



16th Singapore Economic Roundtable

Tuesday, 8 November 2011

Orchard Ballroom Three

Level 3, Orchard Hotel

Singapore Economic Roundtable

8 November 2011

*Saktiandi Supaat
Head of FX Research
Global Markets
Maybank*



- Global and Regional Outlook
- Singapore Outlook & Domestic Monetary Conditions
- Optimal Policy Mix Challenges in a “New Normal” Domestic Environment
 - Baumol-Bowen/Balassa-Samuelson Framework to Assess Medium-Term Exchange Rate Policy Outlook
 - Fiscal Policy Management

Softening in external demand

	GDP Growth, y/y%		CPI Inflation, y/y%		Current Account, % GDP		Fiscal Balance, % GDP	
	2011F	2012F	2011F	2012F	2011F	2012F	2011F	2012F
G10	1.44%	1.83%	2.47%	1.73%	-0.83%	-0.65%	-6.37%	-5.14%
USA	1.70%	2.00%	3.10%	2.10%	-3.10%	-2.95%	-8.50%	-7.00%
Japan	-0.40%	2.50%	-0.22%	-0.21%	2.10%	2.60%	-10.30%	-9.10%
Euro Area	1.70%	1.00%	2.50%	1.80%	-0.50%	-0.20%	-4.30%	-3.45%
Asia	7.79%	7.45%	4.86%	3.90%	5.86%	5.18%	-2.56%	-1.98%
China	9.30%	8.70%	5.20%	4.00%	4.00%	3.40%	-1.90%	-1.95%
Hong Kong	6.00%	4.80%	5.20%	4.30%	5.40%	5.50%	2.00%	1.00%
India	7.80%	7.50%	8.90%	8.50%	-2.20%	-2.20%	-7.50%	-6.50%
Indonesia	6.47%	6.58%	5.60%	5.72%	0.20%	-0.40%	-1.80%	-2.00%
Korea	4.35%	4.55%	4.40%	3.20%	1.50%	1.40%	-1.00%	1.00%
Philippines	4.95%	5.65%	4.95%	4.20%	1.70%	1.30%	-3.00%	-2.00%
Malaysia*	4.50%	3.50-4.00%	3.10%	2.60%	11.30%	10.80%	-5.40%	-5.30%
Singapore**	5.30%	3.30%	4.55%	3.00%	19.80%	18.50%	1.00%	1.50%
Taiwan	5.05%	5.00%	1.60%	1.70%	11.00%	11.00%	-4.00%	-2.50%
Thailand	4.10%	4.70%	3.90%	3.85%	4.8%	2.50%	-4.00%	-3.00%

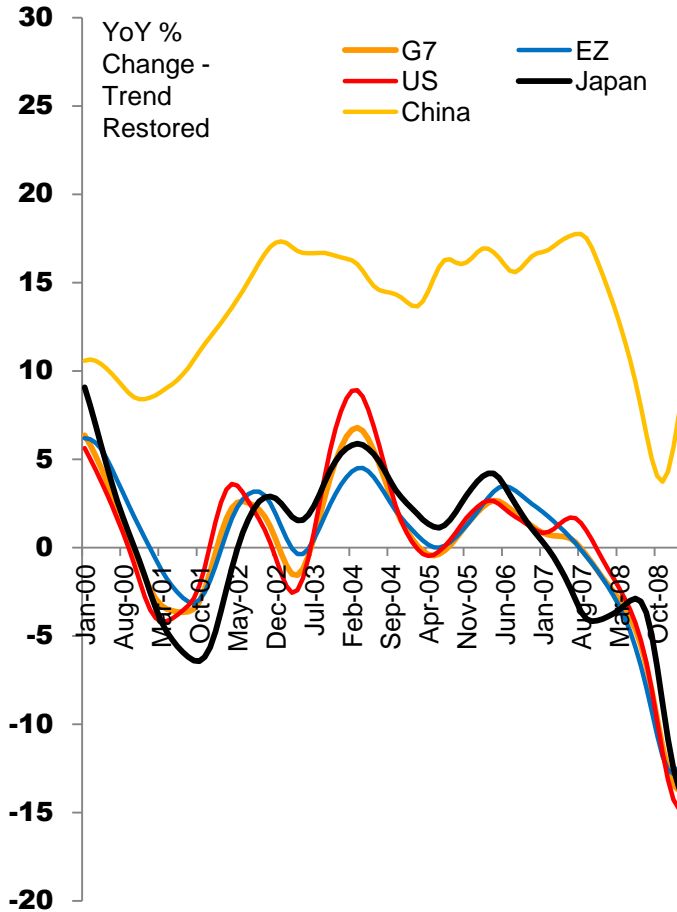
Source: Bloomberg, Asian Development Bank, IMF

* Maybank IB estimates (GDP growth, inflation, and fiscal balance), ** Maybank FX Research

Global Fundamentals: Looking Ahead

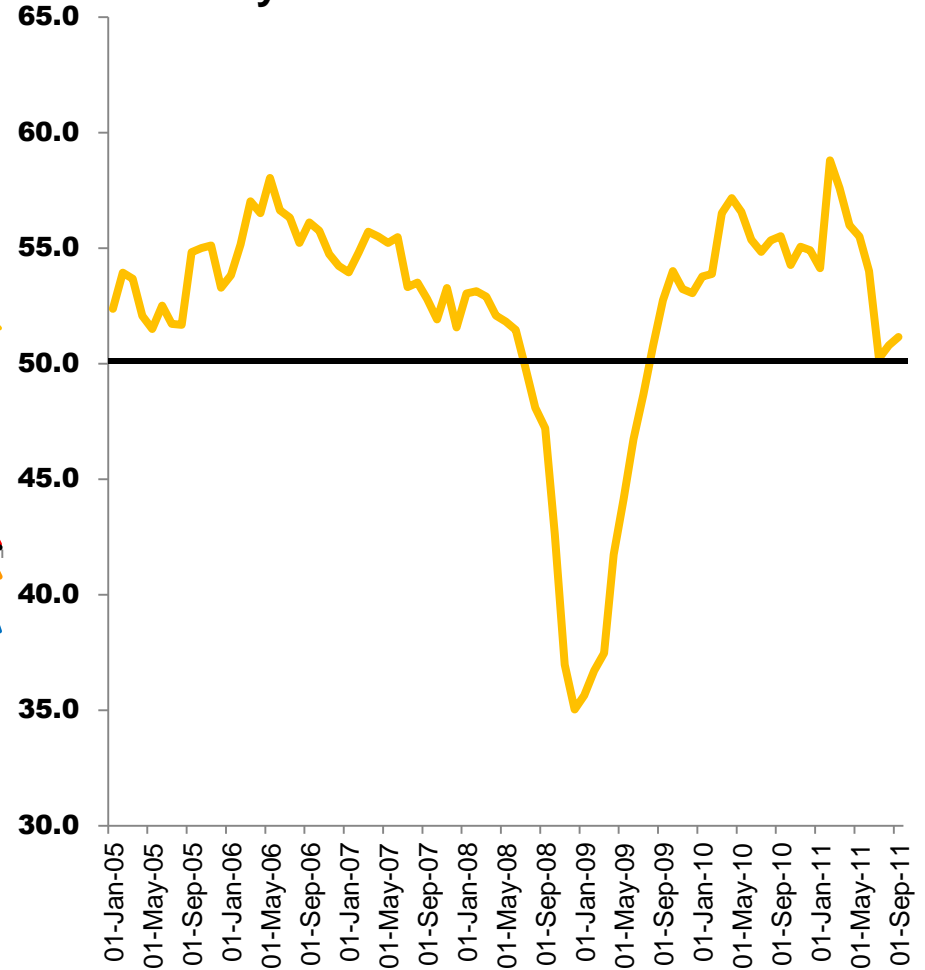


OECD Leading Indices



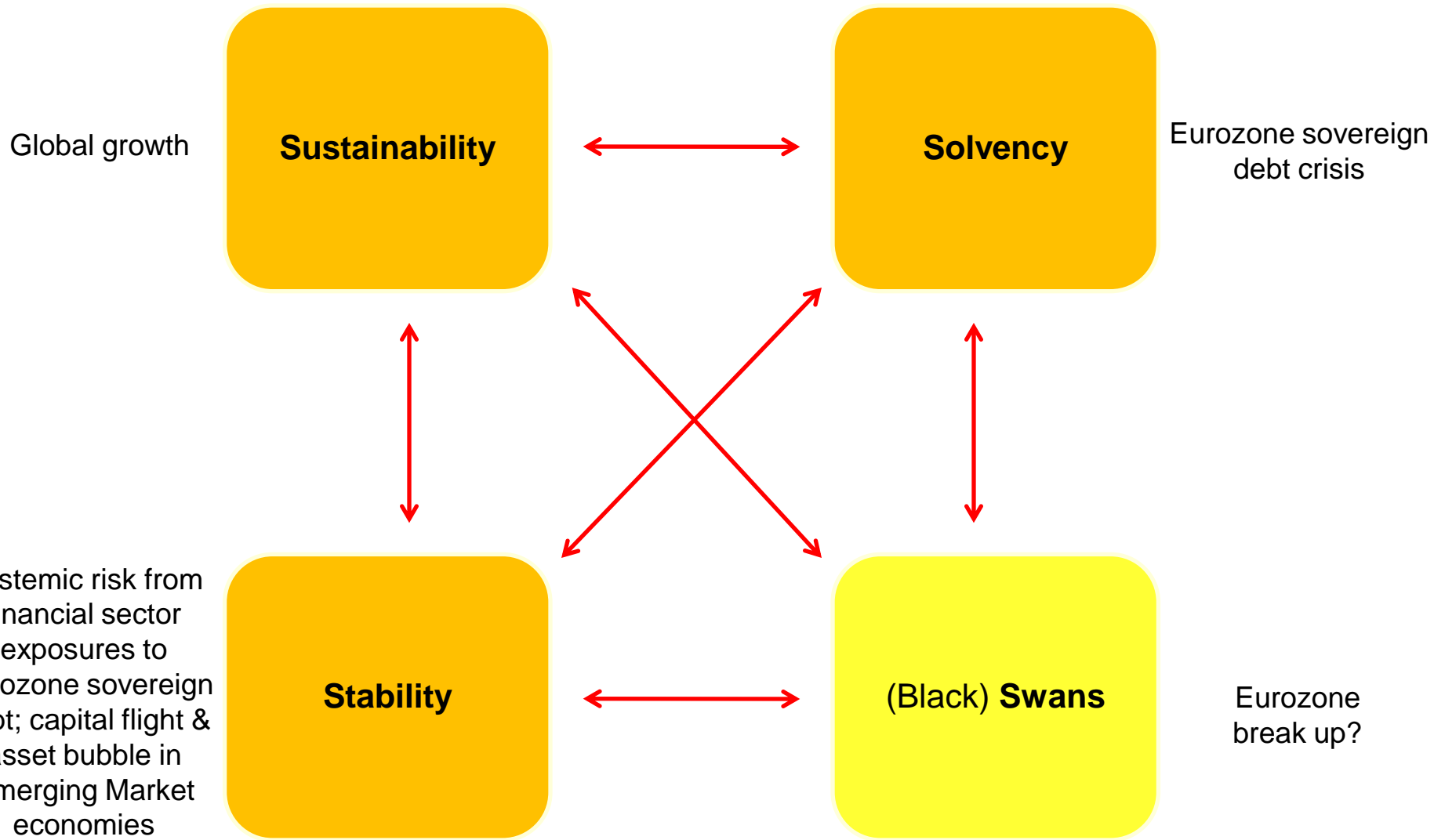
Source: OECD

Maybank Global PMI – G7 + China

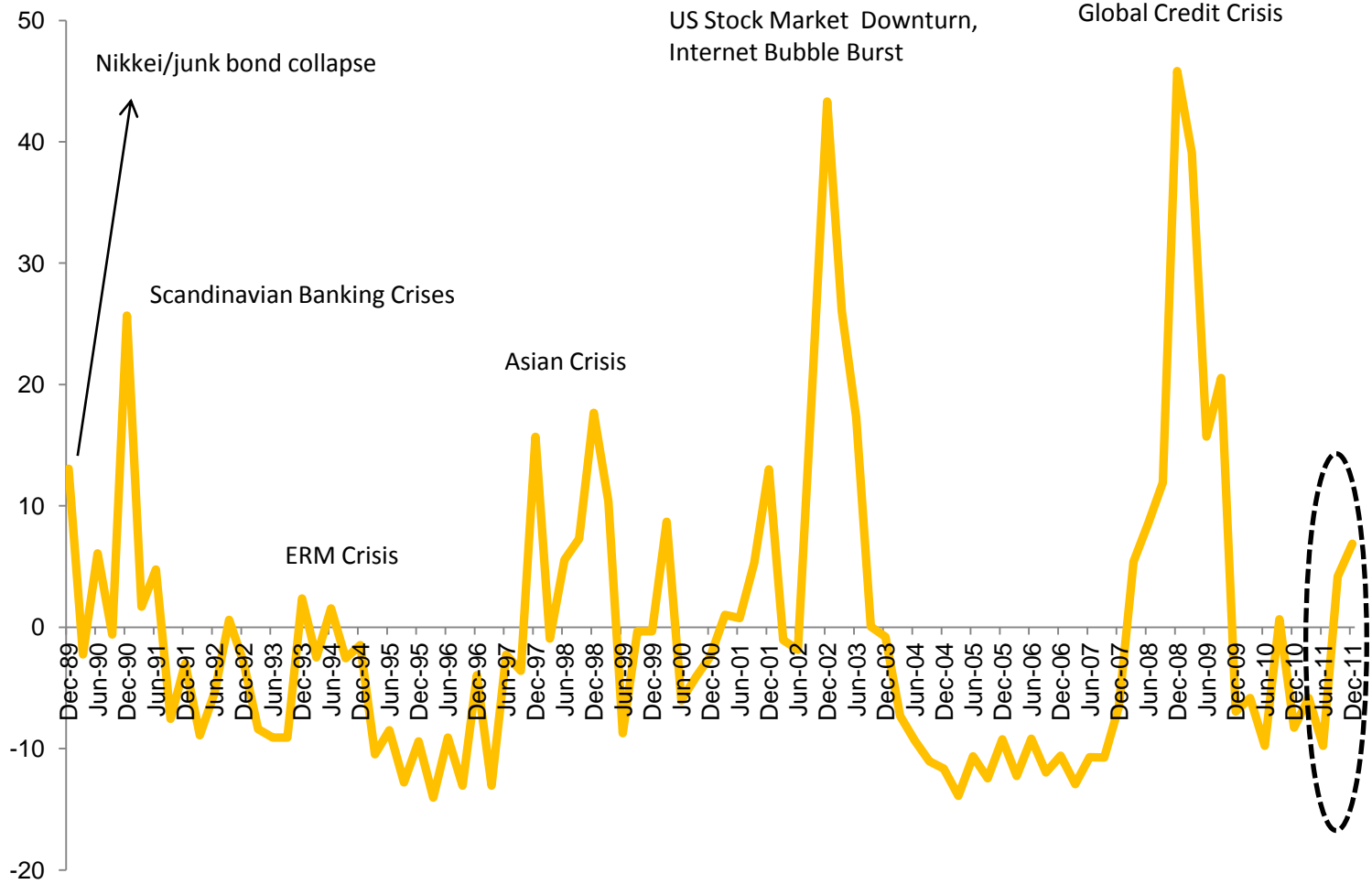


Source: Maybank FX Research, Bloomberg, CEIC

Challenging global economic outlook amid “4S” risks



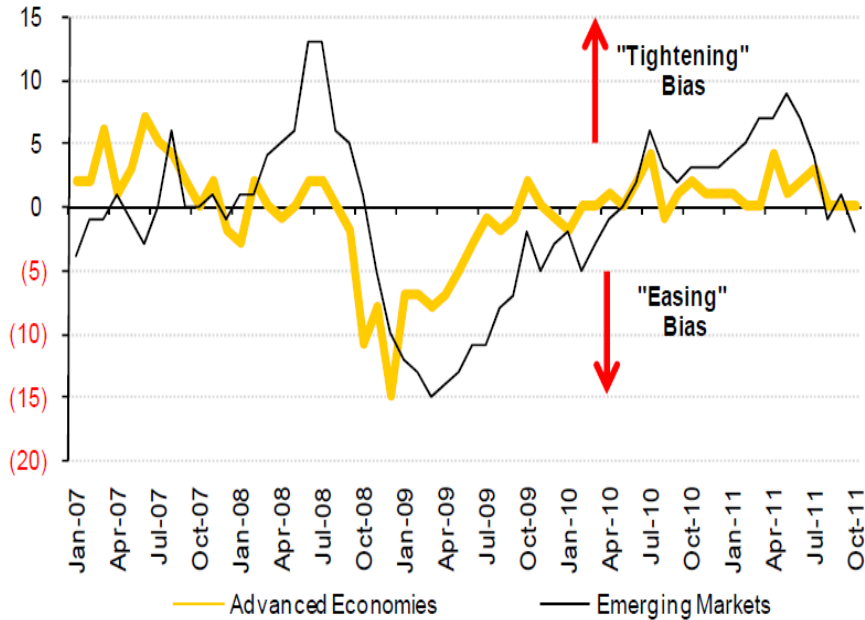
Maybank Stress Index (MSTI): Still Risk-Off



Source: Maybank FX Research, CEIC, Bloomberg

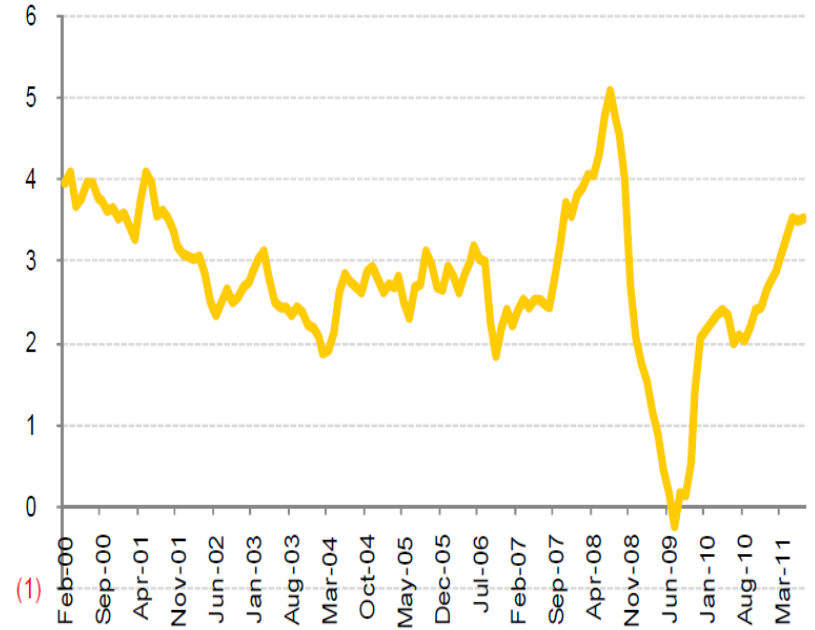
Global Monetary Policy Bias Shifts to Growth from Inflation.

Benchmark Interest Rate Action Diffusion Index: Advance Economies vs Emerging Economies



Sources: Bloomberg, Maybank-IB

Global Monthly Inflation Rate (% YoY)



Sources: Bloomberg, CEIC, Maybank-IB

The index is the difference between the numbers of central banks raising and cutting interest rates, excluding those that maintained interest rates, and is based on a panel of 45 central banks. A positive/negative index reading means more central banks raised/cut than cut/raised their benchmark interest rates during the month.

Sources: Bloomberg, Maybank-IB

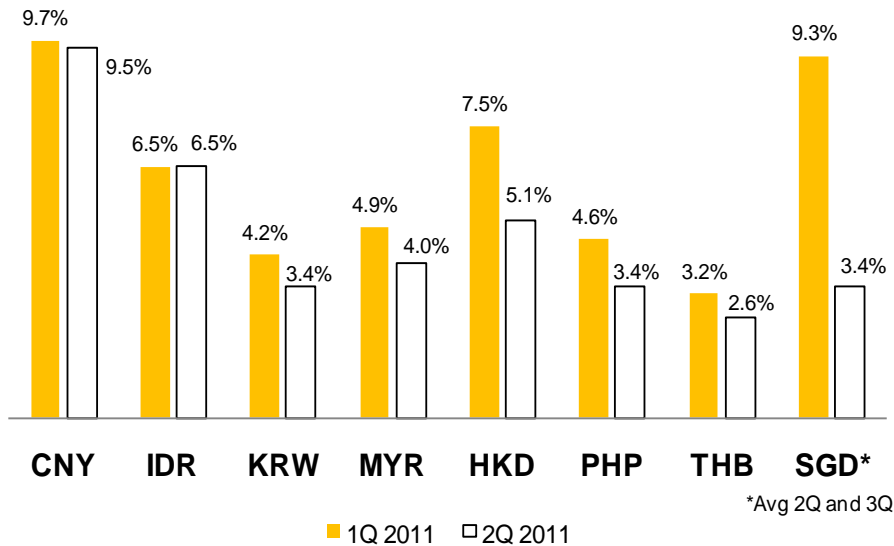


Regional: Growth Shifting to Lower Gear, Inflation?



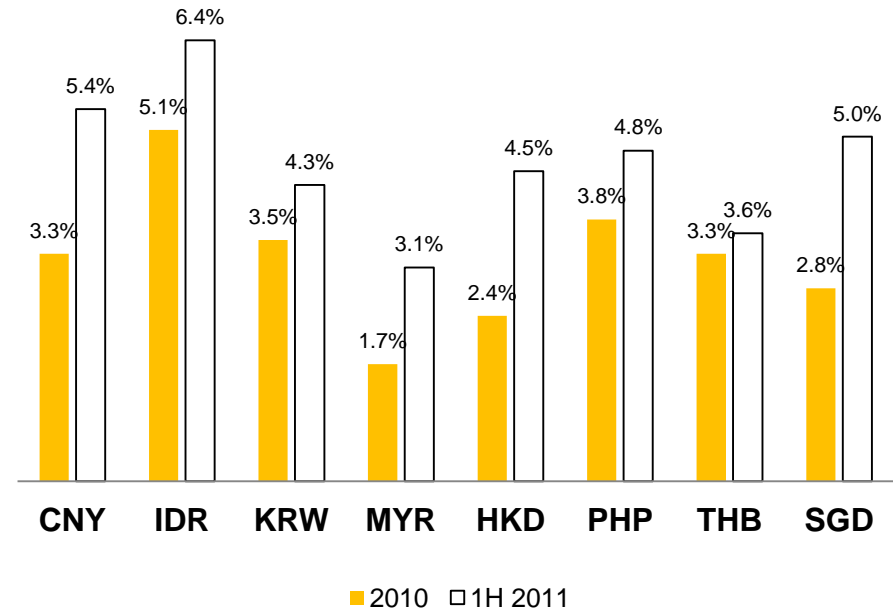
Growth Momentum Tapers Off

Real GDP Growth in % change, y/y



Source: Maybank FX Research, Bloomberg

Inflation, whither to



Source: Maybank FX Research, Bloomberg

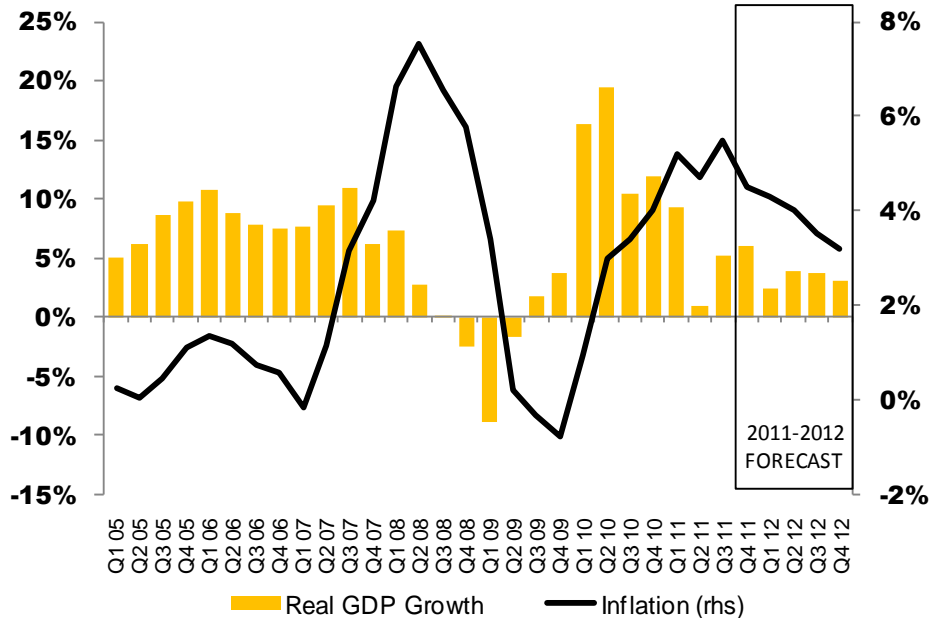
- Regional growth may continue slowing in the next 2-3 quarters ahead amidst signs of faltering global recovery in the US (weak job market), EU (fiscal austerity), and Japan (aftermath of tsunami and nuclear calamity). Trade-oriented economies may be more affected.
- CN and ID's growth remained largely stable, supported by its large market size and steady domestic consumption and comfortable fiscal positions.
- One common theme going forward is the shift of concerns from inflationary risks to growth slowdown.

- Our recent Asian central bank monitors have best summarized all the key decisions and indicate that monetary policy will, in the near - to possibly medium term - be supportive of growth.
- The movement of the broad Asian dollar index (ADXY) has been flattish and lost slightly around 0.7%. Nevertheless, volatility is higher and expected to remain elevated going forward.

Singapore: Macroeconomic and Market Outlook



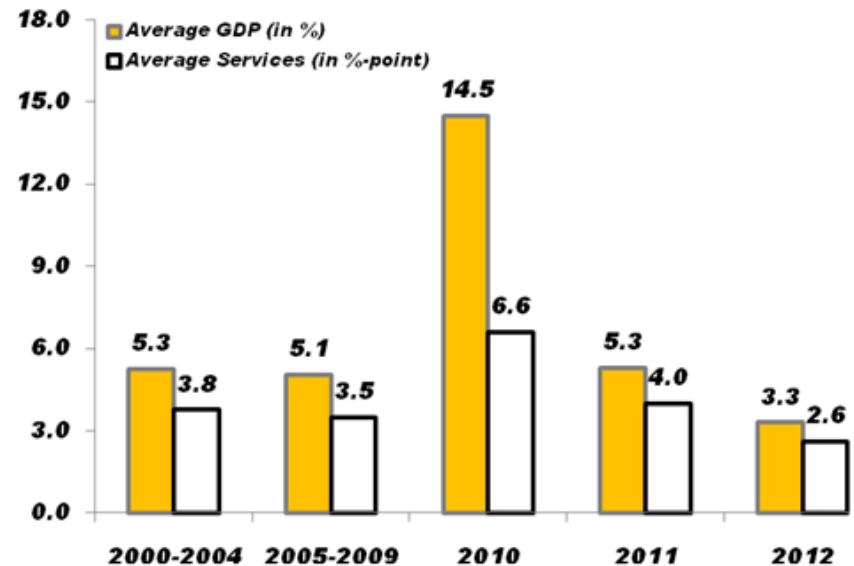
Near-Term Outlook



Source: Maybank FX Research, Bloomberg

- Our 2011 growth forecast currently stand at 5.3%, as 3Q is higher than expected due to a surprise rebound in manufacturing output. Our outlook for growth next year factors in much weaker global and regional demand, while unsettling risk appetite could hurt Singapore's financial services sector. Preliminary forecast for 2012 remains at 3.3%.

Counting More on Services



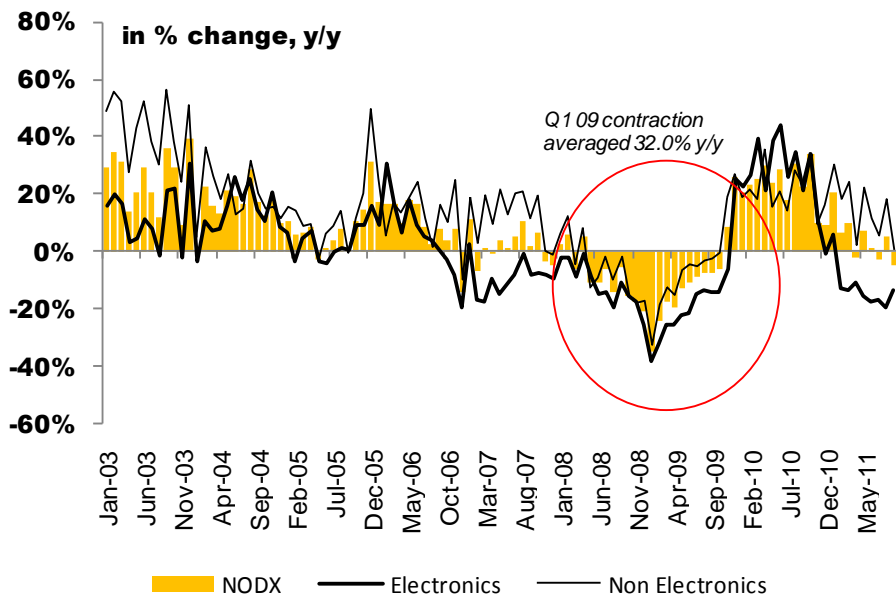
Source: Maybank FX Research, Bloomberg

- Our assumption is for NODX to grow by 3.8% in 2012 given tighter fiscal situation in the US and potential impact of the slew of austerity measures in the Eurozone as well as snail-pace transition in the Chinese growth engine.
- We expect manufacturing output to slow to around 2.0% for the full year of 2012, down from an estimated 7.3% this year. For services sector, we are projecting a slight pullback to 4.3% next year from our forecast of 5.1% for 2011.

Singapore: External Demand Outlook Gloomy?

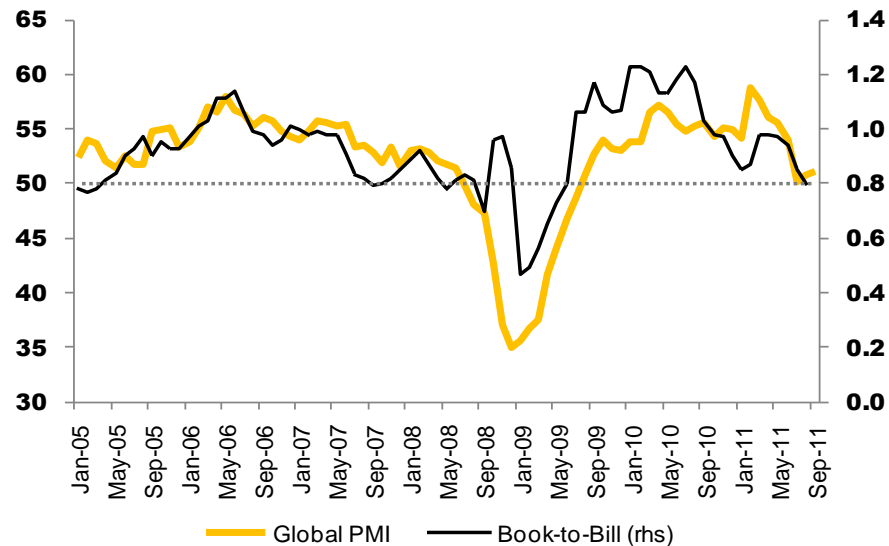


NODX



Source: Maybank FX Research, CEIC

Global Indicators Do Not Lift Much Hope Yet



Source: Maybank FX Research, Bloomberg

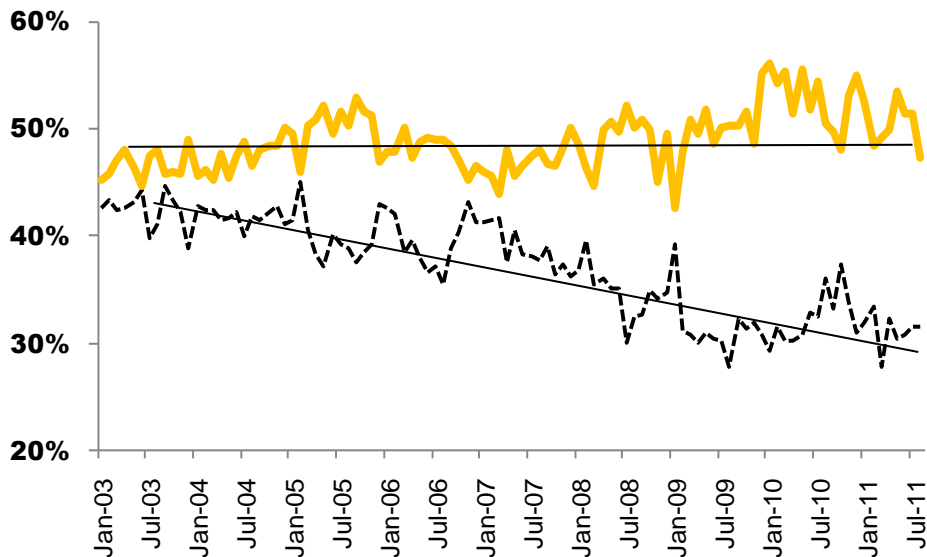
- We maintain our NODX of 3.8% in 2012 given tighter fiscal situation in the US and potentially slew of austerity measures in the Eurozone. The continued decline in the US Book-to-Bill ratio to 0.80 as of Aug 11 from above 1 for the first three quarters of 2010 could imply that the contractionary trend in the electronics exports is unlikely to see a reversal until at least the latter half of 2012. Slowdown in Chinese growth (2012 real GDP growth is expected at 8.6% next year, down from 9.3% forecasted this year, and after growing at a stellar rate of 10.4% in 2010).



Singapore: Deciphering the Trend of Compositions

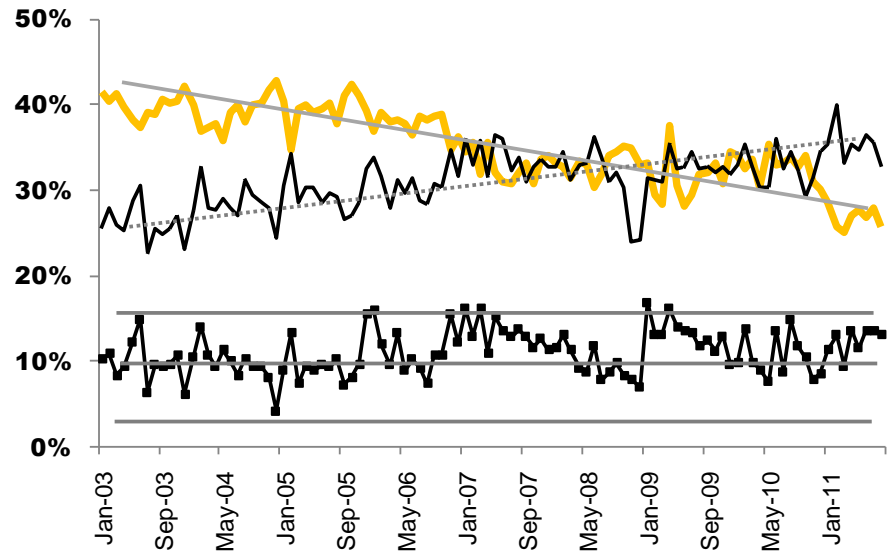


NODX (by destination)



----- G3 Economies ——— Regional Economies
 Source: Maybank FX Research, Bloomberg

NODX (by product)



——— Electronics Top 5 ——— Chemicals & Petrochemicals - - - Pharmaceuticals
 Source: Maybank FX Research, Bloomberg

Share of product exports by destination, I-O Tables

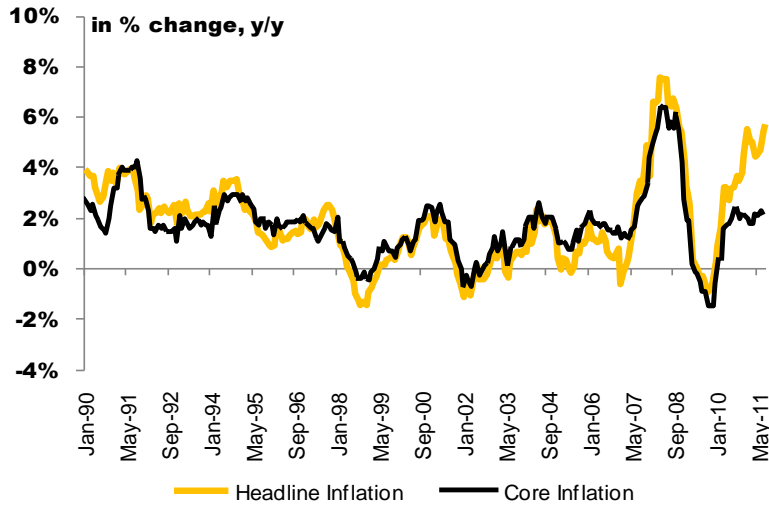
	EP Top 50		Chemicals		Pharmaceuticals	
	2000	2007	2000	2007	2000	2007
G3	50%	35%	22%	26%	77%	80%
Regionals	38%	57%	55%	56%	16%	9%
ROW	12%	8%	23%	18%	7%	11%

Source: Maybank FX Research, Singstat

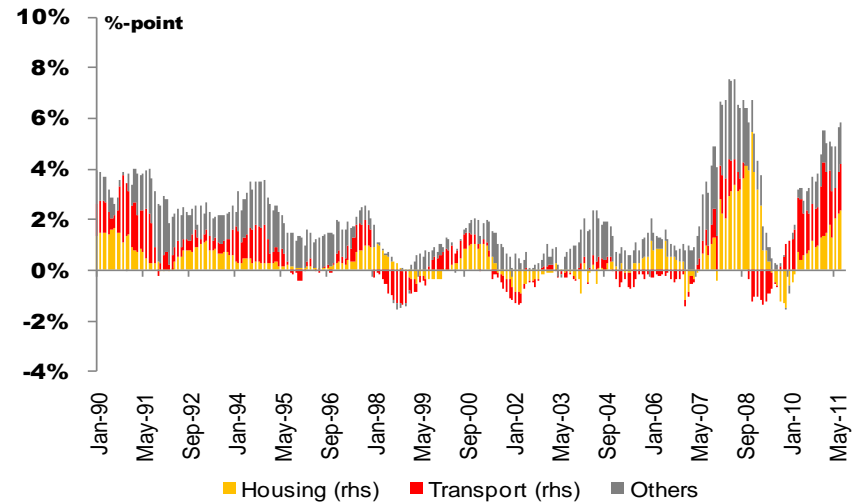
Singapore: Inflation Remains Fired-Up?



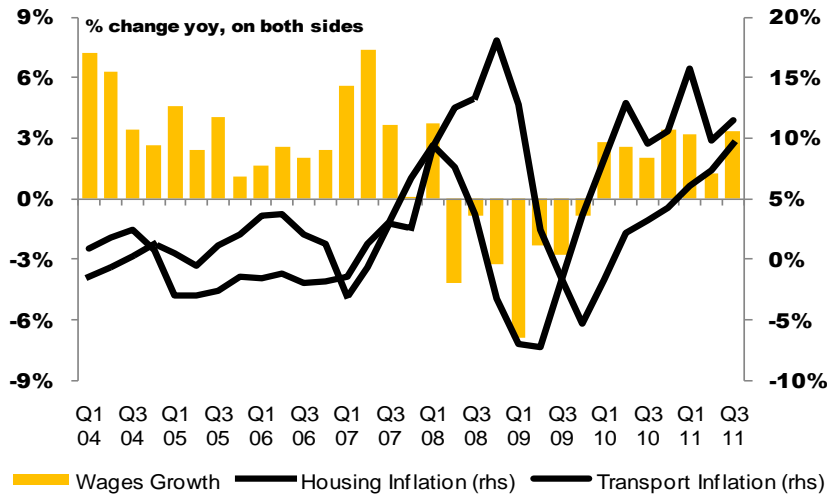
Headline and Core Inflation



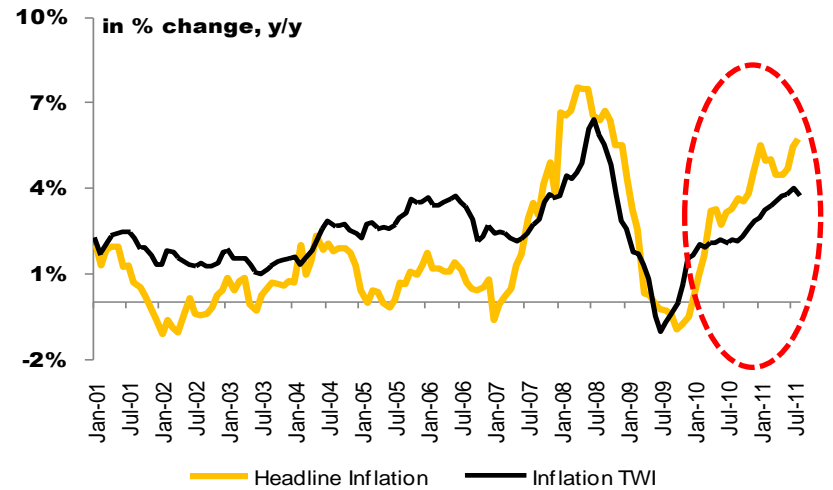
Key Components



Wages Growth Fueling Domestic Inflation?



Maybank's TWI Inflation – Domestic Drivers Remain



Source: Maybank FX Research, CEIC

Will Unemployment Rate Still Remain Tight?

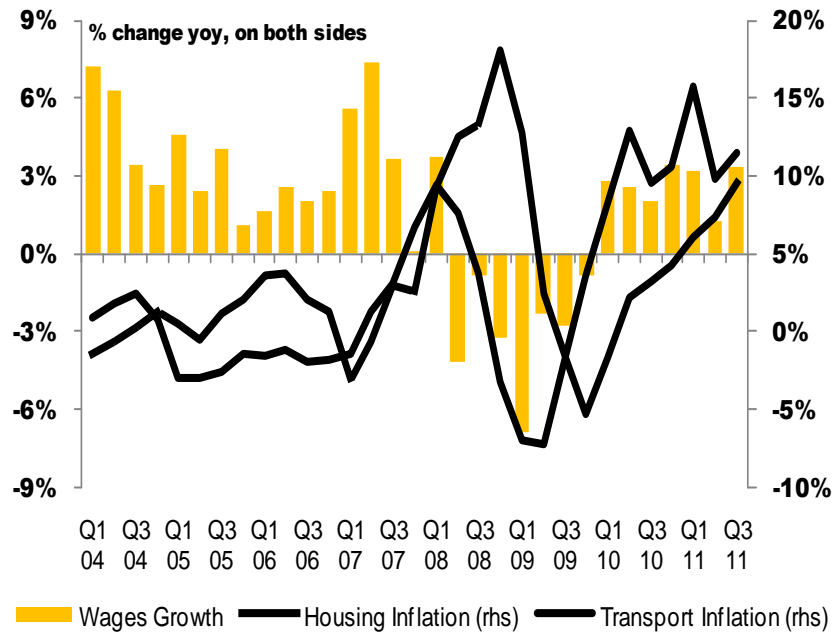


Singapore Overall and Resident Unemployment Rate



Source: Maybank FX Research, CEIC

Wages Growth Fueling Domestic Inflation?

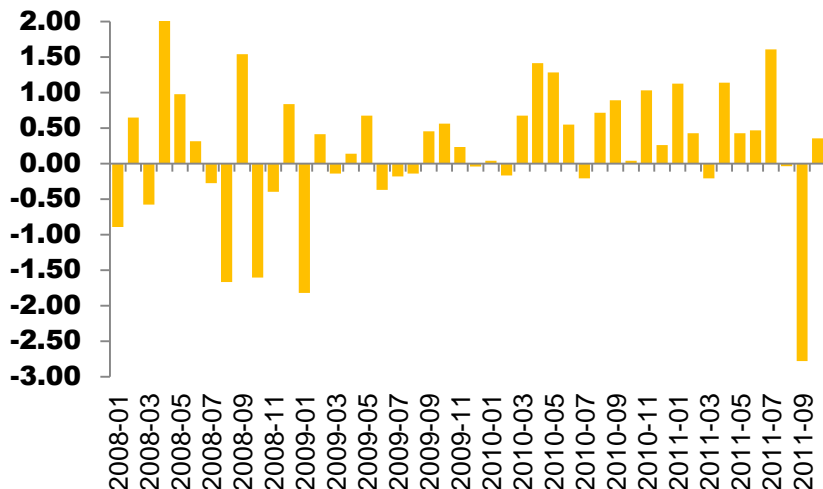


Source: Maybank FX Research, CEIC

Domestic Monetary Conditions Remains Conducive



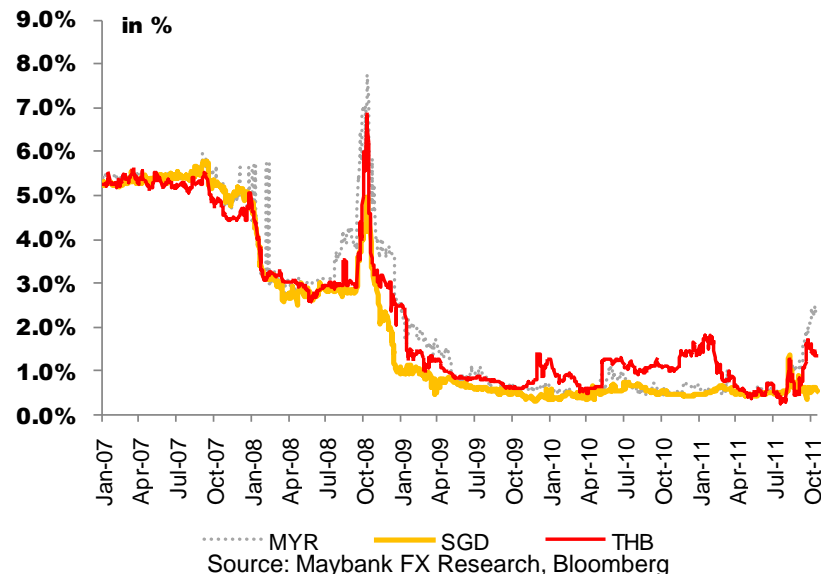
Singapore Monetary Condition Index



Source: Maybank FX Research, BIS

- From Jan to early Aug 2011, our Singapore MCI was more positive as overall tight liquidity conditions remained in tandem with the modest and gradual appreciation of the SGD NEER. In mid-Aug, there was a sharp drop in our Singapore MCI that were almost entirely driven by the exchange rate component over this period, as the 3M SIBOR rate was quite stable at about 0.44% but fell to 0.31% in August. Liquidity has since then improved slightly as the sharp drop in the SGD NEER has somewhat eased back to its mid-point.

USD Onshore Dollar Funding



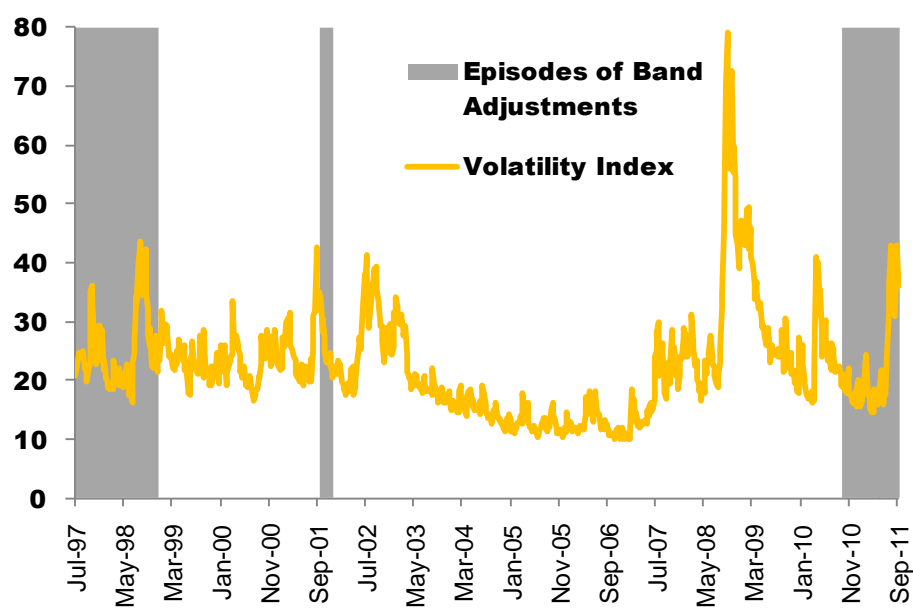
Source: Maybank FX Research, Bloomberg

- Onshore dollar funding stress did not look that obvious in Singapore due to its nature of a relatively deeper financial market as well as a function of its exchange-rate centric policy, which may imply the dollar turnover would be higher in the city-state compared to its regional peers.

Singapore: A Quest for Optimal Policy in Volatile Markets

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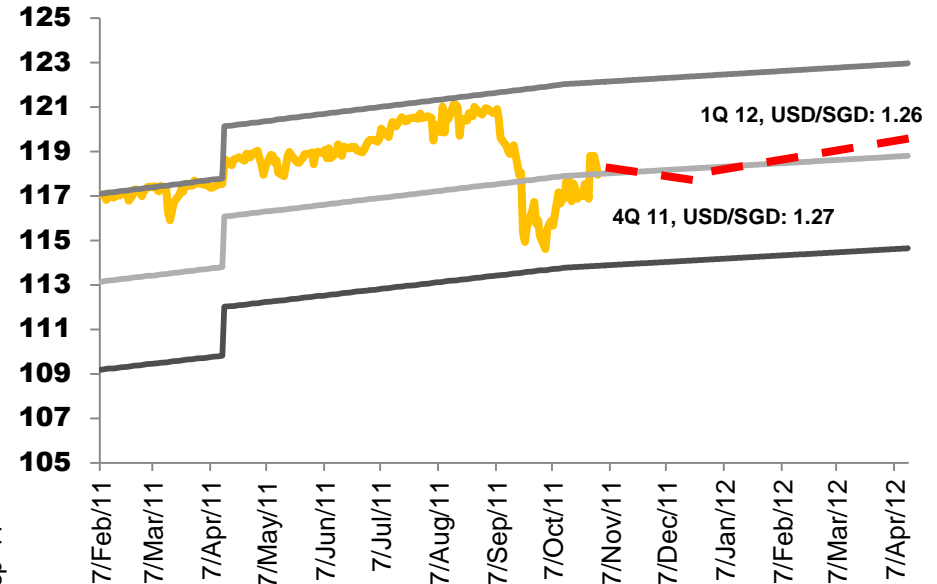
Wider Bands May Stay for Awhile



Source: Maybank FX Research, Bloomberg

- Band adjustment has been congruent with high volatility periods. During the Asian Financial Crisis, it took 18mths to reverse the band widening, whilst during Sep 11 it took 4 months. The current band widening (since Oct 2010) has not been reversed until now. Given historical precedence, the band widening may last as long, if not longer than 18 months.

Maybank SGD NEER Policy Outlook



Source: Maybank FX Research, Bloomberg

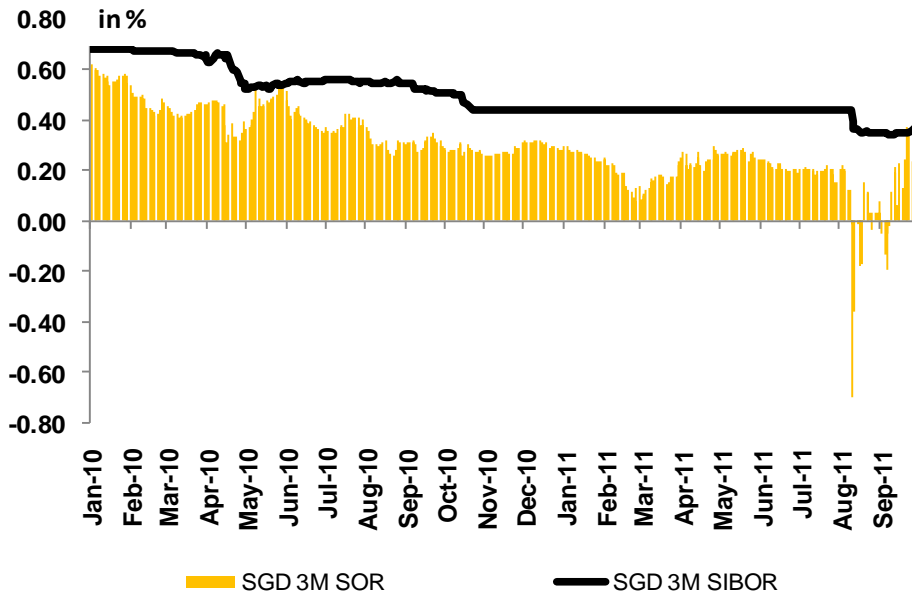
- A slowdown in the external economy may happen but not sharp. Essentially the parameter of importance in current times is the bandwidth - to allow for the already wide band to absorb some of the uncertainty going forward. The moderation in the S\$NEER appreciation signals the need to address growth downside risks. We think the major risks will be market related black swan events on the back of much weaker than expected Eurozone economy and food price pressures in the near term.



SGD Interest Rates: Where do We Go from Here?



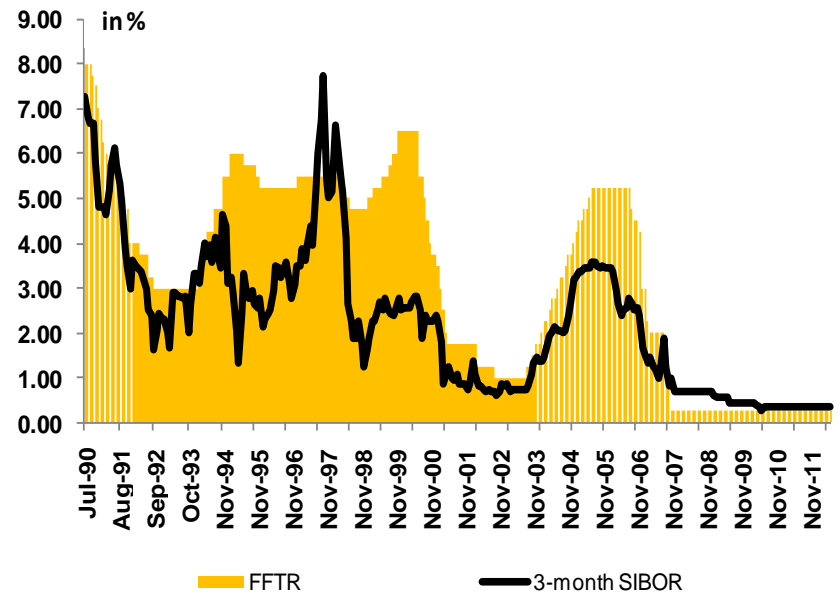
(Dis)-Correlation between SIBOR and SOR



Source: Maybank FX Research, Bloomberg

- SIBOR and SOR tend to correlate closely but the recent break indicates a more complex situation between any period of persistent dollar weakness and tight liquidity condition in the global and domestic financial markets.
- The recent negative turn of the SOR has caused jitters that the market is positioning heavily for SGD in light of the US losing its AAA rating and given Singapore's relatively sound economic fundamental as well as exchange rate policy that allows for gradual but modest appreciation of the Singapore dollar against its basket of currencies.

Low Rates could Stay Until the Unwinding of ZIRP Policy



Source: Maybank FX Research, Bloomberg

- Nevertheless, the MAS has recently said that its current policy stance of modest and gradual appreciation of the SGD NEER remains appropriate and that the MAS "has no need to undertake any extraordinary measures" in light of the recent negative turn in Singapore SOR.
- Historical precedence dictates a close relationship between SGD rates and the US rates. Thus, while the low rates have probably reach the bottom, it could stay low until mid-2013, barring any unforeseen shocks in the domestic liquidity conditions.

Baumol-Bowen Effect: Tradables Labour Prod. Historically Higher

Labour productivity higher in tradables sector

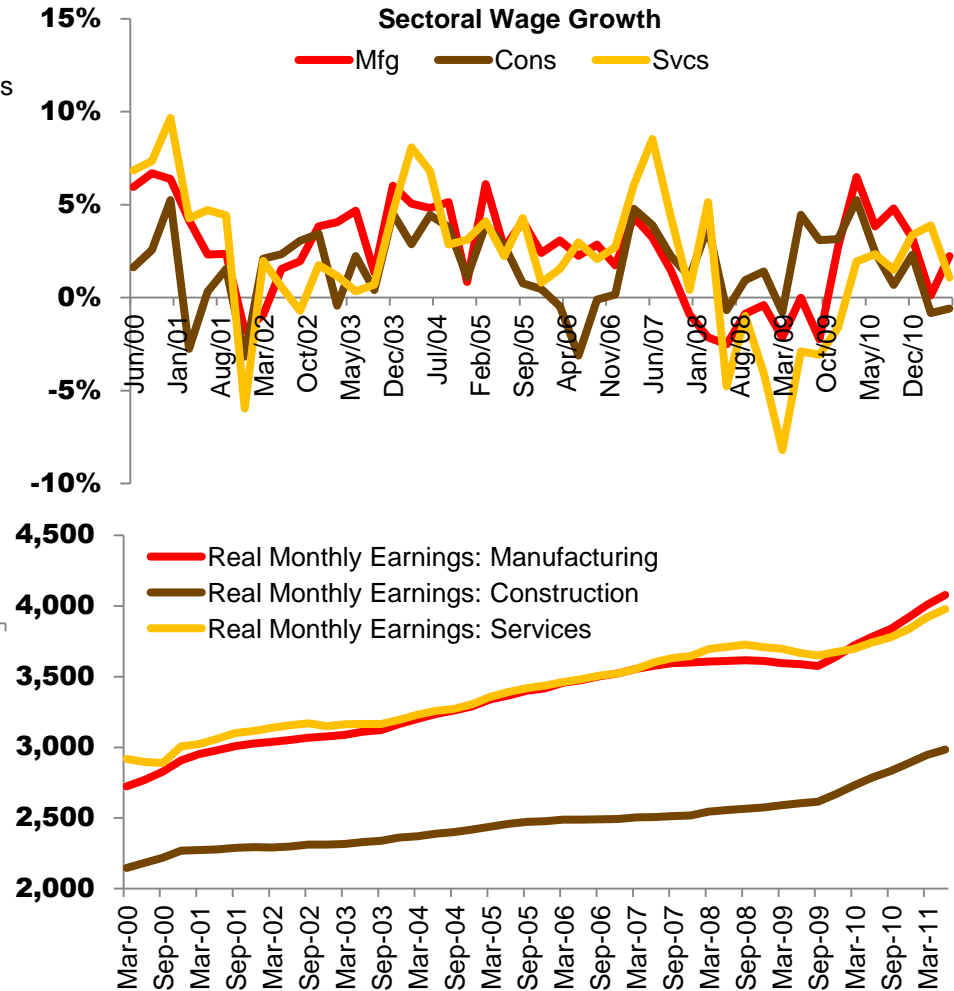


Tradables: Manufacturing, Wholesale & Retail Trade, Transport & Storage

Non-Tradables: Construction, Utilities, Others Hotels & Rest, Info & Comm, Fin, Business & Other Services

Source: Maybank FX Research estimates, CEIC

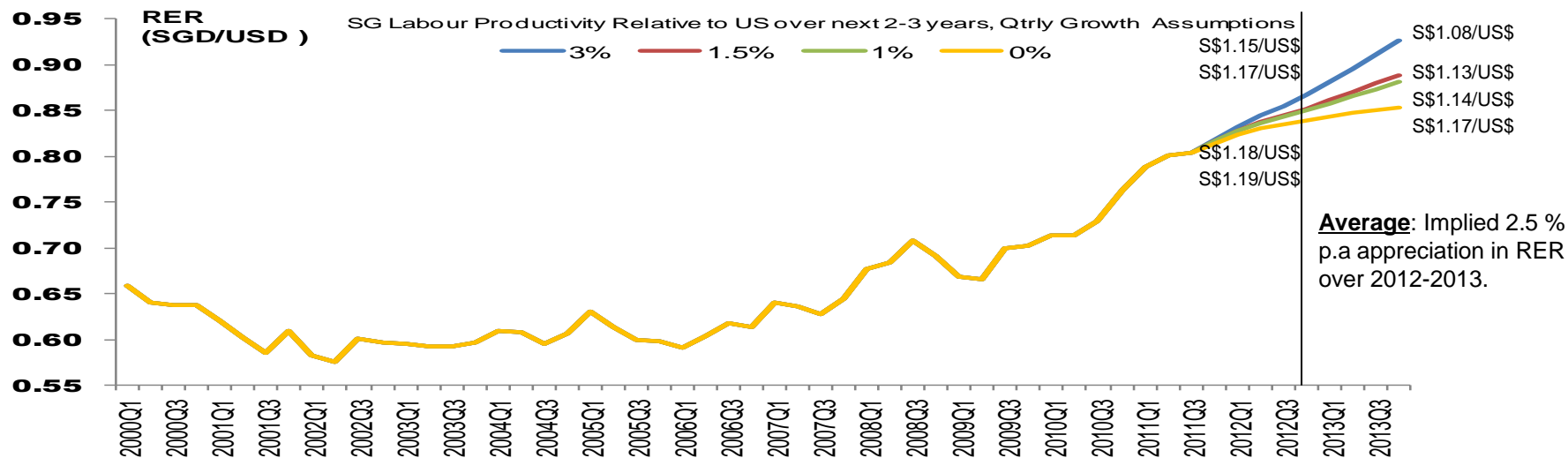
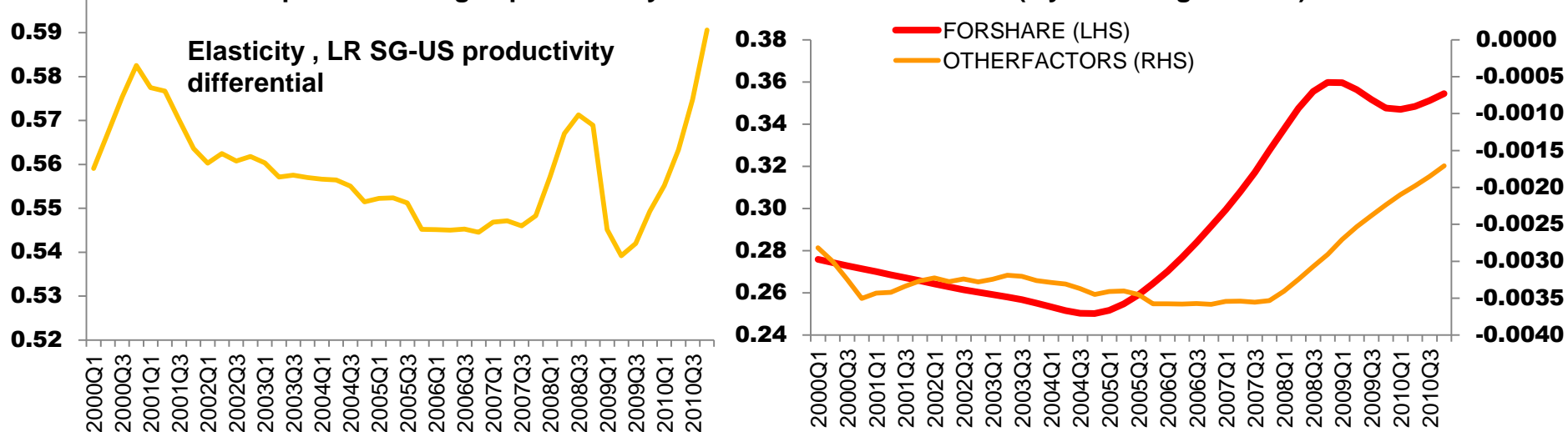
Wage growth similar across sectors consistent with B-S effect



Medium-Term: Implied S\$/US\$ RER appreciation using B-S framework – at least 2-2.5% p.a. next 2 years. Domestic Cost Pressures Remain?



Impact of 1% chg in productivity differential on S\$/US\$ RER (5 year rolling window)



Source: Maybank FX Research estimates, CEIC

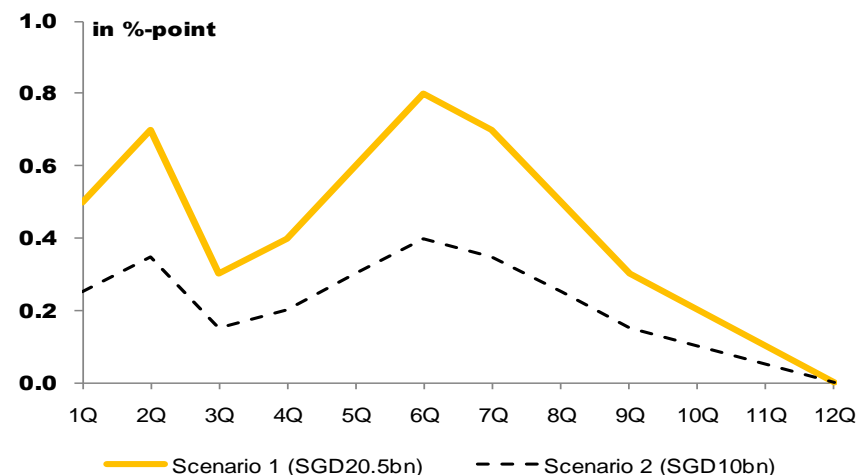
Fiscal Multiplier Have Fallen in Recent Years

Fiscal Multiplier



Source: Maybank FX Research estimates.

Hypothetical Simulation on Fiscal Stimulus



➤ A re-introduction of the SGD20.5bn stimulus, if really necessary, could take a boost on growth trajectory as projected above.

➤ This time round global growth circumstances different from 2008-2009 and domestic labour market situation remains tight compared to 2008-2009. Job creation might not be affected as much as before but wage growth may still be restrained.

Possible fiscal measures need to address longer term issues rather than solely to boost growth.

- (1) **Longer term 'bang for the buck' direct fiscal expenditure** – main objectives for future – immigration, health, education, transport – i.e. quality infant care, childcare and eldercare/long-term care, continued education subsidies government consumption expenditure for childcare education providers.
- (2) **Enhance microeconomic efficiency (crowding-in effects)** – Enhancing competition, job employer matching, gradually downsize GLC involvement, enhanced SME financing schemes for micro-businesses, start-ups and sole proprietors.
- (3) **Strengthen social compact/cohesion** – Enhance workfare schemes (i.e. cash rather than CPF), explore unemployment insurance and re-employment bonuses to reduce income inequality and soften blow of future downturns without creating moral hazard issues.

Explore new funding inflows – possibly re-look at utilizing land sales receipts - re-distribute land sales receipts as part of ad-hoc transfers rather than usual 'structural' transfer approach.

Summary

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- Economic and financial market outlook remains uncertain.
- Near-term balance of risk shifting from inflation to growth.
- But, medium term concerns - “cascading effect” of “expected” new normal domestic policy changes (i.e. changes to foreign worker inflows, etc), expected higher labour productivity growth and eventual upward wage adjustments, may exacerbate already existing expectations of a rise in the real exchange rate under Balassa-Samuelson (B-S) theorem.
- Evidence of the Baumol-Bowen effect – productivity differentials between tradables and non-tradables in line with similar wage patterns in both sectors. Our estimates supports the B-S proposition that there is a strong positive link between the real exchange rate and productivity differential. In addition, our estimates suggest, a recent marginal increase in the productivity differential effects on the real exchange rate and thus raise concerns about domestic cost pressures in the medium term.
- At the same time global inflation rates remain high and unlikely for Singaporeans to accept the average inflation rate of trading partners in the “new normal” environment, if S\$NEER is kept flat. Still argues for the need to have exchange rate policy and a trend appreciation of the S\$NEER, given expected medium term scenario.
- Key focus should be made on policy coordination/calibration between manpower/wage policies, monetary and fiscal policies. The latter should be aimed at “fiscal measures with lower leakage” to significantly help enhance social compact in the long term as well as infrastructure projects to boost capital stock and facilitate private sector investment leading to capacity expansion.



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