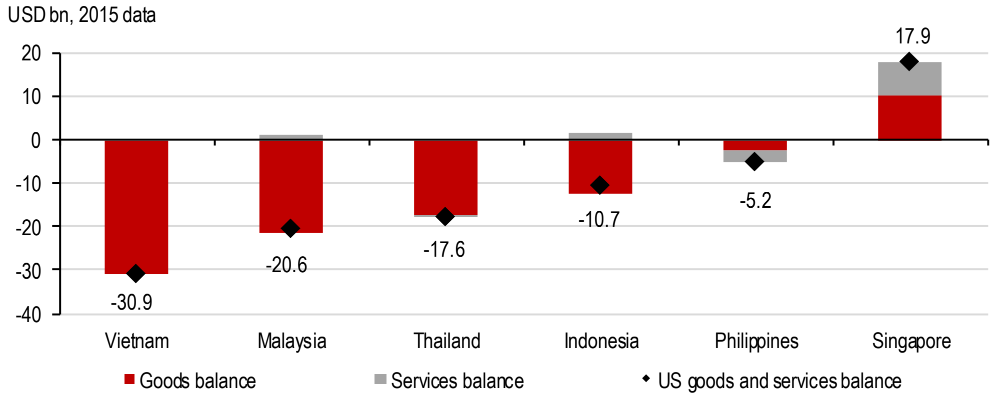
1 Peter A. Petri and Michael G. Plummer, *The Economic Effects of the Trans-Pacific Partnership: New Estimates*, January 2016, Peterson Institute for International Economics, Working Paper 16-2

bilateral basis only Singapore has a Free Trade Agreement (FTA) with the US – and even then the US runs a trade *surplus* with the island nation.

Within ASEAN, the US' deficits are largest with Vietnam, Malaysia and Thailand

A closer look, however, reveals that, on an individual basis, the deficits that the US runs with some ASEAN countries may still one day prove too large for Mr. Trump to ignore. If ASEAN as a bloc were removed from the rankings, then the USD31bn goods and services deficit that the US runs with Vietnam would rank as the fifth largest, exceeding even the shortfall with India. Malaysia and Thailand, too, would rank among the Top 10, the US deficits there surpassing those with Korea and France (Chart 5).

5. Will the US eventually scrutinize its deficits with Vietnam, Malaysia and Thailand?



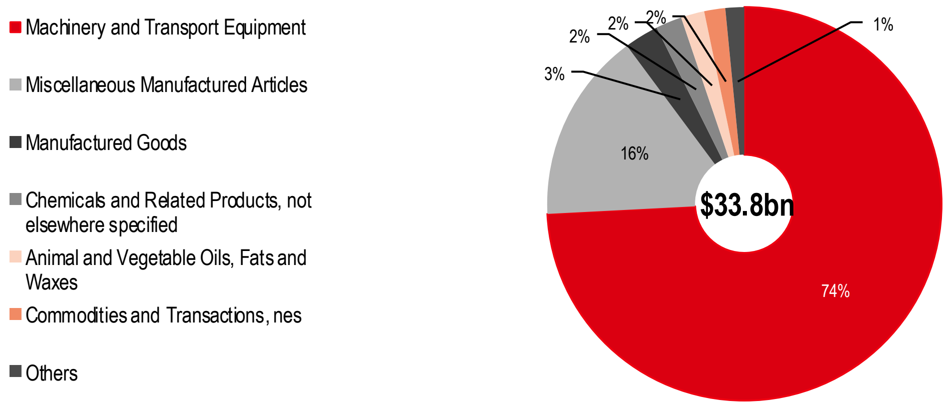
Source: CEIC, HSBC

If it really comes to that, however, Thailand and Malaysia – rather than Vietnam, despite the sizeable deficit the US has with it – appear to be more vulnerable to a more protectionist US. This will owe to the higher value-add products that Thailand and Malaysia are currently exporting to the US, which the latter has a greater propensity for producing at home.

Thailand and particularly Malaysia appear more vulnerable to a more protectionist US, due to their production of higher value-added goods

In Malaysia's case, although granular data is lacking, the bulk of its exports to the US (74%, to be exact) are classified under Machinery and Transport Equipment (Chart 6). Based on 2013 data from the US Trade Representative's Office (trade trends don't shift that quickly), this is likely to consist largely of electrical and non-electrical machinery.

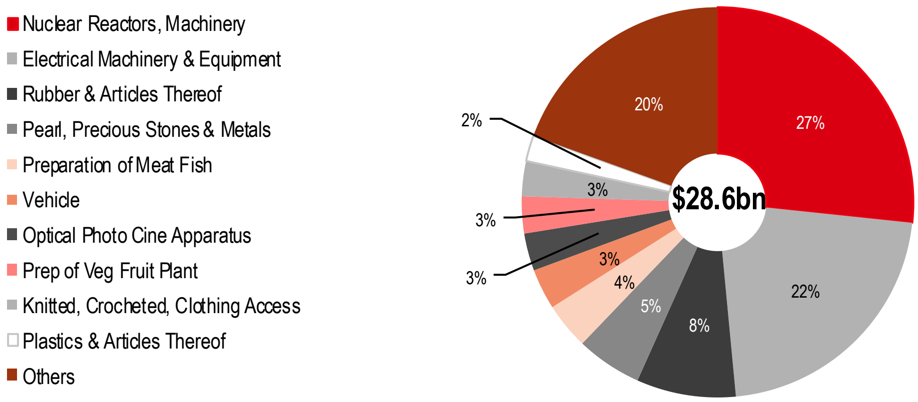
6. A breakdown of Malaysia's exports to the US in 2015



Source: CEIC, HSBC

Likewise, in Thailand, machinery – both electrical and non-electrical – dominate shipments to the US. There are, however, other goods – such as rubber and related articles and precious stones – that will likely prove more for challenging for the US to produce at home (Chart 7). Vehicle exports, too – worth a mention because of the importance of the auto sector to the Thai economy – may not come under much threat. The volume of cars in Thailand being produced for US consumption is insignificant compared to what is currently being produced in the US, as the types of cars that are made there – such as small hatchbacks and simpler models – tend to see only limited demand from the US.

7. Thailand's top 10 exports to the US in 2015

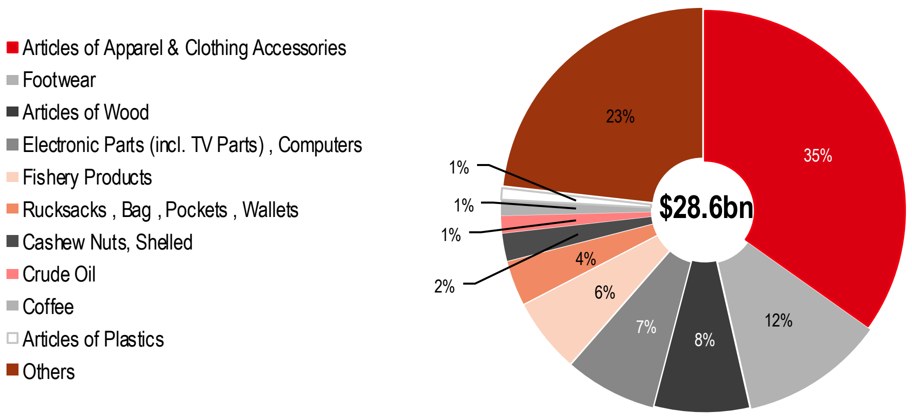


Source: CEIC, HSBC

The US deficit with Vietnam is large, but it is mainly in footwear and apparel

In contrast to Malaysia and Thailand, the bulk of Vietnam's exports to the US are of much lower value-add – 35% of its shipments consist of apparel and clothing accessories, and another 12% consists of footwear (Chart 8). These are no longer industries that the US would have a competitive advantage in, which suggests that, despite the size of the trade deficit that the US runs with Vietnam, the US would be hard-pressed to meaningfully reduce this shortfall.

8. Vietnam's top 10 exports to the US in 2014



Source: CEIC, HSBC

What about the risks surrounding US-China trade relations?

As we alluded to earlier, equally – if not more – disconcerting are the negative sentiments Mr. Trump has expressed regarding the US' trade relations with China. In his "7-point plan to rebuild the American economy by fighting for free trade," Mr. Trump put forward three main proposals:

1) Instruct the Treasury Secretary to label China a currency manipulator.

2) Instruct the US Trade Representative to bring trade cases against China, both in the US and at the WTO. China's unfair subsidy behaviour is prohibited by the terms of its entrance to the WTO.

3) Use every lawful presidential power to remedy trade disputes if China does not stop its illegal activities, including its theft of US trade secrets − including the application of tariffs consistent with Section 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962.

These measures would directly impact Chinese trade, and in turn also impact ASEAN. On a net basis, ASEAN runs a trade deficit of USD77.6bn with China. With the exception of Singapore, the rest of the ASEAN-6 economies import more from China than they export. But total trade between ASEAN and China came to USD345.4bn in 2015. This is more than 60% larger than the flow of goods between ASEAN and the US, and places China as the second-largest trading partner for the region. In short, the fortunes of the ASEAN economy have − and will continue to be − closely tied to those of the Chinese economy.

A 45% tariff on Chinese exports to the US would severely hurt bilateral trade, but China's total exports should not fall by as much

Of the three measures proposed by Mr. Trump, a punitive tariff (45% was the number he mentioned in January) would have the biggest and most immediate economic impact on China. Our *China economists estimate* that, should such a tariff be applied across the board, there would be a 52% reduction in China's exports to the US. But the good news − if it can be so-termed − is that, while bilateral trade would be severely hit, the reduction in China's total exports would be much smaller, at 9.3%. This would owe largely to the diversification of China's export basket, which today has a much higher degree of value-add than compared to a decade ago.

Our China economics team also believes a trade war with the US will be averted

Reassuringly for ASEAN, our China economists also believe that a trade war with the US will be avoided. Should China impose an equally punitive tariff rate on US imports, the potential impact on the US economy would be somewhat less than the impact on China. This is because the US economy is bigger, less export driven, and less dependent on China as an export market. Furthermore, according to our China team's estimates, China imports from the US are less sensitive to price shifts than US imports from China.

Business-as-usual in China means continuity of RCEP negotiations

With our base-case for China being business-as-usual (we continue to expect GDP growth to moderate a touch to 6.5% in 2017 and 2018, from 6.7% this year), negotiations over the China-led Regional Comprehensive Economic Partnership (RCEP) will continue. As our economist Joseph Incalcaterra wrote about in detail *earlier this month*, this is good news for ASEAN, which pioneered the deal to (so far) include only economies with which the group has an FTA.

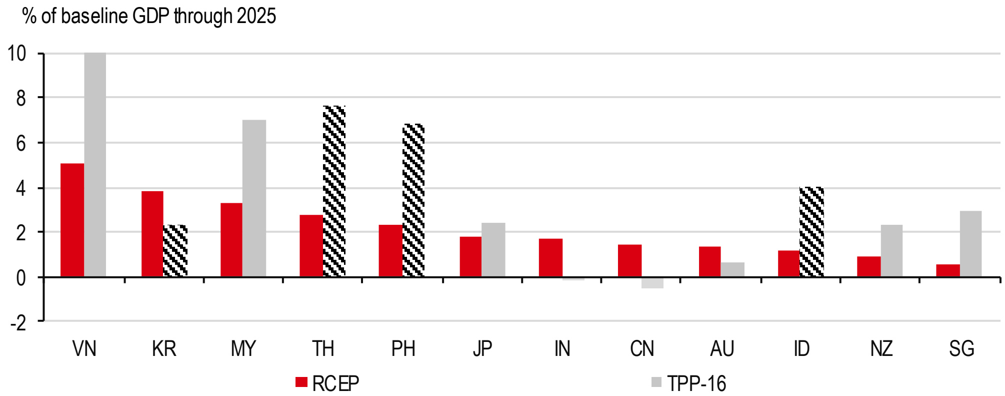
To be sure, discussions over the RCEP have unfolded at a slow pace - the 15th round of negotiations were concluded in October, and final talks were ear-marked for completion in mid-2017 (a six-month postponement). Given Mr. Trump's intention for the US to withdraw from the TPP, however, these negotiations could well gain momentum.

The RCEP is also of far more limited scope than the TPP, focusing mainly on tariff reduction and services liberalization, compared to the latter which delves beyond and into areas such as business conditions, standards, regulations and protection of intellectual property. According to estimates by academic Peter Petri, this means that welfare gains from the RCEP will not be as large as those from the TPP.

Welfare gains for ASEAN from the RCEP will be much smaller than the TPP, but something is better than nothing

With the latter now a moot point, however, some welfare gains for ASEAN are still better than none. Furthermore, the benefits of the RCEP will be more equally shared across ASEAN, since all 10 members are signatories to the pact, together with India, Japan, Korea, Australia, New Zealand and of course, China (Chart 9). Within ASEAN, Singapore is expected to benefit the least from the RCEP, which makes sense as it already has FTAs with all of the RCEP members, either through ASEAN and/or direct bilateral channels. In contrast, Vietnam is expected to benefit significantly from the RCEP, thanks to new trade agreements and gains coming from increased sourcing of production from Japan, Korea and China.

9. Gains from the RCEP vs the TPP



Source: Peter A. Petri, *Economics of the TPP and RCEP Negotiations*, December 2012, Brandeis University and East-West Center. Dashed columns indicate nations that did not join the TPP, but were expected to eventually join.

How else might ASEAN benefit from the RCEP? As Joseph points out, the RCEP effectively allows convergence of the "noodle bowl" of trade deals that ASEAN members have signed with each other. The tangle of various bilateral trade agreements over the years involving different specifications (rules of origin, tariff rates, standards) has left firms confused, and the utilization rate of FTAs low.

The RCEP's 'convergence' quality will also help ASEAN better integrate − which is key to the ambitions of the ASEAN Economic Community (AEC) − while at the same time also increasing the AEC's access to overseas markets (in the future, the RCEP can be expanded to include other countries).

Last but not least, as China leverages on the RCEP to push its "One Belt, One Road" initiative, as China's fourth largest export partner ASEAN should benefit given its strong supply-chain interconnectivity. China's desire to increase outward investment should also be economically advantageous to the region.

Implications

The mix of factors suggest that, at best, we retain our view for stable (but low) ASEAN GDP growth of 4.3% next year

We now expect faster US economic growth in the coming years under Mr. Trump, but this is not necessarily good news for ASEAN. The welfare gains the region will miss out on due to a possible disintegration of the TPP could be made up for by gains from the RCEP, but only partially, with Vietnam benefiting the most and Singapore the least. And while the likelihood of a trade war between the US and China appears low for now, ASEAN is at risk of being buffeted about by more isolationist US policies against the world at large.

It also remains to be seen if the region's sizeable surplus with the US will eventually come under greater scrutiny by the Trump administration. If it does, there may not be a lot of jobs or industries in Vietnam that the US would want to "bring home". However, the same cannot be said for higher value-add economies such as Malaysia and Thailand.

On balance, this mix of factors suggest that, at best, we retain our view for stable (but low) ASEAN GDP growth of 4.3% next year, and a slight pick-up to 4.5% in 2018. At worse, ASEAN growth moderates even further, with a protectionist US posing an additional challenge amidst an already-tough external environment.

Policy options to counter this slow growth path are becoming limited. ASEAN currency weakness reduces, if not closes, scope for rate cuts

Unfortunately, the options available to policymakers for countering this slow growth path by propping up domestic activity are becoming increasingly limited. Heavy capital outflows from the region since Mr. Trump's victory have resulted in *ASEAN currency weakness*, which our FX strategy team believes will persist. This has in turn reduced scope for further monetary easing. Over the past few weeks, we have removed our rate-cut forecast for Thailand, where we had initially expected one last 25bp reduction in 4Q16, to 1.25%. We have also pushed out our expectations for a final 25bp rate cut to 4.50% in Indonesia to December, though the near-coincident timing of the Fed's policy decision could admittedly complicate matters. Our view for one last rate cut in Malaysia, too, to 2.75%, has been postponed to 1Q17.

Fiscal expansion is only an option for the Philippines, Singapore and Thailand

With rate cuts in ASEAN at or nearing an end, the onus then lies on governments to shore up domestic activity via expansionary fiscal policy. But here, too, *policy space is limited*. The Philippines, Singapore and Thailand have room to widen their deficits next year, from 0.2% of GDP for the conservative Singapore, to as wide as 3.2% of GDP for Thailand. However, Indonesia, Malaysia and Vietnam have struggled this year to keep their fiscal shortfalls from widening out on slow growth and falling oil and gas prices, and will need to be in fiscal consolidation rather than expansion mode come 2017 (see page 13 for more details).

Key news events

Indonesia

The government announced has its 14th policy package, outlining Indonesia's e-commerce roadmap and offering financing alternatives and tax incentives particularly for companies in the digital and creative industries. Chief Economics Minister Darmin Nasution said a 15th policy package would be released "soon." The package will focus on deregulation, improving the business climate, infrastructure, medical equipment as well as the textile and agri industries. Government efforts to deregulate the economy earlier helped Indonesia leap 15 places in the World Bank's 2017 Ease of Doing Business index, to 91 out of 190 countries. For 2017, Indonesia's parliament has approved a budget deficit of 2.4% of GDP, compared to a likely 2.7% deficit this year.

Malaysia

PM Najib unveiled a budget deficit of 3.0% of GDP for 2017, compared to a target of 3.1% for this year. Ratings agency Moody's said Malaysia's budgetary discipline was positive for the country's credit profile. S&P subsequently also affirmed Malaysia's A- sovereign rating, citing its strong external position and monetary policy flexibility. Separately, PM Najib's third official visit to China between 31 October and 6 November has resulted in Malaysian and Chinese companies signing 14 agreements on several iconic and mega projects to the tune of MYR 144bn. Elsewhere, Bank Negara Malaysia Governor Datuk Muhammad Ibrahim said that the central bank will no longer tolerate ringgit transactions in the non-deliverable forwards market and its influence over the onshore pricing of the local currency.

Philippines

GDP expanded 7.1% y-o-y in 3Q16, pointing to the resilience of the Philippine economy amid a soft global environment. Private consumption, which constitutes almost 70% of nominal GDP, rose 7.3% y-o-y on strong remittance inflows, while fixed capital investment surged 23% y-o-y. These contributed 5ppts and 5.5ppts to overall GDP growth respectively. For the first three quarters of the year, growth averaged 7.0%, at the top end of the government's 6-7% target. We have adjusted our 2016 growth profile to 6.8% (from 6.5% previously) and expect 6.5% growth in both 2017 and 2018. But there are upside risks to inflation, particularly with the peso likely to weaken in 2017. Nevertheless the BSP still has room to keep rates on hold through 2017, though term deposit rates are rising.

Singapore

Singapore's 3Q16 GDP was revised higher to -2.0% q-o-q saar, compared to a more severe contraction of 4.1% in the advance estimate. The revision was due to stronger manufacturing output in September. Despite the revision, however, momentum in the Singapore economy continues to decelerate alongside weakening global trade, and we see downside risks on the horizon stemming from policy uncertainty in the US and EU. While there will likely be a technical rebound in 4Q sequential growth, most sectors will see a deceleration in activity into next year. This sets the stage for weak growth of 0.9% in 2017, which is likely to prompt an expansionary FY2017 Budget (mid-February) and increases the risks of further monetary easing, even if this is not our base case.

Thailand

Amid concerns over slow growth, external uncertainties, curbs on illegal tourism and the temporary deceleration of spending during the national mourning period, the Thai Cabinet announced several short-term stimulus measures, including agricultural subsidies. On 29 November the Cabinet announced a tax break on domestic tourism-related spending of up to THB 15,000 for December 2016. Separately, it also approved the use of foreign currency to calculate profits and losses, as well as taxes, in accounting reports for corporate and partnerships whose revenues are mainly in foreign currency. The latest measure will bring the accounting standards closer to international practices, lower FX risks for some companies, and raise the level of convenience for firms operating international headquarters in Thailand.

Vietnam

Vietnam ranked 82nd in the World Bank's 2017 Ease of Doing Business survey, up from 91st. Vietnam's National Assembly adopted a resolution setting three reform targets for the 2016-20 period relating to public investment, state-owned enterprises and financial institutions. Further, the National Assembly passed a resolution targeting an inflation cap of 4% and economic growth of 6.7% for 2017. Credit ratings agency Moody's observed that the banking sector will continue to face the challenge of problem assets in the medium term. In early November, central bank Governor Le Minh Hung said the banking system had concluded a 5-year restructuring programme and that the sector is preparing for the next phase of 'drastic changes'. This phase may see an increased participation of foreign investors in the restructuring process.

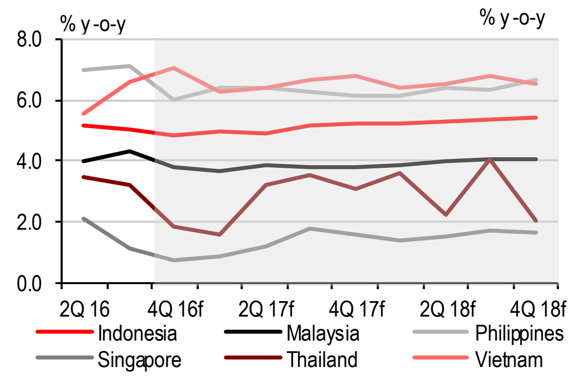
A snapshot of ASEAN data

ASEAN-6 macro-economic framework (quarterly)

	2Q 16	3Q 16	4Q 16f	1Q 17f	2Q 17f	3Q 17f	4Q 17f	1Q 18f	2Q 18f
GDP y-o-y									
Indonesia	5.2	5.0	4.8	5.0	4.9	5.2	5.2	5.2	5.3
Malaysia	4.0	4.3	3.8	3.6	3.8	3.8	3.8	3.8	4.0
Philippines	7.0	7.1	6.0	6.4	6.4	6.2	6.1	6.1	6.4
Singapore	2.1	1.1	0.7	0.8	1.2	1.8	1.6	1.4	1.5
Thailand	3.5	3.2	1.8	1.6	3.2	3.6	3.1	3.6	2.2
Vietnam	5.6	6.6	7.1	6.3	6.4	6.7	6.8	6.4	6.6
ASEAN-5	4.7	4.8	4.4	4.2	4.6	4.9	4.8	4.9	4.6
ASEAN-6	4.3	4.3	3.9	3.8	4.2	4.5	4.4	4.4	4.2
CPI y-o-y, avg									
Indonesia	3.5	3.0	3.7	3.1	4.4	4.3	4.4	4.5	4.5
Malaysia	1.9	1.3	1.6	2.6	3.0	2.7	2.7	2.6	2.6
Philippines	1.5	2.0	2.0	2.7	3.2	3.5	3.5	3.5	3.6
Singapore	-0.9	-0.4	0.2	0.7	1.2	1.2	1.2	1.5	1.7
Thailand	0.3	0.3	1.0	2.1	1.6	2.2	2.2	2.1	2.1
Vietnam	2.2	2.8	3.0	4.4	4.8	4.4	4.6	4.4	4.7
ASEAN-5	2.2	2.0	2.6	3.0	3.6	3.5	3.6	3.6	3.7
ASEAN-6	1.8	1.7	2.3	2.7	3.3	3.3	3.3	3.4	3.4
Exchange rate vs. USD									
Indonesia	13180	13118	13500	13700	13800	13900	14000	14000	14000
Malaysia	4.02	4.11	4.35	4.40	4.45	4.50	4.50	4.50	4.50
Philippines	47.70	47.43	49.40	50.00	50.30	50.50	50.70	50.70	50.70
Singapore	1.35	1.36	1.43	1.44	1.45	1.46	1.46	1.46	1.46
Thailand	35.27	34.71	35.70	36.00	36.20	36.40	36.50	36.50	36.50
Vietnam	22,300	21,942	22,400	22,500	22,600	22,700	22,800	22,800	22,800

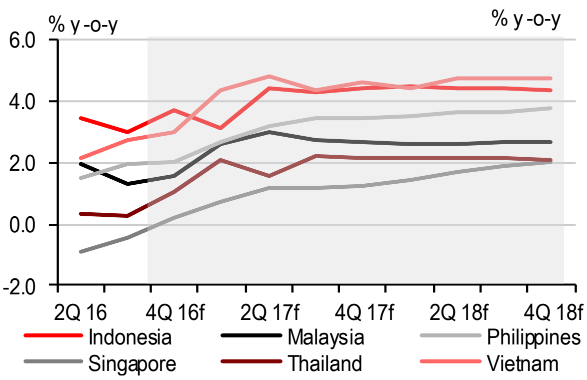
Source: HSBC

Growth remains relatively soft across ASEAN



Source: HSBC

Inflation will increase into 2017 due to base effects



Source: HSBC

HSBC policy rate forecasts

	Current	Last Move/Date	Next MPC	4Q15	1Q16	2Q16	3Q16f	4Q16f	1Q17f	2Q17f	3Q17f	4Q17f	1Q18f	2Q18f
Indonesia	4.75	-25bp (Oct 2016)	15-Dec	6.25	5.50	5.25	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Malaysia	3.00	-25bp (July-2016)	19-Jan	3.25	3.25	3.25	3.00	3.00	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	3.00	-100bp (May-2016)	22-Dec	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	-25bp (Apr-2015)	21-Dec	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	5.00	-50bp (Mar-2014)	n/a	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.50	5.50
	Slope	**Last Move**	**Next MPS**	**April**	**October**		**April**		**October**		**April**		**October**	
Singapore	0.00	Reduce slope	14-Oct	Reduce Slope	No change		No change		No change		No change		No change	

Source: Bloomberg, CEIC, HSBC; NB: Singapore monetary policy is conducted through a managed exchange rate system. The three possible monetary policy options are a change of the slope, the width of the band, and the level at which the midpoint is centered; *January meeting was off-cycle

ASEAN-6 macro-economic framework (annual)

	2012	2013	2014	2015	2016f	2017f	2018f
GDP growth (% y-o-y)							
Indonesia	6.0	5.6	5.0	4.8	4.9	5.1	5.3
Malaysia	5.5	4.7	6.0	5.0	4.0	3.8	4.0
Philippines	6.7	7.1	6.2	5.9	6.8	6.5	6.5
Singapore	3.7	4.6	3.3	2.0	1.1	0.9	1.6
Thailand	7.2	2.7	0.8	2.8	2.8	2.8	3.0
Vietnam	5.2	5.4	6.0	6.7	6.2	6.5	6.6
ASEAN-6	5.8	4.7	4.2	4.4	4.1	4.1	4.4
CPI, average (% y-o-y)							
Indonesia	4.0	6.4	6.4	6.4	3.7	4.1	4.4
Malaysia	1.7	2.1	3.1	2.1	2.1	2.7	2.6
Philippines	3.2	2.9	4.2	1.4	1.7	3.2	3.6
Singapore	4.6	2.4	1.0	-0.5	-0.5	1.1	1.8
Thailand	3.0	2.2	1.9	-0.9	0.3	2.0	2.1
Vietnam	9.1	6.6	4.1	0.6	2.3	4.5	4.7
ASEAN-6	4.4	4.5	3.9	2.4	2.0	3.2	3.4
Current account balance (% of GDP)							
Indonesia	-2.7	-3.2	-3.1	-2.1	-2.0	-2.3	0.0
Malaysia	5.2	3.5	4.4	3.0	1.2	1.5	0.0
Philippines	2.8	4.2	3.8	2.6	1.3	0.9	0.0
Singapore	18.1	17.9	17.5	19.8	19.8	21.1	0.0
Thailand	-0.4	-1.2	3.8	8.1	10.5	8.1	0.0
Vietnam	6.1	4.6	5.0	0.5	-2.2	-3.3	0.0
ASEAN-6	2.8	2.0	3.3	3.9	3.8	3.2	0.0
Policy rates							
Indonesia	n/a	n/a	n/a	6.25	4.50	4.50	4.50
Malaysia	3.00	3.00	3.25	3.25	3.00	2.75	2.75
Philippines	3.50	3.50	4.00	4.00	3.00	3.00	3.00
Singapore	0.35	0.22	0.74	1.70	0.80	1.00	1.00
Thailand	2.75	2.25	2.00	1.50	1.50	1.50	1.50
Vietnam	7.00	5.50	5.00	5.00	5.00	5.00	5.50

Source: HSBC; NB: We use 3-month SOR for Singapore's policy rate

ASEAN sustainability matrix and financial indicators

	Stock of portfolio inflows since 2009 as a share of reserves	Short-term external debt as a % of reserves	FX reserves to M2	Import coverage ratio
Indonesia	100	38	32.0	8
Malaysia	27	92	25.1	6
Philippines	6	20	47.7	9
Singapore	129	66	62.8	7
Thailand	-9	36	39.1	12
Vietnam	20	38	12.2	2

	Short-term external debt as a % of GDP	External debt as a % of GDP	Household debt as a % of GDP	Loan-to-Deposit Ratio
Indonesia	5	36	16	96
Malaysia	28	73	89	86
Philippines	5	26	7	68
Singapore	56	446	77	96
Thailand	16	37	81	110
Vietnam	7	39	n/a	91

Source: CEIC, HSBC; NB: Last available data per country

Fiscal and debt monitor

	Budget balance (Local currency bn)			Budget balance (% of GDP)			Public Debt (% of GDP)		
	2015	2016f	2017f	2015	2016f	2017f	2015	2016f	2017f
Indonesia	-226,692	-298,495	-324,210	-2.6	-2.6	-2.4	31.3	32.7	30.9
Malaysia	-37	-37	-39	-3.2	-3.2	-3.0	54.5	54.7	54.2
Philippines	-74	-124	-357	-0.9	-2.5	-3.0	47.7	46.8	45.8
Singapore	5	-3	-5	-0.7	-0.9	-0.2	104.7	110.5	111.5
Thailand	-320	-375	-469	-2.4	-2.7	-3.2	43.1	45.9	48.2
Vietnam	-5,682	-6,616	-6,630	-6.0	-6.7	-6.1	63.3	66.0	66.2

Source: HSBC

Disclosure appendix

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