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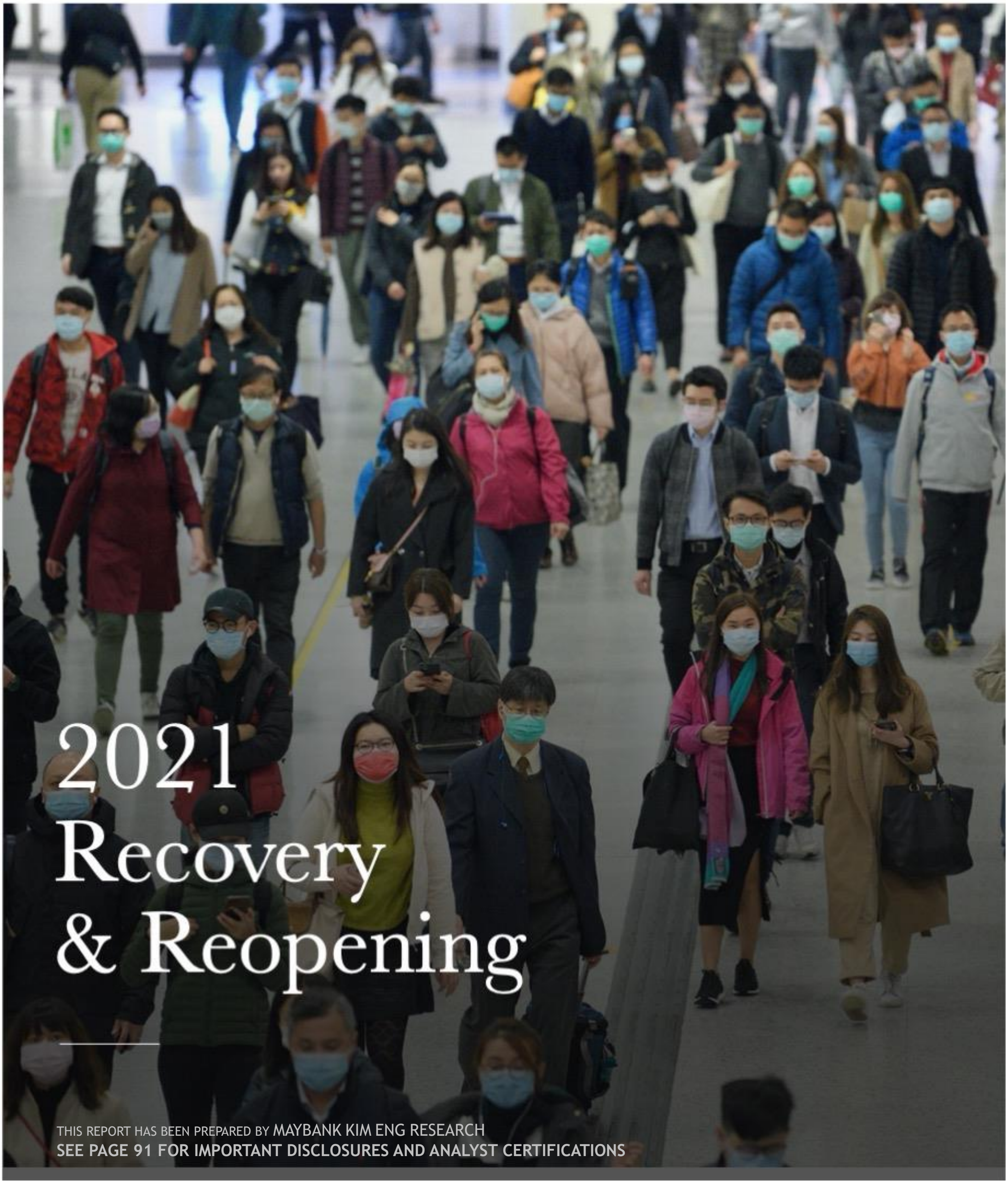

2021 Recovery & Reopening

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SEE PAGE 91 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

2021: Recovery and Reopening

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After the worst recession since the Great Depression, the global economy is on track for a healthy recovery. We forecast global real GDP rebounding by +5.1% in 2021 after contracting by 4% in 2020. A Covid vaccine has sparked optimism, but the rollout and impact will be uneven across the world. Global monetary conditions will remain accommodative, underpinned by near zero interest rates and QE polices in the advanced economies.

ASEAN-6 real GDP is projected to expand by +5.3% in 2021 and +5% in 2022, after contracting -3.8% in 2020. The recovery will be more U-shaped than V, with real GDP returning to pre-pandemic levels only in early 2022 for most of ASEAN, except Vietnam and Indonesia. Significant easing of lockdowns and border controls can only materialise in mid-2021 when vaccines are widely available. ASEAN central banks will maintain their easy stance and record-low policy rates, while fiscal support will be extended, albeit tapered, into the first half of 2021.

The vaccine rollout will reflect a DM-EM rich-poor divide. The US will likely achieve herd immunity by late 3Q. But herd immunity is likely only in 4Q 2021 for Singapore, Malaysia and Thailand; the first half of 2022 for Indonesia, Philippines and Vietnam; and late 2022 for the poorer CLMV countries. Seroprevalence is low across ASEAN and a high vaccine coverage ratio of at least 65% of the population is required for herd immunity.

Rate strategist Winson sees ample room for upward repricing in US yields and a steeper curve. He forecasts 10-year US yield climbing to 1.25% by end-2021. He is bullish on China bonds, neutral on Indonesia, and bearish on Singapore and Malaysia. The MGS outlook is clouded by a heavy supply profile, demand headwinds and the tail-end of a rate cut cycle.

FX strategist Saktiandi maintains his bearish US dollar view, but the pace of decline will be more modest in 2021 compared to the 10% slump since March 2020. Pro cyclical currencies, including the AUD, NZD, KRW, CNH and SGD, will benefit from the global growth recovery. Asia is home to some of the highest carry, with INR, IDR, MYR and CNH the preferred FX carry plays.

When markets are overwhelmingly bullish on a recovery trade, it pays to take heed of what could go wrong. Rollout of vaccines and herd immunity could be delayed due to safety and supply chain issues and slow adoption, hampering a smooth reopening. Markets may be disappointed if US-China trade tensions do not ease, or on the contrary worsen, under a Biden administration. Premature withdrawal of fiscal support, given a divided US Congress, could short circuit the global recovery. And questions remain about the longer-term scarring effects from the pandemic. A huge debt overhang, weak jobs recovery and permanently stricter border controls could lead to secular stagnation in the post-pandemic era. A lesson from the pandemic: prepare for the unexpected and a wide range of possible outcomes.

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On track for recovery as recession shallowing, albeit unevenly

We estimated global real GDP posted a smaller -3.5% YoY decline in 3Q 2020 vs the -10.0% YoY drop in 2Q 2020, setting the stage for eventual recovery of +5.1% in 2021 (2020E: -4.0%). Shallowing recession in 2020 and recovery in 2021 is driven essentially by US and China, amid some loss of momentum in Europe and slow pick-ups in East Asia ex China as the world is going through the third wave of COVID-19 pandemic that stalled the easing of – and triggered new rounds of - restrictions and lockdowns, and caused delays in recovery efforts e.g. Singapore-Hong Kong air travel bubble plan.

Monetary & fiscal stimuli stay

Global monetary policy conditions will stay accommodative, underpinned by continued zero-bound/negative interest rate and QE policies in major advanced economies, with ASEAN's benchmark interest rates remaining at current record-low levels throughout 2021 plus another 25bps cut in Indonesia's policy rate. Many fiscal support and relief measures in 2020 are extended to 2021 to provide income support to the hardest hit and most vulnerable segments of the society, protect and create jobs, and assist micro-enterprises and SMEs.

COVID-19 vaccine an additional stimulus

There are encouraging news flows on COVID-19 vaccines. At the time of writing, Pfizer-BioNTech's vaccine has been approved by UK and Bahrain, and together with Moderna's vaccine, are pending US and European approval expected in 2H Dec 2020. WHO is also expected to approve at least one vaccine by end-2020.

Caveats and Wildcards

While the positive news flows on COVID-19 vaccines raise the odds in containing the pandemic, there are caveats. High effectiveness rate reported under clinical trials can still fall short in the real world. There are also logistical challenges, especially the cold chain distribution and storage, on top of the healthcare infrastructure and capacity issues in the less developed and poorer regions/countries. Unequal distribution of COVID-19 vaccines is also a risk. Of the latest estimated global demand of 9.2b doses, 34% or 3.1b is for a handful of major developed economies i.e. EU, US, UK, Japan and Canada with doses-to-population ratio of 3.1. India takes another 2.2b doses or 22%, implying doses-to-population ratio of 1.6. This leave 3.8b doses (include 2b doses for WHO's COVAX Programme) for the rest of the world i.e. doses-to-population ratio of 0.7. This can further contribute to our earlier-mentioned issue of uneven global economic recovery.

Meanwhile, the pandemic's economic "scarring effect" may well be masked and delayed by the stimulus measure, and we believe highlighting this risk is the observed tightening in banks' lending/credit standards. Policy and political risks in – and between - major economies are also in our lookout lists, namely US political and policy gridlocks, US-China relations and the possibility of "Hard Brexit" in 2021.

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1. Global economy on track for recovery as recession “shallowed” in 3Q 2020

Global real GDP is expected to rebound by +5.1% in 2021 after the estimated -4.0% contraction in 2020. The outlook is on track, supported by the “shallowing” of global recession between 2Q 2020 and 3Q 2020. Our preliminary estimate is global real GDP posted a smaller -3.5% YoY decline in 3Q 2020 vs the -10.0% YoY drop in 2Q 2020. US, Europe, Japan, Brazil, India, Asian NIEs and ASEAN recorded smaller GDP contractions in 3Q 2020 vs 2Q 2020 as Taiwan and Vietnam rebounded in 3Q 2020, while China’s recovery since 2Q 2020 strengthened in 3Q 2020 (Fig 1).

Fig 1: Global Real GDP

% YoY	1Q 2020	2Q 2020	3Q 2020	2019	2020 YTD	2020E	2021E
WORLD	**(2.1)**	**(10.0)**	**(3.5)**	**2.8**	**(5.2)**	**(4.0)**	**5.1**
Major Advanced Economies	**(1.1)**	**(11.8)**	**(4.0)**	**1.7**	**(5.6)**	**(5.7)**	**4.2**
US	0.6	(9.0)	(2.7)	2.2	(3.7)	(4.0)	3.7
Eurozone	(3.3)	(14.8)	(4.3)	1.3	(7.5)	(7.7)	5.2
Japan	(1.8)	(10.2)	(5.8)	0.7	(5.9)	(5.4)	2.3
UK	(1.7)	(21.5)	(9.6)	1.5	(10.9)	(10.6)	6.4
BRIC	**(4.2)**	**(2.6)**		**5.0**	**(3.4)**	**(0.6)**	**7.1**
Brazil	(0.3)	(10.9)	(3.9)	1.1	(5.0)	(5.3)	3.5
Russia	1.6	(8.5)		1.3	(3.5)	(4.1)	3.0
India	3.1	(23.9)	(7.5)	4.2	(9.4)	(8.4)	8.4
China	(6.8)	3.2	4.9	6.1	0.4	1.9	7.7
Asian NIEs	**0.1**	**(4.4)**	**(1.1)**	**1.6**	**(1.8)**	**(2.1)**	**3.5**
South Korea	1.4	(2.7)	(1.1)	2.0	(0.8)	(1.3)	3.1
Taiwan	2.2	(0.6)	3.3	2.7	1.6	0.8	3.4
Hong Kong	(9.1)	(9.0)	(3.5)	(1.2)	(7.2)	(6.8)	4.3
Singapore	(0.3)	(13.3)	(5.8)	0.7	(6.5)	(5.7)	4.5
ASEAN-6	**1.1**	**(9.6)**	**(4.5)**	**4.3**	**(4.4)**	**(3.8)**	**5.3**
ASEAN-5	**1.3**	**(9.1)**	**(4.3)**	**4.8**	**(4.1)**	**(3.4)**	**5.5**
Indonesia	3.0	(5.3)	(3.5)	5.0	(1.9)	(1.8)	5.3
Thailand	(2.0)	(12.1)	(6.4)	2.4	(6.8)	(6.2)	5.0
Malaysia	0.7	(17.1)	(2.7)	4.3	(6.4)	(5.4)	5.1
Philippines	(0.7)	(16.9)	(11.5)	6.0	(10.0)	(7.8)	5.8
Vietnam	3.7	0.4	2.6	7.0	2.2	2.9	6.8

Sources: Bloomberg & CEIC (1Q 2020 - 3Q 2020); Maybank Kim Eng (World’s quarterly & annual; ASEAN-6’s 2020-2021); Average of Consensus and IMF World Economic Outlook Oct 2020 for 2019-2021 for others

2. Third wave of global COVID-19 pandemic

However, the global recovery process is uneven. Details of the Global Composite Purchasing Managers Index (PMI, Fig 2) that tracks global manufacturing and services activities which make up three-quarter of global GDP show a mix of sustained expansions in US, China, Brazil and Australia; turnaround in India; notable loss of momentum in Europe and Russia; and slow pick-ups in East Asia ex-China.

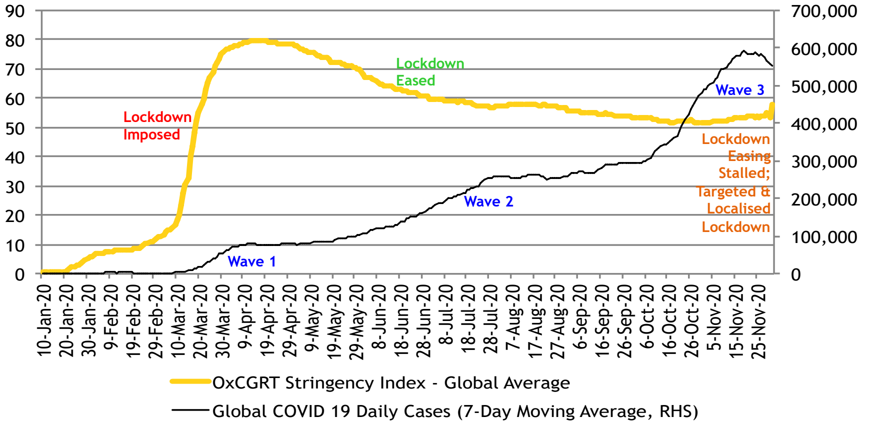
Reflecting the third wave of global COVID-19 pandemic. The global COVID-19 pandemic curve has never flattened. It only plateaued, followed by new wave. We are on the third wave following renewed surges of infections in major and large emerging economies e.g. US, Europe, Japan, Russia, Brazil and Turkey, as well as regional economies e.g. South Korea, Hong Kong, Indonesia and Malaysia, that stalled the easing of - and triggered new rounds of - restrictions and lockdowns (Fig 3), and caused delays in recovery efforts e.g. Singapore-Hong Kong air travel bubble plan.

Fig 2: Global Composite PMI

	4Q 2019	1Q 2020	2Q 2020	3Q 2020	Oct-Nov 2020
Global	**51.2**	**45.8**	**36.8**	**52.0**	**53.2**
US	51.9	47.9	37.3	53.1	56.0
China	52.6	42.0	52.6	54.7	56.6
Japan	49.2	44.4	31.5	45.6	47.2
Eurozone	50.7	44.2	31.3	52.4	49.9
Germany	49.5	45.6	32.2	54.8	53.4
France	52.2	44.0	31.6	52.5	44.1
Italy	49.9	40.4	30.8	50.8	46.0
Spain	51.9	43.3	29.4	48.5	42.9
UK	49.5	47.4	30.5	57.5	53.4
Australia	49.8	46.2	34.2	52.8	54.2
Russia	52.7	47.7	32.6	55.9	47.5
Brazil	51.5	46.9	31.7	51.6	54.9
India	52.0	54.8	19.9	45.9	57.2
Hong Kong	40.0	38.1	43.2	45.2	49.4
Singapore	49.6	43.9	32.8	44.8	47.7
ASEAN (Manufacturing)	49.1	47.8	36.6	47.9	49.3

Source: CEIC

Fig 3: Global - COVID-19 Cases vs OxCGRT Stringency Index



Oxford COVID-19 Gov't Response Tracker (OxCGRT) Stringency Index is a composite measure of gov't lockdown measures i.e. closures of schools, workplaces and public transport; public event cancellations; stay at home requirements; restrictions on gatherings and domestic movements; international travel control. Global OxCGRT Stringency index is the simple average of 182 countries' indices.

Source: CEIC, Oxford CGRT (by University of Oxford's Blavantnik School of Government)

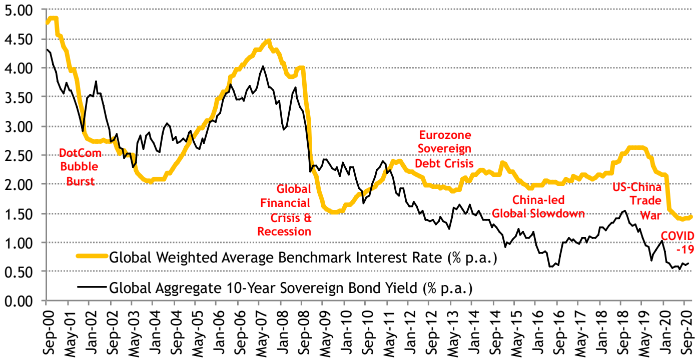
3. Global monetary & fiscal stimuli staying on

Global monetary and fiscal stimuli extended into 2021. Global monetary policy conditions will stay accommodative, underpinned by continued zero-bound/negative interest rate and quantitative easing (QE) policies in major advanced economies - US, Eurozone, Japan and UK. We also expect ASEAN's benchmark interest rates to remain at current record-low levels throughout 2021 plus another 25bps cut in Indonesia's policy rate.

At the same time, global fiscal deficit is projected to stay above the pre-pandemic level over the next 5 years after the surge in 2020. Many of the fiscal support and relief measures in 2020 are extended to 2021 to continue providing income support to the hardest hit and most vulnerable segments of the society, protecting and creating jobs, and assisting micro-enterprises and SMEs. On central banks' fiscal deficit financing, the IMF has acknowledged the case for temporary government debt monetization for countries with limited room to borrow or are vulnerable to bond market volatility as deficit spending surge due to the social and economic fallout from the COVID-19 pandemic.

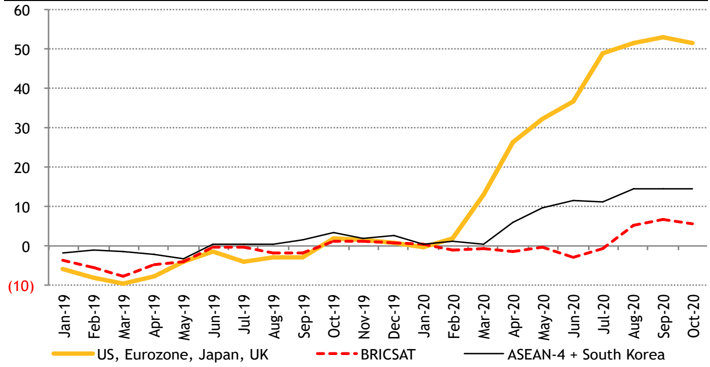
The continuation of monetary and fiscal policy stimulus are to ensure traction in the economic recovery process, and avoid unnecessary "policy cliff" from premature stimulus ending, removal or exit.

Fig 4: Global Average Interest Rates (% p.a.)



Source: Bloomberg, CEIC, Maybank Kim Eng

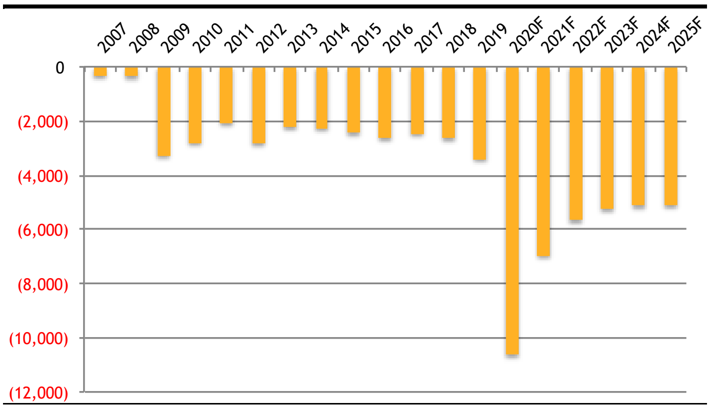
Fig 5: Central Banks' Balance Sheet (% YoY)



BRICSAT = Brazil, Russia, India, China, South Africa, Turkey; ASEAN-4 = Malaysia, Indonesia, Thailand, Phillippines

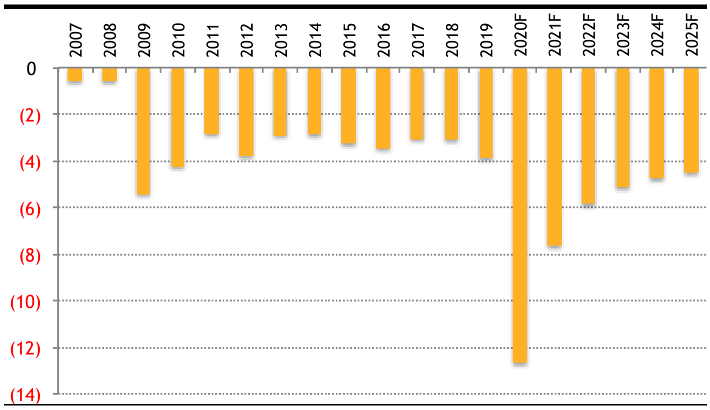
Source: IMF

Fig 6: Global Fiscal Deficit (USDb)



Source: IMF

Fig 7: Global Fiscal Deficit (% of GDP)



Source: IMF

4. COVID-19 vaccines: Additional stimulus to the global economy

Positively, there are encouraging news flows on COVID-19 vaccines. Results from Stage 3 clinical trials on vaccines developed by Pfizer-BioNTech, Moderna and Oxford University-AstraZeneca showed high effectiveness rate of 70%-95% on adults tested.

At the time of writing, Pfizer and Moderna have submitted applications for their vaccines from the authorities in US and Europe, while Pfizer's vaccine was granted emergency authorisation by the UK Government on 2 Dec 2020, which will see these vaccines being available there as soon as the second week of Dec 2020 in UK and end-2020/early-2021 in US and Europe. To note, Pfizer-BioNTech's vaccine in the UK will be for people over the age of 16 years old, prioritising vaccinations for the most vulnerable populations, including nursing home residents, health-care workers, older adults and those with underlying health conditions. WHO is also expected to approve at least one vaccine by end-2020. Pfizer is also in the process of getting the nod for its vaccine from Japan and China, while Moderna is reportedly seeking Singapore's approval.

Global demand for the leading COVID-19 vaccines candidates is catching up with global supply (Fig 8). The latest tally on demand - based on publicly/officially announced purchase agreements - are 9.2b doses (including 2b total targeted under WHO's COVAX programme, of which 700m doses are reported in Fig 8) vs supply – based on available information - of between 8.2b and 9.8b doses.

Fig 8: Selected Leading COVID-19 Vaccines Candidates

Pharmaceutical Companies, Research Institutes	Approval, Rollout/Availability	Expected Supply in 2021 (Doses)	Confirmed/Reported Demand as of 4 Dec 2020 (Doses)
Pfizer-BioNTech (US-Germany)	• Authorised by for emergency use on 2 Dec 2020 following approval by Medicines & Healthcare products Regulatory Authority (MHRA). • Approved by Bahrain's National Health Regulatory Authority (NHRA) on 4 Dec 2020 • Pending Emergency Use Approval by US FDA (review on 10 Dec 2020) • European Medicines Agency to meet on 11 Dec 2020 to discuss criteria for emergency use and decide by 29 Dec 2020	End-2021: 1.3b	Total: 570m i.e. Europe: 200m; Japan: 120m; US: 100m; UK: 40m; Mexico: 34m; Canada: 20m; Malaysia: 12.8m; HK/Macau: 10m; Australia: 10m; NZ: 1.5m; Others: 21.7m
Moderna (US)	• Pending Emergency Use Approval by US FDA (review on 17 Dec 2020) • European Medicines Agency to decide by 12 Jan 2021	1Q 2021: 100m End-2021: 0.5b-1.0b	Total: 262m i.e. US: 100m; Europe: 80m; Japan: 50m; Canada: 20m; UK: 7m; Others: 5m
University of Oxford - AstraZeneca (UK-Sweden)	Approvals in US and Europe may be delayed due to questions raised on its trial results following the mistake of mixing half-strength and full-strength doses in the samples, forcing the company to run additional trial.	2b-3b p.a.	Total: 2,964m i.e. India: 1,000m; Europe: 400m; WHO's COVAX: 300m; US: 300m; China: 200m; Latin America: 150m; Japan: 120m; UK: 100m; Brazil: 100m; Indonesia: 100m; Mexico: 77m; Australia: 34m; Canada: 20m; Others: 63m
Novavax (US)	Early-2021	Mid-2021: 2b	Total: 1,286m i.e. India: 1,000m; US: 110m; Canada: 76m; UK: 60m; Australia: 40m
Sanofi-GSK (France-UK)	1H 2021	NA	Total: 732m i.e. EU: 300m; WHO's COVAX: 200m; US: 100m; Canada: 72m; UK: 60m
Johnson&Johnson (US)	Early-2021	End-2021: 1b	Total: 368m i.e. EU: 200m; US: 100m; Canada: 38m; UK: 30m
Sinopharm (China)	UAE approved for emergency use of healthcare workers in Sep 2020	1b p.a.	Total: 223m i.e. Pakistan: 88m; Middle East: 75m; Indonesia: 60m
Sinovac Biotech (China)	Approved for emergency use in China in July 2020	300m p.a.	Total: 166m i.e. Turkey: 50m; Indonesia: 50m; Brazil: 46m; Others: 20m
CanSino Biologics (China)	Approved for limited use by China military in June 2020	100m-200m p.a.	Total: 50m i.e. Mexico: 35m; Indonesia: 15m
Gamaleya Research Institute i.e. Sputnik V (Russia)	Approved for use in Russia in Aug 2020, and start of mass vaccination in Moscow 5 Dec 2020	NA	Total: 698m; India: 200m; Russia: 160m; Brazil: 100m; Mexico: 64m; Others: 176m
Others - CureVac (Germany-Netherlands), UBI Group, Valneva, University of Queensland (Australia)	NA	NA	Total 538m i.e. EU: 225m; WHO's COVAX: 200m; UK: 60m; Australia: 52m; Others: 2m

Source: Bloomberg, Media Reports

5. Caveats and Wildcards

COVID-19 vaccines - beyond the positive headlines. While the positive news flows on COVID-19 vaccines raise the odds in containing – even potentially ending – the pandemic, we are mindful of the caveats.

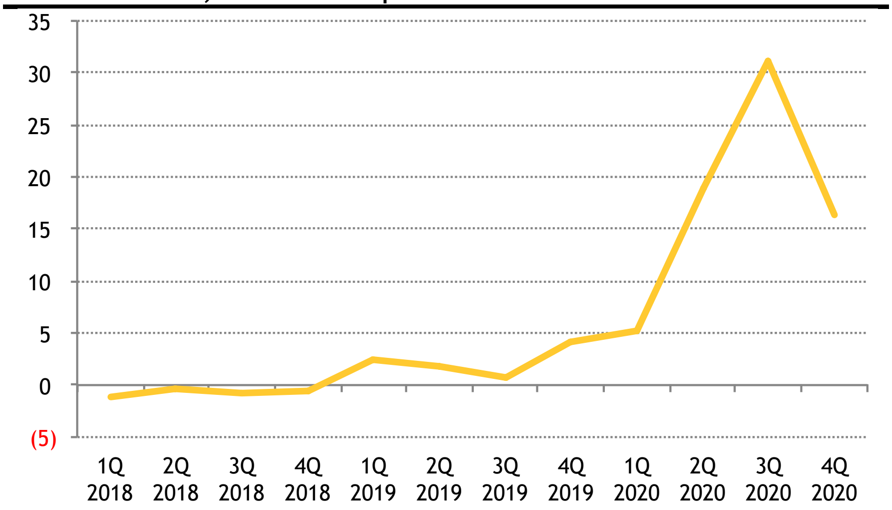
The high effectiveness rate reported for the leading vaccine candidates under clinical trials can still fall short in the real world, with potential and unexpected side effects not detected under trials. In fact, to us, the emergency use approval is tantamount to extending the clinical trials into the real world. Hence, the approval process in some countries will also include their own clinical testing to carefully select and approve vaccines.

There are also logistical challenges, especially the cold chain distribution and storage as Pfizer-BioNTech and Moderna vaccines require ultra-cold storage of -70C and -20C respectively, although other leading vaccine candidates can be stored at regular fridge temperatures. This is on top of the more basic healthcare infrastructure and capacity issues in the less developed and poorer regions/countries.

There is the risk of unequal distribution of COVID-19 vaccines. We noted that of the above estimated global demand of 9.2b doses, 34% or 3.1b is for a handful of major developed economies i.e. EU, US, UK, Japan and Canada with doses-to-population ratio of 3.1. India takes another 2.2b doses or 24%, implying doses-to-population ratio of 1.6. This leave 3.8b doses for the rest of the world (i.e. doses-to-population ratio of 0.7), which include 2b under WHO's COVAX programme that involves 184 countries i.e. the main conduit for low- and middle-income economies to obtain COVID vaccines. This can further contribute to our earlier-mentioned issue of uneven global economic recovery.

Risk of "scarring effect". We remain wary of the social and economic "scarring effect" of COVID-19 pandemic, especially in terms of the job market, incomes of workers and businesses, and the prospect for SMEs and hard-hit sectors and industries, especially services such as tourism, travel, aviation, retail and F&B. Present monetary, fiscal and economic stimuli may be masking and delaying the true and full impact. We believe highlighting this risk is the observed tightening in banks' lending/credit standards (Fig 9) from the surveys by US Federal Reserve, European Central Bank and Bank of Japan (BoJ).

Fig 9: Average of the Net Percentage of Banks Tightening Credit Standards on All Loans in US, Eurozone & Japan



Source: US Federal Reserve, ECB, BoJ

Policy and politics in – and between - major economies. The US Presidential election on 3 Nov 2020 ended with lingering "overhang" i.e. Joe Biden declared as the winner, supported by outcome of recounts and confirmation from electoral votes, as well as the rejections of election frauds claims by Donald Trump who has yet to officially concede. At the same time, the US Congress remained split with Democrats leading in the House of Representatives and Republicans leading in the Senate. The situation elevates “policy gridlock” risk in US that has seen delay in coming up with additional fiscal stimulus package that is called for – and urged - by US Federal Reserve, as well as raising doubts on the implementation of Biden’s expansive and expensive policy agenda on infrastructure, healthcare and green energy that is proposed to be partly funded by effectively reversing Trump’s income tax cuts for businesses and the wealthy.

Eyes will also be on US-China relationship going forward under Biden Presidency. At this juncture, we see status quo rather than any material re-escalation or de-escalation in US-China geo-strategic competition, as we expect Biden Administration to focus more on domestic issues such as dealing with the pandemic and fostering economic recovery in 2021.

Meanwhile, “political and policy cliff” is brewing in Europe given the stalemate in UK-EU talks on the post-Brexit trade deal ahead of the end-2020 deadline of the Brexit transition period, raising the possibility of “Hard Brexit” i.e. UK exiting EU with no trade deal.

Economics

ASEAN

ASEAN Economics

Herd Immunity & Escape Velocity

A U-Shaped Recovery

We forecast ASEAN-6 real GDP growth recovering to +5.3% in 2021 and +5% in 2022 after contracting -3.8% in 2020. The recovery will be more U-shaped than V for most of ASEAN, with real GDP returning to pre-pandemic levels only in early 2022. Vietnam and Indonesia are the exceptions. Significant easing of lockdowns and border controls can only materialize in mid-2021 when vaccines are widely available. In contrast to past recessions, the GDP recovery will be driven more by services rather than manufacturing and exports.

Herd Immunity Only From 4Q 2021

Herd immunity is likely only in 4Q 2021 for Singapore, Malaysia and Thailand; first half of 2022 for Indonesia, Philippines, Vietnam; and late 2022 for the rest of CLMV. The US is projected to achieve herd immunity by 3Q 2021. Seroprevalence (share of population with antibodies) is low across ASEAN, suggesting that a high vaccine coverage ratio of at least 65%-70% is required for herd immunity. Recent ASEAN vaccine purchases can cover only 20%-45% of the population. For large domestic markets (Indonesia, Philippines), the vaccine is a game-changer given high infection rates, allowing the easing of lockdowns. For more open economies dependent on people flows (Singapore, Thailand), the benefits will materialize later as border controls will not be loosened as quickly.

Easy Monetary Policy, Extended Fiscal Support

ASEAN central banks will maintain their accommodative monetary policies and record-low policy rates. We expect further policy rate cuts only in Indonesia (-25bps). Inflation may pick up slightly but remain at the lower end of central bank target range and comfort zones. We forecast ASEAN-6 inflation to average +2.1% in 2021, up modestly from +1.2% in 2020. Governments will likely extend fiscal support and loan moratorium schemes, albeit tapered and more targeted, in the first half of 2021.

Adjusting to Post-Pandemic Normal

We identify eight structural shifts, some of which were already in train but which the pandemic accelerated: (1) Digitalization and adoption of technological solutions; (2) Higher proportion of permanent “work from home”; (3) Changed future of air travel as strict border controls persist; (4) Self-sufficiency drive; (5) Diversification and reconfiguration of manufacturing supply chains away from China; (6) Broadening of social safety nets; (7) Expanded government size and role; (8) Greater central bank monetization and financing of fiscal deficits.

Risks: Delayed Vaccine Rollout, US-China Trade War

Risk #1 Vaccine rollout and herd immunity delayed due to safety and supply chain issues, slow adoption and short duration of immunity. Risk #2 US-China trade war worsens under a Biden administration. Risk #3 Debt overhang, weak job recovery & permanent border controls result in secular stagnation. Risk #4 Premature withdrawal of fiscal support.

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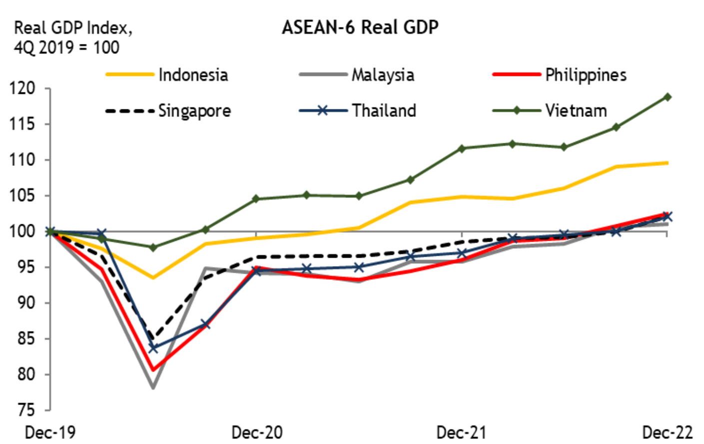
1. A U-Shaped GDP Recovery

We forecast ASEAN-6 real GDP growth recovering to +5.3% in 2021 and +5% in 2022 after contracting -3.8% in 2020. The recovery will be more U-shaped than V for most of ASEAN, with real GDP returning to pre-pandemic levels only in early 2022 (see Fig 10). Vietnam and Indonesia are exceptions. Vietnam did not slip into recession, while Indonesia did not impose strict lockdowns despite high Covid-19 cases. The winter Covid wave in the US and Europe is already threatening to stall the global growth recovery. The faltering momentum will likely impact first quarter 2021 GDP growth. Tapering of fiscal support programs, particularly in the US, will also dampen the recovery.

In contrast to past recessions, the recovery in 2020 will be driven more by services rather than manufacturing and exports. Normalization of services activities may not be as strong as it is more labor-intensive and, in this case, conditional on containing the virus, and easing of social measures and border controls. Exports did not contract as sharply compared to past recessions, and on the contrary, expanded in Vietnam and Singapore as manufacturing remained resilient. Sharp V-shaped recoveries from past recession troughs were typically driven by manufacturing upswings, but the uplift next year will be more modest.

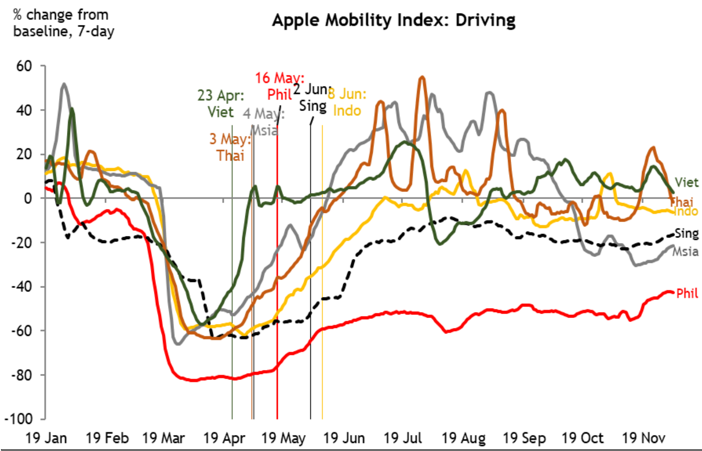
Mobility, which is highly correlated to GDP growth, has yet to normalize in most of ASEAN (see Fig 11). As of end November, mobility has returned to pre-pandemic levels only in Thailand and Vietnam, where domestic cases were controlled much earlier on. Indonesia and Malaysia, which are facing fresh outbreaks, are seeing a recent relapse in mobility. Mobility in Singapore has not fully recovered to pre-pandemic levels since the strict circuit breaker measures were implemented in 2Q. The Philippines, which imposed one of the strictest and longest lockdowns, has been struggling to flatten the pandemic curve and is facing the slowest recovery in mobility.

Fig 10: Divergent GDP Growth Trajectories



Source: CEIC, Maybank Kim Eng forecasts

Fig 11: Mobility is Suffering a Relapse in Malaysia & Indonesia



Note: Lines refer to the starting date of lockdown easing by each country. Last datapoint as of 4 December.

Source: Apple Mobility Trends Report

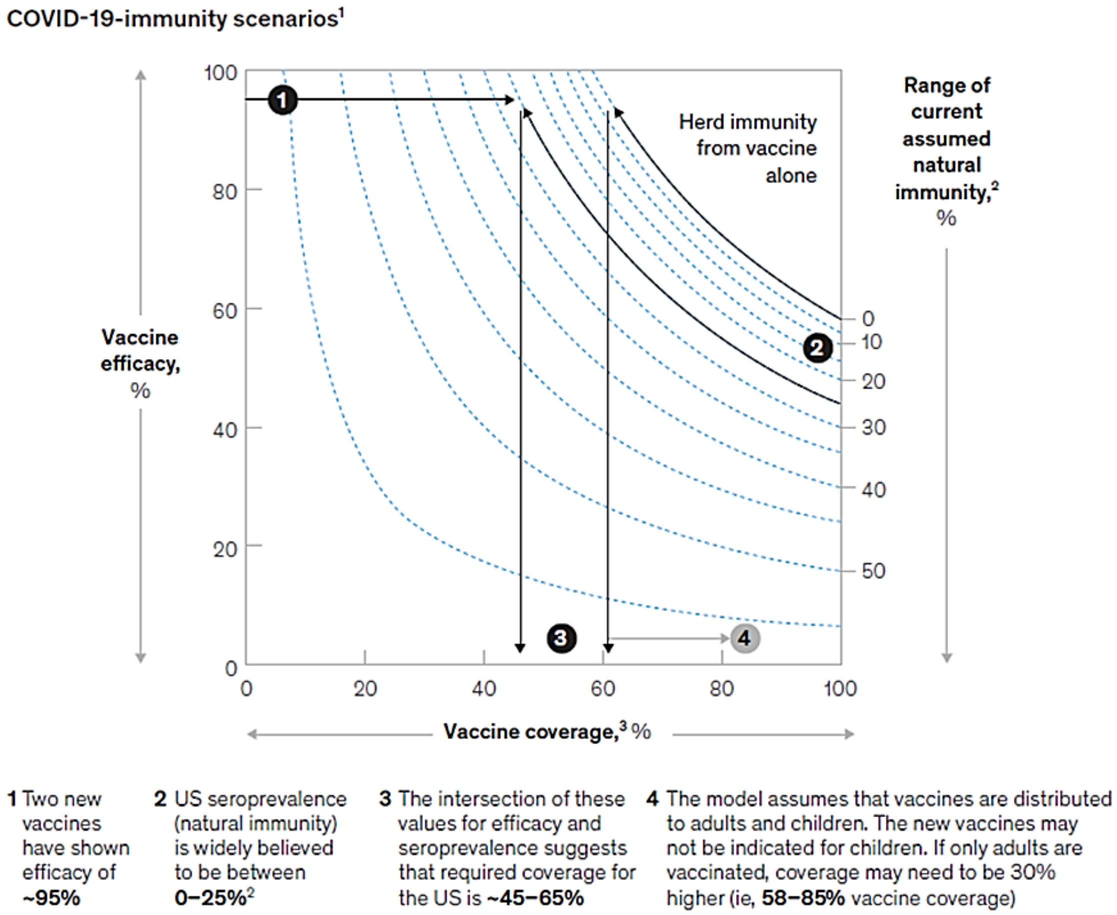
2. Herd Immunity Only from 4Q 2021

Widely available vaccines by mid-2021 will help increase mass immunity and contain the Covid-19 spread. Public health authorities have typically pointed to around 60-70% of vaccine coverage in order to reach herd immunity for Covid-19, although in reality this number could vary significantly depending on the degree on seroprevalence in the community.

Higher level of seroprevalence suggests that a higher proportion of people already have antibodies and may have been previously infected with Covid, and thus a lower coverage of vaccination is needed to achieve herd immunity. A McKinsey study estimates that around 45%-65% of the US population needs to be vaccinated, given the current levels of vaccine efficacy (~95%) and seroprevalence in US (0-25%).

Significant easing of lockdowns and border controls can only materialize in mid-2021 when vaccines are more widely available in ASEAN. Herd immunity will require coverage ratios of at least 65%, given low seroprevalence rates across ASEAN. Covid-19 cases across ASEAN is less than 1% of the population, even in Indonesia (0.21%) and the Philippines (0.4%), compared to about 4.2% for the US. Seroprevalence rates range from 0.4% in Alaska state to as high as 17% in New York state, according to the US CDC. We think seroprevalence rates are significantly below 4% for all of ASEAN, suggesting that a high vaccine coverage ratio of at least 65% is required for herd immunity. Singapore's Health Minister indicated that seroprevalence studies show the rate is less than 0.03% in Singapore[1].

Fig 12: McKinsey Study Suggests A 45%-65% Vaccine Coverage To Achieve Herd Immunity in the US



Source: McKinsey "When will the COVID-19 pandemic end? An update" (23 November 2020)

Herd immunity, which requires coverage ratio of over 65%, is likely only in 4Q 2021 for Singapore, Malaysia and Thailand; in the first half of 2022 for Indonesia, Philippines, Vietnam; and late 2022 for the poorer CLM economies. Timeline projections of US herd immunity is around late 3Q 2021, when about 230m (70% of population) is vaccinated, according to a UCSF

[1] Channel News Asia, *"Low community prevalence of COVID-19, 0.03% of people with acute respiratory infection test positive: Gan Kim Yong"*, 4 Sep 2020.

study. Each country's escape velocity will depend on the speed at which vaccines will be deployed; herd immunity is achieved; and when lockdowns and border controls can be significantly loosened.

Recent vaccine purchases by ASEAN countries can cover only about 20%-45% of their population, insufficient to reach herd immunity (see Table 1). ASEAN countries have procured vaccines from both western (Pfizer, AstraZeneca, Novavax) and Chinese (Sinovac, CanSino, Sinopharm) firms, which will be delivered from early to mid-2021. Indonesia will likely be among the first in ASEAN-6 to start inoculating their population. An initial 18 million doses of vaccines from Chinese firms are expected to be delivered by end of 2020, benefitting around 3% of the population (starting with frontline health workers).

The vaccine is a game-changer for larger domestic markets like Indonesia and Philippines given their high infection rates, allowing the easing of domestic lockdowns (see *ASEAN Economics – The Pandemic Economy: Recession & Recovery*, 18 Sep 2020). For more open economies dependent on tourism and international people flows, like Singapore and Thailand, the benefits from the vaccine will come later as border controls will not be loosened as quickly as local lockdowns and mobility restrictions. Covid-19 cases are already low in Singapore, Thailand and Vietnam, and the incremental impact on domestic mobility from a vaccine will be smaller.

Table 1: ASEAN-6 Vaccine Procurement & Implementation Timeline

	Total Confirmed Number of Doses Procured	% of Population Covered by Confirmed & Potential Doses^	Timeline of Implementation
Indonesia	**~250 million** - Sinovac: 50 million - AstraZeneca/Oxford: 100 million - Novavax: 30 million - CanSino: 15-20 million - Sinopharm: 50 million - *Covid-19 Vaccine Global Access (COVAX): Unknown amount*	46%	- Expected to receive 18 million doses of vaccines (incl. 3m from Sinovac, 15m from Sinopharm and 100k from CanSino) to vaccinate ~9m people, or 3% of population by end 2020. - Sinovac vaccine to be delivered between Nov 2020 to 1Q21. - First shipment for AstraZeneca/Oxford vaccine to be delivered by 1H 2021. - Target to vaccinate 107 million people between 16 to 59 years old (67% of population in the age group) by end 2021.
Malaysia	**~19.2 milion** - Pfizer: 12.8 million - COVAX: ~6.4 million (estimated assuming 2 doses per person)	30% (20% covered by Pfizer vaccine + 10% by vaccines procured through COVAX facility)	Pfizer to deliver 1 million doses (able to cover 500,000 people, or 1.6% of population) in the 1Q 2021, with 1.7 million, 5.8 million and 4.3 million doses in subsequent quarters.
Philippines	**52.6 million** - Sinovac: 50 million - AstraZeneca/Oxford: 2.6 million - Gamaleya "Sputnik-V": *Unknown amount* - *COVAX: Unknown amount*	24%	- Negotiating with Sinovac and Gamaleya to deliver their vaccines within 60 to 90 days after deal is signed. Earliest possible date of arrival will be 1Q 2021. - AstraZeneca/Oxford vaccine to start arriving in May-Jun 2021, with the bulk of supply likely to be delivered by end 2021/early 2022
Singapore	Duke-NUS/Arcturus Therapeutics: *Unknown amount*	N.A.	- Expected to receive first batch of the Duke-NUS/Arcturus vaccine in 1Q21. - In discussion with Pfizer and several other pharma companies to secure a portfolio of Covid-19 vaccines. - Moderna has begun seeking Health Sciences Authority (HSA)'s approval for use of its Covid-19 vaccine, with earliest possible delivery by end 2020 (if approved).
Thailand	AstraZeneca/Oxford: 26 million	18.7%	Expected to be delivered by mid 2021.
Vietnam	***50 million - 150 million (expression of interest)** - Gamaleya "Sputnik-V": 50 million to 150 million - *COVAX: Unknown amount*	*26-78%	N.A.

Note: COVAX aims to procure & supply enough vaccine doses to cover 20% of all participating countries' populations by end 2021. Indonesia, Philippines & Vietnam are among the 92 low- and middle-income countries eligible to tap onto the COVAX for access to a vaccine.

** Vietnam registered its interest to purchase between 50 million to 150 million doses of Russia's Sputnik-V vaccine in Aug 2020, but actual procurement has not been confirmed.*

^Most of the vaccines require two doses to be administered per person.

Source: Various news articles, Maybank Kim Eng estimates

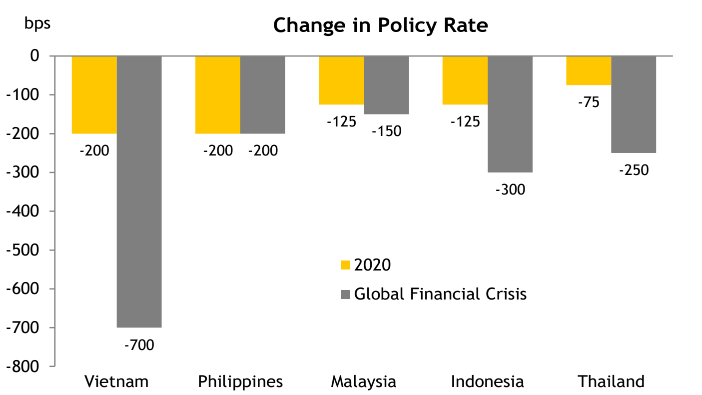
3. Easy Monetary Policy, Extended Fiscal Support

ASEAN central banks will maintain their accommodative monetary policies and record-low policy rates. In 2021, we expect one more policy rate cut only in Indonesia (-25bps) in 1Q2021, following the 125bps cut in 2020. Rest of ASEAN will likely maintain their policy rates following the aggressive easing in 2020 (Vietnam (-200bps), Philippines (-200bps), Malaysia (-125bps) and Thailand (-75bps), see Fig 13).

Inflation may pick up slightly but remain at the lower end of central bank target range and comfort zones (see Fig 14). We forecast ASEAN-6 inflation to average +2.1% in 2021, up modestly from +1.2% in 2020. The pickup in inflation will be driven by energy costs, which was the main drag in 2020. Our oil & gas analysts expect Brent oil price to average USD45/barrel in 2021, up from USD40/barrel in 2020. The growth recovery will likely drive some modest normalization in prices and wages.

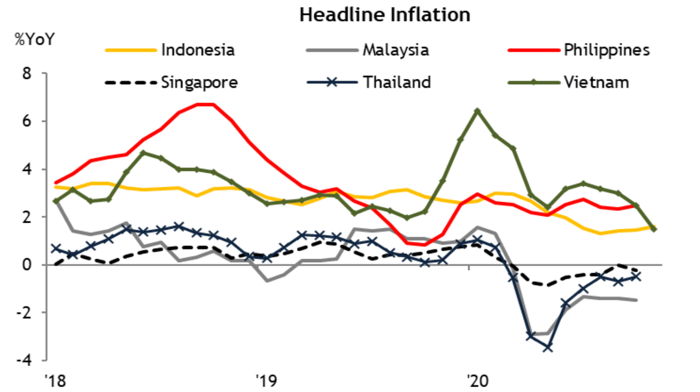
Governments will likely extend fiscal support and loan moratorium schemes, albeit tapered and more targeted, into the first half of 2021. This will keep fiscal deficits wider compared to pre-pandemic years, although narrower than the record deficits seen in 2020 (see Fig 15). Liquidity injections across ASEAN has resulted in a spike in money supply, keeping monetary conditions easy. Money supply (M2) is surging the strongest in the Philippines (+20% in May-Oct period from a year ago), followed by Singapore (+10%) and Thailand (+8.6%) (see Fig 16). Lending however remains weak and is only starting to turn around in most ASEAN countries.

Fig 13: ASEAN Central Banks Have Slashed Policy Rates Amid the Pandemic Crisis



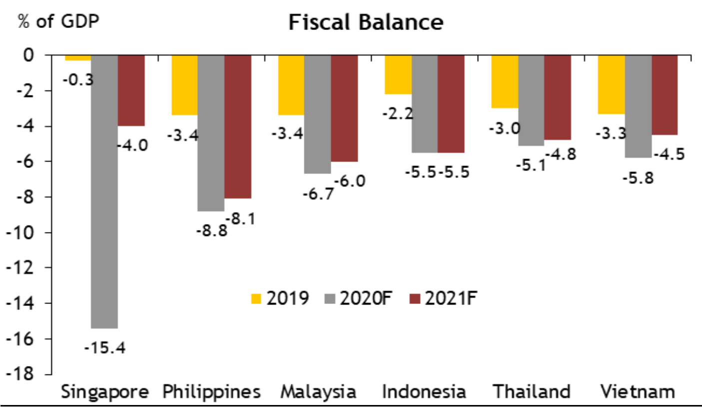
Source: CEIC

Fig 14: Inflation Bottomed Out in Malaysia, Singapore & Thailand; Easing in Indonesia & Vietnam



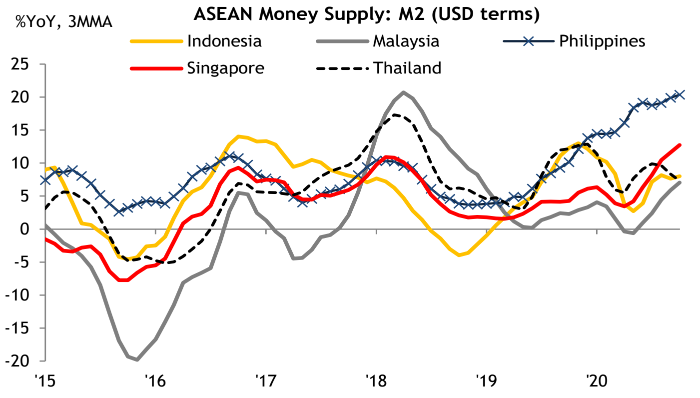
Source: CEIC

Fig 15: Fiscal Deficits Expected to Narrow But Remain Wide in FY2021 as Governments Continue to Extend Support



Source: CEIC, Maybank Kim Eng estimates

Fig 16: Money Supply Surging Across ASEAN in 2020



Source: CEIC

4. Adjusting to Post-Pandemic Normal

We identify eight structural shifts, some of which were already in train but which the pandemic accelerated (see *ASEAN Economics – The Post-Pandemic Normal*, 13 Nov 2020):

(1) **Digitalization and adoption of technological solutions:** The pandemic has sped up the death of physical retail and growth of e-commerce, and boosted the use of digital payments (see Fig 17).

(2) **Higher proportion of permanent "work from home":** Structure of offices spaces and demand in some parts of the labour market will change.

(3) **Changed future of air travel as strict border controls persist:** Business travel would likely fall as Zoom calls substitute face-to-face meetings. Tourism will take longer to recover as global herd immunity will take several years to achieve (see Fig 18).

(4) **Self-sufficiency drive:** More countries will pursue self-sufficient strategies, including for food, medical supplies and key technologies.

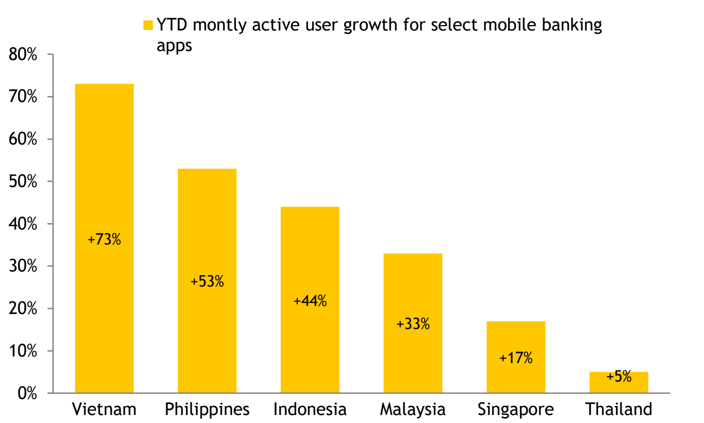
(5) **Diversification and reconfiguration of manufacturing supply chains:** The pandemic has made the case for diversification of supply chains even more compelling, e.g. Japan has earmarked USD223m to support its firms to relocate production out of China to ASEAN.

(6) **Broadening of social safety nets:** Many countries were not prepared for the large spike in unemployment rates (see Fig 19), which also fan social unrest. Governments will have to review and broaden their social safety nets as the pandemic has had a disproportionately large negative impact on lower-wage workers.

(7) **Expanded government size and role:** Government presence, including in healthcare and infrastructure, and public debt will likely be permanently larger post-pandemic, which might imply higher future taxes (see Fig 20).

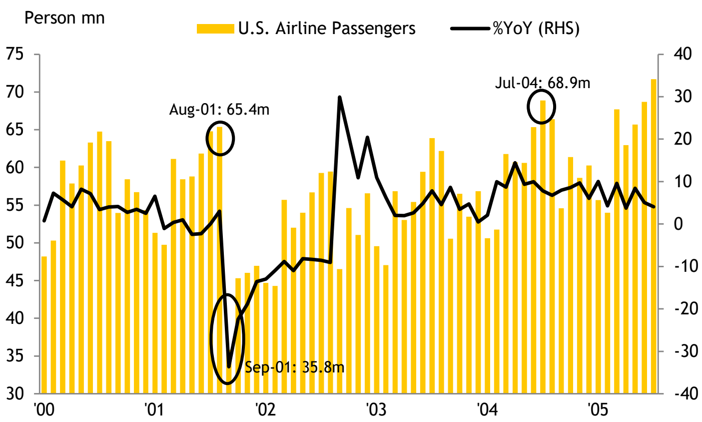
(8) **Greater central bank financing and monetization of fiscal deficits:** In ASEAN, central bank asset purchases have been especially large for the Philippines (7.3% of GDP) and Indonesia (3.8%), but smaller for Thailand (1%) and Malaysia (0.6%) (see Table 2).

Fig 17: Mobile Banking App Users Jumped the Most in Vietnam, Philippines & Indonesia



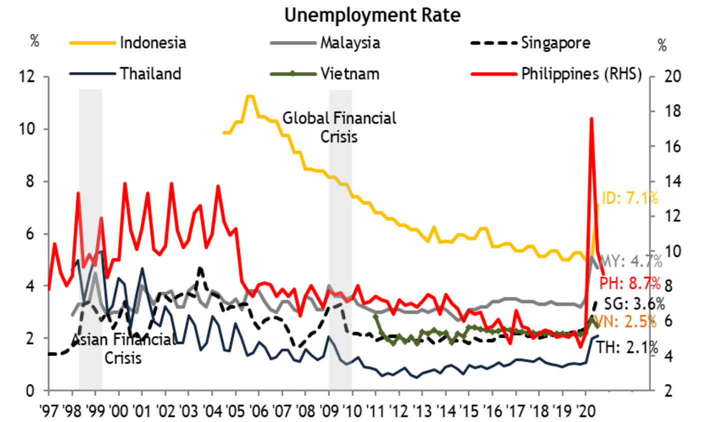
Note: Refers to period of Jan to Sep 2020 vs. previous period.
Source: App Annie

Fig 18: US – Airline Passengers Took 3 Years to Normalize Following 9/11 Attack in 2001



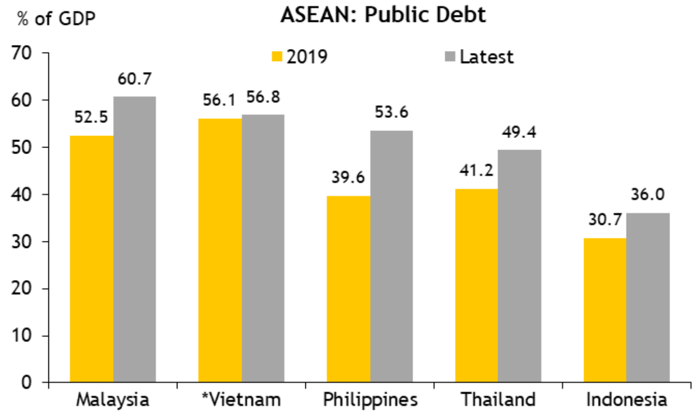
Source: US Bureau of Transportation Statistics

Fig 19: Unemployment Rates Rose Sharply Across ASEAN, Especially in Philippines, Indonesia & Malaysia



Source: CEIC

Fig 20: Public Debt Has Climbed the Most in the Philippines, Thailand & Malaysia



**Refers to estimate for 2020 announced in October by the Ministry of Finance.*
Note: Latest datapoint for rest of ASEAN as of 3Q20.
Source: CEIC, Vietnam Ministry of Finance

Table 2: ASEAN Asset Purchase Programs in Response to Covid-19

Country	Primary Objectives	Asset Type	Target or Limit Size	Market	Total Purchases (% of GDP)	Program Duration (observed or explicit)
Indonesia	Stabilize domestic bond market, provide liquidity to the financial sector, finance budget deficit	Government bonds	Initially not specified, with direct "burden sharing" of Rp398tn later announced	Both	3.8*	Mar - present
Malaysia	Provide liquidity to the financial sector and orderly financial market functioning	Government bonds	Max 10% of issue size in primary market; max 10% of outstanding amount in secondary market	Both	0.6	Mar - Jun
Philippines	Provide liquidity to the financial sector, stabilize bond market, finance budget deficit (repurchase agreement)	Government bonds, including repurchase agreement	Secondary market purchases not specified, repurchase amount limited to about P850b	Both	7.3^	Mar - present
Thailand	Stabilize domestic bond market	Government, central bank bonds	Not specified	Secondary	1	Mar - Apr

**Indonesia includes IMF estimates of secondary market purchases, primary market purchases prior to July, and the full Rp398tn July burden sharing agreement, though only about 60% of the agreed purchases had been completed through mid-September.*

^Philippines includes IMF estimates of secondary market purchases (which started in March) and the three-month repurchase agreement of P540b (3.0% of GDP) with the central government added in parentheses, and the BSP closed out a previous P300b repurchase agreement in September.

Source: IMF

5. Risks

Risk #1: Vaccine rollout and herd immunity may be delayed because of safety and supply chain issues, slow adoption, and short duration of immunity. A vaccine may also prevent disease progression but does not meaningfully reduce transmission. The spiraling Covid winter wave and renewed lockdowns in the US and Europe may impact global growth in early 2021 before the vaccine can have a meaningful impact on containing the spread.

Risk #2: The US-China trade & tech war may not improve under a Biden administration, with the risk of escalating trade or tech sanctions. Manufacturing supply chains may face more disruptions while the global trade recovery may stall if US-China relations continue to deteriorate. Hong Kong will remain the hot spot in the proxy war.

Risk #3: The debt overhang, weak job recovery and permanently stricter border controls may result in secular stagnation and lower post-pandemic structural GDP growth, including in ASEAN.

Risk #4: Premature withdrawal and tapering of fiscal support, whether in the US (divided Congress) or ASEAN (diminishing fiscal space), may threaten the fragile economic recovery.

Fixed Income Strategy

Look Beyond the Dark Winter

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UST: Higher Yields, Steeper Curve

Rising worldwide infections pose near-term risks, but US politics and vaccine may reshape global growth and inflation outlook. We think US rates market still sees the recovery story as a glass "half empty", which means there is ample room for upward repricing in yields. Accommodative monetary policy should remain in place for a while, anchoring front-end yields but other parts of the curve can steepen. Gross coupon supply of Treasury securities will likely increase in 2021. We maintain UST outlook at bearish, and forecast the 10y yield to reach 1.25% by 1H20.

Regional: Differentiation on Different Dynamics

We had held a bullish-bias view on regional rates over the past six months (two bullish, two neutral). But we made several changes recently and our outlook has now shifted to having a bearish tilt (two bearish, one neutral, on bullish): 1) we revised Indonesia to neutral from bullish as IndoGB, and by extension the Rupiah, had outperformed significantly as expected, but we think the risk-reward profile of IndoGB has largely turned neutral, 2) we revised Singapore to bearish from neutral as higher UST curve will weigh on SG rates despite a better supply profile for SGS, 3) we revised Malaysia to mildly bearish from neutral, primarily because of weak supply-demand profile, and 4) we maintained China at bullish as the CGB curve is believed to have majority priced in for monetary policy normalization, although it lacks catalysts for rally in the near term.

Malaysia: Supply-Demand Headwinds

We maintain a mildly bearish outlook on MGS as the supply profile remains heavy, demand faces headwinds and rate cut cycle has likely come to the tail end. Since we lowered our outlook, the MGS curve has corrected 10-40bps higher along the 5y30y. The yields of ultra-long bonds have reached our targets much faster than we thought. We think values are emerging at the long end in auctions. GG spreads may widen if supply continues to surge. Our 10y MGS yield target is unchanged at 2.75% by end-2020 and 3.00% by end-1H21.

Wildcards: Brace for Volatilities and Divergences

For bond markets 2021, we have two potential wildcards. First, an accelerated selloff in UST, if the following three events are all played out in the next 2-3 months: Biden's successful inauguration, Yellen's appointment as Treasury Secretary and the Democrats make an unlikely sweep for the twin runoffs in Georgia on 5 Jan. Second, uneven recoveries post-pandemic may require a rethink on whether a success in containing or ending the pandemic would simplistically mean an extension to the existing "risk-on" mode that will benefit the EM debt universe as a whole. We are cautious against DM-EM divergences, as vaccines may support a faster return to normalcy in the former than the latter.

1. US Rates: Look Beyond the Dark Winter

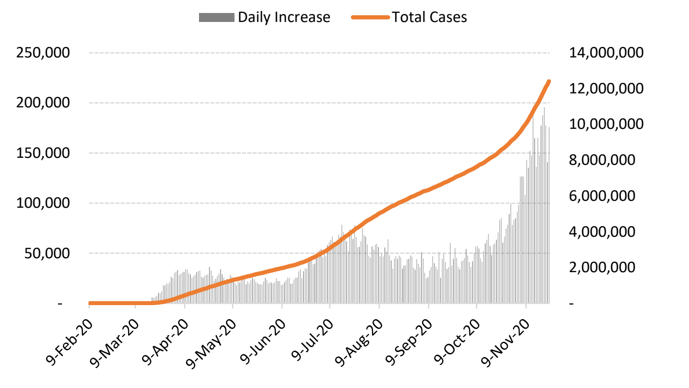
The winter is still dark… Worldwide COVID-19 infections continue to increase at an alarming rate of >500k cases per day on a 5DMA basis since November, which is almost double the daily cases in Aug-Sep and have infected close to 0.8% of the global population. In the US, cases are rising nationwide with social distancing measures and restrictions being tightened or extended. As of 23 Nov, COVID-19 has infected close to 3.7% of the US population, Brazil 2.9%, Russia 1.5%, Spain 3.2%, the UK and Italy 2.3%, while Asian countries are generally lower at <1.0%.

…but vaccine development is progressing at "warp speed" with promising results. First vaccinations could come as early as December. The list can only grow. The NY Times Vaccine Tracker shows that 13 vaccines under Phase-3 study. The FDA's advisory committee VRBPAC has been scheduled to meet on 10 Dec to discuss the emergency use authorization of a Pfizer vaccine. According to the WHO, for highly transmissible virus like COVID-19, at least 60-70% of the population need to have immunity to break the chain of transmission. Optimistically, if approved, millions of doses could be produced by 2020 and billions by 2021.

Growth and inflation outlook may be reshaped. Arguably, questions remain on the vaccine take-up rate, longevity of protection, its sufficiency to end the pandemic, and the end of pandemic doesn't necessarily mean an immediate return to normalcy. We think the US rates market in general still view the recovery story as "a glass half empty", but this also means more room for upward repricing in yields. Core PCE YoY has firmed up to 1.5% YoY in Sep, up from 0.9% in Apr albeit still lower than 1.8-1.9% YoY in Jan. 5y breakeven rate, a measure of medium-term inflation expectations, has improved and hovering around pre-pandemic level of 1.6-1.7% YoY.

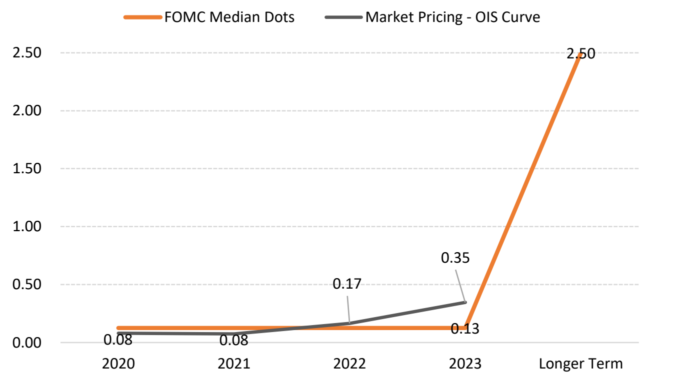
Accommodative monetary policy to remain in place for a while, but the first rate hike may come sooner rather than later. The latest Fed dot plot still points to zero-bound FFR until 2023. This will likely remain unchanged at the FOMC meeting on 15-16 Dec, given the Fed's implicitly asymmetric stance to protect downside risks. But what we shouldn't forget is that the official projection is ostensibly a moving target that might eventually adjust to better economic conditions and sentiment.

Fig 21: US Covid Situation: The winter is still dark, but vaccines and US politics may reshape growth and inflation outlook



Sources: Bloomberg

Fig 22: Fed median dots guide for zero-bound FFR through 2023, but the risk is that the first rate hike may come sooner



Sources: Bloomberg, Maybank KE

Expect unchanged QE at USD120b per month. While there may be arguments for an increase, given still dire Covid situation and Treasury Secretary Mnuchin's unilateral decision not to extend several emergency programmes might have frustrated the Fed, some of these emergency facilities are indeed largely under-utilised and served more as a confidence backstop and not needed judging from the current financial conditions. Both IG and HY spreads were little changed to the news, and tightened further the following week. **We think the Fed will extend, but not expand, the QE pace by keeping it open-ended at USD120b/month.**

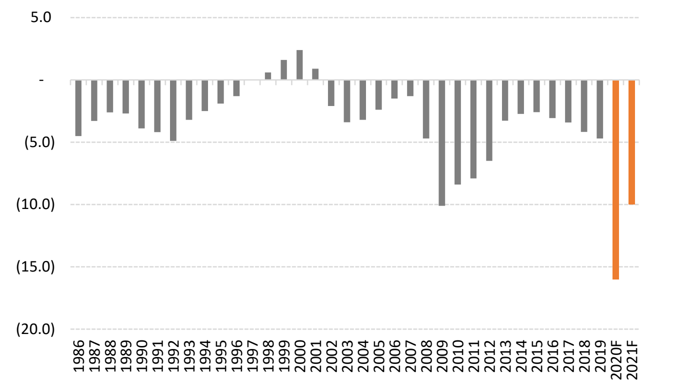
Higher coupon supply next year. US fiscal deficit more than tripled to USD3.13t (FY19: USD0.98) in FY20. But net coupon supply hasn't increased as much this year, as government funding has largely been met by T-bills, which racked up USD2.57t in 10M20. So far, the Treasury account has built up about USD1.5t of cash balance, which should provide buffers for future spending. That said, with deficit ratio expected to remain high at 10% in 2021 and the huge stock of T-bills might be tapered down, we think net coupon supply will likely increase next year.

This year, considering Fed purchases, which bought a substantial sum of bonds (>USD1.8t) in 10M20, the net coupon supply that are available to the market is actually negative. Next year, we think the supply profile will be less conductive, as net coupon supply should turn positive even if the Fed continues to add USD80b of Treasury securities per month throughout 2021. If bond sentiment turns bearish, supply factor could increase steepening pressure on the UST curve.

UST outlook: Maintain at Bearish. Earlier this month the 10y UST yield failed to breach the 1.00% threshold and has since consolidated around 0.80-0.90% area. Similar to the view we expressed earlier, near-term risks remain as worldwide infections continue to trend upward and vaccine developments have been met with occasional setbacks. The UST market will likely continue the wild swings on changing headlines. But taking a medium-term view over the next 6-9 months, a better narratives on should gradually steer UST yields higher.

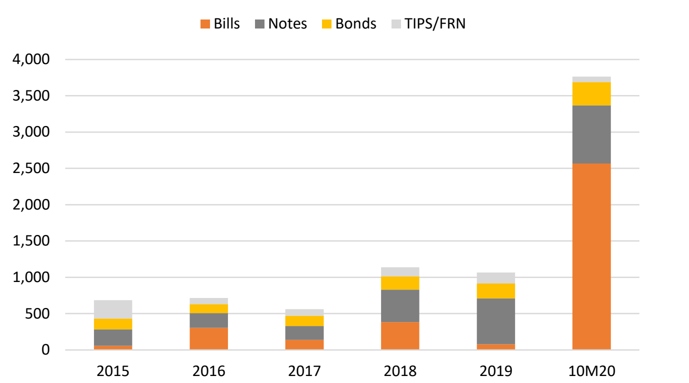
Forecast: We expect higher yields and steeper curve with the following forecasts for 10y UST yield: **4Q20: 0.90%, 1Q21: 1.10%, 2Q21: 1.25%.**

Fig 23: US - Fiscal Deficit (% of GDP)



Sources: Bloomberg
2020F and 2021F = Bloomberg consensus

Fig 24: US - Net Issuances of Treasuries (USD'b)



Sources: SIFMA, Maybank KE

2. Regional Rates: Differentiation on Different Domestic Dynamics

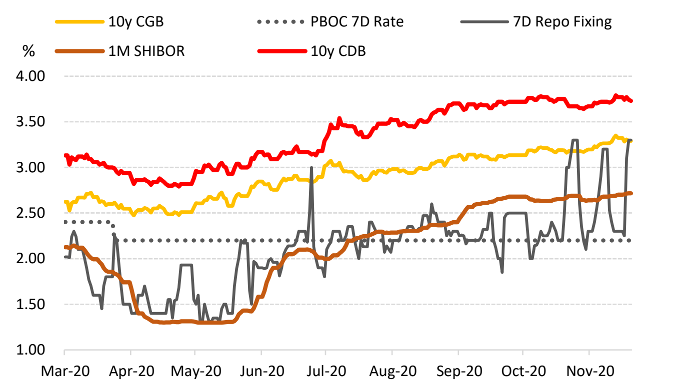
China: Policy normalization on the cards… Talks on withdrawal of stimulus have increased, given China's relative success in containing the coronavirus outbreak, surging exports, firming of industrial production and retail sales. The recent comments by policy makers divulged some hawkish signals. Deputy Governor Liu Guoqiang, in a Q&A document on 6 Nov, indicated that stimulus can't be in place for a prolonged period and the exit from these extraordinary measures is a question, but emphasized that the timing and exit mechanism require carefully assessments subject to the economic conditions.

…but no rate increase by 1H21. The PBOC's momentary policy stance continues to be stable and prudent. An abrupt shift to rate tightening cycle seems unlikely, as global economy remains fragile and policy makers would likely want to make careful recalibrations to avoid having a "cliff effect" on the financial markets or economy. We don't expect an increase in interest rate rates and required reserve ratios (RRR) in 1H21. The support measures that could be rolled back as a start are probably the loan deferrals and tax reliefs offered in response to Covid.

CGB outlook: Maintain at bullish. 7-day repo fixing has risen considerably from 1.50% in May to about 2.50% currently, resulting in a bear-flattened CGB curve. Liquidity conditions fluctuate, but the PBOC's liquidity stance continues to be neither too tight nor too loose. We thought yields were toppish and recommended buying 5y CDB bond at 3.45%. While yields are still susceptible and lack near-term catalyst, we maintain the position for now. CGB and CDB remain attractive to global bond allocator, giving diversification and yield enhancement benefits. For example in FTSE Russell WGBI, CGB will rank as the second highest yielding market after Mexico, lifting the index yield meaningfully at full inclusion of China.

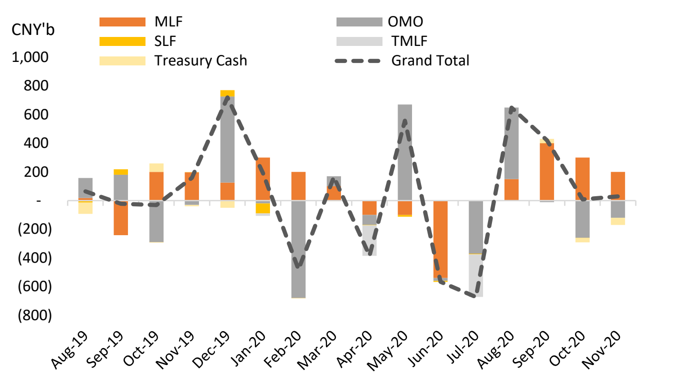
China credit risk: Impact on CGB: Bond defaults have weighed on credits following missed payments by several SOEs. These events were exacerbated by opaque risks where transfers of assets to other entities took place prior to the default. Onshore 3y AA spreads are >30bps wider since 10 Nov. Credit concerns in theory should enhance the appeal of government bonds, but CGB market had been indirectly affected via the liquidity channel. NCD funding rates continued to rise with 1y rate >3.30%, which means the marginal cost of funds for owning CGB are still punitive. To maintain market order, the Financial Stability and Development Committee of the State Council issued a statement on 21 Nov with stern languages stating "zero tolerance" on illegal practices and to punish debt evasions with a **bottom line of no systemic risks**, which has given support to rates bonds, in our view.

Fig 25: China - CGB and CDB bonds remained under pressure



Sources: Bloomberg

Fig 26: China - Neutral Liquidity Stance



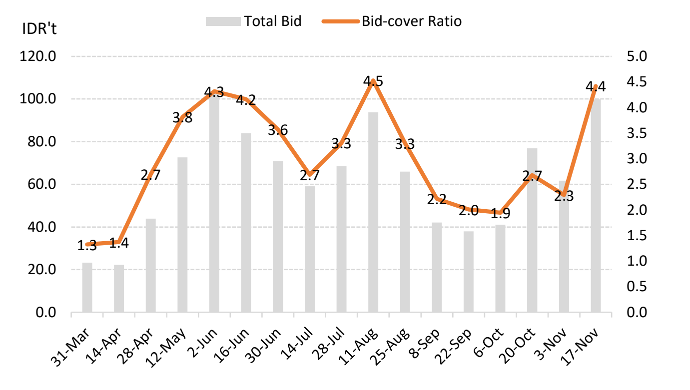
Sources: Bloomberg
**as of 26 Nov*

Indonesia: To drive growth, BI cut the 7-day rate by 25bps to 3.75% in Nov (-125bp YTD), although it didn't come as a surprise given the window of Rupiah strength. Additional rate cut by another 25bps is possible, but would require extended USD weakness. The USDIDR has largely stagnated at 14100 after the recent rate cut. Inflation remained benign at 1.4% YoY in Oct, but next year the CPI should normalize to within the official target range of 2-4%. Since the pandemic, current account deficit (CAD) has improved substantially amid subdued imports with USD0.96b surplus in 3Q20, the first since 2011. BI is guiding full-year CAD of better than -1.5% of GDP, which we think is conservative; it could reach -0.5% if 4Q records a CA surplus which is possible given already large USD3.6b trade surplus for October. Next year, our economists see CAD normalising to -2.0% of GDP.

Supply 2021: Larger auction size. Official guidance sets a lower deficit ratio of 5.7% in 2021 (2020F: 6.34%) partly due to growth effect. While next year's funding plan has not yet been published by the DMO, we forecast gross funding requirement of IDR1500t. Presuming IDR50t from multilateral institutions, and higher global bond issuances of 20% share, we project Rupiah bond issuances of ~IDR1280t (2020F: IDR1360t) which will be partly met by other sources e.g. retail bonds and private placements, say a 15% share. This leaves IDR1090t to be funded via auctions. **We estimate average award size of IDR30-35t for SUN conventional and IDR10-15t for SBSN Sukuk auctions. The indicative/maximum sizes of SUN auctions may be raised to IDR25/50t compared to IDR20/40t currently.**

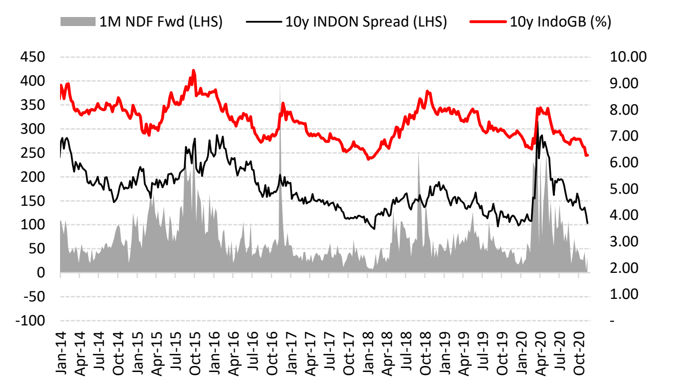
IndoGB: Neutral. We had been steadfastly bullish on IndoGB since mid-May, but revised the outlook to neutral recently following the outperformance of IndoGB and Rupiah. The currently positive supply technical will get a reset in January. It is unclear whether the USD weakness tailwind can sustain. Positively, BI should remain as a backstop buyer in auctions. According a Bloomberg news on 24 Nov, BI auction take-up has reduced to 5% from up to 25% at the start of the pandemic, a reflection of better market demand. For 2021, IndoGB supply that are available to market will likely increase, in our view, unless a consistently high BI take-up rate is maintained. Market metrics on IDR rates, FX forward and credit spreads have all eased the lower bond in recent years, and we think the risk-reward of IndoGB is largely neutral. Our 10y IndoGB yield forecast is 6.25-50% for 4Q20 and 1H21.

Fig 27: Indonesia - Auction bids and cover ratio remained strong (Conventional SUN auctions, exclude Treasury bills)



Sources: Bloomberg

Fig 28: Indonesia - Market metrics on IDR rates, FX forward and credit spreads have eased to lower bound in recent years



Sources: Bloomberg

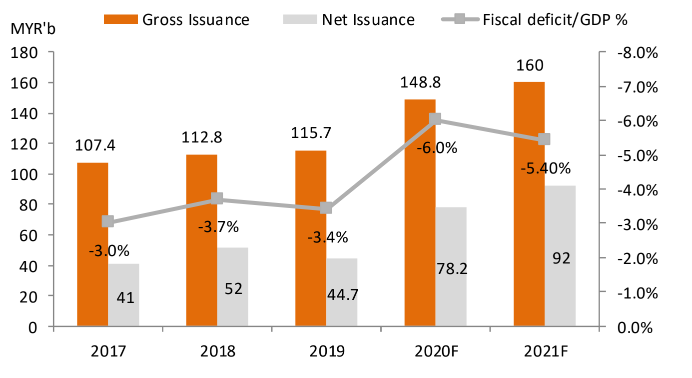
Singapore: **Bearish.** SGS supply is overall neutral and auction calendar 2021 looks largely unchanged, except a higher maximum size for mini auctions at SGD1.5b from SGD1b. We forecast gross/net SGS issuance of SGD27.1b/SGD10b for 2021 (2020: SGD25.9b/SGD12.4b). We are bearish on SGS, similar to our views on UST, but the SGS curve should remain flatter than the UST curve along the 10y30y because of a more favourable and predictable supply profile. Our 10y SGS yield forecast is 0.90% by end-2020, and 1.10% by end-1H21.

3. Malaysia: Supply-Demand Headwinds

Government bond supply profile remains heavy. Based on the official budget deficit forecast of MYR84.8b/5.4% of GDP under Budget 2021, bond maturities of MYR67.7b for MGS+GII and MYR6b for SPK, the government's total funding need is about MYR158.5b. But considering other factors, such as 1) the risk of fiscal slippage amid the pandemic (our economics team forecasts higher deficit ratio of 6.0%), and 2) it is unknown currently whether the government will increase or reduce Treasury bill issuances, we are projecting a gross MGS+GII supply of MYR160b (2020F: MYR148.8b), and a net supply of MYR92b (2020F: MYR78.2b).

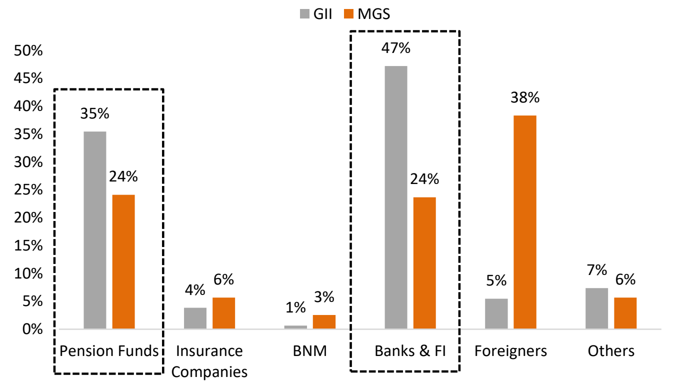
Demand Profile: Headwinds. Domestic banks and pension funds are the largest holders of government bonds, owning 83% of total GII and 50% of total MGS. But their demand could face headwinds. 1) Pension funds: Budget 2021 contains measures that could affect their cash flows e.g. conditional withdrawals from EPF Account 1 (in addition to existing measure on Account 2), reduced contribution rates and KWAP's contributions of MYR5b per year to the government. By our estimates, total cashflows impact may amount to MYR28.5b for 2020, and MYR32.8b for 2021, and likely higher after the widening of the eligibility of i-Sinar facility. **On a positive note**, EPF possesses strong liquidity buffers. The impact on bond market will largely be reflected through lower reinvestment demand for bonds instead of outright selling, in our view.

Fig 29: MGS+GII: Gross and Net Issuance 2017-2021F



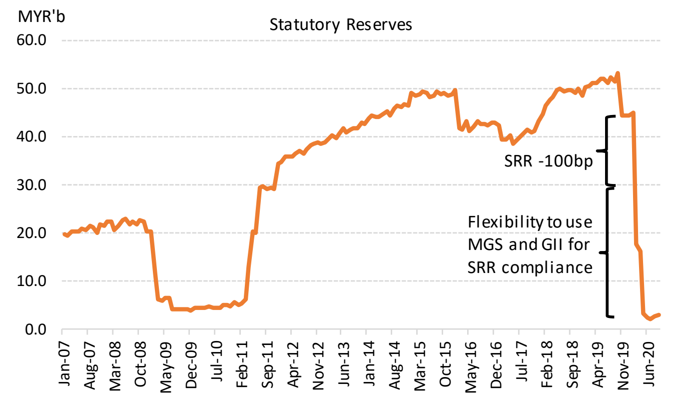
Sources: CEIC, MOF, Maybank KE
**Budget deficit: Official forecasts = 6.0% for 2020 and 5.4% for 2021, Maybank KE's forecasts = 6.7% for 2020 and 6.0% for 2021*

Fig 30: Demand Profile: Type of Holder - % of Total



Sources: CEIC, Maybank KE
**As of 3Q20*

Fig 31: We think SRR cut and flexibility to use MGS and GII for SRR compliance have boosted the demand for govt bonds



Sources: BNM, Maybank KE

Fig 32: Pension Funds: Estimated Impact on Cash Flows

Fund	Measures	2020	2021
EPF	Withdrawal from Account 1		14.0
	Withdrawal from Account 2	13.5	4.5
	Reduce contribution by 4% (Apr-Dec 2020)	10.0	
	Reduce contribution by 2% (Jan-Dec 2021)		9.3
KWAP	Contribution to the government	5.0	5.0
	TOTAL	**28.5**	**32.8**

Sources: Budget 2021, Economic Stimulus Speech, EPF, Maybank KE
**Our estimate of cash flow impact on EPF is under review as a wider scope for i-Sinar was announced on 26 Nov.*

Domestic fiscal and monetary policy mix. Recent developments reinforce our view that **the need for fiscal stimulus remains strong** in order to patch the near-term economic pains through "targeted" cash handouts, subsidies and loan moratorium, but with successful vaccines on the horizon**, the need for additional easing via OPR cut which is a blanket tool has reduced.** Such a policy mix should keep the MGS curve elevated and steep at the back end.

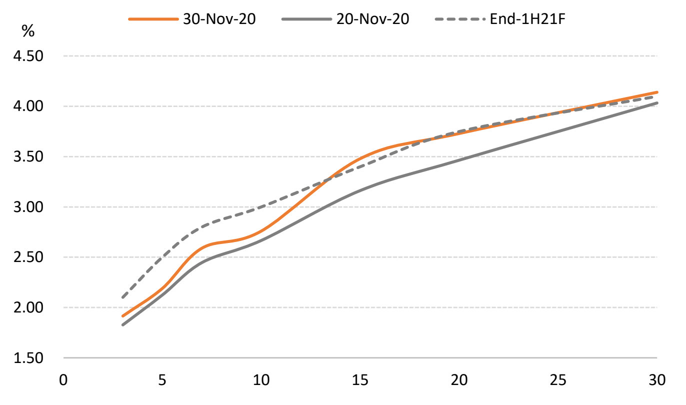
FTSE Russell Decision: A glass half full. The next review will be in Mar 2021. We think a final decision should come by Sep 2021 at the latest. The risk of downgrade is believed to be low and additional push for improvements on bond and FX liquidity will help increase the chances for a stay in the World Government Bond Index (WGBI). The planned inclusion of China from Oct 2021 is unlikely to be the factor that affects Malaysia's eligibility for WGBI, and the dilution effect will be minimal as China inclusion, if confirmed in Mar 2021, will go through a 12-month phased-in period. Our base case is Malaysia will be retained in WGBI.

Sovereign Rating: Downward pressure remains. There are currently two stable (Moody's, Fitch) and one negative outlook (S&P) following Fitch's downgrade to BBB+ (see details). The government is still committed to fiscal consolidation, although the near-term focus is to prioritise growth and recovery. Malaysia's debt metrics are likely to continue to surpass S&P's downward rating pressure indicators of "annual change in net general government debt >4%" and "interest/revenue ratio >15%" for both 2020 and 2021.

GG spreads may widen if supply continues to surge. From a bond strategy perspective, GG are considered credit-risk free therefore its spread performance is largely a function of supply, in our view. Investors may demand for moderately higher yield premiums if the supply indeed continues to surge, given the history of GG spread widening from about 30bps in 2017 to >50bps in 1Q18. Considering the financing requirement of both the existing and potentially new infrastructure projects (primarily funded through Danainfra), and frequent issuers such as PASB and PTPTN, we forecast MYR35b of gross GG issuance in 2021 (2020F: MYR30b).

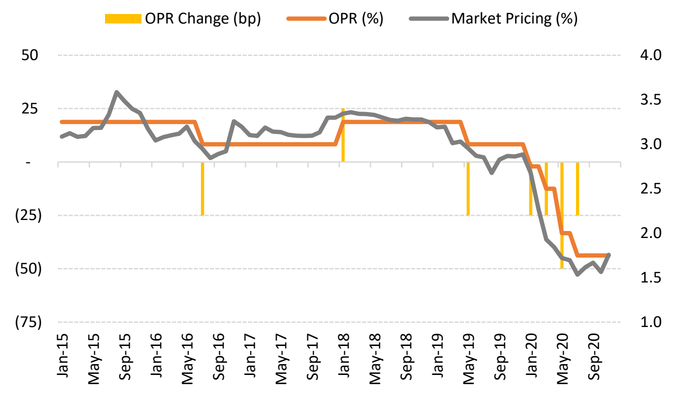
MGS outlook: Maintain at mildly bearish. We expect higher yields across the curve in the next 6-9 months on a bear-flattening stance. Auction bids have softened since October due to supply and a seasonally weak sentiment in 4Q, but values are emerging at the back end in auctions given a higher chance to catch auction tail. Following the recent selloff, long-tenor MGS yields have approached or exceeded our then bearish targets. Our 10y MGS yield forecast is unchanged at 3.00% by end-1H20.

Fig 33: MGS curve to bear-flatten (%): Yields have reached or exceeded our target levels for long-tenor bonds



Sources: Bloomberg, Maybank KE

Fig 34: Dovish rates pricing started to unwind since the Nov MPC meeting, but we think still room for upward repricing



Sources: Bloomberg, Maybank KE

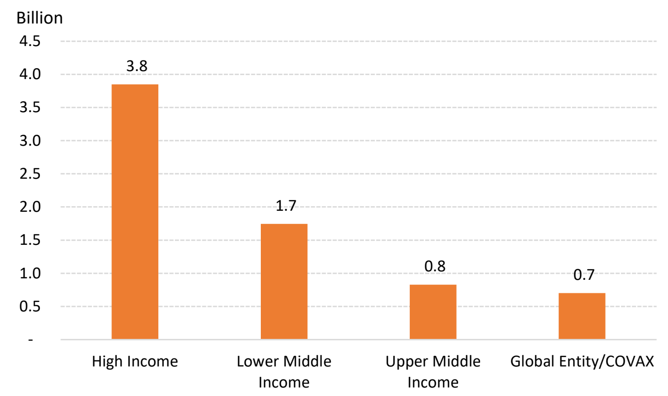
4. Wildcards: Brace for Volatilities and Divergences

We have two potential wildcards for bond markets in 2021: First, accelerated selloffs in UST. Second, uneven recoveries post-pandemic may require a rethink on whether ending the pandemic would simplistically mean an extension to the existing "risk-on" mode that benefits emerging market debt universe as a whole.

1. **Accelerated selloffs in UST.** We think following three events, if all played out in the next 2-3 months, may trigger further UST selloffs: First, the successful inauguration of President-elect Biden on 20 Jan. Second, the appointment of former Fed Chair Yellen as the Treasury Secretary, if confirmed by the Senate, would revive stimulus talks and signal a better Treasury-Fed coordination which should be welcome by the market. Third, while the pre-Election expectations for a "blue wave" has clearly fallen short and turned out to be a nail-biting Election, it is not completely off the table: if Democrats make an unlikely sweep in the Georgia twin runoffs on 5 Jan. Together with an optimistic case of herd immunity through vaccines, a cyclical upswing may accelerate the selloffs in UST, pushing 10y yield to 1.50% in 2021 vs. our base case of 1.25%.

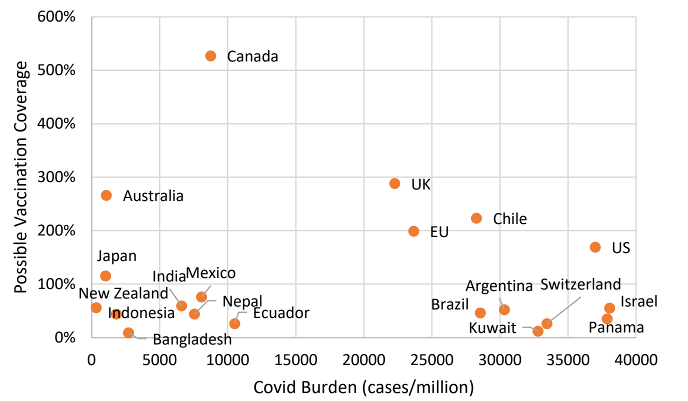
2. The availability of successful vaccines is game-changing, but **it could be one that changes the existing dynamics**, e.g. the USD trend and strong run in emerging market debts. Presumably with good take-up, vaccine rollout may benefit developed nations more than emerging countries in general. **Rich nations have made bilateral advance purchases and many hedge their bets by placing orders on multiple vaccine candidates**. With limited manufacturing capacity, middle and low-income countries may receive less, or much later, although those with manufacturing capacity (e.g. India and Brazil) and clinical trial infrastructure can bargain for early accesses. According to compilations by a research centre led by Duke University, the confirmed number of doses purchased are: 3.8 billion for high-income countries, 1.7 billion for lower middle-income countries, 0.8 billion for upper middle-income countries and only 0.7 billion under global entity/COVAX. Distribution could be another challenge for developing nations: trained providers, accurate tracking of vaccines requiring more than one dose, logistical challenges for countries with islands or poor connectivity, and some require ultra-cold storage (Pfizer). While early results show high efficacy rates e.g. Moderna and Pfizer, **we don't know yet how long the protection will last, which may encourage hoarding**. The hope is that China's success will have the effect of "lifting all boats" in EM Asia, **but divergences could still play out, if certain countries turn out to be taking much longer than the others in returning to normalcy**.

Fig 35: Number of Doses Purchased by Country Income Level



Sources: Launch & Scale Speedometer

Fig 36: Vaccine Coverage by Population and COVID-19 Burden



Sources: Launch & Scale Speedometer

FX Strategy

Riding the Recovery

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Asia - The Big Long Trade

Into 2021, we look for healing and a return to growth normalcy. A smooth vaccine rollout soon can potentially be a game changer. Global economy could be closer to a more sustainable growth recovery amid unprecedented fiscal and monetary support. Procyclical-proxy FX including AUD, NZD in DM space and KRW in AXJ space can benefit while CNH, SGD, with COVID-19 under control, can also ride on the cyclical growth recovery. The signing of the RCEP agreement, further expansion of trade pacts to include more countries and potential dial-back in trade tensions between US-China, following Biden's Presidency (vs. Trump), is expected to set up a more constructive environment for global trade to extend its recovery. Trade linked currencies such as TWD, KRW, CNH and SGD could see sustained gains, especially if trade recovery feeds through to domestic demand. In current low rate environment with growth recovering from low bases and benign near-term inflation expectations, hunt for yields can persist. Asia is home to some of the highest carry in the world. INR, IDR, MYR, CNH are some preferred proxy-FX for carry play.

Reflation and Commodity Re-rating

Central banks and governments had pulled out all stops (and debts) to nurse the weakened economy back towards healthier levels of growth and inflation in 2020. The unprecedented levels of monetary and fiscal stimulus could also mean a significant reflationary process in 2021 (especially higher risk in 2H 2021) that could typically be positive for AUDJPY. Within the commodity space, industrial metal prices have been lifted by China's headstart in recovery and we continue to see chance for further gains that could broaden into other commodity prices as demand revives in other parts of the world, underpinning AUD, NZD, CAD, MYR.

Dollar Downsides Still, But More Modest

We maintain our bias for USD downside play on: (i) unwinding of dollar semi-haven demand alongside vaccine progress, (ii) Fed's commitment to dovish bias (with its AIT framework and greater tolerance on inflation overshoots), (iii) diversification out of USD in global payments and on a longer-term basis, FX reserves reallocation, and (iv) a slower recovery in US fiscal deficits compared to DM peers or Asian economies. Nonetheless, pace of dollar decline could be more modest in the next few quarters vs. the recent >10% slump since Mar 2020.

Risks of Tech Sputtering, Uneven Vaccine Schedules

Long positions in gold, tech stocks can be viewed as a proxy for the extent of COVID-19 concerns. Upward price momentum of these assets persisted through 2Q - 3Q, and tech-linked FX such as KRW, TWD, SGD have gained alongside. Nonetheless, current concern is if these trends will reverse, with rotation into cyclicals, if developments in vaccine distribution and efficacy surprise positively. This could pose some challenges to tech-linked FX, even as we largely view bouts of softness as opportunities to buy-on-dips. Elsewhere we also note that uneven vaccine rollout schedules, adoption rates can affect pace of economy reopening and sentiment.

1. Asia – The Big Long Trade

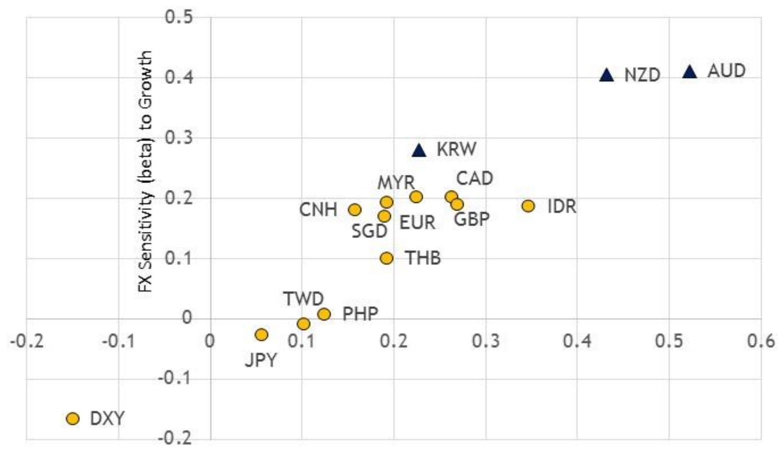
1.1 Procyclical-Proxy FX to Take the Lead

2020 was a year of global health catastrophes and the year marks the worst economic recession since the Great Depression in 1930s. Into 2021, we look for healing and a return to growth normalcy.

Vaccine progress has been encouraging. Efficacy came in at ~95% for Pfizer-BioNTech's BNT162b2 as well as Moderna's mRNA-1273 in phase 3 trial while a handful of vaccines including AstraZeneca-Oxford, China's Sinopharm and Sinovac have reported material progress. Multiple sources of successful and safe vaccines using a mix of different technology can help to ease concerns over production and distribution. A smooth vaccine rollout soon can potentially be a game changer as the consequential containment of covid-19 pandemic suggests that travel restrictions, social distancing measures can be lifted. The global economy could be closer to a more sustainable growth recovery amid unprecedented fiscal and monetary support.

Procyclical-proxy FX including AUD, NZD in DM space and KRW in AXJ space can benefit while **JPY and USD take the back seat**. In addition, **CNH, SGD with covid-19 way under control can also ride on the cyclical growth recovery**.

Fig 37: AUD, NZD, KRW, CNH and SGD to Proxy for Cyclical Rebound



Note: OLS regression of FX/USD (y-variable) vs growth proxied by global manufacturing PMI and vs. sentiment proxied by MSCI World index
Source: Bloomberg, Maybank FX Research & Strategy

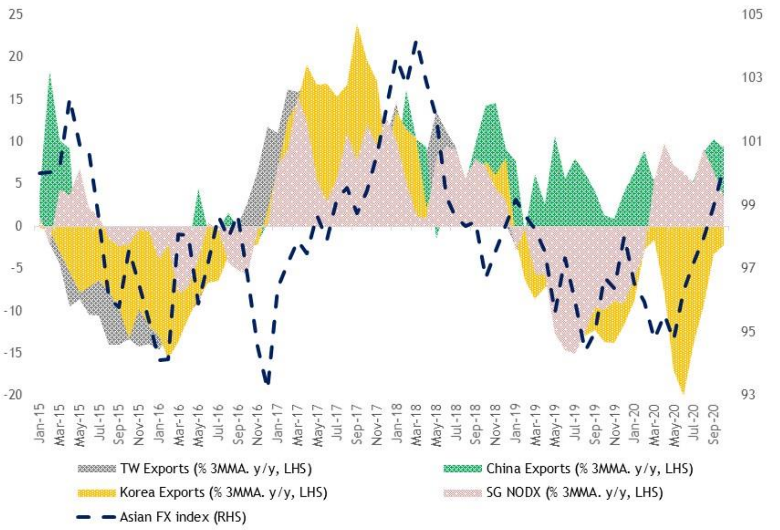
1.2 Trade Pacts, Exports Recovery Supportive of Trade-FX

The signing of RCEP agreement, further expansion of trade pacts to include more countries and potential dial-back in trade tension between US-China, following Biden's Presidency (vs. Trump) is expected to set up a more constructive environment for global trade to extend its recovery in 2021.

Exports, new orders data from the region further showed signs that a recovery is already underway. **Trade linked currencies such as TWD, KRW, CNH and SGD should see sustained gains, especially if trade recovery feeds through to domestic demand.**

Apart from the tariff eliminations that could spur trade volume growth, key to the RCEP agreement would be the common rules of origin for businesses to ship their products to anywhere within the 15 participating countries under the RCEP agreements. This would greatly enhance the access to markets for exporters across the regions and draw the 14 other countries which already have substantial trade volumes with China, closer to the country.

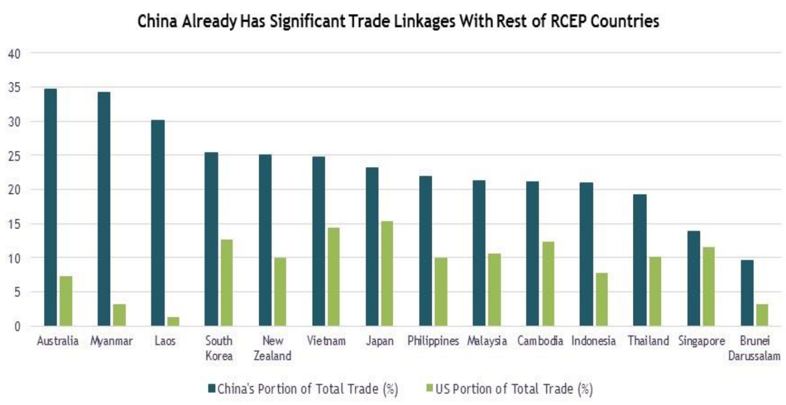
Fig 38: Trade-Linked FX Benefiting from Exports Recovery in Asia



Note: Asia custom trade linked FX made up of CNH, KRW, TWD and SGD, equally-weighted and indexed to 100 on end-Jan 2015
Source: Bloomberg, Maybank FX Research & Strategy

China's implementation of its "dual circulation" strategy, alongside potential post-Covid return of investment and portfolio flows to Asia over the medium term, could continue to bode well for yuan (potential for USDCNH to head below 6.20) and other AxJ currencies, especially when regional linkages are strengthened by RCEP and other trade pacts could gain traction (i.e. China-Cambodia FTA likely to kick in next year, UK-Japan FTA could be building blocks towards joining CPTPP while US may consider rejoining CPTPP).

Fig 39: Most RCEP Nations Have Strong Trade Ties with China



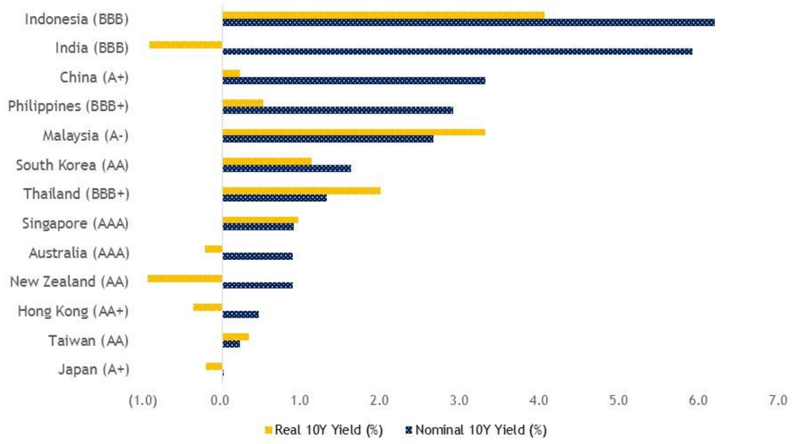
Note: Trade numbers in the chart are based on 2019 annual trade values. Each bar can be read as China or US' share of the respective country's total trade with the world
Source: Bloomberg, Maybank FX Research & Strategy

1.3 Carry Can thrive

Low rates for longer globally is likely to persist for 2021 as inflation remains subdued in the near term and policymakers are likely to allow for easy policies to run longer to secure a firmer recovery. In particular Fed's adoption of average inflation targeting (AIT) regime and tolerance for overshoots in inflation and employment, alongside other DM central banks' pledge to not withdraw monetary stimulus prematurely should help to anchor low rates for longer.

In this low rate environment with growth recovering from low bases and inflation expectations still benign in the near term, a hunt for yield can persist. Asia is home to some of the highest carry in the world. On nominal terms, India and Indonesia bonds are highest, with 10y at around 6%. In real terms (adjusted for inflation), Indonesia and Malaysia bonds are attractive at between 3 and 4%. In ratings-adjusted basis, China and Malaysia bonds have the second and third highest yields in FTSE WGBI. In particular, **INR, IDR, MYR, CNH are some of our preferred proxy-FX for carry play.**

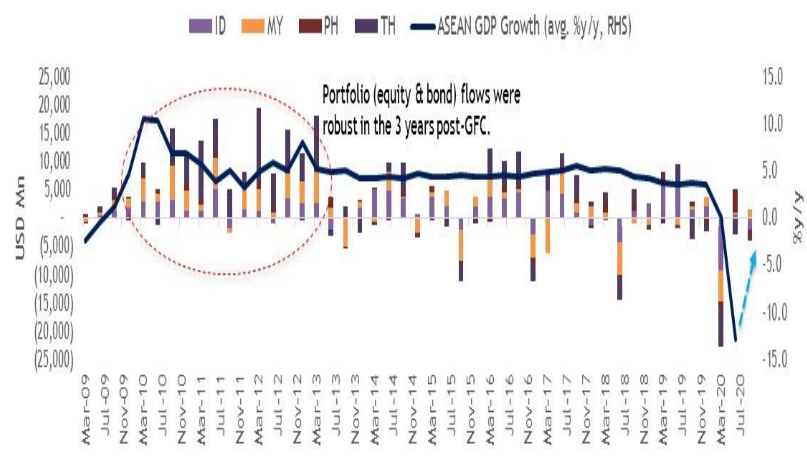
Fig 40: Carry Trade FX Benefits from Environment of Low Rates



Note: (1) Real yield calculated from nominal 10y yield – 12-month rolling average inflation of respective countries; (2) All data as of 24 Nov 2020; (3) Sovereign rating in parenthesis based on S&P ratings.

In addition, returning foreign flows is another catalyst supporting high yielding Asian-proxy FX. IIF data showed that that non-resident capital flows to EM are the strongest since immediately after the Great Recession. Our study also shows that rotation back to regional assets can gain traction over the next few years, in turn supporting underlying FX momentum.

Fig 41: Return of Foreign Flows to Support Underlying FX Momentum



Source: Maybank FX Research & Strategy Estimates, Bloomberg

2. Reflation and Commodity Re-rating

2.1 Reflation Comes with Optimism and Recovery

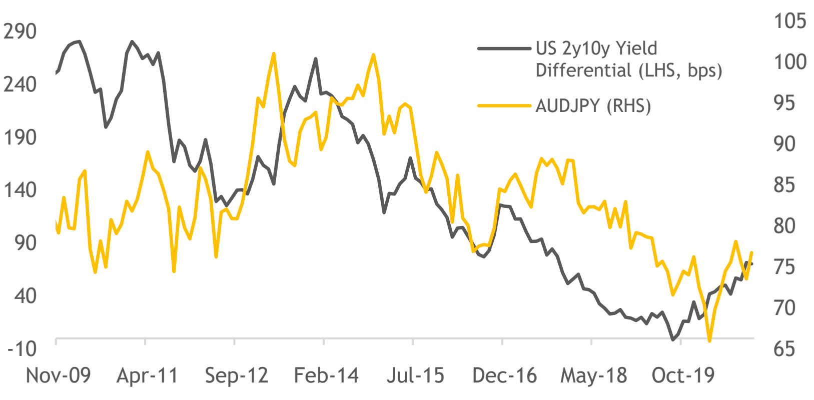
Synchronous Monetary and Fiscal Stimulus

Central banks and governments had pulled out all stops (and debts) to nurse their weakened economies back towards healthier levels of growth and inflation in 2020. Unlike past crises episodes such as the global financial crises, the level of monetary and fiscal stimulus that are provided simultaneously across the world this time have been unprecedented and that could also mean a significant reflationary process in 2021.

Stop-Go Process For Now

The combination of a Biden win, news of vaccine development progress, approvals and possible distributions in early Dec swung markets' focus back onto the reflation trade even as the pandemic show no signs of peaking in the Americas, Europe and parts of Asia at this point. Admittedly, vaccine-driven cheer could be vulnerable to correction. Potential delays in the manufacture and distribution alongside current grim pandemic realities could cause sporadic pauses in the rotation into risk assets. In addition, a reflationary process that is too strong could also be seen as premature. However, these factors are likely to be viewed as speed bumps for now rather than significant hurdles for risk assets to rally further. Investors expect eventual strong pent-up demand, buttressed by a multitude of stimulus and a future clarified by more widely-available COVID-19 vaccines.

Fig 42: Yield Curve Has Started to Steepen, Possibly Guiding the AUDJPY Higher



Source: Bloomberg, Maybank FX Research & Strategy

A Democrat Controlled Congress Underpriced

While vaccine availability might be priced a tad too well in advanced (and risk some correction), investors could be underestimating a possibility that Congress could still be controlled by the Democrats. At this point, it is widely expected for the Republicans to retain its control over the Senate with a current 50-48 lead. However, the two Georgia runoff elections on 5 Jan 2021 await and a Georgia win could cede control to the Democrats which would increase the likelihood of a bigger stimulus package, giving growth a better chance in 2020. Reflation is typically reflected in the yield curve that steepens as the outlook of the economy improves. The UST 2y10y (see Fig 42) has been rising since its inversion in Mar this year and has broadly moved in line with the AUDJPY for much of past two decades. We see a **potential for AUDJPY to rise substantially into 2021** with the far end lifted by growth and inflation expectations, underpinned by the next stimulus package and Fed's pledge to keep interest rate anchored at near

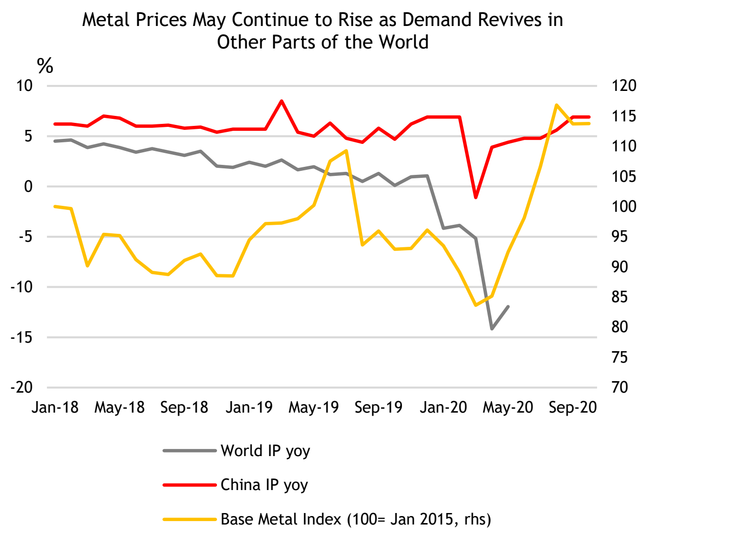
0% until 2023. On the converse, a reflationary US along with recovery in the rest of the world add to the broad decline of the USD.

2.2 The Rise in Commodities To Sustain Steam into 2021

With China's initial phase of recovery spurred by construction and manufacturing, it is not difficult to see why industrial metal prices have been on the rise. Copper stockpiles have plunged 50% from its peak in Mar and remains on the downmove. With the copper prices already up around 60% from its trough in Mar 2020 (LME 3m rolling forward), the strong rally begs the question of whether this can continue. China's strive for dual circulation that includes building a more independent supply chain for its technology sector along with the revival of demand in the rest of the world may mean that demand for industrial metals should continue to rise. This is especially so as governments seek to boost spending on infrastructure (Australia's AUD7.5b spending on road and rail, US' Biden's USD2t infrastructure promise, etc.)

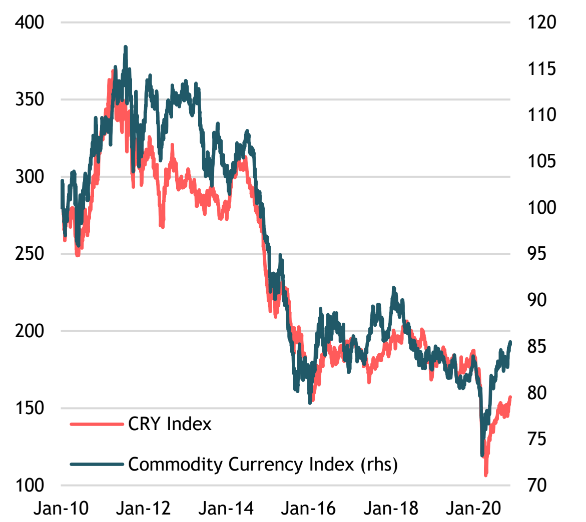
Broad demand revival in a reflationary environment will keep broad commodity prices (other raw materials, oil) on the rise. That should be **positive for commodity-linked currencies including AUD, NZD, CAD, MYR.**

Fig 43: China's recovery drove metal prices higher and further gains could continue as demand in other parts of the world revive.



Note: Base metal index consists of an average of copper, aluminum and iron ore prices indexed to 31 Jan 2015.
Source: Bloomberg, NBS, LME

Fig 44: Demand revival should also spur upsides for broader commodities, likely to lift relevant currencies (AUD, NZD, CAD, MYR)



Note: Commodity Currency Index is the average of the AUD, NZD, CAD and MYR performance against the USD with 1 Jan 2010 = 100. CRY Index is the Refinitiv/CoreCommodity Excess Return index, an arithmetic average of commodity future prices with monthly rebalancing.
Source: Refinitiv, Bloomberg

Along with reflation, there is always a concern over potential inflationary pressures that could eventually could sap growth. At this point, there remains too much spare capacity for inflation expectations to become unanchored. Notwithstanding some potential volatility in rates, Fed's AIT mandate should serve to dampen unexpected volatility in rates that could destabilize financial markets and crimp on growth pre-maturely.

3. Dollar Downsides Still, But More Modest

3.1 Confluence of Factors to Weigh on USD Structurally

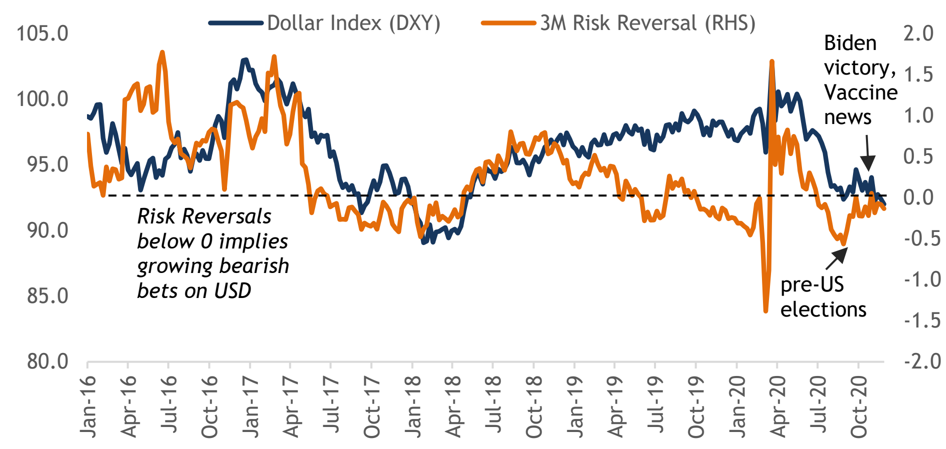
We maintain our **bias for USD downside play** on: (i) unwinding of dollar semi-haven demand alongside vaccine progress, (ii) Fed's commitment to dovish bias (with its AIT framework and greater tolerance on inflation overshoots), (iii) diversification out of USD in global payments and on a longer-term basis, FX reserves reallocation, and (iv) a slower recovery in US fiscal deficits compared to DM peers or Asian economies.

Arguments for potential dollar debasement are not new, and we might not see a near-term continuation of the sharp fall-off in dollar strength post-March, but a combination of the aforementioned factors could still work to weigh on the dollar structurally in 2021.

3.2 A Weakening Case for USD Haven Demand

Barring new sets of risk factors, the case for holding USD on haven demand may gradually grow weaker over time.

Fig 45: 3M Risk Reversal for USD Shows Tentative Signs of Turning Lower Again



Source: Bloomberg, Maybank FX Research & Strategy

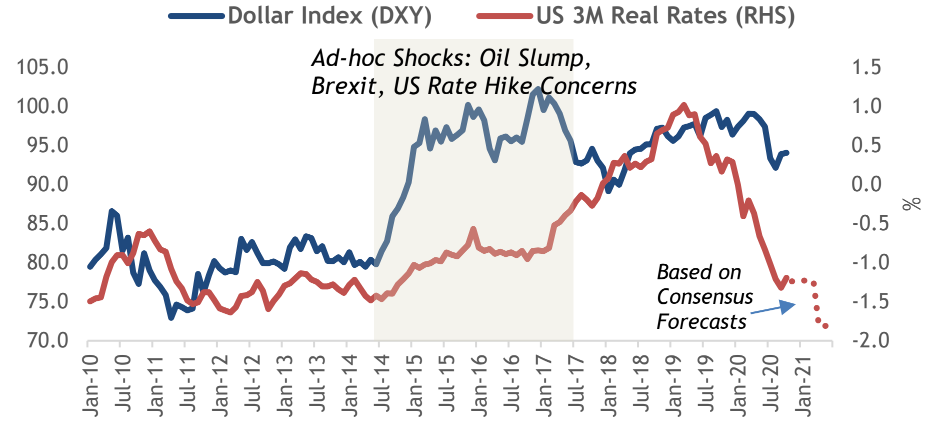
3M risk reversals for USD was on a downtrend from April, but haven demand for USD pre-US elections likely led it modestly higher then. Subsequently though, a Biden victory had curbed its upward momentum, and there are tentative signs that bearish USD bets could be gradually gaining traction again (risk reversals in modest negative territory).

Themes 1 and 2 have discussed positive developments on the vaccine and US elections front that could reduce dollar haven demand. On vaccine progress, we note too that in the US alone, between Pfizer and Moderna, potentially twenty million people could be vaccinated by the end-of December (roughly on par with the number of US healthcare workers). On policy uncertainty, we also observe that uncertainty levels (as measured by the *Baker, Bloom and Davis Economic Policy Uncertainty index*) tends to revert to "normalcy" within half a year of the presidential transition.

3.3 Negative Real US Rates Could Be Here for Some Time

Meanwhile, Fed's dovish commitment via Average Inflation Targeting (AIT) could result in negative real interest rates over the next few years, with near-term rates kept near zero while inflation potentially recovers to 2% and beyond.

Fig 46: Risks to US 3M Real Rates from Recovering Demand and PCE Inflation



Note: US 3M real rates are computed as 3M Libor less PCE Core inflation.
Source: Bloomberg, Maybank FX Research & Strategy

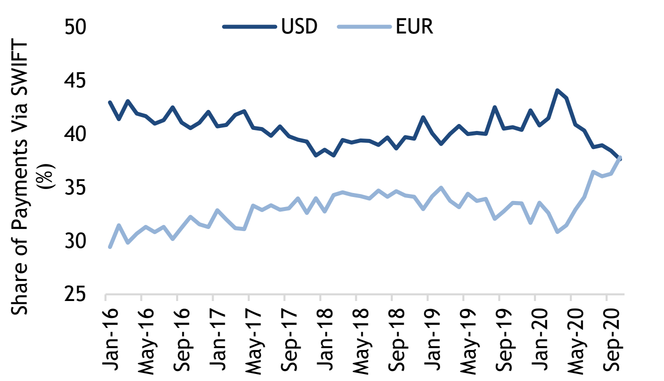
Barring a period of ad-hoc shocks to dollar sentiments emanating from oil slump, Brexit and US rate hike concerns over 2014-17, we note that directional biases in DXY and US 3M real rates have been relatively aligned. Consensus forecasts expect risks to real rates to remain biased to the downside into 2021, and this could weigh on the USD accordingly.

3.4 Payment Trends Add to Dollar Debasement Concerns

According to Swift data, EUR's usage in international payments has surpassed that of the USD as of Oct, with USD's usage peaking around Mar 2020. The plunge since then suggests accelerated diversification away from the use of USD after the occurrence of the USD liquidity crunch in Mar, adding to the USD debasement narrative.

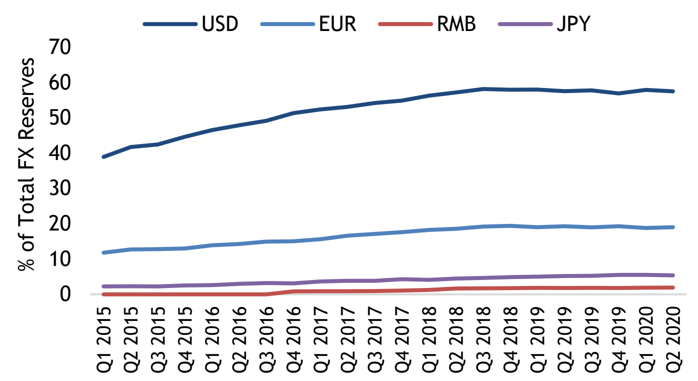
Meanwhile, IMF COFER data also shows that the rise in the share of USD in countries' holdings of FX reserves has largely tapered since peaking in 3Q 2018, even as we have yet to see any significant decline. While any significant shifts in reserve FX shares would likely take multiple decades, the bias here is still for reduced dollar holdings over time, especially with the emergence of initiatives such as the digital yuan. On net though, impact of this factor on dollar strength could be relatively mild for now.

Fig 47: Global Payments in EUR Surpassed that in USD



Source: Bloomberg, Maybank FX Research & Strategy

Fig 48: USD Share of Global FX Reserves Flatlined Since 2018

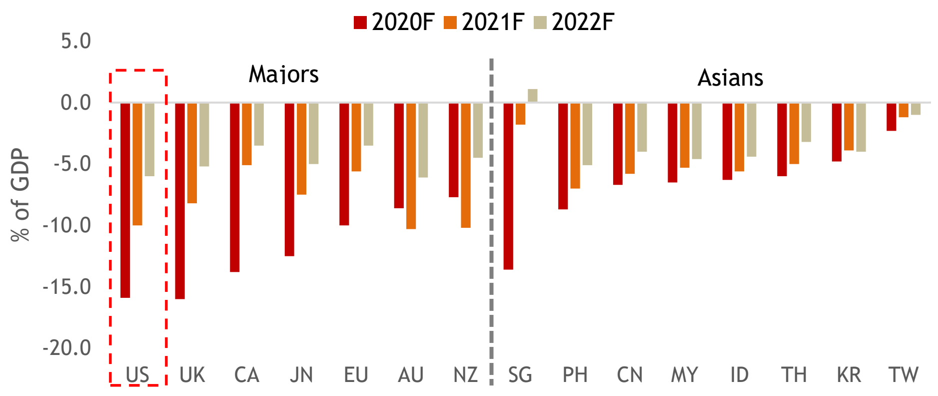


Source: IMF COFER

3.5 Fiscal Deficit an Achilles' Heel for Dollar?

The COVID-19 pandemic has forced a shift in macro balances for each economy, notably a deterioration in fiscal accounts as funds are diverted to combat Covid-induced drags. While near-term stimulus is almost always welcome by markets, concerns over ballooning debt tend to creep in over time, and the eventual tapering of support can be painful as well.

Fig 49: Consensus Forecasts See US Fiscal Deficits Faring Worst Over 2020-22



Source: Bloomberg (ECFC), Maybank FX Research & Strategy

Historically, broad periods of wide US fiscal deficits have tended to weigh on the dollar. We note that comparatively:

(i) The US' cumulative fiscal deficits for 2020-22 is expected to be the largest among countries under consideration, and could potentially be even wider in the off-chance that Democrats gain a Senate majority (i.e., unified Congress raises likelihood of larger stimulus package and elevated public spending efforts).

(ii) We note that the Covid-led bouts of deterioration in fiscal balance trajectories tend to be more serious for DMs vs. Asia, either due to more manageable contagion trends in Asia, or instances of fiscal regulations limiting debt increases.

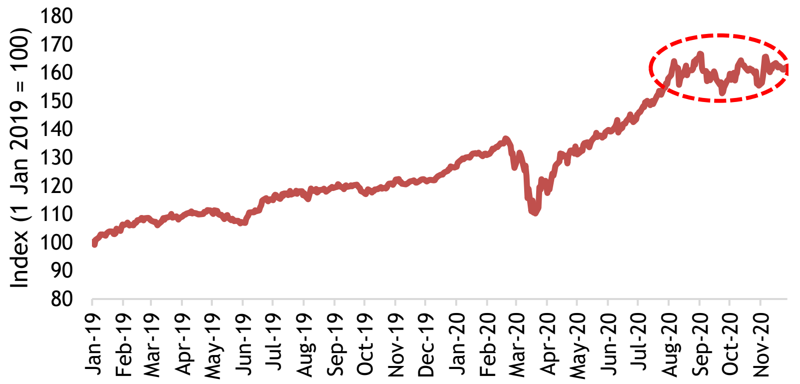
The latter in particular, could point to **more sustained dollar softness against the Asian currencies in the quarters ahead**.

4. Risks: Tech Sputtering, Uneven Vaccination Schedules

4.1 Covid-proxy Longs Look Toppish

In a way, long positions in assets such as gold, tech equities, supermarket stocks etc., can be viewed as a proxy for the extent of COVID-19 concerns. Upward momentum in the prices of these assets have largely persisted through 2Q and 3Q, and tech-linked FX has gained alongside. Nonetheless, the current concern is if these trends will reverse as vaccine rollouts proceed apace and the world heads towards some semblance of normalcy again in 2021. Chart below shows that gains in a basket of gold & Nasdaq has already begun plateauing since end-3Q.

Fig 50: Index of Gold & Nasdaq Slowed in Gains in 4Q



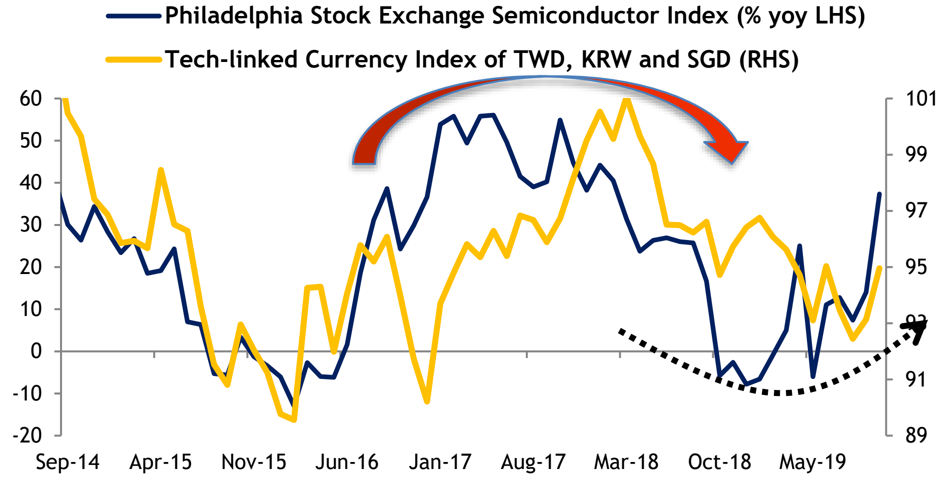
Source: Bloomberg, Maybank FX Research & Strategy
Note: Index is equally weighted in gold and Nasdaq. Index value of 100 in 1 Jan 2019.

For big tech in particular, another risk to watch could be the chances of increased scrutiny in tech regulation. In US, recent senate hearings largely assess that self-regulation is necessary but not sufficient, and that the industry may need to review its business models. Efforts to rein in big tech could gain further traction if Democrats win the Georgia runoffs (less likely but not impossible) and we see a unified Congress. In China, we also saw regulators showing signs of increased watchfulness on its Fintech leaders (e.g., pulling the plug on Ant Financial's IPO).

4.2 Sporadic Tech-linked FX Softness Could Provide Buy-on-Dips Opportunities

More broadly, if developments in vaccine distribution and efficacy surprise positively (i.e., quicker than expected, with accompanying implications for return of tourism, activity flows etc.), some of the aforementioned Covid-proxy longs could be unwound, and rotated more quickly into cyclicals. This could **pose some challenges to tech-linked FX such as KRW, TWD and SGD**, given the significant positive correlation between global tech trends and these currencies.

Fig 51: Positive Correlation between Tech-Linked Proxy FX and SOX Intact



Source: Bloomberg, Maybank FX Research & Strategy

Note: Tech-linked currency index consists of equally-weighted SGD, KRW, TWD vs. the USD (Index value of 100 in Jan 2011); SOX is Philadelphia Stock Exchange Semiconductor Index for short.

We note though that these development—even if it comes to pass—needs to be considered against a backdrop of broader regional sentiments. It is likely that the factors discussed in detail in Theme 1 can mitigate the impact of any tech-linked pullbacks to a significant extent. In this case, **bouts of softness in KRW, TWD, SGD on negative global tech headlines may provide opportunities for buying-on-dips**.

4.3 Uneven Vaccine Roll Out Schedule Can Affect Sentiment

Differentiated crisis management (i.e. COVID-19 pandemic control, vaccine logistical, diplomacy issues, vaccine efficacy, eventual vaccine rollout timeline and vaccine adoption rates) can affect the pace of economy reopening and growth normalisation. For instance US and UK are likely to be amongst the first few countries to have access to vaccines (as soon as end-2020) but a slower take-up rate of vaccination could delay pandemic control. For instance according to a Gallup poll (ended 1 Nov), 58% of Americans said they would get vaccinated. In contrast, countries with greater adoption and access to vaccines such as China could see a faster reopening of its economy. This could suggest **another positive factor underpinning CNH's resilience**.

Within ASEAN, Indonesian authorities have been relatively more active in communicating near-term vaccination plans (starting Dec 2020, ramping up in 2021), possibly contributing to IDR positivity in Nov. The risk for Indonesia, therefore, could be whether implementation efforts keep up with expectations. In contrast, countries such as Philippines are looking for bulk vaccinations to occur in late 2021 or early 2022, which could be more neutral for sentiments.

FX Forecasts

	As of 30/11/2020	End Q1-21	End Q2-21	End Q3-21	End Q4-21
USD/JPY	104.31	102	102	101	101
EUR/USD	1.1927	1.21	1.22	1.24	1.25
GBP/USD	1.3323	1.36	1.36	1.38	1.40
AUD/USD	0.7344	0.76	0.77	0.78	0.78
NZD/USD	0.7017	0.71	0.72	0.73	0.73
USD/CAD	1.3001	1.28	1.27	1.26	1.26
USD/SGD	1.3416	1.32	1.30	1.29	1.28
USD/MYR	4.0738	4.02	3.95	3.90	3.90
USD/IDR	14120	13900	13700	13600	13500
USD/THB	30.29	30.30	30.10	29.90	29.70
USD/PHP	48.13	47.50	47.50	47.00	47.00
USD/CNY	6.58	6.45	6.35	6.25	6.25
USD/HKD	7.75	7.75	7.75	7.75	7.75
USD/TWD	28.57	28.20	28.20	28.30	28.60
USD/KRW	1106	1080	1080	1060	1060
USD/INR	74.05	71.00	70.00	69.00	69.00
USD/VND	23133	22800	22700	22700	22500
DXY Index	91.87	90.68	90.15	88.92	87.95
SGD Crosses	As of 30/11/2020	End Q1-21	End Q2-21	End Q3-21	End Q4-21
SGD/MYR	3.0465	3.0455	3.0385	3.0233	3.0469
JPY/SGD	1.2863	1.29	1.27	1.28	1.27
EUR/SGD	1.6002	1.60	1.59	1.60	1.60
GBP/SGD	1.7874	1.80	1.77	1.78	1.79
AUD/SGD	0.9853	1.00	1.00	1.01	1.00
NZD/SGD	0.9410	0.94	0.94	0.94	0.93
CAD/SGD	1.0316	1.03	1.02	1.02	1.02
SGD/IDR	10567	10530	10538	10543	10547
SGD/THB	22.57	22.95	23.15	23.18	23.20
SGD/PHP	35.99	35.98	36.54	36.43	36.72
SGD/CNY	4.92	4.89	4.88	4.84	4.88
SGD/HKD	5.78	5.87	5.96	6.01	6.05
SGD/TWD	21.39	21.36	21.69	21.94	22.34
SGD/KRW	827	818	831	822	828
SGD/INR	55.19	53.79	53.85	53.49	53.91
SGD/VND	17241	17273	17462	17597	17578

Source: Maybank FX Research as of 1 Dec 2020.
**These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

Cambodia, Laos & Myanmar

Rough Landing, Divergent Recovery

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Divergent Recovery

Cambodia, Laos and Myanmar (CLM) economies are bottoming out, but the recovery will be slow and uneven. Different degrees of COVID-19 outbreak (largely controlled in Cambodia & Laos, but rising in Myanmar) & country-specific challenges will result in divergent recovery trajectories. GDP growth is expected to remain below the past five-year average for the next two years. Myanmar's GDP will likely recover to a sluggish +4.5% in FY20/21 (fiscal year ending Sep 2021) from +1% in FY19/20, before picking up to +6% in FY21/22. Cambodia's GDP will likely expand at a healthy +5.9% in 2021 and +6.2% in 2022, recovering from a -1% contraction in 2020 as exports & manufacturing gradually recover. For Laos, we project GDP growth of +6% in 2021 and 2022, a decent rebound from +1% in 2020.

Varying Fiscal Support; Abating Inflation Concerns

CLM governments have introduced varying fiscal packages to support firms & households. Size of fiscal support was largest in Cambodia (4.3% of GDP), followed by Myanmar (2.5%) & Laos (<0.02%). World Bank surveys suggest that disbursements of government relief and support have been higher in Cambodia than in Myanmar and Laos. We expect inflation to remain largely contained in 2021. Inflation is expected to pick up slightly in Cambodia (+3.2% in 2021 vs. +2.8% in 2020), but eased lower in Myanmar (+5% in FY20/21 vs. +5.7% in FY19/20) & Laos (+4.8% in 2021 vs. +5.3% in 2020).

FDI Recovery as Supply Chain Shifts

The pandemic has reinforced the need for a more diversified supply chain. The CLM countries could potentially benefit from manufacturing FDI inflows, especially in labor intensive industries. While FDI inflows have slowed, there are recovery signs with FDI approvals posting robust gains. Cambodia's approved investments for the industry sector rose by a strong +56.4% in 1H20 (vs. +23.2% in 2019), while Myanmar's total approved FDI reached USD3.9b in 8M20 (+25.3% vs. +30.9% in 2019). Laos' FDI inflows increased (+24.2% in 9M20 vs. -44% in 2019), in part due to a low base.

Risks: Covid & Vaccine Delays, Inflation and Politics

Risk #1: Covid outbreaks and vaccine delays, especially since CLM have limited financial resources and may be last in line to receive the vaccine. Herd immunity will likely only be achieved in 2022 at the earliest.

Risk #2: Inflation & currency pressures. Inflation may surprise on the upside, particularly in Myanmar and Laos, given twin current account & fiscal deficits, surging money supply (M2) growth (Myanmar), and a weakening currency (Laos). Supply shocks from unexpected natural disasters, including floods, can reignite food inflation risks.

Risk #3: Myanmar's post-election political transition. Aung San Suu Kyi's ruling party NLD secured a landslide victory. But the main military-backed opposition party, NSDP, is citing alleged voting irregularities and calling for fresh elections (we assign a low probability). This could increase tensions between the government and military.

1. Divergent Recovery

Cambodia, Laos and Myanmar (CLM) economies are bottoming out from the pandemic crisis, but the recovery will be slow and uneven. Different degrees of COVID-19 outbreak (largely controlled in Cambodia & Laos, but rising in Myanmar) & country-specific challenges will result in a divergent recovery trajectories. GDP growth is expected to remain below the past five-year average for the next two years (see Fig 52). Risks to our GDP growth forecasts are biased on the downside given risks from renewed waves of infections and possible delays in vaccine implementation.

Myanmar's economy is likely in for a rough ride early next year, before recovering from 2Q21 onwards when the Covid spread is contained and vaccine availability improves. We expect GDP growth to recover to a sluggish **+4.5% in FY20/21** (fiscal year ending Sep 2021) from +1% in FY19/20, before picking up to **+6% in FY21/22**. Reintroduction of lockdowns due to second wave outbreak since late Sep has had a more severe impact on the economy, hitting manufacturing, retail, transport & tourism-related services anew. Recent World Bank survey conducted in Oct 2020 reported that 96% of firms saw a reduction in sales, as compared to 85% in May while 19% of firms were temporarily closed, up from 16% in May. In particular, share of manufacturing firms that were temporarily closed saw the biggest jump to 19% from just 6% in May (see Fig 53).

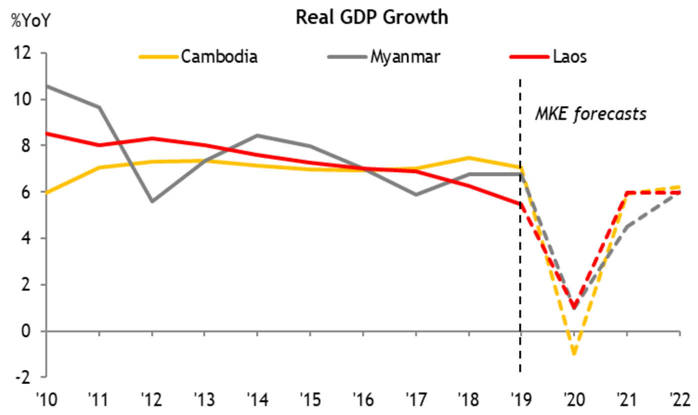
We forecast Cambodia's GDP growth at **+5.9% in 2021** and **+6.2% in 2022**, recovering from a -1% contraction in 2020. Exports & manufacturing activities should gradually recover as global demand revive and domestic Covid situation remain controlled. Textile & garment exporters will remain under immense pressure due to EU's partial withdrawal of its trade preferences since Aug 2020 (see *ASEAN Frontiers Watch: Rough Landing, Choppy Recovery*, 19 Oct 2020). Bright spots in bicycles & electrical parts exports will help provide some interim support. Growth for the first half of 2021 will likely be weighed down by the lack of a meaningful tourism recovery, but may strengthen in the second half as vaccines become more widely available.

We project Laos' GDP growth at **+6% in 2021 and 2022**, a decent rebound from +1% in 2020. Laos' economic recovery will be supported by the revival in external demand from major exports markets China, Thailand & Vietnam and higher electricity exports from hydropower dams which have started commercial operations[2]. Ongoing construction of mega infrastructure projects, which were uninterrupted despite the pandemic, will also support the recovery. The USD6b China-Laos railway is on track for full completion by Dec 2021, while the Vientiane-Vangvieng expressway is expected to open for public use by the end of 2020.

Recent vaccine breakthroughs raise hopes for a strong global economic recovery next year. However, due to limited financial resources, vaccine distribution and implementation may not reach Cambodia, Myanmar & Laos until late 2021 or early 2022, dampening the pace of recovery. The CLM countries are among the 92 low- and middle-income countries eligible to tap onto the COVID-19 Vaccine Global Access (COVAX) facility for access to a vaccine, which aims to cover up to 20% of each participating country's population by end 2021. Herd immunity is likely only in 2022.

[2] One of Laos' largest hydropower projects, Xayaburi dam (installed capacity of 1,287 MW), has commenced operations as of Oct 2019. Other projects which began operations in 2020 include the Don Sahong dam (in Jan 2020), Nam Ou dams (1, 3, 4 and 7).

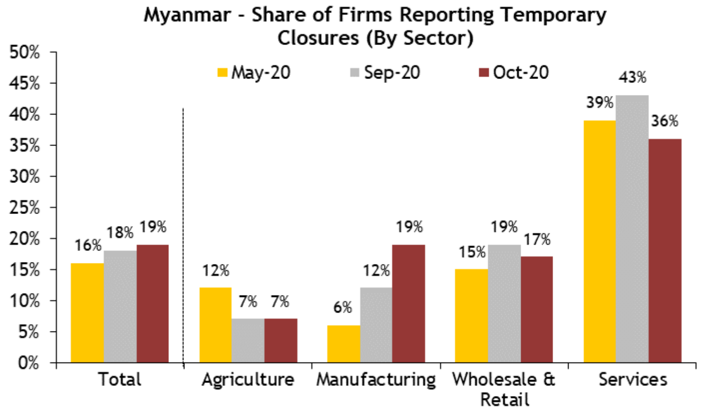
Fig 52: Divergent Recoveries Across Cambodia, Myanmar & Laos



Note: Myanmar GDP growth rate refers to fiscal year from April to March in 2011-18, and October to September 30 from 2019 onwards.

Source: IMF, CEIC, Maybank KE estimates

Fig 53: Myanmar - Survey Suggests More Firms Were Temporarily Closed Due To Renewed Lockdowns, Led By Manufacturing



Note: Figures refer to survey results conducted during May, Sep and Oct 2020.

Source: World Bank (Myanmar COVID-19 Monitoring Platform)

2. Varying Fiscal Support; Abating Inflation Concerns

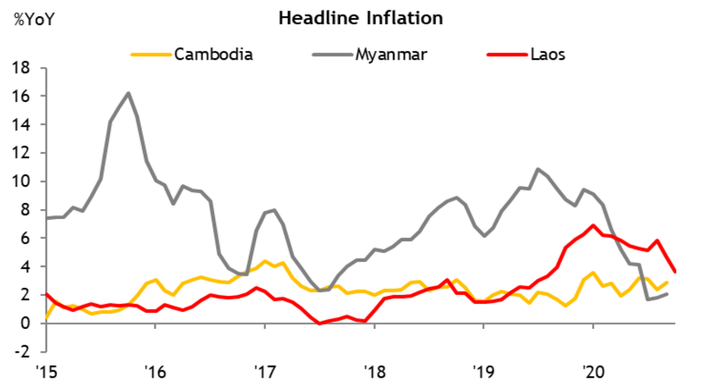
CLM governments have introduced several fiscal packages to support firms & households. Size of fiscal support was the largest in Cambodia (4.3% of GDP), followed by Myanmar (2.5% of GDP). Laos has announced the smallest package (<0.02% of GDP) due to limited fiscal room (see Table 8 in *ASEAN Frontiers Watch: Rough Landing, Choppy Recovery*, 19 Oct 2020).

World Bank surveys conducted in June to Sep 2020 in Cambodia, Myanmar and Laos suggest that disbursements of government relief and support have been higher in Cambodia than in Myanmar and Laos.

In Cambodia, about 90% of the poor & vulnerable households registered under the "IDPoor" programme have received relief cash transfers since Jun 2020. In comparison, only around one-third of households in Myanmar have received government support (32% of households received electricity subsidy, 18% received cash assistance & 16% received food assistance). Coverage of relief measures in Laos is the smallest, with only about 12,000 affected workers (0.37% of pre-pandemic employment) having claimed the COVID-19 unemployment benefit, while another 7.9% of households received social assistance (in cash or in kind) between March and June 2020.

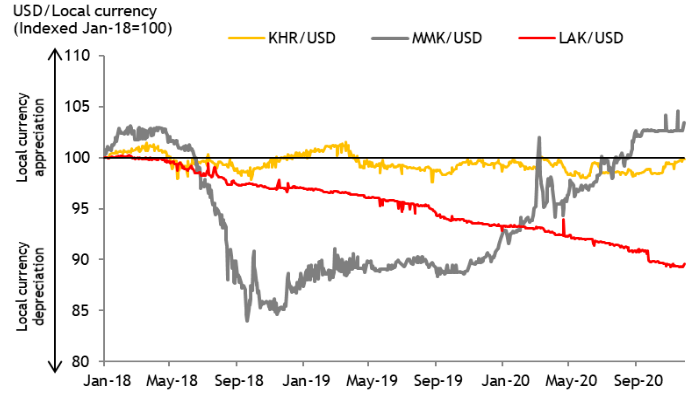
We expect inflationary pressures to remain largely contained across the CLM countries in 2021 (see Fig 53). Average inflation in Cambodia will likely pick up as the domestic economy recovers, but remain benign at +3.2% in 2021 (vs. +2.8% in 2020). For Myanmar, soft domestic demand and a favorable high base due to previous electricity price hikes will drive average inflation lower to +5% in FY20/21 (vs. +5.7% in FY19/20). A stronger Myanmar kyat (+12.3% YTD against USD; see Fig 54) is helping to contain imported inflation. We expect Laos' headline CPI to moderate to +4.8% in 2021 (vs. +5.3% in 2020) on easing food inflation which slowed to a five-month low in Sep (+7.7% vs. +9.9% in Aug-20), but a weakening currency poses upside risks.

Fig 54: Headline Inflation Easing in Laos, Subdued in Cambodia & Myanmar



Source: CEIC

Fig 55: Myanmar Kyat (MMK) Best Performing Currency Among CLM Countries in 2020; Laos Kip (LAK) Weakening



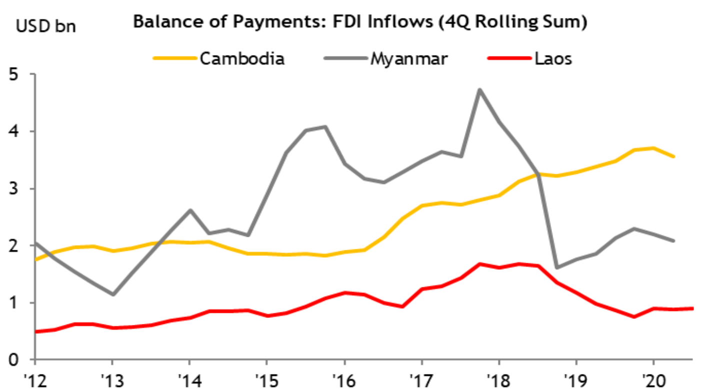
Note: Last datapoint as of 30 November.
Source: Bloomberg

On monetary policy, we expect the Central Bank of Myanmar (CBM) to ease policy rates, possibly by up to 100bps to 6% (from current 7%) by 1Q21, to support growth. The appreciating kyat amid low inflation (+2% in Sep vs. +1.8% in Aug; +4.5% in 2Q) opens the door for more rate cuts. For Laos, we expect the Bank of Laos (BoL) to keep the policy rate on hold at 3% in 2021. In Cambodia, the National Bank of Cambodia (NBC) will likely focus on stabilizing the currency given that its monetary policy tools remain constrained by the highly dollarized economy.

3. FDI Recovery as Supply Chain Shifts

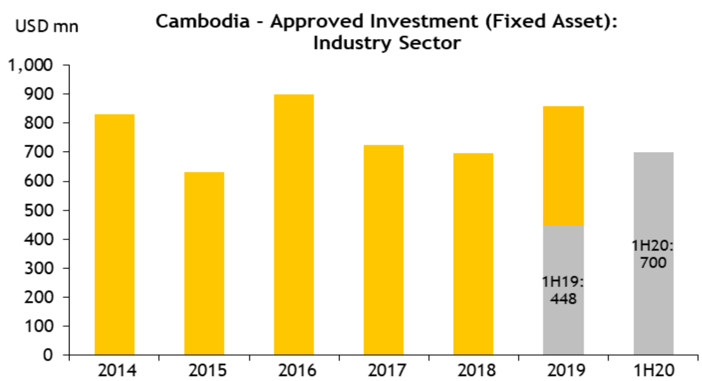
The pandemic has reinforced the need for a more diversified manufacturing supply chain. The CLM countries will benefit from further FDI due to manufacturing relocation, especially in the labour intensive industries. While FDI inflows, based on BoP data, have slowed in Cambodia (-5.8% in 1H20 vs. +14.2% in 2019) and Myanmar (-20.2% vs. +42.4% in 2019) in the wake of the COVID-19 crisis, there are recovery signs for the year ahead with FDI approvals posting robust gains (see Fig 56). Cambodia's approved investments (by foreign & domestic investors) into the industry sector rose strongly (+56.4% in 1H20 vs. +23.2% in 2019) (see Fig 57). In Myanmar, total approved FDI reached USD3.9b in the first eight months of 2020, a strong +25.3% increase from the same period last year (vs. +30.9% in 2019). In Laos, FDIs inflows continued to grow (+24.2% in 9M20 vs. -44% in 2019) during the pandemic, in part due to a low base when government suspended new dam project approvals in 2019 after the Xe-Pian Xe-Namnoy saddle dam collapse.

Fig 56: Divergent Fortunes - FDI Inflows Slowing In Cambodia & Myanmar, But Recovering in Laos



Note: Balance of Payments data are available up till 2Q20 for Cambodia & Myanmar, and 3Q20 for Laos
Source: IMF, CEIC

Fig 57: Cambodia - Approved Investments (Foreign + Domestic) Into Industry Sector Reached More Than 80% of 2019 Levels



Note: Data includes investments by both domestic & foreign investors. Breakdown for approved investments by foreign investors by sectors are not available.
Source: CEIC, National Bank of Cambodia

Table 3: Cambodia - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	7.0	7.5	7.1	(1.0)	5.9	6.2
Private Consumption (%)	4.6	4.6	5.5	(1.4)	5.2	5.0
Government Consumption (%)	6.5	6.5	5.8	9.0	5.0	4.0
Gross Fixed Capital Formation (%)	6.1	6.1	6.9	(4.0)	7.0	7.0
Exports of Goods & Services (in USD terms, %)	5.3	5.3	7.8	(6.5)	9.0	9.7
Imports of Goods & Services (in USD terms, %)	4.1	4.1	6.0	(6.7)	8.2	8.6
Current Account Balance (% of GDP)	(8.1)	(11.8)	(15.0)	(16.2)	(15.1)	(18.3)
Fiscal Balance (% of GDP)	(0.8)	0.7	2.3	(3.3)	(1.5)	(1.1)
Inflation Rate (%)	2.9	2.5	1.9	2.8	3.2	3.4
Unemployment Rate (%)	0.7	0.7	0.7	1.0	0.8	0.7
Exchange Rate (per USD, end-period)	4,033	4,040	4,070	4,060	4,100	4,120
*Benchmark Interest Rate (% p.a., end-period)	3.00	3.00	3.00	2.50	2.50	2.75

** Refers to one-year interest rate applied under Liquidity-Providing Collateralized Operation (LPCO) mechanism*

Source: CEIC, Maybank Kim Eng

Table 4: Myanmar - Key Macroeconomic Indicators

	FY16/17	FY17/18	FY18/19	FY19/20E	FY20/21E	FY21/22E
Real GDP (%)	5.9	6.8	6.8	1.0	4.5	6.0
*Consumption (%)	2.2	4.3	1.5	4.5	4.0	4.5
Gross Fixed Capital Formation (%)	1.2	6.6	2.6	(1.0)	5.0	8.0
Exports of Goods & Services (in USD terms, %)	(0.4)	19.0	11.3	(6.6)	7.0	9.0
Imports of Goods & Services (in USD terms, %)	(11.4)	9.4	(7.7)	2.0	6.0	7.0
Current Account Balance (% of GDP)	(4.3)	(5.5)	0.2	(2.5)	(3.0)	(3.0)
Fiscal Balance (% of GDP)	(2.5)	(2.7)	(5.0)	(8.0)	(7.5)	(5.0)
Inflation Rate (%)	6.8	4.0	8.6	5.7	5.0	6.0
Unemployment Rate (%)	1.1	1.6	1.5	3.5	2.8	2.0
Exchange Rate (per USD, end-period)	1,359	1,331	1,532	1,320	1,300	1,280
^Benchmark Interest Rate (% p.a., end-period)	10.00	10.00	10.00	6.50	6.00	6.00

Note: Underlying months that constitute a fiscal year were changed in 2018. Fiscal year is from April 1 to March 31, up to FY 2017/18. From FY 2018/19 onwards, the fiscal year is from October 1 to September 30.

** Myanmar does not provide breakdown of private & government consumption.*

^ Refers to Central Bank of Myanmar (CBM) Central Bank Rate

Source: CEIC, Maybank Kim Eng

Table 5: Laos - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	6.9	6.3	5.5	1.0	6.0	6.0
*Agriculture (%)	2.9	1.3	1.2	2.3	1.9	1.9
*Industry (%)	11.6	7.8	5.6	2.3	6.5	7.3
*Services (%)	4.5	6.8	6.9	(0.2)	7.2	6.3
Current Account Balance (% of GDP)	(7.5)	(9.2)	(5.2)	(6.0)	(5.7)	(5.2)
Fiscal Balance (% of GDP)	(5.5)	(4.7)	(3.2)	(6.5)	(5.7)	(5.0)
Inflation Rate (%)	0.8	2.0	3.3	5.3	4.8	5.0
Unemployment Rate (%)	0.7	0.6	0.6	2.5	2.0	1.2
Exchange Rate (per USD, end-period)	8,293	8,545	8,885	9,300	9,620	9,820
^Benchmark Interest Rate (% p.a., end-period)	4.00	4.00	4.00	3.00	3.00	3.50

**Laos' real GDP data is provided with breakdown by industry. Data series on breakdown of real GDP by expenditure components was discontinued since 2017.*

^ Refers to Bank of Lao PDR (BOL) Short-Term Lending Rate for < 1 Week

Source: CEIC, Maybank Kim Eng

Indonesia

A Vaccine-Dependent Recovery, A Huge Step Towards Reforms

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Vaccine Key for Domestic Demand Recovery

GDP is expected to rebound by +5.3% in 2021 (vs. -1.8% in 2020) and expand by +5% in 2022. The vaccine will be a game-changer for Indonesia, which has been struggling to flatten the pandemic curve. The vaccine will help restore domestic mobility and revive the domestic economy. The government targets to immunize more than 107 million people between 16 to 59 years old (67% of population in the age group) by end 2021. Pace of recovery in 2021 will hinge on the speed and efficiency of deploying a vaccine, as well as the willingness by the public to take and pay for the vaccine. The government will be funding vaccinations for 32m people, including the poor, and healthcare and frontline workers.

Unconventional Monetary Policy to Continue

We expect Bank Indonesia (BI) to continue its significant role in financing the fiscal deficit in 2021, which the government has set at 5.7% of GDP. The budget financing strategy has yet to be specified, but BI governor Perry Warjiyo has pledged that the central bank will remain a standby buyer for up to 25% of government debt through 2022. BI has already purchased Rp385tn of government bonds (out of Rp575tn) under the “debt burden sharing” agreement and Rp72.5tn in the primary market as of 17 Nov. On monetary policy, we expect BI to deliver one more rate cut in 1Q2021 to support the economic recovery. BI has sufficient policy room to ease, with low inflation (+1.6% in Nov), improving current account balance (+0.4% of GDP in 3Q20, the first surplus since 2011) and a stable rupiah.

Omnibus Law: Positive Step Towards Reforms

Passing of the Omnibus Law will boost job creation and improve the business climate, a huge positive step towards catalyzing private and foreign investment. The law in a single stroke amends and simplifies 79 existing laws and regulations. Major measures include simplification of business licensing, labour reforms, easing of foreign investment restrictions, establishment of a sovereign wealth fund, and development of special economic zones. The reforms come at an opportune time as the pandemic has reinforced the case for manufacturing supply chains to shift towards ASEAN from China.

Risks: Delay of Vaccine and Omnibus Law

A key risk to our economic outlook is a prolonged delay in vaccine deployment. The Sinovac vaccine, the top candidate for Indonesia, has experienced some hiccups in its Phase 3 trials, with Brazil’s health regulator suspending trials temporarily in November due to ‘adverse’ effects. The effectiveness of a vaccine may also be limited if people are unwilling to be vaccinated or pay for the doses.

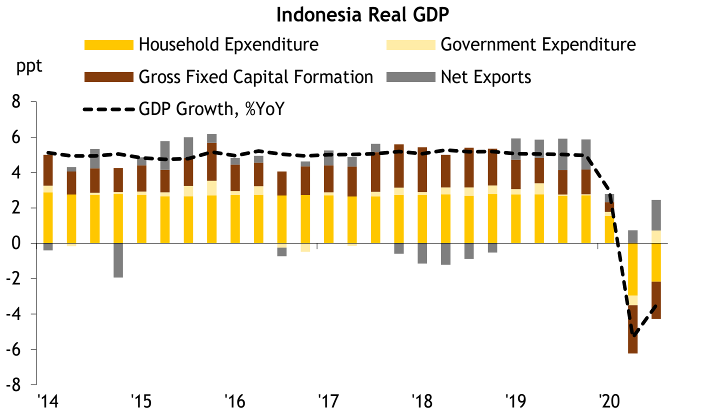
Another risk would be delays in implementing the Omnibus law. The Constitutional Court could challenge some of the measures, given the opposition by labour and non-governmental organizations. While protests have dialed down from the scale seen in October when the law was passed, another wave of protests could prompt the government to water down the law’s provisions.

1. Vaccine Key for Domestic Demand Recovery

Real GDP is expected to rebound by +5.3% in 2021 (vs. -1.8% in 2020) and expand by +5% in 2022. The plunge in investment (-4.5% in 9M20) and private consumption (-2.3%) dragged the economy into recession for the first time since the 1998 Asian Financial Crisis. Government expenditure (+2%) was the only component registering growth (see Fig 57).

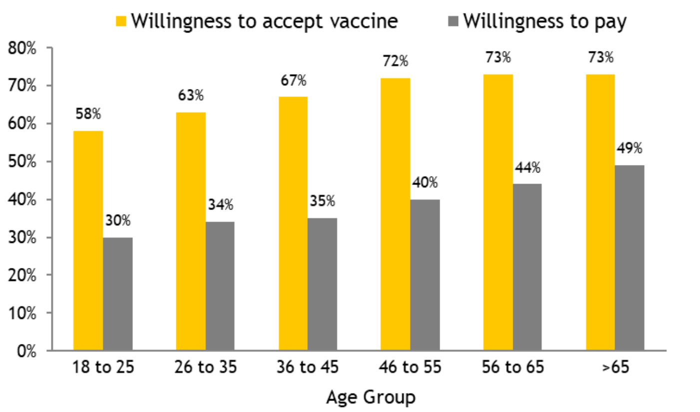
The vaccine will be a game-changer for Indonesia, which has been struggling to flatten the pandemic curve. The vaccine will help restore domestic mobility and revive the domestic economy (see *ASEAN Economics - The Pandemic Economy: Recession & Recovery*, 18 Sep 2020). The government targets to immunize more than 107 million people between 16 to 59 years old (67% of population in the age group) by end 2021.

Fig 58: Collapse in Domestic Demand Plunged the Economy into Recession



Source: CEIC

Fig 59: Willingness to Accept Vaccine vs. Willingness to Pay by Age Group



Source: *"COVID-19 Vaccine Acceptance Survey in Indonesia"* (Nov 2020), WHO, Ministry of Health & Unicef

Pace of recovery in 2021 will depend on the speed of deploying a vaccine and achieving herd immunity. State-owned pharma firm Bio Farma is working with China's Sinovac to produce a vaccine, which may receive emergency use authorization in January 2021. Indonesia is unlikely to be able to tap on vaccines by Pfizer (-70 degrees Celsius for storage) or Moderna (-20 degrees) as they require refrigeration temperature far beyond its logistical capability. In contrast, the storage temperature for Sinovac's vaccine is between 2 to 8 degrees Celsius. Indonesia also faces infrastructure challenges especially in places like Central Sulawesi, a COVID-19 hotspot with no airport and where the only delivery route is via a 7-hour ferry ride. The government has yet to publish a road map on vaccine distribution to each city or regency.

Affordability and willingness to be vaccinated will be another key issue. Bio Farma reached a deal for at least 40m doses from Sinovac with a vaccine to cost around Rp200k (USD13.60) per dose. The government targets to procure and fund 30% of the vaccination to cover more than 32m people, including the poor, and healthcare and frontline workers. A survey by the WHO, UNICEF and the Ministry of Health found that while 65% of respondents were willing to accept a vaccine (vs. 7.6% who refused), only 35% was willing to pay (see Fig 58).

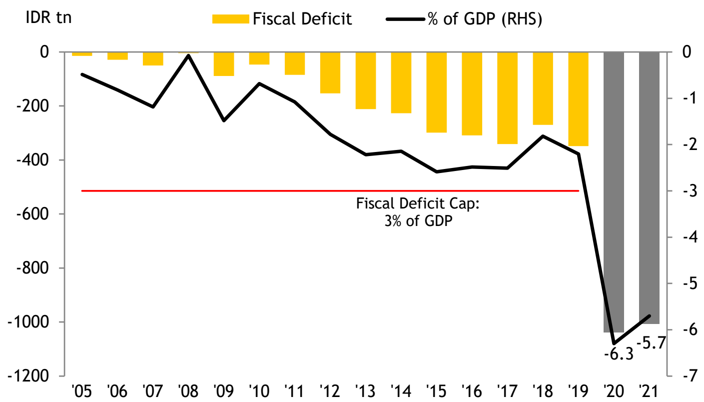
2. Unconventional Monetary Policy to Continue

Indonesia has enrolled significant help from its central bank to fund its fiscal stimulus package (4.6% of GDP). Besides relaxing its fiscal deficit cap of 3% of GDP for 3 years (2020 to 2022), a "debt burden sharing" agreement was made in which Bank Indonesia will buy Rp397.6tn (USD27b) worth of government bonds issued to fund healthcare and social safety nets and another Rp177tn (USD12b) for the stimulus package for SMEs and large businesses. BI has already purchased Rp385tn of government bonds (out of Rp575tn) under the "debt burden sharing" agreement, and Rp72.5tn in the primary market as of 17 Nov.

We expect Bank Indonesia (BI) to continue financing the fiscal deficit in 2021, which the government has set at 5.7% of GDP. The budget financing strategy has yet to be specified, but BI governor Perry Warjiyo pledged that the central bank will remain a standby buyer for up to 25% of government debt through 2022. Concerns regarding the impact of the burden-sharing scheme on central bank independence and currency seems to be on the backburner, with the rupiah emerging as the best performing currency in the Asia in November.

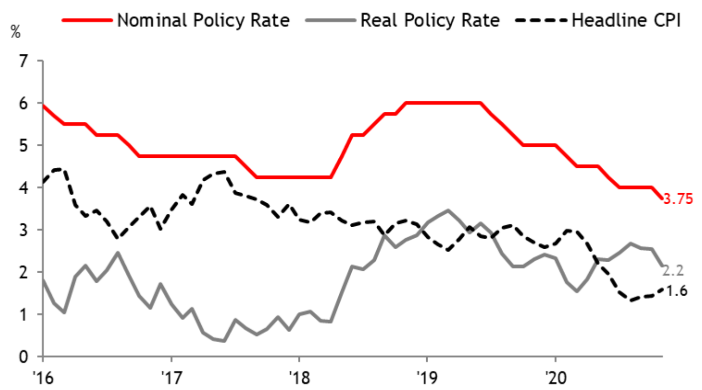
The fiscal deficit target may be on the ambitious side given the underspending. While the FY2020 budget deficit was projected to reach 6.3% of GDP, the deficit in the first ten months of 2020 is still at 4.7% of GDP. The government has only spent 62% of its Rp695tn stimulus package.

Fig 60: Fiscal Deficit Set at 5.7% of GDP in FY2021, Slightly Narrower than 6.3% in FY2020



Source: CEIC, Ministry of Finance

Fig 61: Real Rate Has Remained Steady Above 2% Despite BI's Easing Rounds as Inflation Eased



Source: CEIC

On monetary policy, we expect BI to deliver one more rate cut, bringing the policy rate to 3.5% in 1Q2021 to support the economy. BI has sufficient policy room with soft inflation (+1.6% in Nov), improving current account balance (+0.4% of GDP in 3Q20, first surplus since 2011) and a stable currency. Real rates have inched up to 2.2% in Nov (from 1.5% in Mar) despite rate cuts as inflation eased (see Fig 60). We expect the BI to stay accommodative and hold its policy rate at 3.5% until end 2022. Headline inflation is expected to pick up to +2.4% in 2021 (from +2% in 2020) on the back of an uptick in energy costs. Core inflation (excl. volatile food and government-controlled prices), which reflects consumer demand, will likely rise slightly to +2.4% in 2021 (vs. +2.3% in 2020) as spending recovers.

Policy easing has not translated to cuts in bank lending rates due to risk aversion. While BI cut its policy rate by 225bps since June 2019 to a historical low of 3.75% as of Nov 2020, PT Bank Central Asia, the largest lender, eased lending rates for customers by only about 100bps. Loans declined for the first time in October by -0.5%, weighed down by weakness in both industrial and consumer loans (see Fig 61).

3. Omnibus Law: Positive Step Towards Reforms

Passing the Omnibus Law will help create jobs and improve the business climate, a huge positive step towards catalyzing private and foreign investment. The law in a single stroke amends and simplifies 79 existing laws and regulations. Major measures include simplification of business licensing, labour reforms, easing of foreign investment restrictions, establishment of a sovereign wealth fund, and development of special economic zones (see Table 6). In particular, lower severance pay (19 months from 32 months) and stronger legal protection for temporary and outsourced workers (including a minimum wage and severance payment protection) will help ease rigid labor laws that has weighed on the country's competitiveness.

Table 6: Selected Key Reforms in the Omnibus Law

Key Incentives	Details
Simplifying business licensing	Risk-based and standardised approach, allowing low-risk businesses to require only legislation while high-risk ones will need to apply a permit. One map policy system to prevent overlapping land claims and related conflicts.
Direct investment	Removal of investment restrictions for all sectors except business sectors closed to investment (narcotics, casinos, etc)
Labour reforms	Lowering severance payments to maximum 25 months' salary (of which 6 months' salary will be paid through the job termination insurance programme funded by the government), from 32 months currently. Exemption of minimum wage applicability to SMEs. Companies not required to obtain written approval to hire foreign workers; submission of a human resources plan to suffice.
Sovereign wealth fund	Will be set up with an initial capital of USD5b in cash and stakes in state-owned companies, and targets fundraising of USD15b from global SWFs and insitutional investors. Source of capital for the SWF can be from state budget transfers of state assets, grants and other legal sources.
Developing special economic zones	Easier land acquisition and a one-stop single submission system for permits, tax incentives and easing in no-tariff barriers on processing imports.

Source: Compiled by Maybank Kim Eng

The new Sovereign Wealth Fund, named the Indonesia Investment Authority, is looking to raise up to USD15b and will target infrastructure such as toll roads, airports and seaports. Indonesia will inject an initial USD5b in cash and stakes in state-owned companies to kickstart the fund. While this is a positive step as it provides investors the flexibility to invest in various projects previously delegated to many state-owned enterprises, its success will depend on investors' confidence on governance. The 1MDB scandal in neighbouring Malaysia, as well as Indonesia's low ranking in the corruption perception index (85th out of 198th in 2019), coupled with its twin deficits, may be bigger push factors.

Reforms come at an opportune time as the pandemic has made the case for the supply chain shift from China to ASEAN even more compelling (see *ASEAN Economics - The Post-Pandemic Normal*, 13 Nov 2020). Indonesia had earlier missed out on FDI interest in 2019, when other ASEAN countries including Vietnam, Thailand and Malaysia saw a surge in manufacturing FDI due to the US-China trade war. Labour reforms and easier licensing process could help pique foreign investors' interest post-pandemic.

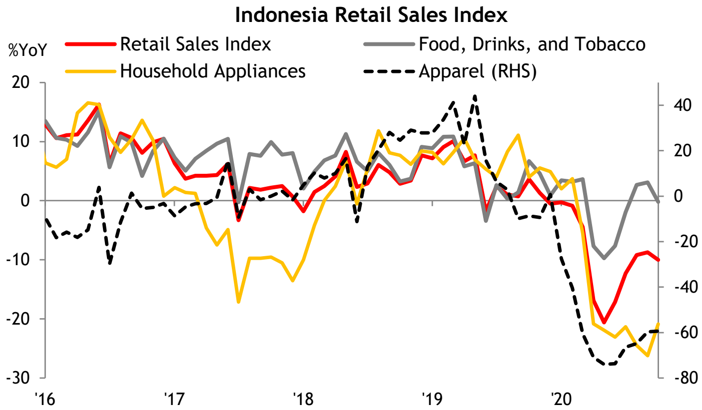
Actual implementation of the law, however, is not without challenges. The law requires a number of new implementing regulations to be issued for key areas such as labour legislation, no longer than 3 months from the enactment of the Omnibus Law (by early Feb 2021). Fierce opposition against the law risks hindering the implementation, with the Indonesian Trade Union Confederation filing a suit at the Constitutional Court in early November seeking a judicial review on the law.

Table 7: Indonesia – Key Macroeconomic Indicators

	2018	2019	2020E	2021E	2022E
Real GDP (%)	5.2	5.0	-1.8	5.3	5.0
Private Consumption	5.1	5.0	-2.6	4.9	5.2
Government Consumption	4.8	3.2	4.5	5.3	3.0
Gross Fixed Capital Formation	6.6	4.4	-4.6	5.0	5.2
Exports of Goods & Services	6.5	-0.9	-7.6	8.8	5.7
Imports of Goods & Services	11.9	-7.7	-14.2	7.2	7.7
Current Account Balance (% of GDP)	-2.9	-2.7	-1.1	-2.0	-2.6
Fiscal Balance (% of GDP)	-1.8	-2.2	-5.5	-5.5	-3.5
Inflation Rate (%, period average)	3.2	3.0	2.0	2.4	3.0
Unemployment Rate (%, period average)	5.3	5.3	7.1	6.5	5.8
Exchange Rate (per USD, end-period)	14,390	13,866	14,200	13,500	13,200
10-Year Government Bond Yield (%, end-period)	7.98	7.04	6.25	6.50	6.75
BI Policy Rate (% p.a., end-period)	6.00	5.00	3.75	3.50	3.50

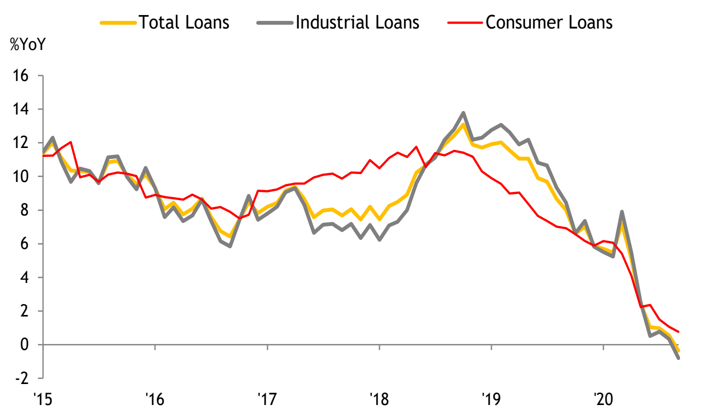
Source: CEIC, Maybank Kim Eng forecasts

Fig 62: Retail Sales Index Remained at 10% Below Pre-Covid Levels in Oct 2020



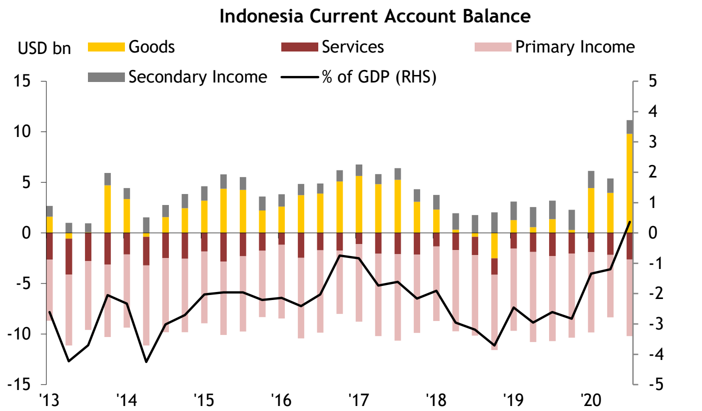
Source: CEIC

Fig 63: Loans Contracted for the First Time in October (-0.5%)



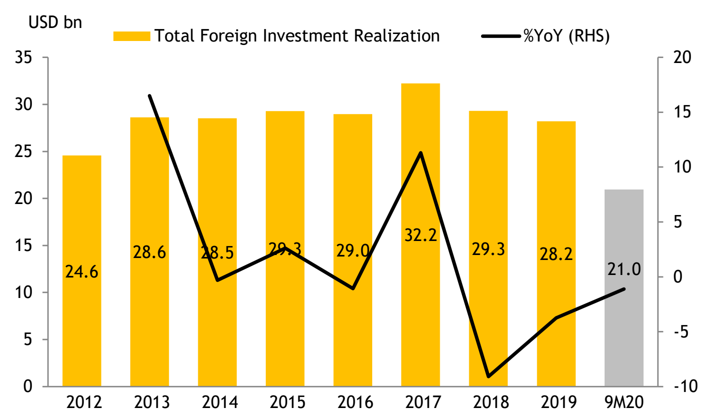
Source: CEIC

Fig 64: Current Account Balance Swung into Surplus in 3Q20 (0.4% of GDP) for the First Time Since 2011



Source: CEIC

Fig 65: Foreign Investment Realization Has Been Falling Since 2018



Source: CEIC

Malaysia

Speed Bumps in Recovery Path

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Speed bumps on road to recovery

We expect the Malaysian economy to grow +5.1% in 2021 after the -5.4% contraction in 2020. There are speed bumps on the road to recovery. Malaysia is going through its third wave of COVID-19 infections, which is much more “severe” than the previous two waves. The more recent COVID-19 cases involved foreign workers especially in the manufacturing and construction sectors. This forced the re-implementation of Conditional Control Movement Order (CMCO) and compulsory COVID-19 testing of foreign workers to curb COVID-19 transmission.

Necessitate continued monetary & fiscal stimuli

We expect BNM to maintain the record-low Overnight Policy Rate (OPR) of 1.75% until end-2021. BNM also stated it would utilise other policy levers to enable sustainable economic recovery. This is exemplified by the launch of two new SME lending schemes i.e. MYR2b Targeted Relief and Recovery Facility (TRRF - to assist SMEs whose are affected by current CMCO) and MYR0.5b High Tech Facility (HTF - to support SMEs in high-tech and innovation-driven industries for new growth opportunities), following the Special Relief Fund (SRF) that was launched under 2020’s economic stimulus package, initially at MYR5b, then doubled to MYR10b, and has been fully utilized.

Fiscal policy remains expansionary via Budget 2021 with record spending allocation of MYR322.5b that includes +38% jump in gross development expenditure to all-time high of MYR69b and another MYR17b pandemic-related spending under COVID-19 Fund after the estimated MYR38b outlays in 2020. Consequently, Government deficit spending in 2021 remains large at MYR84.8b vs the record MYR86.5b in 2020.

Positively, vaccine availability from 1Q 2021 onwards

The Government has signed agreements to procure COVID-19 vaccines under WHO’s COVAX programme and obtain 12.8m doses from Pfizer. These two agreements enable the vaccination of 30% (9.6m) of the 32m population during the course of 2021. The Government is expected to announce more vaccine purchase agreements with other pharmaceuticals companies, as the official target is to vaccinate 70% of the population. To note, Malaysia is one of the countries in China’s priority list for COVID-19 vaccines.

Wildcards - Downside and Upside

Domestic politics remains a major overhang, hence a downside risk in terms of political uncertainty and instability. The Government’s low single-digit Parliament majority makes a snap general election a possibility. We are also keeping an eye on the economic “scarring effect”, particularly in the labour market, as youth unemployment is still high amid under-employment issue. Relocation FDI is a potential upside to the economy amid opportunities from supply chain security and resilience issue arising from US-China tension and the pandemic as well as the Regional Comprehensive Economic Partnership (RCEP), as indicated by the robust approved manufacturing FDI from China since 2018 to 9M2020.

1. Speed bumps on road to recovery

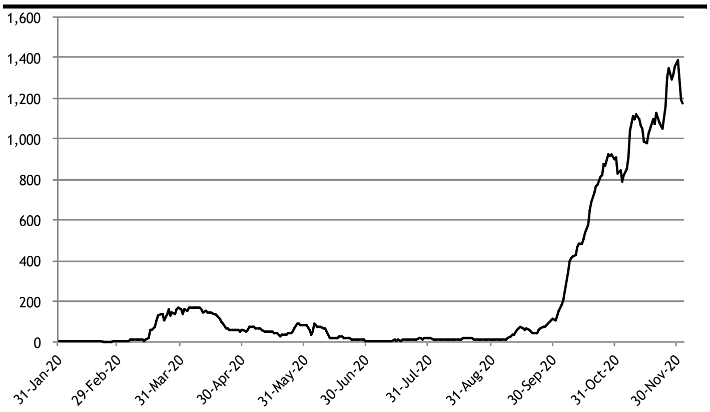
Maintain our real GDP forecast of +5.1% growth in 2021 after the estimated -5.4% contraction in 2020. To recap, after the slump in quarterly real GDP growth to just +0.7% YoY in 1Q 2020 that worsened into a -17.1% YoY slump in 2Q 2020, the economic recession eased significantly to -2.7% YoY. Our full-year 2020 estimate of -5.4% implies the economy shrinks by -2.8% YoY in 4Q 2020. This will be followed by a projected +5.1% rebound in 2021 GDP, with the return of % YoY quarterly growth beginning with a modest +0.5% YoY in 1Q 2021, followed by the base-effect driven +13.3% YoY expansion in 2Q 2021, and the more normalized growth of +4.0% YoY in 3Q 2021 and +4.3% YoY in 4Q 2021.

However, there are speed bumps on the road to recovery. Malaysia is going through its third wave of COVID-19 infections, which is much more "severe" than the previous two waves (Fig 66). Current wave was initially triggered by the Sabah state election in late-Sep 2020.

The more recent COVID-19 cases and clusters have also involved foreign workers especially in the manufacturing and construction sectors. This has prompted the implementation of restrictions via Conditional/Enhanced Control Movement Order (CMCO/EMCO) as well as compulsory COVID-19 testing of 888,000 foreign workers that began on 1 Dec 2020, and the enforcement of the Workers' Minimum Standards of Housing and Amenities Act 1990 (Act 446) to curb domestic COVID-19 transmission, including among foreign workers.

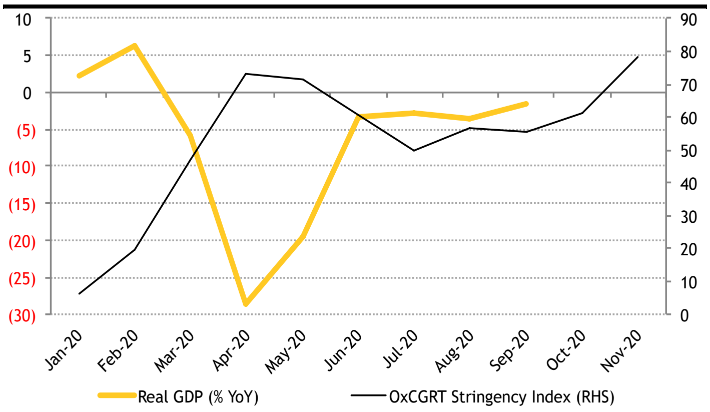
Consequently, the economic recovery process are facing "speed bumps" given the sensitivity of real GDP to the restrictions and containment measures and the impact of these measures on mobility (Fig 67-69).

Fig 66: COVID-19 Cases (7-Day Moving Average)



Source: CEIC

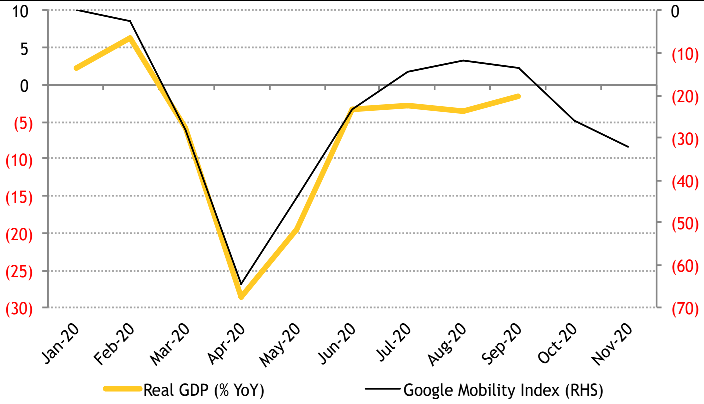
Fig 67: Monthly GDP vs OxCGRT Stringency Index



OxCGRT Stringency Index is a composite measure of government lockdown measures i.e. closures of schools, workplaces and public transport; public event cancellations; stay at home requirements; restrictions on gatherings and domestic movements; international travel control.

Source: Department of Statistics, Oxford COVID-19 Government Response Tracker (by University of Oxford's Blavantnik School of Government)

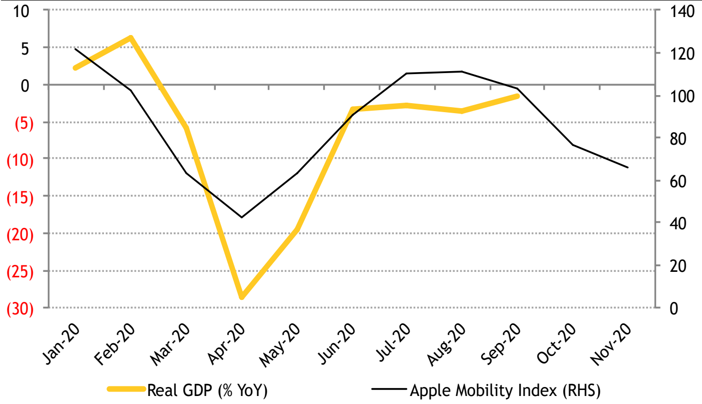
Fig 68: Monthly GDP vs Google Mobility Index



Google Mobility Index - average for the month of the daily % changes vs baseline period (3 Jan - 6 Feb 2020) for "retail & recreation", "transit stations", "workplaces". "grocery & pharmacy" and "parks"

Source: Department of Statistics, Google COVID-19 Community Mobility Report

Fig 69: Monthly GDP vs Apple Mobility Index



Apple Mobility Index - average for the month of the daily index

Source: Department of Statistics, Apple's COVID-19 Mobility Trend Report

2. Necessitating continued monetary & fiscal stimuli

Monetary policy stays supportive. Given the prevailing "2020 recession, 2021 recovery" narrative, we expect BNM to maintain the record-low Overnight Policy Rate (OPR) of 1.75% until end-2021. However, we see this as a "dovish pause" as BNM's Monetary Policy Statement (MPS) released after the Monetary Policy Committee (MPC) meeting on 2-3 Nov 2020 indicated that on balance, the risk to economic outlook remain tilted to the downside, implying the bias for any change in OPR over the next 12 months is cut(s) rather than hike(s).

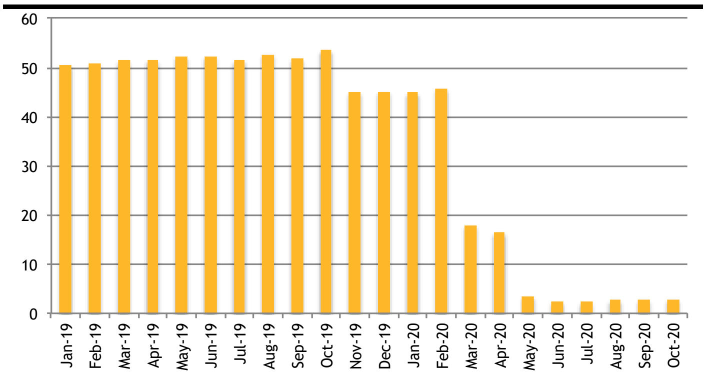
Aside from the "dovish pause" in OPR, other monetary policy instruments to boost liquidity and provide reliefs to the economy have "tapered" as we see BNM preserving monetary policy space:

- Statutory Reserve Requirement (SRR) value has remained at record low range of MYR2b-MYR3b since June 2020 after the decline between Feb 2020 and May 2020 following the 100bps cut to 2.00% in Mar 2020 and the flexibility for banks to comply with SRR until May 2021 that can be further extended by BNM (Fig 70).

- At the same time, BNM's purchases of the Malaysian Government Securities (MGS) have slowed in recent months after the notable surge in Feb-Apr 2020 (Fig 71), with current level of holdings equal to just 1.4% of total MGS outstanding, well below the 10% limit, hence the still ample room for utilization of this particular BNM's policy instruments that is mainly for market liquidity and functioning.

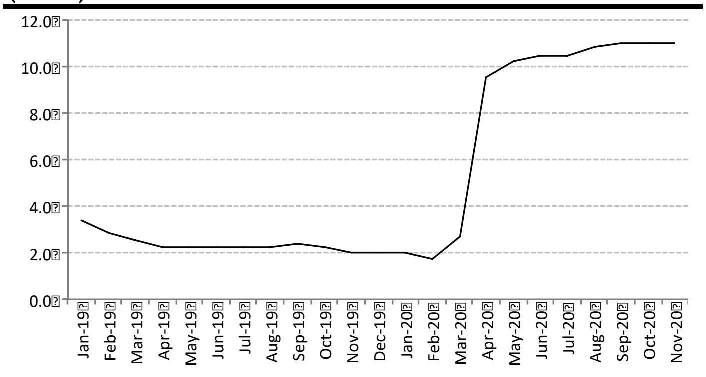
- The automatic blanket loan moratorium in Apr-Sep 2020 has been replaced by targeted loan moratorium extension and flexible loan repayments, which are extended by the banking systems to eligible borrowers until June 2021.

Fig 70: Statutory Reserve Requirement (SRR, MYRb)



Source: BNM

Fig 71: BNM's Holdings of Malaysian Government Securities (MYRb)

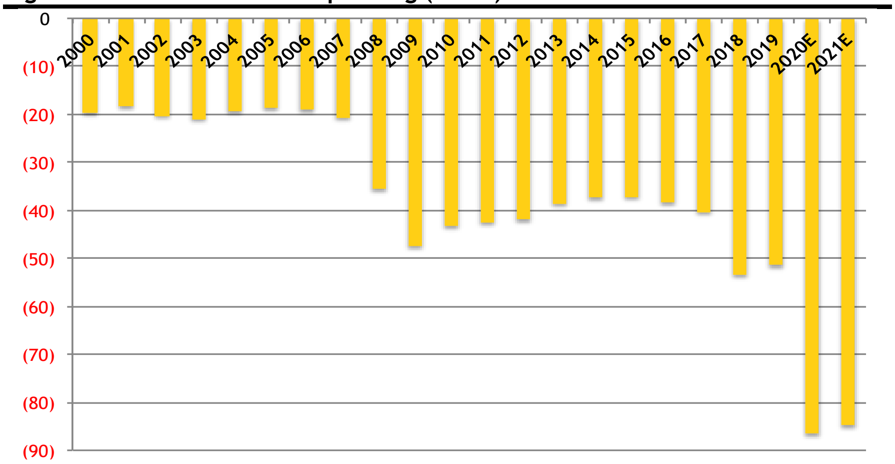


Source: BNM

Furthermore, BNM stated it would utilise all available policy levers as appropriate to create the enabling conditions for a sustainable economic recovery. Underscoring this, as part of Budget 2021 announcements, BNM launched two new SME lending schemes i.e. MYR2b Targeted Relief and Recovery Facility (TRRF) to assist SMEs whose are affected by the current CMCO/EMCO, and MYR0.5b High Tech Facility (HTF) to support SMEs in high-tech and innovation-driven industries for new growth opportunities). These funds followed the Special Relief Fund (SRF) that was part of this year's economic stimulus package, initially at MYR5b, then doubled to MYR10b, and has been fully utilized.

Continued expansionary fiscal policy via Budget 2021. Spending allocation under Budget 2021 is a record MYR322.5b that includes +38% jump in gross development expenditure to all-time high of MYR69b (2020E: MYR50b), and another MYR17b pandemic-related spending under COVID-19 Fund after the estimated MYR38b outlays this year. The total MYR55b COVID-19 Fund could increase to MYR65b pending the tabling of the request for the additional amount by the Government at the Parliament. Consequently, budget deficit value in 2021 remains large at MYR84.8b (5.4% of GDP) vs the record MYR86.5b (6% of GDP) estimated for 2020.

Fig 72: Government Deficit Spending (MYRb)



Source: BNM, Ministry of Finance

3. Positively, COVID-19 vaccines to be available starting 1Q 2021

The Government has signed agreements to procure COVID-19 vaccines under WHO's COVAX programme and obtain 12.8m doses from Pfizer (1Q 2021: 1m doses; 2Q 2021: 1.7m doses, 3Q 2021: 5.8m doses; 4Q 2021: 4.3m doses), pending approvals by the US Food and Drug Administration (FDA) and Malaysia's Health Ministry. Overall, these two agreements enable the vaccination of 30% (9.6m) of the 32m population during the course of 2021 i.e. 10% under WHO's COVAX programme (implying 6.4m doses) and 20% from Pfizer's vaccine, assuming two doses per person. The Government is expected to announce more vaccine purchase agreements with other pharmaceuticals companies in due course, as the official target is to vaccinate 70% of the population. To note, Malaysia has been listed as one of the countries to be given priority to receive COVID-19 vaccines from China. COVID-19 vaccine can be seen as stimulus to the economy on top of the above-mentioned monetary and fiscal stimulus to lift consumer, business and investor sentiment and confidence.

4. Wildcards

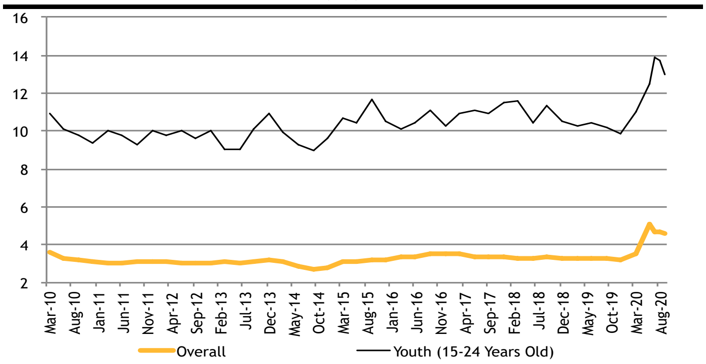
Domestic politics remains a major overhang, hence a downside risk to the economy in terms of the drag from political uncertainty and instability. The Perikatan Nasional (PN) Government's very low single-digit majority in the Parliament remains an issue amid the cloud of no-confidence motions on the Prime Minister (PM) as well as the tension among PN coalition partners, especially between PM's party Bersatu and UMNO that led the former Barisan Nasional (BN) Government. Reflecting the political instability, on 4 Dec 2020, the Chief Minister of Perak state from Bersatu lost the vote on no confidence motion in the State Assembly tabled by an UMNO assemblyman and backed by the opposition parties DAP, PKR and Amanah. A snap general election (GE) in 2021 is a distinct possibility - well ahead of mid-2023 under the full 5-year GE cycle - especially if the current third wave of COVID-19 is brought under control following the availability of COVID-19 vaccine.

Keeping an eye on the economic "scarring effect", particularly the job market impact. Unemployment rate rose to 5.3% in May 2020 from 3.2% in Jan 2020 but has since eased to 4.6% as of Sep 2020. Similarly, official data on retrenchments released by the Social Security Organisation (SOCSO) showed 99,696 workers lost their jobs in 11M2020 (2019: 40,084), but monthly retrenchment which surged in Feb-June 2020 has eased in July-Sep 2020, although it picked up again in Oct-Nov 2020 as CMCO/EMCO was imposed (Fig 74). Overall, the unemployment rate and retrenchment statistics suggest positive impact of economic stimulus measures such as Wage Subsidy Programme and various retraining, re-skilling, up-skilling and hiring programmes.

However, suggesting the "scarring effect" of COVID-19 pandemic on the job market, youth unemployment rate remains high and "sticky" (3Q 2020: 13.5%; 2Q 2020: 12.0%; 1Q 2020: 11.0%; 4Q 2019: 9.9%). At the same time, there is rising skill-related under-employment i.e. those with tertiary education and employed in the semi-skilled and low-skilled occupations. Skill-related under-employment represents workers with tertiary education who took up semi-skilled and low skilled occupations either due lack of opportunities in the job market and are willing/want to change their jobs to make use of their qualifications and occupational skills more effectively.

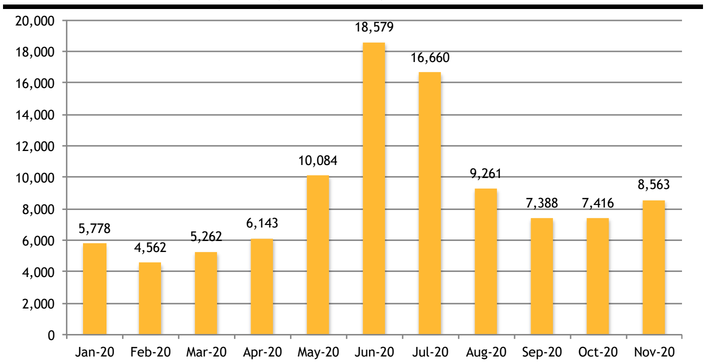
Looking at Fig 75, quarterly skill-related under-employment has generally been on the uptrend. The sustained uptrend in skill-related under-employment indicates the prolonged or chronic structural issues in the job market (e.g. labour supply-demand mismatch; employability of graduates) is now exacerbated by the impact of COVID-19 pandemic e.g. former employees in the hard-hit tourism-and-travel-related industries were forced to search for – and take up - employment in other sectors, including in the informal sector as self-employed and gig-economy that could be of lesser skills requirement relative to qualifications and experience, with lower income as well as job security.

Fig 73: Unemployment Rate(%)



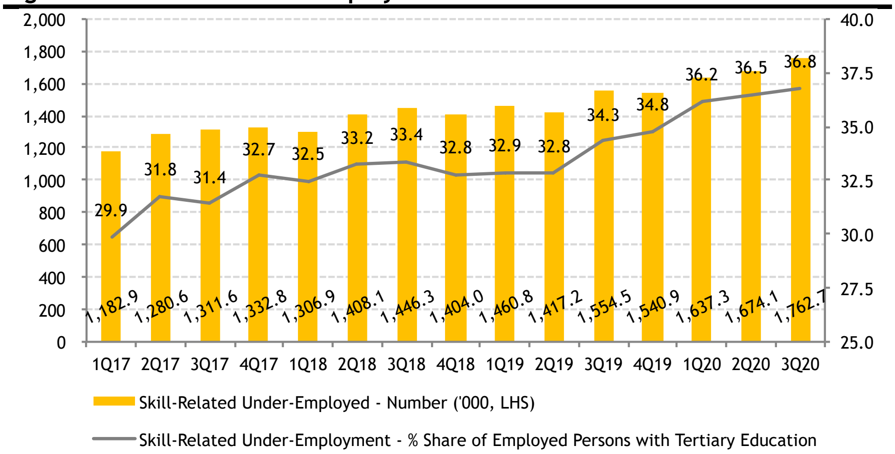
Source: Department of Statistics

Fig 74: Retrenchments (Numbers)



Source: SOCSO

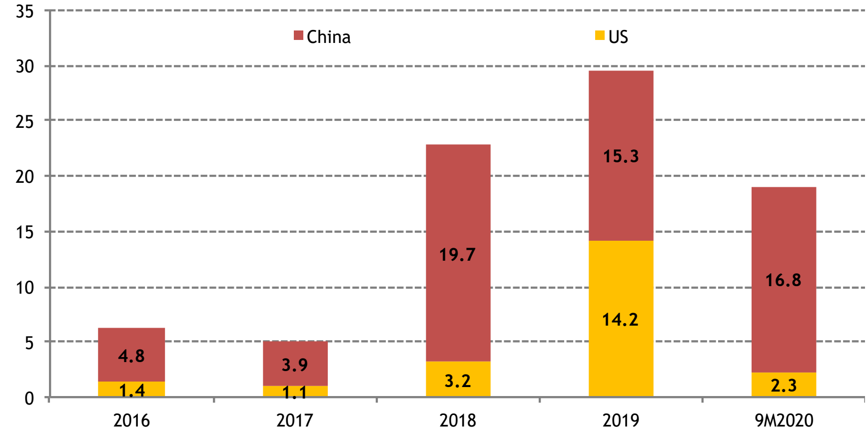
Fig 75: Skill-Related Under-Employment



Source: Department of Statistics

Relocation FDI is a potential upside to the economy. Budget 2021 has specific measures to tap onto the opportunities from supply chain security and resilience issue to attract relocation FDI. Additional impetus come from the signing of the Regional Comprehensive Economic Partnership on 15 Nov 2020 involving ASEAN-10, China, Japan, South Korea, Australia and New Zealand. Underscoring the upside potential from relocation FDI, Malaysia's approved manufacturing FDI from China remains robust up to 9M 2020 from 2018 that was triggered by US-China trade tension and tariff war (Fig 76).

Fig 76: Approved Manufacturing FDI from US and China (MYRb)



Source: Malaysian Investment Development Authority (MIDA)

Table 8: Malaysia – Key Macroeconomic Indicators

	2018	2019	2020E	2021E	2022E
Real GDP (%)	**4.7**	**4.3**	**-5.4**	**5.1**	**5.0**
By Expenditure:					
Private Consumption	8.0	7.6	-4.0	6.3	6.1
Government Consumption	3.3	2.0	4.3	2.8	2.1
Gross Fixed Capital Formation	1.4	-2.1	-14.5	6.8	7.4
Exports of Goods & Services	2.2	-1.1	-9.5	7.5	7.6
Imports of Goods & Services	1.3	-2.3	-10.0	8.0	9.2
By Industry:					
Services	6.8	6.1	-5.2	5.0	5.8
Manufacturing	5.0	3.8	-3.0	5.2	5.0
Mining	-2.6	-2.0	-8.5	3.2	1.5
Agriculture	0.1	2.0	-2.0	1.8	2.2
Construction	4.2	0.1	-19.0	9.9	5.5
Current Account Balance (% of GDP)	2.1	3.4	3.8	3.5	3.3
Fiscal Balance (% of GDP)	-3.2	-3.4	-6.7	-6.0	-5.4
Inflation (%, period average)	1.0	0.7	-1.0	2.0	2.0
Unemployment Rate (%, period average)	3.3	3.3	4.5	4.5	4.0
Exchange Rate (per USD, end-period)	4.13	4.09	4.08	3.90	3.86
OPR (% p.a., end-period)		3.00	1.75	1.75	2.00

Source: , Maybank Kim Eng forecasts

Philippines

Managing Recovery

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Returning to growth in 2021

After contracting in 2020 (MKE forecast: -7.8%; 9M2020: -10.0%), we see the economy expanding +5.8% in 2021. There will be broader and faster re-opening of the economy as the government policy on lockdown shifts in 4Q 2020 from region-wide lockdown to localized lockdown, plus improving healthcare facilities and capabilities as well as enhancing the standard operating procedures (SOP) to minimize risk from re-starting the economy and allow more people to commute to work. In addition, "Build, Build, Build" infrastructure programme will pick up as the list of flagship projects was reviewed to make it more realistic and achievable by replacing big projects with smaller but high impact projects that are more economically feasible as well as increasing the number of projects under public-private partnership (PPP).

Policies for economic recovery are in place

Budget 2021 remains expansionary given the 9.9% increase to PHP4.51tr 2021 with focus on strengthening the Government responses to the COVID-19 pandemic and ensuring people's wellbeing by providing social protection programmes, as well as funding the above infrastructure projects. An additional fiscal stimulus to the economy – especially for private investment and FDI - comes from the legislative passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which will cut the corporate income tax (CIT) rate to between 20% and 25% from the current 30% in 2021, as well as streamline and rationalize incentives for FDI. At the same time, we expect BSP's monetary policy to stay accommodative, underpinned by the central bank maintaining the 2.00% policy interest rate until end-2021 as the economy is projected to rebound, plus the positive developments in non-monetary policy i.e. accelerate economic re-opening; expansionary Budget 2021; CREATE Act.

Scarring effect in labour market a potential drag

At the height of the lockdown in 2Q 2020, unemployment rate surged to 17.7% in Apr 2020. While unemployment rate had since improved to 10.0% in Jul 2020 and 8.7% in Oct 2020, underemployment was still high at 14.4% in Oct 2020 (Jul 2020: 17.3%; Apr 2020: 18.9%). The government embarked on *Bayanihan I* and *II* to assist affected households (including returning overseas Filipino workers) and businesses. As private consumption comprise 75% of the economy, "stickiness" in job market could be a drag on recovery process and momentum.

Wildcards - Tourism and FDI making a comeback

Unlike the SARS and H1N1 episodes, the COVID-19 pandemic resulted in travel bans and restrictions on both cross border and domestic travels. We expect the government to re-start the tourism industry by restoring domestic tourism first, as it made up of 85.1% of total tourism expenditure in 2019. Meanwhile, the approval of the CREATE Act is also expected to boost private investment going forward, especially FDI amid opportunities from supply chain resilience and security sparked by US-China tensions, lockdown supply chain shocks and regionalization as alternative to globalization e.g. RCEP.

1. Return of GDP growth in 2021

1.1 Re-opening economy post Community Quarantines (CQ)

The economy shrank -10.0% YoY in 9M 2020 on the direct impact of COVID-19 pandemic. At the height of the lockdown in 2Q 2020, the economy contracted -16.9% YoY before it posted a slower decline at -11.5% YoY in 3Q 2020 as the economy slowly re-opened. We estimated real GDP to fall by -7.8% in 2020 with recession in all four quarters of the year. Based on the lockdown's economic impact that saw the economy shrank -14.2% YoY in 2Q-3Q 2020, the government policy shifted in 4Q 2020 from region-wide lockdowns to targeted and localized lockdowns in containing the pandemic, plus intensifying efforts to improve healthcare facilities and capabilities, as well as enhance the standard operating procedure (SOP) such as social distancing, wearing face masks in public areas and contract tracing. This is to enable broader and faster re-opening of the economy and allow more people to return and commute to work, hence our expectation of quarterly real GDP rebounding in 1Q 2021.

Therefore, 2021 is expected to see the economy recovering from the worst recession in Philippines' history. We expect real GDP to expand +5.8% next year, supported by the expected progress in re-opening the economy, as well as continued monetary policy accommodation amid benign - and within BSP's target – inflation rate (2020F: +2.4%; 2021F: +2.5%) and expansionary fiscal policy that sustained growth in Government consumption, in turn leading to rebounds in consumer spending and gross fixed capital formation. At the same time, the projected recovery in global economy will translate into rebounds in exports and imports of goods and services. The government expects real GDP growth in 2021 to be in the 6.5%-7.0% range.

1.2 "Build, Build, Build" programmes tweaked… again

The "Build, Build, Build" infrastructure development and investment programme is tweaked again to make it more realistic and achievable by replacing big projects with smaller but high impact projects that are more economically feasible such as roads, bridges and irrigation systems. The 2020 "Build, Build, Build"[3] 100 flagship projects has been revised again, whereas projects that are still in their feasibility study stages were eliminated, and new projects were added. The now 104 flagship projects costs PHP4.13tr vs. PHP4.23tr for the 100 projects in the previous list, and includes 29 public-private partnership (PPP) projects vs 26 previously. About 50 projects costing PHP2.26tr will be funded by loans and grants from overseas, 29 projects by PPP (PHP1.69tr) and 25 projects (PHP180.32b) are funded by public spending.

The bulk of the flagship projects are in transport & mobility sector i.e. 70 projects costing PHP3.8tr. Others are water (12 projects costing PHP96.3b), urban development and renewal (9 projects costing PHP123.1b), ICT (10 projects costing PHP111.7b) and power (3 projects costing PHP20.5b). These projects are expected to generate around 1.7m direct and indirect job opportunities. Budget 2021 allocates PHP1.108tr (5.4% of GDP) to fund these infrastructure projects in 2021, which is 13.5% higher than the PHP989.3b (4.7% of GDP) allocated in 2020.

These "Build, Build, Build" infrastructure projects – especially the higher numbers of PPP projects - are expected to contribute to growth recovery in 2021 and sustain growth momentum in subsequent years by reviving private

[3] For 2017-2022 period.

sector investments and attract foreign direct investments (FDI) especially in manufacturing and construction.

1.3 Expansionary Budget 2021

At the time of writing, Budget 2021 has been passed by the Senate and submitted to the Bicameral Committee for reconciliation. The Committee is expected to produce the final version of the Budget on 9 Dec 2020 and to be signed by President Duterte before end-2020.

The PHP4.51tr 2021 budget is 9.9% higher than 2020's budget, with the priority to sustain and strengthen government efforts in effectively responding to the COVID-19 pandemic. The disbursement programme for 2021 is slated at PHP4.467tr or 21.6% of GDP (Proposed GAA 2021: P4.506tr), which is 3.0% higher than in 2020. At least PHP838.4b worth of government interventions are tagged to the responses to the COVID-19 pandemic.

Government spending in 2021 also focuses on ensuring the wellbeing of Filipinos by providing social protection, especially to those adversely affected by the pandemic. Social Protection initiatives is allocated PHP454.2b (10.1% of total GAA 2021), to assist households, senior citizens as well as street families and persons with disabilities. Recent World Bank Household Survey conducted in Aug 2020[4] to assess the impact of COVID-19 on Philippines' households unsurprisingly showed the impact of the economic recession from the pandemic hit the poor Filipinos the most, affecting their income and food security. Among the findings from the survey:

- 15% of those at the bottom income group reported zero earnings.
- Nearly half of those dependent on Overseas Filipino Workers remittances (OFWRs) received reduced remittances, while 11% received zero remittances.
- 40% of households cannot afford to buy daily essentials such as food, with 54% of them are the poor household group.
- 37% of the poorest families said they experienced hunger while 18% experienced an entire day without eating.

2. Policies for economic recovery are in place

2.1 Managing and financing the larger deficit spending

Expansionary budget under current economic conditions comes with a cost. Based on government projections, the higher spending but subdued revenue collection will increase the budget deficit to 7.6% of GDP in 2020 and 8.9% of GDP in 2021. Although revenues are expected to pick up in 2021, the pace is expected to be gradual, as the economy begins its slow recovery.

Furthermore, under the assumption that the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act starts in 2H 2021 that among others result in lower corporate tax rate, the Development Budget Coordination Committee (DBCC) estimates foregone revenues in 2021 and 2022 of PHP97.2b and PHP107.6b respectively. However, this particular revenue foregone is also a form of fiscal stimulus, and based on our calculation of fiscal multiplier of 1.6x, the direct fiscal stimulus impact to real GDP growth is around +0.8 percentage point per annum.

The gross borrowings to fund 2021 budget deficit is projected to be PHP3.025tr, where PHP2.583tr is from domestic sources and PHP442.4b will

[4] Survey results were released in Nov 2020.

be raised externally. The guidance of 85:15 ratio of gross financing mix with higher dependence on domestic sources will minimize the foreign exchange rate risks and at the same time support the development of local debt market. Over the years, Philippines' government debt-to-GDP has been consistently brought down from 59.7% in 2009 to 39.6% in 2019. Hence, the country has the fiscal space upon entering the recession to boost deficit spending to support the economy. The government projects debt-to-GDP ratio to rise to 53.9% in 2020 and 58.1% in 2021 and has targeted to keep the debt ratio below 60%. For 10M2020, the government's total gross borrowing already stood at PHP3.22tr (2019: PHP1.02tr) with domestic gross borrowing stood at PHP2.65tr in 2020 (82.2% of total borrowing) while external gross borrowings stood at PHP574.4b (17.8% of total borrowing). The external financing was secured from the ADB, World Bank, AIIB, AFD, JICA, and USD-denominated bonds.

2.2 CREATE Act: A catalyst for private investment growth

On 26 Nov 2020, the Senate approved Senate Bill No. 1357 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. CREATE will cut the corporate income tax (CIT) rate to between 20% and 25% from the current 30% in 2021, as well as streamline and rationalise fiscal incentives to attract FDI, including companies relocating out of China to Philippines.

The CREATE Act is expected to be the catalyst for private sector investment and contribute towards faster economic recovery. As the House is adopting Senate's version of the bill, it no longer requires deliberation by the Bicameral Committee; hence the high possibility that it will be put into law before the end of the year. The reduction of the CIT rate will take effect retrospectively from 1 Jul 2020.

The micro, small and medium enterprises (MSMEs) will be the biggest beneficiary of CREATE as they will receive the largest CIT cut. Domestic corporations with total assets, excluding land, of not more than PHP100m and net taxable income of PHP5.0m and below will enjoy an immediate 10ppt reduction in the CIT rate, from 30% to 20%. Meanwhile, CIT rate for other corporations will be reduced from 30% to 25%. Moreover, taxpayers whose gross sales or receipts do not exceed the value-added tax (VAT)-exempt threshold of PHP3.0m and are subject to the 3.0% tax shall only pay 1.0% instead from 1 Jul 2020 to 30 Jun 2023.

2.3 BSP applies all of its policy levers

BSP unexpectedly cut the policy rate by 25bps to 2.00% on 19 Nov 2020, after leaving it unchanged on 20 Aug 2020 and 1 Oct 2020, and bring the total cuts in 2020 to -200bps. Monetary Board assessed that there is still need for policy support to bolster economic activity and boost market confidence. We expect the 2.00% rate to stay until end-2021 as economy is projected to rebound next year, plus the abovementioned positive developments in non-monetary policy i.e. accelerate economic re-opening; expansionary Budget 2021; CREATE Act.

In addition, BSP has also reduced the banking system's reserve requirement ratios (RRR) by 200 basis points in 2020, which injected PHP1.9tr to the financial system. BSP have also entered into a PHP300b repurchase agreement with the Government (matured in Sep 2020), opened a window for purchases of government securities in the secondary market, remitted PHP20b in advance dividends to the Government, and allow peso-denominated loans to MSMEs and certain large enterprises as forms of alternative compliance with banks'/quasi-banks' reserve requirements against deposit liabilities and deposit substitutes.

Under Section 4 of Bayanihan II, the BSP can provide additional direct provisional advances to the Government "to finance expenditures authorized by law that will address and respond to the COVID-19 situation," but not to exceed 10% of the government's average income for fiscal years 2017-2019. This effectively increases the lending limit to the government to 30% from 20% of its average revenue under the New Central Bank Act. Therefore, BSP can now lend the Government up to PHP850b from P540b previously. These additional direct provisional advances are available within 2 years from 11 Sep 2020. The advances should also be settled within a year, although maturity can be extended for one more year if allowed by the central bank's Monetary Board. In Oct 2020, BSP purchased PHP540b government securities, which is due to be fully repaid on 29 Dec 2020.

As these are temporary policy to deal with economic downturn from COVID-19 pandemic, the impact on inflation, interest rates and PHP have been muted. The International Monetary Fund (IMF) had also recently acknowledged the scope for government debt monetisation as a policy option/tool for emerging markets (EM) in financing deficit due to the impact of COVID-19 that requires large fiscal stimulus.

3. Labour market scarring effect a potential drag

3.1 Private consumption to recover cautiously

Private consumption comprises about 75% of the Philippines economy in 9M2020 and has been the key growth driver over the years. As such, swift recovery in consumer spending will help to lift the domestic economy. Nevertheless, consumer confidence is still low after reeling from the high unemployment rate of 17.7% in Apr 2020, despite easing to 10% in July 2020 and 8.7% in Oct 2020. The lower repatriation of overseas Filipino workers (9M2020: -1.4%; 2019: +4.1%) is not helping either as remittances comprises 10% of GDP annually, thus contributed significantly to domestic consumer spending.

Data for 2Q-3Q 2020 showed household spending pattern had shifted with bigger share of total expenditure on food, housing, electricity, water & gas, which are the daily essential items and less on transport, recreation & culture, and restaurants & hotels reflecting the lockdown and income impact on transport and discretionary spending. Taking cue from the latest consumer and business confidence survey, we expect this trend to continue in 2021 as recovery is going to be gradual and cautious.

The latest Consumer Expectations Survey in 3Q 2020 indicates that the index for overall consumer outlook for the next 12 months had improved to 25.5 from 19.9 in 2Q 2020, but still below the immediate pre COVID-19 level of 26.4 in 4Q 2019. Nevertheless, inflation is expected to remain manageable at +2.8% in 2021 (2020E: +2.6%), staying within BSP's target range of 2-4%. Moreover, faster opening up of the economy, together with efficient implementation and deployment of assistance programmes will induce recovery in private consumption.

3.2 Helping the jobless

Unemployment rate improved further to 8.7% in Oct 2020 from 10.0% in Jul 2020 (Apr 2020: 17.6%). Average unemployment rate for 2020 is 10.4%, not far from our forecast of 10.8% (1H 2020: 11.5%; 2H 2020: 9.4%). Despite the improvement in unemployment rate, other indicators such as labour force participation, total employment, underemployment, youth unemployment and the double digit jobless rates in certain regions shows that the recovery process is gradual and uneven. Average unemployment rate in 2020 stood at 10.4%.

Underemployment was still elevated at 5.7m in Oct 2020 (Jul 2020: 7.1m) with underemployment rate at 14.4% (Jul 2020: 17.3%), given the substantially varying working arrangements and significantly reduced working hours implemented by business entities to comply with regional lockdown rules and regulations. The World Bank Household Survey also revealed that:

- One in four heads of households said they were no longer reporting for work.
- Job losses were the highest in Luzon, where the lockdown and quarantine was most strict from mid-Mar to early Jun 2020.
- Most of them were employees in industries such as construction, accommodations, food services and trade.

In Budget 2021, the Department of Labor and Employment (DOLE) is allocated PHP27.5b, which is 53.6% higher than 2020 allocation of PHP17.9b. PHP11.1b will be set aside for the Livelihood and Emergency Employment Programme to ensure appropriate and continuous assistance for displaced workers affected by COVID-19 pandemic.

3.3 Managing returning Overseas Filipino Workers (OFWs)

Overseas Filipino Workers' Remittances (OFWR) dropped -1.4% in 9M2020 (2019: +4.1%). Resurgent global COVID-19 cases and return of restrictions in recent months, plus the seasonally peak period for remittances in Dec for Christmas, is expected to result in continued volatile OFWR trend in 4Q 2020. Our full year OFWR forecasts are -3.8% decline in 2020 and +3.3% for 2021. The key factor behind the contraction is uncertainties on job prospects in high income host countries/regions including the US and EU alongside weak crude oil prices affecting Middle East countries.

As at 28 Nov 2020, total returning overseas Filipinos due to the global pandemic is 590,856, of which 494,792 are OFWs and 96,064 are non OFWs. The decline in remittances was attributed to the repatriation of OFWs in countries heavily affected by COVID-19 and the disruption in banking and money transfer services in both the sending and receiving ends. Returning OFWs may have no jobs immediately available for them at home; hence they and their families rely heavily on their own savings earned from working overseas. As more OFWs returns home, they must ensure to adhere to proper compulsory isolation and quarantine procedures; or else risks infecting others and creating a new wave of pandemic.

4. Wildcard – Upside potential to 2021 growth

4.1 International tourism to be back in 2H2021

Unlike during SARS and H1N1 episode, the COVID-19 pandemic resulted in travel bans on both cross border and domestic travels. This has direct impact on tourism industry and we expect recovery to be very gradual especially on cautious re-opening of international borders. We expect domestic tourism to drive recovery and re-start the tourism industry as it makes up of 85.1% of total tourism expenditure in 2019. The Philippines will not open its borders to international visitors until the 2H 2021 but has gradually reactivated domestic tourism since Oct 2020.

Philippines' tourism sector was flourishing as the Tourism Direct Gross Value Added (TDGVA) grew at average 14.1% p.a. during 2001-2019; from PHP208.8b in 2000 to PHP2.48tr in 2019. Furthermore, the size of tourism industry has more than doubled from 5.6% of GDP in 2000 to 12.7% in 2019, providing 5.71m jobs for Filipinos (2000: 2.64m). More importantly, the tourism sector in 2019 has 13.7% share of total employment in the Philippines. In 2019, 8.26m foreign tourists visited the Philippines (2018: 7.13m), with average growth of +7.2% p.a. during 2000-2019.

4.2 Foreign Direct Investment (FDI) spurred by CREATE Act

As more companies venturing out of China and looking for new places to set up the production, the introduction of the CREATE Act will serve as the major catalyst to attract multinational companies to relocate to the Philippines. This will provide more jobs opportunities, which will improve consumer spending and ultimately drives the recovery process and sustain growth in coming years. CREATE will be the main attraction for FDI inflows to the Philippines, amid opportunities from supply chain resilience and security sparked by US-China tensions, lockdown supply chain shocks and regionalization as alternative to globalization e.g. RCEP. This is coupled with continuous improvement in infrastructure with the ongoing "Build Build Build" initiatives will provide the impetus for sustained inflows of FDI for years to come.

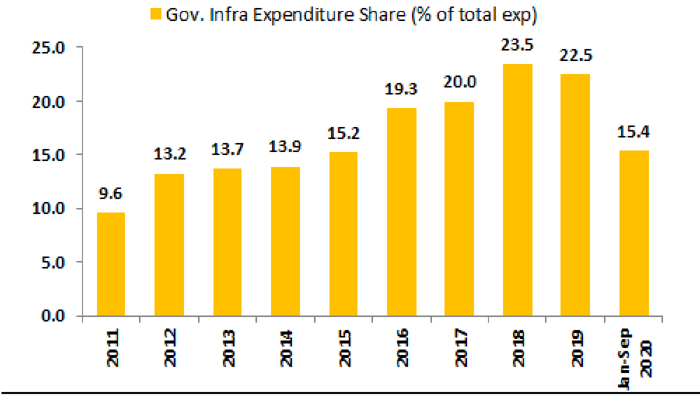
Other comparative advantages for Philippines to attract FDI includes skilled workforce, close proximity to Asia's economic giants i.e. Japan and China and more importantly, improvement in World Bank's ranking for *Doing Business 2020 Report*. Philippines now ranked 95th from total of 190 countries vs 124th position in the previous year. Improvements are in areas of starting a business (abolish minimum capital requirement for domestic companies), construction permits and protecting minority investors.

Table 9: Philippines: Key Macroeconomic Indicators

	2018	2019	2020E	2021E	2022E
Real GDP (%)	6.3	6.0	-7.8	5.8	6.2
By Expenditure:					
Private Consumption	5.8	5.9	-6.4	4.5	6.1
Government Consumption	13.4	9.6	9.8	4.9	5.8
Gross Fixed Capital Formation	12.9	3.9	-22.8	5.6	9.2
Exports of Goods & Services	11.8	2.4	-16.2	3.2	6.4
Imports of Goods & Services	14.6	1.8	-19.7	6.9	7.9
By Industry:					
Agriculture	1.1	1.2	1.0	1.9	1.2
Mining & Quarrying	2.0	3.6	-16.3	2.2	2.0
Manufacturing	5.1	3.2	-8.0	6.0	6.2
Construction	14.3	7.8	-23.1	8.4	10.6
Services	6.7	7.5	-7.1	6.4	6.7
Current Account Balance (% of GDP)	-2.6	-0.9	2.0	1.0	0.0
Fiscal Balance (% of GDP)	(3.1)	-3.4	-8.8	-8.1	-7.0
Headline Inflation Rate (%, period average)	5.2	2.5	2.6	2.8	2.5
Core inflation Rate (%, period average)	4.1	3.3	3.0	3.0	3.5
Unemployment Rate (%, period average)	5.3	5.1	10.4	7.5	6.5
Exchange Rate (per USD, end-period)	52.4	50.7	48.0	47.0	46.0
Benchmark Interest Rate (% p.a., end-period)	4.75	4.00	2.00	2.00	2.50

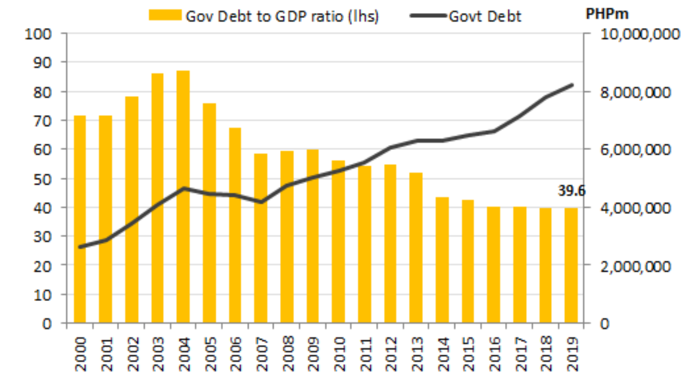
Source: CEIC, MKE forecasts

Fig 77: Philippines - Lower share (%) of government infrastructure spending in 2020 as focus diverted to assist HHs and businesses affected by the COVID-19 pandemic



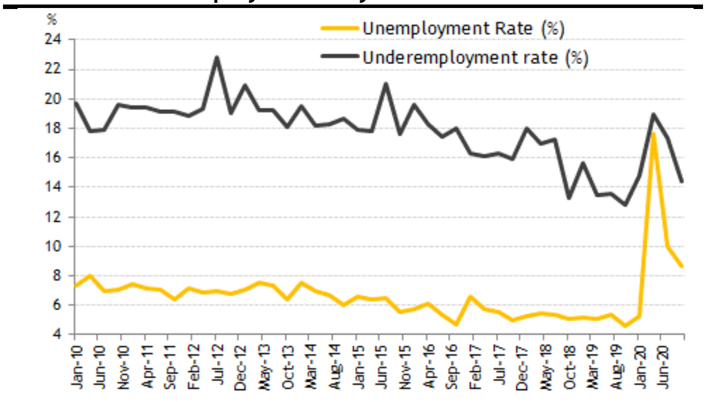
Source: CEIC

Fig 78: Philippines - Low pre-COVID-19 level of debt-to-GDP ratio at 39.6% in 2019



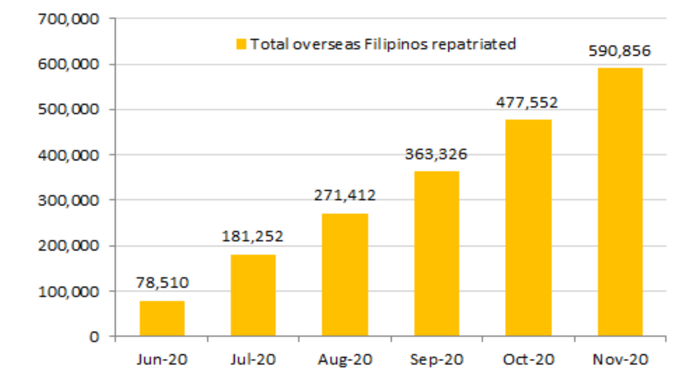
Source: CEIC

Fig 79: Philippines - Improved unemployment rate in Oct 2020 but underemployment stays elevated



Source: CEIC

Fig 80: Philippines - Rising number of overseas Filipinos coming home (cumulative)



Source: National Disaster Risk Reduction and Management Council

Table 10: Philippines - Summary of the revised list of 104 "Build, Build, Build" flagship projects

Sector	Number of Projects	Project Cost (in PHPm)	Share (% of total cost)
Transport and Mobility	70	3,778,305	91.5
Water Resources	12	96,318	2.3
Information and Communications Technology	10	111,752	2.7
Urban Development and Redevelopment	9	123,095	3.0
Others (Power, Energy and Health)	3	20,546	0.5
Total	**104**	**4,130,016**	**100.0**

Source: NEDA (as at 19 Aug 2020)

Singapore

Recovery and Reopening

Analysts

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No Warp Speed: Sluggish U-Shaped Recovery

We forecast real GDP recovering by a modest +4.5% in 2021 and +3% in 2022 from the contraction of -5.7% in 2020. The recovery will however be more U-shaped than V, with GDP returning to pre-pandemic levels only in early 2022. Widely available vaccines by mid-2021 will contain the COVID-19 spread and ease lockdowns across the world, more quickly in developed nations. But herd immunity will be achieved only in the second half of 2021. Relaxation of border controls will be at a snail-pace, not at warp speed, and likely later, when herd immunity is achieved in most developed economies. Past V-shaped recoveries were driven by a sharp manufacturing rebound, but manufacturing never fell into recession in this crisis. Stricter foreign labour measures, with the raising of qualifying salaries mid-2021, will also dampen the upswing.

MAS to Maintain Neutral Stance

The MAS will likely maintain its current S$NEER neutral stance in 2021 and possibly 2022. Inflation will turn mildly positive but remain contained. A slow labour market recovery will keep wage cost pressures in check. We are forecasting core and headline inflation at +0.5% in 2021. The 3-month SIBOR will remain at about 0.4% in 2021, anchored by the Fed's zero rate policy.

Vaccine & Speed of Reopening

Speed of the economic recovery and reopening will depend on how quickly the vaccines can be distributed and made widely available, not only in Singapore but in the region and rest of the world. There will be less logistical issues in Singapore, given the small population and size, and infrastructure. But relaxation of border controls will hinge on how fast other major countries can achieve herd immunity. Singapore has been cut off from the over 100k Johor workers who cross the border daily.

Fiscal Support Extending into 2021

The government's generous SGD100b (20% of GDP) support package, including wage subsidies, hiring incentives and targeted loan moratoriums, has been extended into the first half of 2021. The MAS estimated the fiscal policy support at +5.6% points for 2020 and +4.8% points for 2021. Impact remains large in 2021 because of the extension and timing of payouts, coupled with transmission lags. Fiscal multipliers may be larger than historical estimates, because of the closure of borders to outbound tourism. Budget 2021 will likely be expansionary, with a smaller fiscal deficit of 4% of GDP (vs. 15% in 2020). GST hike of 2% points will be introduced only in 2022 or after.

Strengthening Its Hub Position

Singapore's regional hub and global connectivity is strengthening, with the completion of more free trade agreements (RCEP, CPTPP) and reconfiguration of supply chains towards ASEAN. Singapore continues to attract substantial investment commitments, SGD13b in the first 4 months of 2020, despite the pandemic. Singapore's neutral position in the US-China trade war is luring more MNCs and China companies to expand their presence. The shift is reinforced by reactions over the political developments in Hong Kong.

1. No Warp Speed, Snail-Pace Re-opening

We forecast GDP recovering by a modest +4.5% in 2021 and +3% in 2022, recovering from a -5.7% contraction in 2020. Our 2021 GDP growth is below consensus and at the lower half of MTI's 4% to 6% GDP forecast. The economy has emerged from the deepest recession since independence, slowly recovering from the trough in the second quarter when circuit breaker measures were implemented (7 April to 1 June).

The recovery is more U-shaped than V, with the economy likely to recover only to pre-pandemic levels in early 2022. Widely available vaccines by mid-2021 will contain the COVID-19 spread and ease lockdowns across the world, more quickly in developed nations. But herd immunity will be achieved only in the second half of 2021. Relaxation of border controls will be at a snail-pace, not at warp speed, and likely later, when herd immunity is achieved in most developed economies.

Past V-shaped recoveries were driven by a sharp manufacturing rebound, but manufacturing never fell into recession in this crisis. Manufacturing expanded +6.2% in the first 9 months of 2020. During the 2008/09 GFC, 2001 tech recession and 1998 Asian financial crisis, manufacturing contracted by -13% (2Q08-1Q09), -12% and -0.7% respectively. We forecast manufacturing growth moderating to +3.2% in 2021 from +4.8% in 2020.

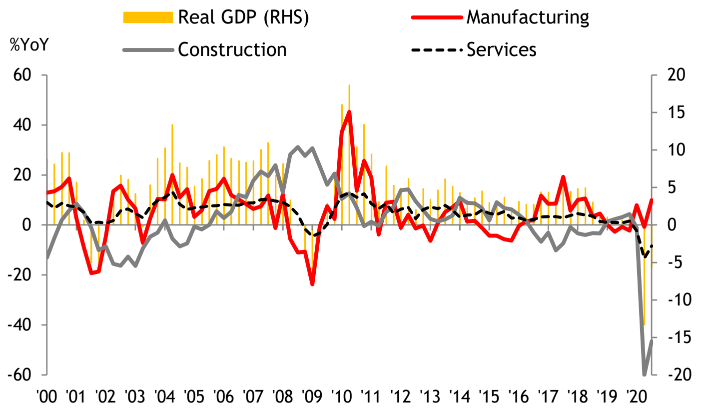
Stricter foreign labour measures will also dampen the upswing. Qualifying salaries for Employment Passes were raised to SGD4.5k (from SGD3.9k) from 1 Sep 2020, and will apply on renewals from 1 May 2021. The S Pass sub-Dependency Ratio Ceiling for services, construction and marine shipyard & process sectors will be reduced starting 1 Jan 2021, as announced in Budget 2020 (see Table 11). The jobs recovery will be slower than GDP recovery, because of digital disruption, sector dislocations and stricter foreign worker measures. We think total employment levels will not return to pre-pandemic levels until late 2022 or 2023. Employment (excluding Foreign Domestic Workers) fell by 156k in the first 3 quarters of 2020.

Manufacturing has been remarkably resilient, suffering only temporary disruptions and staging a strong rebound in the second half (see Fig 81). Unlike past recessions, manufacturing has dodged a recession. Growth was driven by electronics, biomedical manufacturing and precision engineering clusters, which more than offset the decline in transport engineering and general manufacturing clusters.

Construction was the worst hit sector, as foreign workers were quarantined and resumption of works dampened by safe management measures. Construction is recovering but will likely remain well below pre-pandemic levels in 2021. Contracts awarded, a leading indicator, have collapsed by almost 50% in both the second and third quarters. We forecast construction recovering to grow by +18% in 2021, after contracting 34% in 2020.

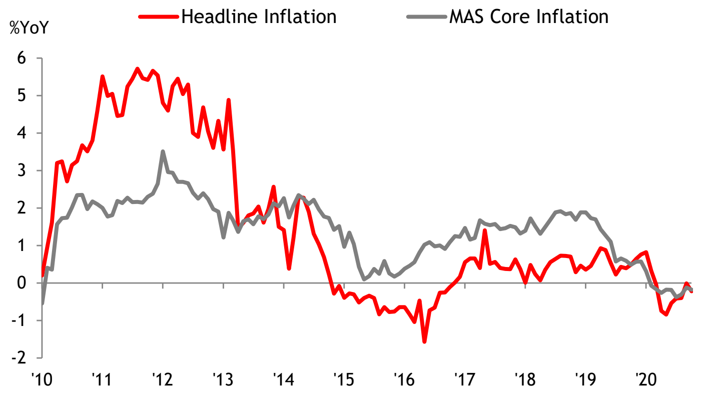
Services has been hard hit by the lockdowns and border controls, especially the consumer-facing sectors (retail, food services) and aviation and tourism-related sectors. Services faces a slow and uneven recovery, with finance & insurance and infocomm expanding during the recession, while consumer-facing, aviation and tourism-related segments are facing slower recoveries. The snail-pace of reopening, particularly of border controls, suggests that a sharp rebound is unlikely for the aviation and tourism-related sectors next year.

Fig 81: Manufacturing Has Been Resilient, While Construction and Services Contracted in 2020



Source: CEIC

Fig 82: Headline and Core Inflation May Turn Mildly Positive in 2021, But Remain Benign



Source: CEIC

The MAS will likely maintain its current neutral stance on the S$NEER at the April 2021 meeting. Inflation will turn mildly positive but remain largely contained (see Fig 82). A slow labour market recovery will keep wage cost pressures in check. We are forecasting core and headline inflation of +0.5% in 2021. The 3-month SIBOR will remain at about 0.4% for the whole of 2021, anchored by the Fed's ultra-easy monetary policy. Our FX team expects the SGD to continue its modest appreciation against the US dollar in 2021.

2. Vaccine & Speed of Re-opening

Speed of the economic recovery and reopening will depend on how quickly the vaccines can be distributed and made widely available, not only in Singapore but also in the region and the rest of the world. There will be less logistical issues in Singapore, given the small population and size, and efficient infrastructure. But relaxation of border controls will hinge on how fast immediate neighbours and major markets can implement their vaccination programs and achieve herd immunity.

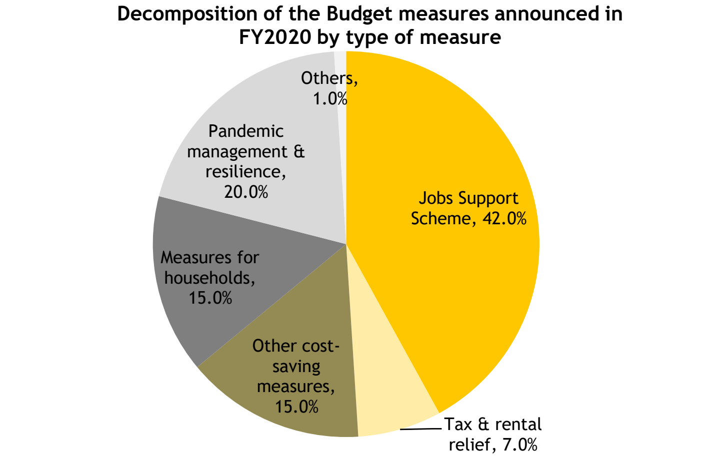
We think herd immunity can be achieved at the earliest in 3Q 2021, paving the way for some slow reopening of border controls. Delays in reopening will worsen foreign worker shortages in some manufacturing and services sectors, dampening the recovery. Singapore relies on over 100k Malaysian workers who cross the border daily from Johor.

3. Fiscal Support Extending into 2021

The government's generous SGD100b (20% of GDP) support package, including wage subsidies, hiring incentives and targeted loan moratoriums will extend into 2021 (see Fig 83). The MAS estimated the fiscal policy support at +5.6% points for 2020 and +4.8% points for 2021. Impact remains large in 2021 because of the extension and timing of payouts, coupled with transmission lags. We estimated that about SGD5b of the wage subsidy scheme will be paid out in 2021, after the SGD21.5b payout in 2020.

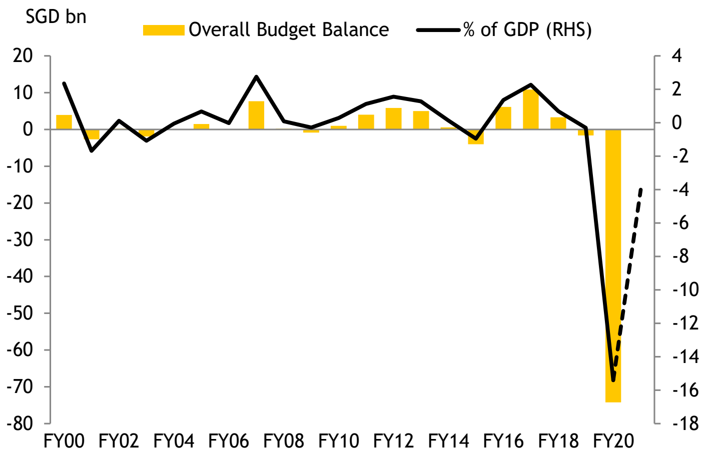
Fiscal multipliers may be larger than historical estimates, because of the closure of borders to outbound tourism. Potential pent-up demand and boost to domestic spending could surprise on the upside in a recovery. Budget 2021 will likely be expansionary, with a smaller fiscal deficit of 4% of GDP (vs. 15.4% in FY2020) (see Fig 84). The GST hike of 2% points will be introduced in 2022 or later.

Fig 83: Government Unleashed a SGD100b Package to Support Economy, Bulk Going to Jobs Support Scheme



Source: MAS Macroeconomic Review, Oct 2020

Fig 84: FY2021 Budget Likely to be Expansionary; Expect a Smaller Deficit of 4% of GDP



Source: CEIC

4. Strengthening Its Hub Position

Singapore's regional hub and global connectivity will continue to strengthen, with the completion of more free trade agreements (RCEP, CPTPP) and the reconfiguration of supply chains towards ASEAN. A Biden administration will likely maintain a tough position on China, but opt for a more multilateral and alliance approach towards containing China's influence and rise. Singapore's neutral position in the US-China trade war is luring more global MNCs and China tech companies to expand their investments and presence in Singapore. For example, Tencent chose Singapore as its beachhead while Bytedance announced plans to invest billions of dollars and recruit hundreds of employees over the next 3 years. The pick in foreign MNC interest is reinforced by reactions over the political developments in Hong Kong.

The EDB secured SGD13b worth of foreign investment in the first four months of 2020, exceeding its SGD8b-SGD10b full year projection despite the pandemic. Investments were mainly in the electronics and IT sectors, including from Micron, Lazada and Shopee (see Fig 85).

The MAS foreign reserves rose by +USD59.4b over the period Jan to Oct 2020, pointing to continued capital inflows. ASEAN countries, including Vietnam, Indonesia, Thailand and Malaysia, continue to see FDI interest over the last 2 to 3 years, confirming the shift and diversification in manufacturing supply chains away from China. Singapore's financial center and transport hub will benefit from the shift in investment and trade flows towards ASEAN. DBU foreign currency deposits surged by +151% in the first 10 months of 2020.

5. Risks

Risk # 1: Vaccine distribution and implementation occurs very slowly, failing to achieve herd immunity and reduce global Covid cases to sufficiently low levels to allow for the relaxation of lockdowns and border controls; Risk #2: The Biden administration adopts a more confrontational approach against China, triggering an escalation in trade tensions and disrupting global trade and tech supply chains; Risk #3: Supply constraints, including foreign labour shortages because of stricter policies, hamper Singapore's capacity to leverage on the global demand recovery.

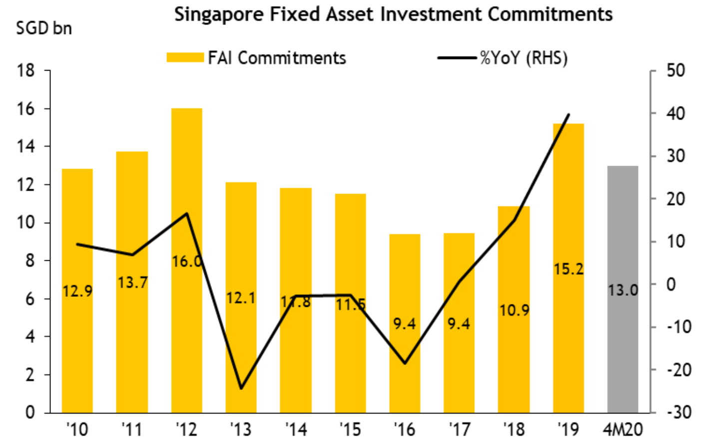
Table 11: Reduction in S Pass Sub-Dependency Ratio Ceiling for Construction, Process & Marine Shipyard

Sector	Current	Changes
DRC		
Services	38%	To be reduced to 35% on 1 January 2021 as announced at *Budget 2019*
Manufacturing	60%	No change
Construction	87.5%	No change
Process	87.5%	No change
Marine Shipyard	77.8%	No change
S Pass sub-DRC		
Services	13%	To be reduced to 10% on 1 January 2021 as announced at *Budget 2019*
Manufacturing	20%	To be considered for reduction in future
Construction	20%	To be reduced to 18% on 1 January 2021, and to 15% on 1 January 2023.
Process		
Marine Shipyard		

Note: When a DRC or a sub-DRC cut is implemented, firms will not be able to renew work passes of foreign workers that have exceeded the revised DRC or sub-DRC. However, for the foreign workers above the DRC/sub-DRC limits, firms can retain them until their work passes expire to avoid disrupting existing operations.

Source: Budget 2020

Fig 85: EDB Secured SGD13b Investment Commitments in First 4 Months of 2020, Above Full Year Target of SGD8b to SGD10b



Source: Economic Development Board

Table 12: Singapore – Key Macroeconomic Indicators

	2018	2019	2020E	2021E	2022E
Real GDP (%)	**3.4**	**0.7**	**-5.7**	**4.5**	**3.0**
By Expenditure:					
Private Consumption	4.2	3.7	-13.3	8.4	2.7
Government Consumption	2.9	2.8	13.9	-3.2	3.3
Gross Fixed Capital Formation	-3.4	-0.2	-12.4	6.3	4.5
Exports of Goods & Services	8.1	-1.6	-6.9	5.2	3.0
Imports of Goods & Services	7.3	-1.7	-7.7	4.9	4.0
By Industry:					
Manufacturing	7.0	-1.4	4.8	3.2	1.8
Construction	-3.5	2.8	-34.0	18.0	15.0
Services	3.4	1.1	-7.0	5.4	3.6
Wholesale & Retail Trade	2.8	-2.9	-4.6	5.0	1.5
Transportation & Storage	0.0	0.8	-22.9	10.2	7.0
Accommodation & Food Services	3.1	1.9	-27.2	15.0	8.9
Information & Communication	6.5	4.3	1.6	2.5	2.0
Finance & Insurance	7.2	4.1	4.5	3.8	3.0
Business Services	2.4	1.4	-11.8	7.0	5.5
Other Services	2.2	2.6	-8.0	3.5	2.5
Current Account Balance (% of GDP)	17.2	17.0	16.5	17.0	17.5
Fiscal Balance (% of GDP)	0.7	-0.3	-15.4	-4.0	0.5
Headline Inflation (%, period average)	0.4	0.6	-0.3	0.5	0.7
Core Inflation (%, period average)	1.7	1.0	-0.2	0.5	0.8
Unemployment Rate (%, end-period)	2.2	2.3	3.8	3.0	2.5
Exchange Rate (per USD, end-period)	1.36	1.35	1.34	1.28	1.26
10-Year Government Bond Yield (%, end-period)	2.03	1.73	0.90	1.10	1.30
3M SIBOR (% p.a., end-period)	1.89	1.77	0.40	0.40	0.40

Source: CEIC, Maybank Kim Eng forecasts

Thailand

Waiting for Blue Skies

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GDP Rebound on Tourism Recovery

We forecast GDP growth rebounding to +5% in 2021 and +4.5% in 2022 following the -6.2% contraction in 2020. The recovery will be broad-based, led by exports of goods and services while domestic demand will see a slower recovery. Private consumption may see a sluggish recovery given a weak labour market and falling household incomes. Private investment and goods exports will gradually improve as business confidence returns. As vaccines become widely available by mid-2021, pent-up travel demand will likely provide some relief for the battered tourism industry in the second half of the year. However, tourism will likely take 2-3 years to return to pre-pandemic levels as any vaccine will not completely eradicate the virus. The government will continue boosting domestic tourism in 2021.

Sufficient Fiscal Room; BoT to Hold Policy Rate

Fiscal deficit will likely stay wide at around 4.8% of GDP in FY2021, after posting a decade-high deficit of 5.1% in FY2020. Fiscal underspending leaves sufficient room for more support to be rolled out in 2021 if needed. Public debt has risen but remains manageable at 49.3% of GDP as of Sep 2020, below the government's initial expectation of 57% and 60% ceiling. We expect the Bank of Thailand (BoT) to maintain its policy rate at 0.5% in 2021, given the recovery and limited monetary policy space after three rounds of rate cuts in 2020. BoT has emphasized that the onus is on fiscal policy to drive growth, and budget disbursement and supply-side policies should be accelerated. We expect headline inflation to pick up to +1.2% in 2021 (from -0.9% in 2020), mainly on the back of the recovery in energy prices. Strength of the Thai Baht will continue to be a key concern in 2021, despite the BoT's measures to encourage capital outflows.

Household Debt Rising as Incomes Fall

The pandemic has had a significant impact on employment and household incomes, raising concerns on the growing household debt (85% of GDP in 2Q20 vs. 80.3% in 1Q). While the rise in the official unemployment rate (2.1% in Oct-20 from 1% in Dec-19) was small as compared to rest of ASEAN, underemployment has almost tripled and incomes fallen as workers moved from higher-paying jobs in manufacturing, services and tourism into agriculture. Cash handouts for farmers and informal workers, the worst-hit segment who typically do not have social protection, ended in July. Household debt will likely continue rising for the next two years as the job market will take longer to recover compared to past crisis. BoT will likely extend its debt relief and restructuring measures.

Wildcard: Government Concedes to Protestors' Demand

There is no clear resolution to the student protests, as their key demands - particularly the Prime Minister's resignation and reforms of the monarchy - are unlikely to be met. Our base case is that the protests will continue into early 2021 until fatigue sets in. Prolonged tensions could deter tourists from returning even when borders are open, similar to the 2013/14 political crisis episode when visitor arrivals plunged by 12% in 1H 2014. Wildcard for 2021 would be the resignation of the Prime Minister due to heightened pressures, and the calling of new elections.

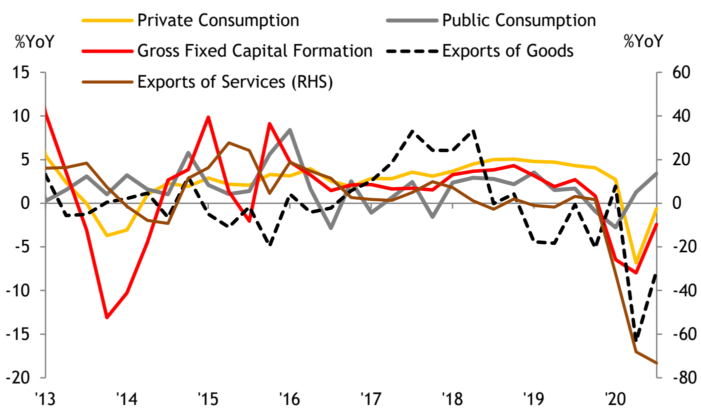
1. GDP Rebound on Tourism Recovery

We forecast GDP growth rebounding to +5% in 2021 and +4.5% in 2022 following the -6.2% contraction in 2020. The recovery will be broad-based, led by exports of goods and services (from a low base) while domestic demand will see a softer rebound. Recovery in the first half will mainly be in domestic demand and goods exports, rebounding from the trough in 2Q20 when a partial lockdown was in place.

Private consumption may see a slow recovery amid a weak labour market and fall in household incomes, as indicated by the sluggish improvement in the consumer confidence index. Private investment, which plunged in 2020 due to capex delays and a halt in foreign investment due to travel restrictions, will likely gradually improve in 2021. Public spending and investment, the rare bright spots in 2020 as the government accelerated disbursement of the capital budget and social transfers, will likely extend into 2021 to support the recovery. Goods exports (-7.3% in 10M20) and manufacturing will turn positive as demand for industrial products (automobiles, electrical equipment) improves as a vaccine becomes widely available globally. Food products, rubber gloves, and home appliances (washing machines, fridges, air conditioners), which saw robust demand amid the pandemic, will likely continue to do well in 2021 as the work-from-home trend continues, albeit at a softer pace.

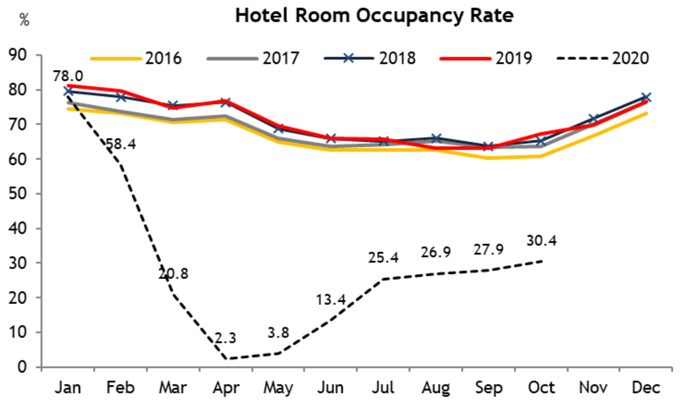
As vaccines become widely available by mid-2021, pent-up travel demand will likely provide some relief for the battered tourism industry in the second half of the year. However, tourism will likely take 2 to 3 years to return to pre-pandemic levels as any vaccine will not completely eradicate the virus. The NESDC expects just 5m tourists in 2021, lower than the 6.7m in 2020 and around one eighth of pre-pandemic levels. We are forecasting a recovery to around 7m in 2021, with bulk of the arrivals only expected in the second half of the year. The Tourism Authority of Thailand stated that the sector may have to wait until 2022 to see "normal" revenue, or 80% of the pre-pandemic level.

Fig 86: Exports of Services Yet to Rebound in 3Q20



Source: CEIC

Fig 87: Hotel Occupancy Rates Less than Half of Normal Levels



Source: CEIC

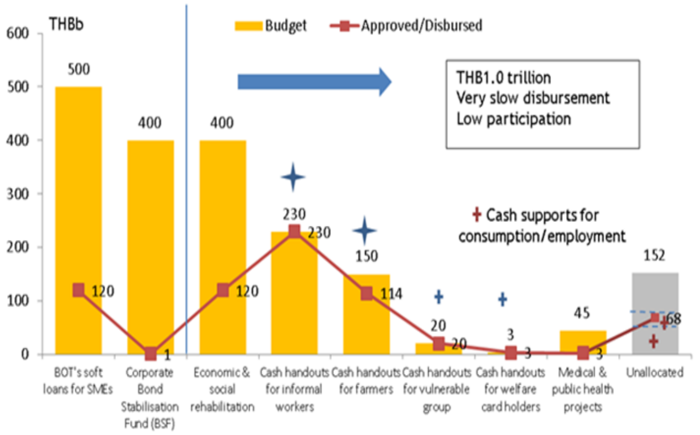
While waiting for international tourists to return, the government will continue boosting domestic tourism. Domestic tourism is relatively small, at about 30% of the total tourism market. The government is considering extending the "We Travel Together" campaign, which subsidises 40% of hotel expenditure and airfares, until April 2021 (from Jan 2021). The campaign received a muted response and hotel occupancy rates have only recovered to 30.4% as of Oct, well below the >60% levels during normal times (see Fig 87).

2. Sufficient Fiscal Room; BoT to Hold Rate

Fiscal deficit will likely stay wide at around 4.8% of GDP in FY2021, after posting a decade-high deficit of 5.1% in FY2020. Fiscal underspending leaves sufficient room for more support to be rolled out in 2021. Public debt has risen but remains manageable at 49.3% of GDP as of Sep 2020, below the government's initial expectation of 57% and 60% ceiling (see Fig 89). Budget FY2021 amounts to Bt3.2tn, +2.6% higher than the previous year.

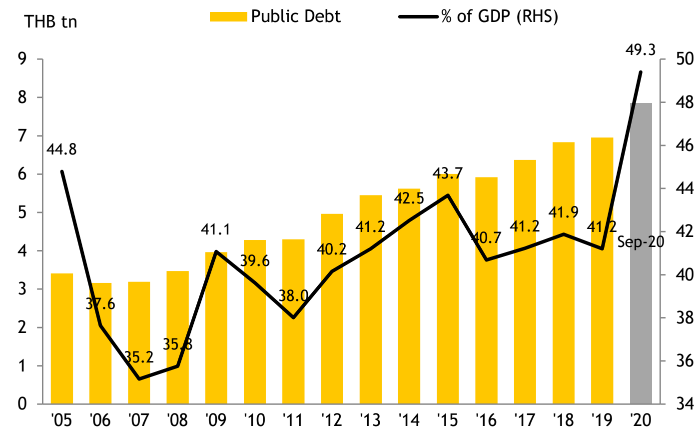
The government introduced an aggressive stimulus package of Bt1.9tn (11% of GDP) to support the pandemic-hit economy (see *Thailand Economics - Massive Support at 11% of GDP; Downgrade 2020 GDP to -5.5%,* 7 Apr 2020), but spending has been below expectations (see Fig 88). The Bt400b allocated for economic and social rehabilitation has been slow to take off due to challenges in identifying the right projects. About Bt45b allocated for health initiatives are mostly reserved for vaccines. Only Bt120b (out of Bt500b) of BoT's soft loans for SMEs have been tapped on, while the Bt400b Corporate Bond Stablilization Fund has been more of a liquidity backstop for highly rated companies.

Fig 88: Slow disbursement of Bt1tn Stimulus Package



Source: Ministry of Finance, NESDC

Fig 89: Public Debt Climbed to 49.3% of GDP in Sep-20, Still Below the 60% Ceiling



Source: CEIC

We expect the Bank of Thailand to stand pat on its policy rate at 0.5% in 2021, given the recovery and limited monetary policy space after three rounds of rate cuts in 2020. Impact of the pandemic had also not been as significant as originally feared. The NESDC upgraded its 2020 GDP forecast to -6% in Nov (from -7.8% to -7.3% in Aug), after 3Q GDP improved to -6.4%. BoT has emphasized that the onus is on fiscal policy to drive growth, and budget disbursement and supply-side policies should be accelerated. BoT can also opt to use unconventional easing tools if needed, including large-scale asset purchases and yield-curve control.

We expect headline inflation to pick up to +1.2% in 2021 (from -0.9% in 2020) in line with rising energy prices. Energy costs (12% of CPI basket) was the biggest drag to inflation in 2020, plunging by -12%. Core inflation is also expected to increase slightly to +0.5% in 2021 (vs. +0.3% in 2020), as demand in categories such as food services and retail products normalize.

Strength of the Thai Baht, among the best performing currencies in the region, will likely continue to be a key concern. The BoT brought forward measures to relax capital outflows by making it easier for Thais to move money overseas, invest in foreign assets, and hold foreign currency in Thai banks (see *Thailand Economics - Sharp Decline in October Exports; BoT Rolls Out Measures to Curb THB*, 23 Nov 2020). The BoT has continued to manage the currency's appreciation, as reflected by its foreign reserves which climbed to USD252b as of 6 Nov (from USD224b at end-2019). We expect the current account surplus to widen to 6% of GDP in 2021 (from 4% in 2020) as the services deficit narrows with the tourism recovery.

3. Household Debt Rising as Incomes Fall

The pandemic has had a significant impact on employment and household incomes, raising concerns on the growing household debt. While the pickup in official unemployment rate (2.1% in Oct-20 from 1% in Dec-19) was relatively low as compared to rest of ASEAN, this was partly due to workers moving from higher-paying jobs in manufacturing, services and tourism, into agriculture, according to BoT governor Sethaput. Underemployment almost tripled to 1.3% of total employment in 3Q20 (from 0.5% in 3Q19) while incomes fell because of the decline in working hours. Jobless claims under the social security system remains elevated in October, even as the economy fully exited lockdown since 1 July.

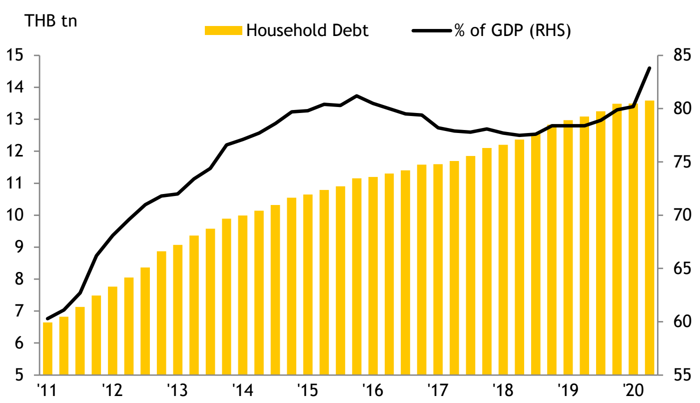
Cash handouts for informal workers, the worst-hit group who typically do not have social protection, ended in July. Cash handout schemes for informal workers (Bt5k monthly for 3 months for 15m) and farmers (Bt5k monthly for 3 months for 7.5m) ended in June and July respectively. Informal workers who received the Bt5k handouts were those who experienced the steepest average decline in income (-70%), based on a survey conducted by the Asia Foundation between April and July (see Table 13). On the other hand, workers who received compensation from the Social Security Fund (31% of employees contribute to social security system) saw a softer decline in income of -45%.

Table 13: Average Decline in Individual Income by Job Type and Receipt of Assistance

Job Type	Average change in income
Informal workers who received Bt5k	-69.7%
Food & restaurant workers	-68.7%
Agriculture/fisheries workers	-64.4%
Farmers who received Bt5k	-61.3%
People involved in trade	-57.6%
People who did not benefit from government support	-48.4%
Logistics workers	-46.5%
Manufacturing workers	-45.9%
Tourism & services workers	-45.3%
People who received compensation from Social Security Fund	-45.0%
Public sector officials	-2.2%

Source: Asia Foundation

Fig 90: Household Debt Climbed to 84% of GDP in 2Q 2020



Source: BoT

Household debt rose to 84% of GDP in 2Q20 (vs. 80.3% in 1Q), the highest in 18 years as a weak labor market reduced debt repayment ability among consumers (see Fig 90). A BoT study found that more young people have entered the borrowing cycle, with 50% of those aged 30-40 now in debt. This problem will be exacerbated with rising youth unemployment. The NESDC reported that youth and new graduates made up the majority of unemployed persons in 3Q. The job market will take longer to recover compared to past crisis given the duration of this pandemic and permanent destruction of capital and jobs in the hospitality, travel, recreation and consumer-facing sectors.

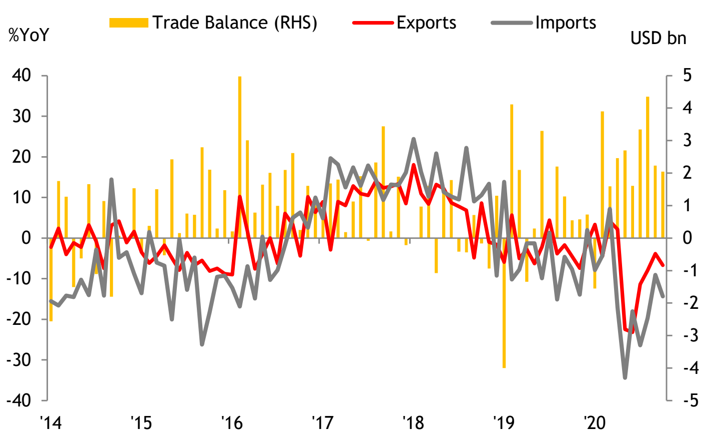
BoT expects household debt to continue rising for the next two years, and will likely extend debt relief and debt restructuring programmes. BoT is planning an additional, more targeted debt restructuring package after launching two phases of debt relief measures, which will expire at end 2020. A "debt warehousing" fund is being considered, under which debt will be suspended until the economic situation improves and debtors will be able to buy back their debt and businesses.

Table 14: Thailand – Key Macroeconomic Indicators

	2018	2019	2020E	2021E	2022E
Real GDP (%)	**4.2**	**2.4**	**-6.2**	**5.0**	**4.5**
Private Consumption	4.6	4.5	-1.6	2.7	3.7
Government Consumption	2.6	1.4	1.8	2.5	0.1
Gross Fixed Capital Formation	3.8	2.2	-6.0	4.4	3.4
Exports of Goods & Services	3.3	-2.6	-18.9	8.3	7.0
Imports of Goods & Services	8.3	-4.4	-15.4	6.1	4.8
Current Account Balance (% of GDP)	5.6	6.8	4.0	6.0	6.5
Fiscal Balance (% of GDP)	-3.0	-3.0	-5.1	-4.8	-3.5
Inflation Rate (%, period average)	1.1	0.7	-0.9	1.2	0.8
Unemployment Rate (%, period average)	1.1	1.1	2.0	1.6	1.3
Exchange Rate (per USD, end-period)	32.3	30.0	30.5	29.7	29.2
10-Year Government Bond Yield (%, end-period)	2.48	1.47	1.35	1.50	1.60
Benchmark Interest Rate (% p.a., end-period)	1.75	1.25	0.50	0.50	0.50

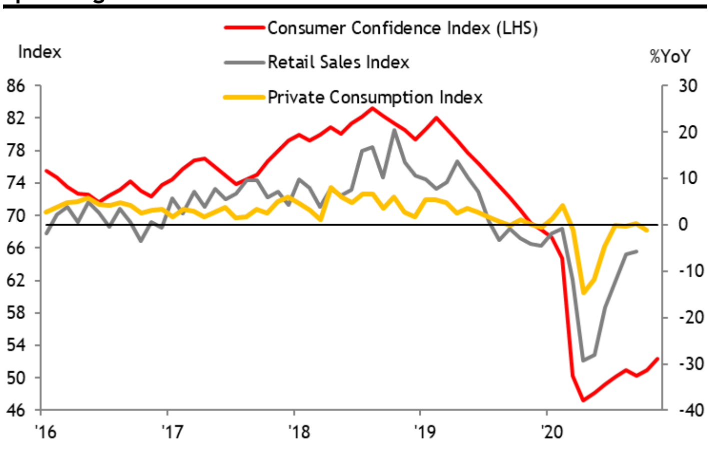
Source: CEIC, Maybank Kim Eng forecasts

Fig 91: Exports Fell by -7.3% in the First Ten Months of 2020 with the Sharpest Decline in 2Q (-15%)



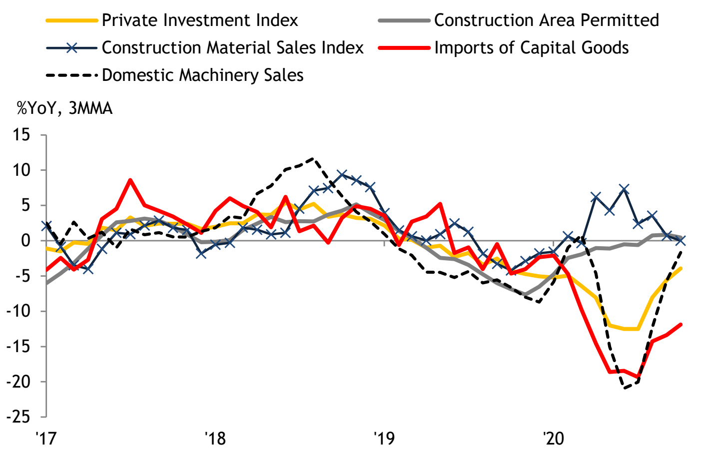
Source: CEIC

Fig 92: Sluggish Recovery in Consumer Confidence and Spending



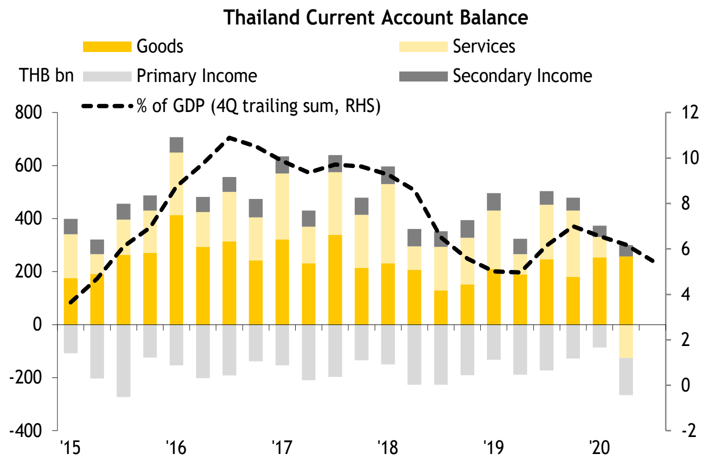
Source: CEIC

Fig 93: Private Investment Mainly Weighed Down by Plunge in Imports of Capital Goods



Source: CEIC

Fig 94: Current Account in Surplus (4.5% of GDP in 9M20) as Goods Surplus Widens, Offsetting the Services Deficit



Note: Current account balance breakdown for 3Q20 is not yet available.
Source: CEIC

Vietnam

The Best ASEAN Growth Story

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Gearing Up For Broad-Based Recovery

We expect GDP growth to rebound to +6.8% in 2021 and remain strong at +6.7% in 2022 (vs. +2.9% in 2020), cementing Vietnam's position as one of the best growth stories in ASEAN. Exports and manufacturing will remain the main growth engines. Private consumption (68% of GDP) and investment (32% of GDP) are recovering from the Covid-induced slowdown. Tourism & hospitality-related sectors may however remain under pressure near term, as border controls remain tight. Investments will return on the back of a pick-up in private investments and FDI. There are early signs of a capex recovery, as imports of capital goods rebounded back to pre-Covid levels while credit growth appear to be bottoming out. Public investments on back of infrastructure push will provide another leg up for growth.

Manufacturing FDI Set For A Comeback

FDI remains a structural growth driver as manufacturing gradually recovers in 2021. Vietnam's participation in the recently concluded free trade agreements (EU-Vietnam FTA, CPTPP & RCEP) will further strengthen its position as an attractive production base. Electronics manufacturers, including Foxconn, Pegatron, Wistron and Samsung, are planning additional manufacturing plants & R&D facilities.

SBV To Stand Pat, Sufficient Fiscal Room for Support

We expect the SBV to hold its refinancing rate at record low of 4% in 2021 as the economic recovery gathers pace. Inflation is expected to stay moderate, averaging +3% in 2021 and +3.3% in 2022, well below SBV's target of below +4%. Budget 2021 was recently approved with a fiscal deficit forecast of VND343.7tn (4.9% of GDP vs. 5.8% in 2020). Public debt will likely inch up to 58.6% of GDP in 2021 (vs. 56.8% in 2020). This remains manageable & well below the 65% debt ceiling, leaving sufficient fiscal room for further support if necessary. The government will likely extend some of the support measures, given the low disbursement rate.

Risks: Vaccine, Trade Tariffs & Leadership Transition

Biggest risk is possible vaccine delay or shorter-than-expected duration of vaccine protection, resulting in elevated global Covid cases, renewed lockdowns and a weak global economic recovery.

Second risk is if Vietnam becomes the target for US tariffs due to a large bilateral trade surplus, currency undervaluation or China's "backdoor" for re-routing goods to bypass US tariffs. The new Biden administration could provide some breathing room as the focus shifts away from bilateral trade surpluses & currency manipulation. Vietnam has signed deals with the US to develop LNG projects and import US goods, including farm products.

Third risk is Vietnam's leadership transition in Jan 2021, whereby a new leadership lineup for 2021-2025 will be appointed at the 14th CPV National Congress. We do not expect any major directional policy shifts from the new leadership team. Vietnam will continue pursuing an export & FDI-oriented growth strategy to achieve its growth targets.

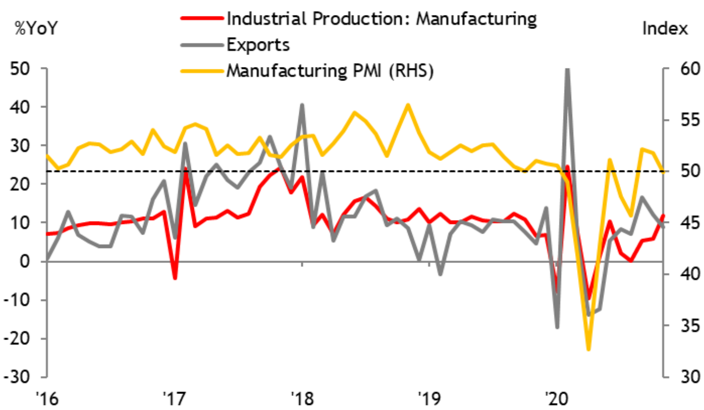
1. Gearing Up For Broad-Based Recovery

Year 2021 will see the growth recovery broadening. We forecast GDP growth to rebound to **+6.8% in 2021** and remain strong at **+6.7% in 2022**, up from +2.9% this year, cementing Vietnam's position as one of the best ASEAN growth stories. The global resurgence in COVID-19 cases remains the biggest downside risk, but recent vaccine breakthroughs provide reasons for optimism. On balance, risks to our growth outlook is skewed to the upside. The government has set a more conservative GDP growth target of +6% to +6.5% for 2021.

Exports and manufacturing have staged a "V"-shaped rebound to pre-pandemic levels, and will remain as the main growth engines in 2021 (see Fig 95). Private consumption (68% of GDP) and investment (32% of GDP) are picking up after the Covid-induced slowdown this year. Tourism & hospitality-related sectors will however remain under pressure in the near term. Despite rising prospects of vaccines being available as early as spring next year, limited financial resources and the well-contained domestic Covid situation suggests that the government will be cautious about prematurely reopening its borders to tourism. The government will likely choose to stick to its current "containment, contact tracing and mass testing" strategy rather than rush for vaccines. Herd immunity will likely materialize only late 2021.

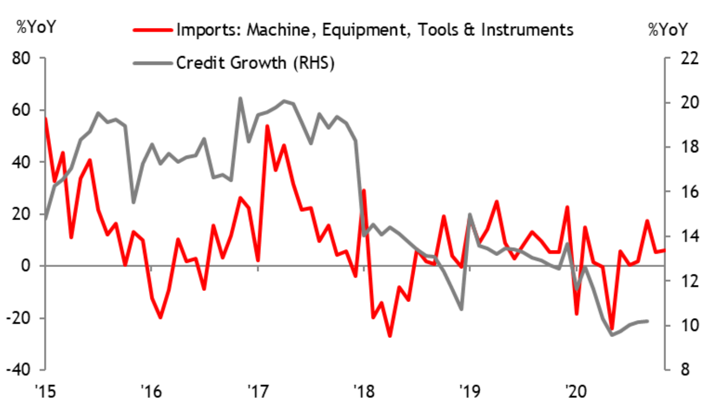
We expect investments to revive in 2021 on the back of a pick-up in private investments and FDI inflows. There are early signs of a capex recovery, as imports of capital goods rebounded back to pre-Covid levels (+5.8% in Oct/Nov vs. +6.3% in 3Q; -7% in 2Q) while credit growth appear to be bottoming out (+10.1% in 3Q vs. +9.9% in 2Q) (see Fig 96). Public investments will provide another leg of support as the government speeds up ongoing major infra projects including the North-South Expressway and upgrade of the existing Tan Son Nhat and Noi Bai international airports. Construction for the first phase of Long Thanh International Airport is expected to kick off in 2021 as land clearance has been recently completed.

Fig 95: Recovery Supported By "V"-Shaped Rebound in Exports & Manufacturing



Source: IHS Markit, CEIC

Fig 96: Signs of Capex Recovery as Imports of Capital Goods & Credit Growth Bottomed Out



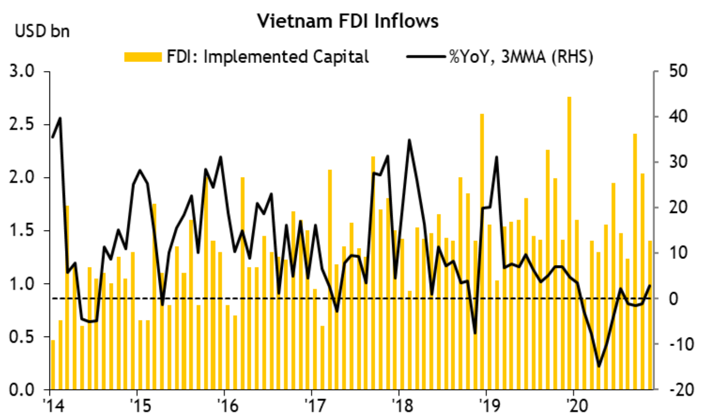
Source: CEIC

2. Manufacturing FDI Set For Comeback

We expect FDI to remain as a structural growth driver as manufacturing recovers in 2021. While FDI registrations, especially manufacturing FDI, has slowed this year due to the pandemic & lockdowns, total implemented FDI (proxy for actual FDI inflows) has been relatively resilient with signs of recovery in the second half of the year, after contracting in the first half (+1.2% in Oct/Nov vs. -0.2% in 3Q; -4.9% in 1H20) (see Fig 97).

Vietnam, as an emerging manufacturing powerhouse, continues to position itself as a major beneficiary of manufacturing supply chain shift towards ASEAN. Participation in the recently concluded free trade agreements (EU-Vietnam FTA, CPTPP & RCEP) will further strengthen its position as an attractive production base. For example, in Sep 2020, Apple supplier Pegatron announced plans to invest up to USD1b in three production plants, with an initial USD500m to be invested in the next two years. Foxconn, Wistron and Samsung are also building additional manufacturing plants & R&D facilities to expand production capacity (see Table 15). This supports our positive view of strengthening manufacturing FDI inflows in 2021.

Fig 97: Actual FDI Inflows Remained Resilient, Recovery Signs in 2H20 (+1.2% in Oct/Nov vs. -0.2% in 3Q; -4.9% in 1H20)



Source: CEIC

Table 15: Recent Examples of Firms Planning to Relocate or Expand Production Facilities in Vietnam

Firm	Details
Foxconn/Hon Hai (Taiwan)	Invested in USD26m factory to produce display screens. Plans to invest around USD270m, possibly to shift some productions of Apple's tablets & notebooks, to Vietnam from China.
Pegatron Corp (Taiwan)	Plans to invest USD1b into three production plants for computing, communication & consumer electronics in Haiphong. Invested USD19m for the first plant and is seeking license for the second plant (USD481m). A third plant at USD500m is expected in 2026-2027.
Wistron Corp (Taiwan)	Invested USD237m in northern Ha Nam province in 3Q20 for additional production facility.
Universal Global Tech (Taiwan)	Considering investing USD400m (in two phases) to build an electronic board manufacturing and assembly plant to supply component parts for Lenovo and Sony.
Samsung (South Korea)	Building a USD220m R&D centre.
Qualcomm (US)	Set up R&D facility to develop new cellular technologies and provide testing services to domestic manufacturing partners such as VinSmart, BKAV and Viettel.

Source: Compiled by Maybank Kim Eng

3. SBV To Stand Pat; Manageable Debt Pressures Leave Sufficient Fiscal Room

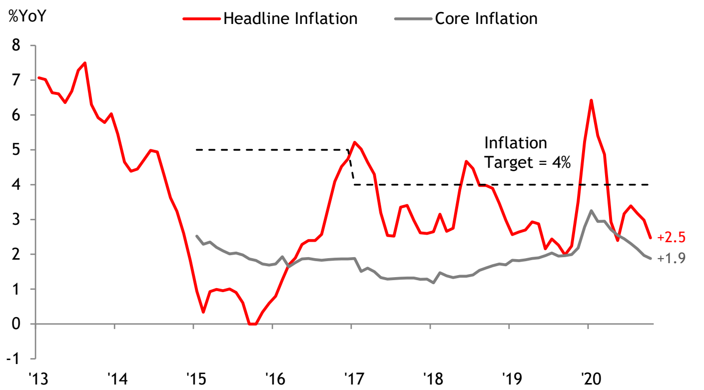
The SBV lowered the refinancing rate by a total of 200bps this year, bringing it to a record-low of 4%. As the economic recovery gathers pace, we expect the SBV to hold its refinancing rate at 4% in 2021 (see *Vietnam Economics: Robust Manufacturing Heralds Stronger 4Q Recovery*, 29 Nov 2020). Inflation is expected to stay moderate at an average of +3% in 2021 (vs. +3.3% in 2020) and +3.3% in 2022, remaining well below the central bank's target of below +4%. With adequate monetary policy space amid benign inflationary environment, more rate cuts could be possible if substantial downside risks emerge, but that is not our base case.

Our Vietnam banks analyst expects credit growth to recover to +13.5% in 2021 (vs. +10% in 2020) on stronger growth in real estate, construction, and retail loans (mortgage & household businesses) (see *Vietnam Banks - Manageable COVID-19 impacts*, 26 Nov 2020).

Fiscal consolidation in recent years have reduced public debt pressures and created space for more government support measures during the COVID-19 crisis. Budget 2021 was recently approved with a deficit forecast of VND343.7tn (4.9% of GDP, or 4% based on the adjusted GDP base[5] vs. 5.8% in 2020). Ministry of Finance estimates that the public debt ratio will inch up to 58.6% of GDP in 2021 (vs. 56.8% in 2020 & 56.1% in 2020) (see Fig 99). This remains manageable & well below the debt ceiling of 65% of GDP. With Vietnam's adoption of a revised higher nominal GDP base in 2021, the public debt ratio will be revised lower to around 46% of GDP. This expands the scope for public debt to be increased without hitting the 65% debt ceiling, leaving sufficient fiscal room for further support if necessary.

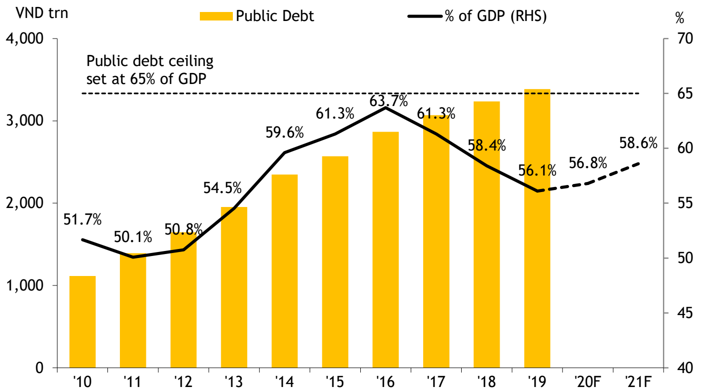
The government rolled out three rounds of support packages, amounting to VND252.6tn (4.2% of GDP), comprising tax breaks, direct cash handouts, interest-free loans and electricity bill discounts. We think the government will likely extend some of the support measures into 2021 given low disbursement rate. As of mid-Aug, only 28% (VND17tn out of VND61.6tn) of the social security package has been disbursed, while the take-up rate for the tax break package was also low at around 30%. The government had relaxed the procedures & conditions in Oct 2020 to allow more people & businesses to be eligible for the social security package.

Fig 98: Headline & Core Inflation Remain Subdued on Soft Domestic Price Pressures & Low Global Oil Prices



Source: CEIC

Fig 99: Public Debt Will Climb to 58.6% of GDP in 2021, But Remains Manageable & Well Below Debt Ceiling (65% of GDP)



Note: FY2020 and FY2021 refers to official estimate by Ministry of Finance.
Source: Vietnam Ministry of Finance, CEIC

4. Policy Watch: 14th CPV National Congress & Five-Year Economic Plan For 2021-2025

The Communist Party of Vietnam (CPV) is expected to hold its 14th National Congress in Jan 2021, whereby a new leadership lineup for the next five-year term (2021-2025) will be appointed. Vietnam is also finalizing its 2021-30 socio-economic development strategy & 2021-25 socio-economic development plan. We expect no major directional policy shift from the new leadership team. Vietnam will continue pursuing an export & FDI-oriented growth strategy to achieve its growth targets.

Based on the initial proposal, Vietnam is targeting an average GDP growth of +6.5%-7% in the next five-year period (2021-2025). This proposal comes after Vietnam missed its current target of +6.5%-7% average GDP growth for the 2016-2020 period, because of the Covid-induced slowdown in 2020.

[5] Vietnam announced a +25.4% upward revision of its nominal GDP in Dec 2019 (see *Vietnam Economics: Upsizing GDP*, 16 Dec 2019). The revised nominal GDP base is expected to be used as for calculations starting 2021.

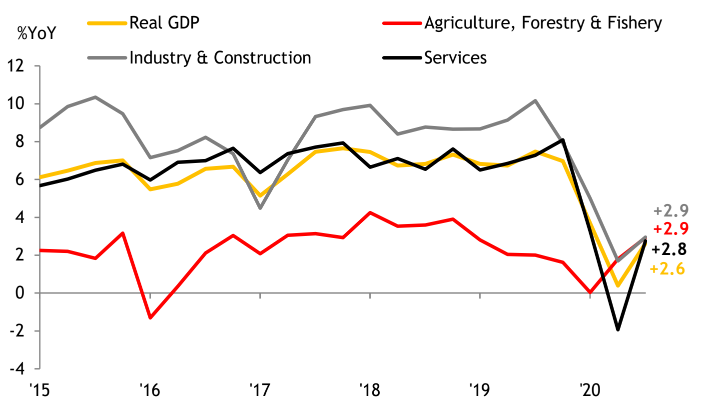
Other proposed targets include: 1) GDP per capita reaching USD4,700 to USD5,000 by 2025 (vs. USD2,715 in 2019), raising Vietnam to the ranks of a upper middle-income from lower middle-income country; 2) Share of manufacturing sector reaching 25% of GDP by 2025 (vs. 20.1% in 9M20 and +19.1% in 2019); and 3) private sector's contribution to GDP reaching 55% in 2025 & 60-65% in 2030 (vs. 42% in 2018).

Table 16: Vietnam - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	6.8	7.1	7.0	2.9	6.8	6.7
Private Consumption (%)	7.3	7.3	7.4	2.0	6.9	7.1
Government Consumption (%)	7.3	6.3	5.8	9.0	7.0	6.3
Gross Fixed Capital Formation (%)	10.2	8.7	8.3	1.5	8.5	9.0
Exports of Goods & Services (%)	16.7	14.3	6.7	2.0	10.7	12.0
Imports of Goods & Services (%)	17.5	12.8	8.3	1.5	10.9	12.3
Current Account Balance (% of GDP)	(0.7)	2.4	4.8	2.3	3.2	3.6
Fiscal Balance (% of GDP)	(2.7)	(2.8)	(3.3)	(5.8)	(4.5)	(3.5)
Inflation Rate (%)	3.5	3.5	2.8	3.3	3.0	3.3
Unemployment Rate (%)	2.2	2.2	2.2	2.7	2.5	2.2
Exchange Rate (per USD, end-period)	22,698	23,175	23,173	23,000	22,500	21,700
10-Year Government Bond Yield (%, end-period)	5.14	5.15	3.56	2.50	3.00	3.30
SBV Refinancing Rate (% p.a., end-period)	6.25	6.25	6.00	4.00	4.00	4.00

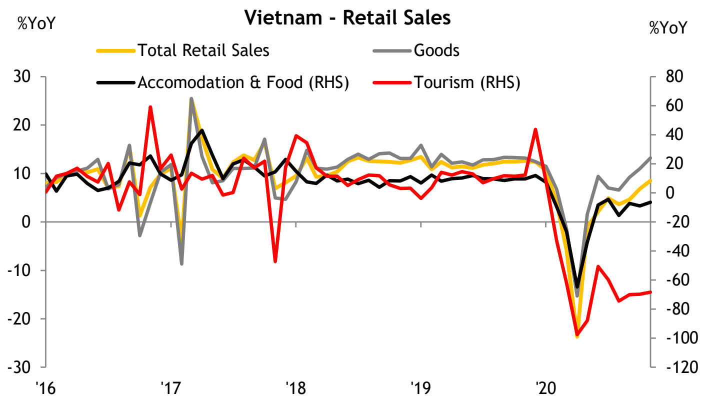
Source: CEIC, Maybank Kim Eng

Fig 100: 3Q GDP Expanded by +2.6% (vs. +0.4% in 2Q) as Industry & Construction Improves While Services Rebound



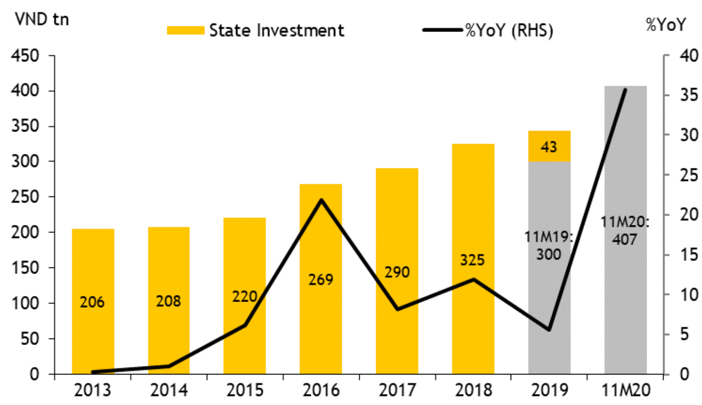
Source: General Statistics Office, CEIC

Fig 101: Retail Sales (+8.5%) Strengthened in Oct-20 On Stronger Goods Sales (+13.2%) While Tourism Sales Remained Sluggish



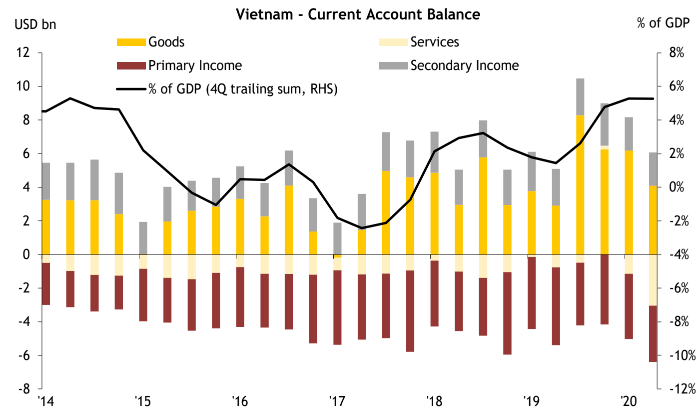
Source: General Statistics Office, CEIC

Fig 102: State Investments Rose +36% in 11M20, Fastest Pace Since 2009, as Government Sped Up Public Spending



Source: CEIC

Fig 103: Current Account in Surplus (2.5% of GDP in 1H20) as Healthy Goods Surplus Offset Wider Services Deficit



Source: CEIC

Appendix:

ASEAN-6 Key Macroeconomic Indicators

	Real GDP growth (%)					Headline Inflation (%, average)					Policy Rate (%, year-end)				
	2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E
Global	3.5	2.8	(4.0)	5.1	4.2	3.6	2.8	2.3	2.4	2.5			-		
US	3.0	2.2	(4.0)	3.7	2.5	2.4	1.8	1.2	1.8	2.0	2.375	1.625	0.125	0.125	0.125
Indonesia	5.2	5.0	(1.8)	5.3	5.0	3.2	2.8	2.0	2.4	3.0	6.00	5.00	3.75	3.50	3.50
Malaysia	4.7	4.3	(5.4)	5.1	5.0	1.0	0.7	(1.0)	2.0	2.0	3.25	3.00	1.75	1.75	2.00
Philippines	6.2	6.0	(7.8)	5.8	6.2	5.2	2.5	2.6	2.8	2.5	4.75	4.00	2.00	2.00	2.50
Singapore	3.4	0.7	(5.7)	4.5	3.0	0.4	0.6	(0.3)	0.5	0.7	1.89	1.77	0.40	0.40	0.40
Thailand	4.2	2.4	(6.2)	5.0	4.5	1.1	0.7	(0.9)	1.2	0.8	1.75	1.25	0.50	0.50	0.50
Vietnam	7.1	7.0	2.9	6.8	6.7	3.5	2.8	3.3	3.0	3.3	6.25	6.00	4.00	4.00	4.00

	Exports of Goods & Services (%)					Gross Fixed Capital Formation (%)					Private Consumption (%)				
	2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E
Indonesia	6.5	(0.9)	(7.6)	8.8	5.7	6.6	4.4	(4.6)	5.0	5.2	5.1	5.0	(2.6)	4.9	5.2
Malaysia	2.2	(1.1)	(9.5)	7.5	7.6	1.4	(2.1)	(14.5)	6.8	7.4	8.0	7.6	(4.0)	6.3	6.1
Philippines	11.5	2.4	(16.2)	3.2	6.4	12.9	4.1	(22.8)	5.6	9.2	5.6	5.9	(6.4)	4.9	6.1
Singapore	8.1	(1.6)	(6.9)	5.2	3.0	(3.4)	(0.2)	(12.4)	6.3	4.5	4.2	3.7	(13.3)	8.4	2.7
Thailand	3.3	(2.6)	(18.9)	8.3	7.0	3.8	2.2	(6.0)	4.4	3.4	4.6	4.5	(1.6)	2.7	3.7
Vietnam	14.3	6.7	2.0	10.7	12.0	8.7	8.3	1.5	8.5	9.0	7.3	7.4	2.0	6.9	7.1

Source: CEIC, Maybank Kim Eng

USD vs. Major & Regional Currencies Forecast

	Current (as of 4 Dec)	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
DXY (Dollar Index)	90.7	92.2	90.7	90.1	88.9	88.0
Japanese Yen	104.0	103.0	102.0	102.0	101.0	101.0
Euro	1.22	1.19	1.21	1.22	1.24	1.25
Pounds Sterling	1.34	1.35	1.36	1.36	1.38	1.40
Australian Dollar	0.74	0.73	0.76	0.77	0.78	0.78
Renminbi	6.53	6.55	6.45	6.35	6.25	6.25
Indian Rupee	73.78	71.00	71.00	70.00	69.00	69.00
HK Dollar	7.75	7.75	7.75	7.75	7.75	7.75
Taiwan Dollar	28.4	28.5	28.2	28.2	28.3	28.6
Korean Won	1,082	1,120	1,080	1,080	1,060	1,060
Singapore Dollar	1.333	1.340	1.320	1.300	1.290	1.280
Malaysian Ringgit	4.06	4.08	4.02	3.95	3.90	3.90
Indonesian Rupiah	14,105	14,200	13,900	13,700	13,600	13,500
Thai Baht	30.15	30.50	30.30	30.10	29.90	29.70
Philippines Peso	48.04	48.00	47.50	47.50	47.00	47.00
Vietnamese Dong	23,132	23,000	22,800	22,700	22,700	22,500

Source: Bloomberg, Maybank FX Research & Strategy

Summary Tables

Table 1: Indonesia - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	5.1	5.2	5.0	(1.8)	5.3	5.0
Private Consumption (%)	4.9	5.1	5.0	(2.6)	4.9	5.2
Government Consumption (%)	2.1	4.8	3.2	4.5	5.3	3.0
Gross Fixed Capital Formation (%)	6.2	6.6	4.4	(4.6)	5.0	5.2
Exports of Goods & Services (%)	8.9	6.5	(0.9)	(7.6)	8.8	5.7
Imports of Goods & Services (%)	8.1	11.9	(7.7)	(14.2)	7.2	7.7
Current Account Balance (% of GDP)	(1.6)	(2.9)	(2.7)	(1.1)	(2.0)	(2.6)
Fiscal Balance (% of GDP)	(2.5)	(1.8)	(2.2)	(5.5)	(5.5)	(3.5)
Inflation Rate (%, period average)	3.8	3.2	2.8	2.0	2.4	3.0
Unemployment Rate (%, period average)	5.5	5.3	5.3	7.1	6.5	5.8
Exchange Rate (per USD, end-period)	13,548	14,390	13,866	14,200	13,500	13,200
10-Year Government Bond Yield (%, end-period)	6.29	7.98	7.04	6.25	6.50	6.75
Benchmark Interest Rate (% p.a., end-period)	4.25	6.00	5.00	3.75	3.50	3.50

Source: CEIC, Maybank Kim Eng

Table 2: Malaysia - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	5.7	4.7	4.3	(5.4)	5.1	5.0
Private Consumption (%)	6.9	8.0	7.6	(4.0)	6.3	6.1
Government Consumption (%)	5.5	3.3	2.0	4.3	2.8	2.1
Gross Fixed Capital Formation (%)	6.1	1.4	(2.1)	(14.5)	6.8	7.4
Exports of Goods & Services (%)	8.7	2.2	(1.1)	(9.5)	7.5	7.6
Imports of Goods & Services (%)	10.2	1.3	(2.3)	(10.0)	8.0	9.2
Current Account Balance (% of GDP)	3.0	2.3	3.4	3.8	3.5	3.3
Fiscal Balance (% of GDP)	(3.0)	(3.7)	(3.4)	(6.7)	(6.0)	(5.4)
Inflation Rate (%, average)	3.8	1.0	0.7	(1.0)	2.0	2.0
Unemployment Rate (%)	3.4	3.3	3.3	4.5	4.5	4.0
Exchange Rate (per USD, end-period)	4.06	4.14	4.09	4.08	3.90	3.86
10-Year Government Bond Yield (%, end-period)	3.91	4.08	3.31	2.75	3.00	3.25
Benchmark Interest Rate (% p.a., end-period)	3.00	3.25	3.00	1.75	1.75	2.00

Source: CEIC, Maybank Kim Eng

Table 3: Philippines - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	6.7	6.3	6.0	(7.8)	5.8	6.2
Private Consumption (%)	5.9	5.8	5.9	(6.4)	4.5	6.1
Government Consumption (%)	7.0	13.4	9.6	9.8	4.9	5.8
Gross Fixed Capital Formation (%)	9.5	12.9	3.9	(22.8)	5.6	9.2
Exports of Goods & Services (%)	19.5	11.8	2.4	(16.2)	3.2	6.4
Imports of Goods & Services (%)	18.1	14.6	1.8	(19.7)	6.9	7.9
Current Account Balance (% of GDP)	(0.7)	(2.6)	(0.9)	2.0	1.0	0.0
Fiscal Balance (% of GDP)	(2.2)	(3.1)	(3.4)	(8.8)	(8.1)	(7.0)
Inflation Rate (%, period average)	2.9	5.2	2.5	2.6	2.8	2.5
Unemployment Rate (%, period average)	5.7	5.3	5.1	10.4	7.5	6.5
Exchange Rate (per USD, end-period)	49.9	52.4	50.7	48.0	47.0	46.0
10-Year Government Bond Yield (%, end-period)	4.93	7.01	4.34	3.00	3.40	3.70
Benchmark Interest Rate (% p.a., end-period)	3.00	4.75	4.00	2.00	2.00	2.50

Source: CEIC, Maybank Kim Eng

Table 4: Singapore - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	4.3	3.4	0.7	(5.7)	4.5	3.0
Private Consumption (%)	3.0	4.2	3.7	(13.3)	8.4	2.7
Government Consumption (%)	3.1	2.9	2.8	13.9	(3.2)	3.3
Gross Fixed Capital Formation (%)	4.2	(3.4)	(0.2)	(12.4)	6.3	4.5
Exports of Goods & Services (%)	6.2	8.1	(1.6)	(6.9)	5.2	3.0
Imports of Goods & Services (%)	7.5	7.3	(1.7)	(7.7)	4.9	4.0
Current Account Balance (% of GDP)	16.3	17.2	17.0	16.5	17.0	17.5
Fiscal Balance (% of GDP)	2.3	0.7	(0.3)	(15.4)	(4.0)	0.5
Inflation Rate (%)	0.6	0.4	0.6	(0.3)	0.5	0.7
Unemployment Rate (%)	2.2	2.1	2.2	3.8	3.0	2.5
Exchange Rate (per USD, end-period)	1.34	1.36	1.35	1.34	1.28	1.26
10-Year Government Bond Yield (%, end-period)	2.00	2.03	1.73	0.90	1.10	1.30
3M SIBOR (% p.a., end-period)	1.50	1.89	1.77	0.40	0.40	0.40

Source: CEIC, Maybank Kim Eng

Table 5: Thailand - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	4.1	4.2	2.4	(6.2)	5.0	4.5
Private Consumption (%)	3.1	4.6	4.5	(1.6)	2.7	3.7
Government Consumption (%)	0.1	2.6	1.4	1.8	2.5	0.1
Gross Fixed Capital Formation (%)	1.8	3.8	2.2	(6.0)	4.4	3.4
Exports of Goods & Services (%)	5.2	3.3	(2.6)	(18.9)	8.3	7.0
Imports of Goods & Services (%)	6.2	8.3	(4.4)	(15.4)	6.1	4.8
Current Account Balance (% of GDP)	9.6	5.6	6.8	4.0	6.0	6.5
Fiscal Balance (% of GDP)	(3.5)	(3.0)	(3.0)	(5.1)	(4.8)	(3.5)
Inflation Rate (%)	0.7	1.1	0.7	(0.9)	1.2	0.8
Unemployment Rate (%)	1.2	1.1	1.1	2.0	1.6	1.3
Exchange Rate (per USD, end-period)	32.57	32.33	29.97	30.50	29.70	29.20
10-Year Government Bond Yield (%, end-period)	2.32	2.48	1.47	1.35	1.50	1.60
Benchmark Interest Rate (% p.a., end-period)	1.50	1.75	1.25	0.50	0.50	0.50

Source: CEIC, Maybank Kim Eng

Table 6: Vietnam - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	6.8	7.1	7.0	2.9	6.8	6.7
Private Consumption (%)	7.3	7.3	7.4	2.0	6.9	7.1
Government Consumption (%)	7.3	6.3	5.8	9.0	7.0	6.3
Gross Fixed Capital Formation (%)	10.2	8.7	8.3	1.5	8.5	9.0
Exports of Goods & Services (%)	16.7	14.3	6.7	2.0	10.7	12.0
Imports of Goods & Services (%)	17.5	12.8	8.3	1.5	10.9	12.3
Current Account Balance (% of GDP)	(0.7)	2.4	4.8	2.3	3.2	3.6
Fiscal Balance (% of GDP)	(2.7)	(2.8)	(3.3)	(5.8)	(4.5)	(3.5)
Inflation Rate (%)	3.5	3.5	2.8	3.3	3.0	3.3
Unemployment Rate (%)	2.2	2.2	2.2	2.7	2.5	2.2
Exchange Rate (per USD, end-period)	22,698	23,175	23,173	23,000	22,500	21,700
10-Year Government Bond Yield (%, end-period)	5.14	5.15	3.56	2.50	3.00	3.30
Benchmark Interest Rate (% p.a., end-period)	6.25	6.25	6.00	4.00	4.00	4.00

Source: CEIC, Maybank Kim Eng

Table 7: Cambodia - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	7.0	7.5	7.1	(1.0)	5.9	6.2
Private Consumption (%)	4.6	4.6	5.5	(1.4)	5.2	5.0
Government Consumption (%)	6.5	6.5	5.8	9.0	5.0	4.0
Gross Fixed Capital Formation (%)	6.1	6.1	6.9	(4.0)	7.0	7.0
Exports of Goods & Services (in USD terms, %)	5.3	5.3	7.8	(6.5)	9.0	9.7
Imports of Goods & Services (in USD terms, %)	4.1	4.1	6.0	(6.7)	8.2	8.6
Current Account Balance (% of GDP)	(8.1)	(11.8)	(15.0)	(16.2)	(15.1)	(18.3)
Fiscal Balance (% of GDP)	(0.8)	0.7	2.3	(3.3)	(1.5)	(1.1)
Inflation Rate (%)	2.9	2.5	1.9	2.8	3.2	3.4
Unemployment Rate (%)	0.7	0.7	0.7	1.0	0.8	0.7
Exchange Rate (per USD, end-period)	4,033	4,040	4,070	4,060	4,100	4,120
*Benchmark Interest Rate (% p.a., end-period)	3.00	3.00	3.00	2.50	2.50	2.75

** Refers to one-year interest rate applied under Liquidity-Providing Collateralized Operation (LPCO) mechanism*

Source: CEIC, Maybank Kim Eng

Table 8: Myanmar - Key Macroeconomic Indicators

	FY16/17	FY17/18	FY18/19	FY19/20E	FY20/21E	FY21/22E
Real GDP (%)	5.9	6.8	6.8	1.0	4.5	6.0
*Consumption (%)	2.2	4.3	1.5	4.5	4.0	4.5
Gross Fixed Capital Formation (%)	1.2	6.6	2.6	(1.0)	5.0	8.0
Exports of Goods & Services (in USD terms, %)	(0.4)	19.0	11.3	(6.6)	7.0	9.0
Imports of Goods & Services (in USD terms, %)	(11.4)	9.4	(7.7)	2.0	6.0	7.0
Current Account Balance (% of GDP)	(4.3)	(5.5)	0.4	(2.5)	(3.0)	(3.0)
Fiscal Balance (% of GDP)	(2.5)	(2.7)	(5.0)	(8.0)	(7.5)	(5.0)
Inflation Rate (%)	6.8	4.0	8.6	5.7	5.0	6.0
Unemployment Rate (%)	1.1	1.6	1.5	3.5	2.8	2.0
Exchange Rate (per USD, end-period)	1,359	1,331	1,532	1,320	1,300	1,280
^Benchmark Interest Rate (% p.a., end-period)	10.00	10.00	10.00	6.50	6.00	6.00

Note: Underlying months that constitute a fiscal year were changed in 2018. Fiscal year is from April 1 to March 31, up to FY 2017/18. From FY 2018/19 onwards, the fiscal year is from October 1 to September 30.

** Myanmar does not provide breakdown of private & government consumption.*

^ Refers to Central Bank of Myanmar (CBM) Central Bank Rate

Source: CEIC, Maybank Kim Eng

Table 9: Laos - Key Macroeconomic Indicators

	2017	2018	2019	2020E	2021E	2022E
Real GDP (%)	6.9	6.3	5.5	1.0	6.0	6.0
*Agriculture (%)	2.9	1.3	1.2	2.3	1.9	1.9
*Industry (%)	11.6	7.8	5.6	2.3	6.5	7.3
*Services (%)	4.5	6.8	6.9	(0.2)	7.2	6.3
Current Account Balance (% of GDP)	(7.5)	(9.2)	(5.2)	(6.0)	(5.7)	(5.2)
Fiscal Balance (% of GDP)	(5.5)	(4.7)	(3.2)	(6.5)	(5.7)	(5.0)
Inflation Rate (%)	0.8	2.0	3.3	5.3	4.8	5.0
Unemployment Rate (%)	0.7	0.6	0.6	2.5	2.0	1.2
Exchange Rate (per USD, end-period)	8,293	8,545	8,885	9,300	9,620	9,820
^Benchmark Interest Rate (% p.a., end-period)	4.00	4.00	4.00	3.00	3.00	3.50

** Laos' real GDP data is provided with breakdown by industry. Data series on breakdown of real GDP by expenditure components was discontinued since 2017.*

^ Refers to Bank of Lao PDR (BOL) Short-Term Lending Rate for < 1 Week

Source: CEIC, Maybank Kim Eng

Performance and Valuation Summary

Equity performance by Country (in local currency terms)

Name	Index level	FX rate	--- Absolute performance (local currency) ---							
			-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	633		1	9	10	20	17	2	12	12
MSCI Emerging Market	1,251		2	10	14	27	21	4	16	12
MSCI Asia Pac (inc JP)	194		0	10	13	23	19	3	14	14
MSCI Asia Pac x JP	642		1	9	14	26	24	3	15	16
MSCI Asia x JP	817		1	9	13	28	27	3	15	19
MSCI Far East x JP	778		1	8	13	28	30	3	15	20
MSCI ASEAN	721		1	17	14	9	(7)	3	20	(10)
MSCI Emerging Asia	691		1	8	14	30	31	3	15	22
MSCI EM Latin America	2,368		6	25	18	19	(12)	8	30	(19)
MSCI EMMEA	235		2	13	11	11	(6)	4	13	(12)
MSCI Frontie	552		1	6	8	15	(2)	2	7	(6)
MSCI Asia x JP Small Cap	1,183		2	12	13	32	24	2	15	19
China - Shanghai Composite	3,445	6.5	1	5	3	18	20	2	7	13
China - H-shares	10,625	7.8	(2)	5	7	7	4	1	13	(5)
Hong Kong - HSI	26,836	7.8	(0)	8	9	10	3	2	14	(5)
Taiwan - TAIEX	14,132	28.3	2	10	12	24	23	3	13	18
Korea - KOSPI	2,731	1,082	4	16	15	27	32	5	17	24
Singapore - STI	2,840	1.3	(1)	13	13	5	(10)	1	15	(12)
Malaysia - KLCI	1,622	4.1	1	11	7	4	4	4	8	2
Thailand - SET	1,450	30.2	1	19	11	3	(7)	3	17	(8)
Indonesia - JCI	5,810	14,105	0	14	11	18	(5)	4	19	(8)
Philippines - PSEi	7,135	48.0	5	10	23	9	(9)	5	22	(9)
India - Sensex	45,080	73.8	2	11	18	33	10	2	18	9
Vietnam - Ho Chi Minh	1,021	23,131	1	9	13	16	6	2	13	6
Australia ASX 200	6,634	1.3	1	9	12	11	0	2	14	(1)
New Zealand - NZX50	12,631	1.4	(0)	4	7	13	13	(1)	8	10
Japan - Nikkei 225	26,751	104.2	0	13	15	18	16	1	15	13
Japan - TOPIX	1,776	104.2	(1)	9	10	11	4	1	9	3
S&P 500	3,699	1.0	2	7	8	19	19	2	10	14
Russell 2000	1,892	1.0	2	17	23	30	17	4	26	13
FTSE 100	6,550	1.3	3	11	13	3	(9)	5	12	(13)
Euro Stoxx	3,539	1.2	0	12	9	9	(3)	1	11	(5)

Source: Maybank Kim Eng, Factset, MSCI, data as of 4 Dec 2020

Equity performance by Country (in USD terms)

			--- Absolute performance (USD) ---							
Name	Index level	FX rate	-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	633		1	9	10	20	17	2	12	12
MSCI Emerging Market	1,251		2	10	14	27	21	4	16	12
MSCI Asia Pac (inc JP)	194		0	10	13	23	19	3	14	14
MSCI Asia Pac x JP	642		1	9	14	26	24	3	15	16
MSCI Asia x JP	817		1	9	13	28	27	3	15	19
MSCI Far East x JP	778		1	8	13	28	30	3	15	20
MSCI ASEAN	721		1	17	14	9	(7)	3	20	(10)
MSCI Emerging Asia	691		1	8	14	30	31	3	15	22
MSCI EM Latin America	2,368		6	25	18	19	(12)	8	30	(19)
MSCI EMMEA	235		2	13	11	11	(6)	4	13	(12)
MSCI Frontie	552		1	6	8	15	(2)	2	7	(6)
MSCI Asia x JP Small Cap	1,183		2	12	13	32	24	2	15	19
China - Shanghai Composite	3,445	6.5	2	8	8	29	30	2	12	20
China - H-shares	10,625	7.8	(2)	5	7	7	5	1	13	(4)
Hong Kong - HSI	26,836	7.8	(0)	8	9	10	4	2	14	(4)
Taiwan - TAIEX	14,132	28.3	3	11	16	31	33	4	16	25
Korea - KOSPI	2,731	1,082	6	22	27	43	46	8	27	33
Singapore - STI	2,840	1.3	(0)	16	16	10	(8)	2	18	(11)
Malaysia - KLCI	1,622	4.1	1	14	9	9	7	4	10	3
Thailand - SET	1,450	30.2	1	22	15	8	(7)	3	23	(9)
Indonesia - JCI	5,810	14,105	0	18	16	18	(5)	4	26	(9)
Philippines - PSEi	7,135	48.0	5	11	25	14	(3)	5	23	(4)
India - Sensex	45,080	73.8	2	12	16	36	7	2	18	6
Vietnam - Ho Chi Minh	1,021	23,131	1	9	14	16	6	2	13	6
Australia ASX 200	6,634	1.3	1	14	15	18	9	3	18	5
New Zealand - NZX50	12,631	1.4	0	9	13	23	22	(1)	15	15
Japan - Nikkei 225	26,751	104.2	0	13	18	23	21	1	17	18
Japan - TOPIX	1,776	104.2	(1)	9	12	16	9	1	11	8
S&P 500	3,699	1.0	2	7	8	19	19	2	10	14
Russell 2000	1,892	1.0	2	17	23	30	17	4	26	13
FTSE 100	6,550	1.3	4	15	15	10	(6)	5	16	(12)
Euro Stoxx	3,539	1.2	2	16	12	16	6	3	15	2

Source: Maybank Kim Eng, Factset, MSCI, data as of 4 Dec 2020

Equity performance by Country - relative performance

Name	Index level	FX rate	--- Relative performance to MSCI Asia x Japan --- -1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	633		0	1	(3)	(8)	(11)	(1)	(3)	(7)
MSCI Emerging Market	1,251		1	1	0	(1)	(7)	0	1	(6)
MSCI Asia Pac (inc JP)	194		(1)	1	(0)	(5)	(8)	(1)	(1)	(5)
MSCI Asia Pac x JP	642		(0)	1	0	(2)	(3)	(0)	1	(3)
MSCI Asia x JP	817									
MSCI Far East x JP	778		(0)	(0)	(0)	(0)	2	(0)	0	1
MSCI ASEAN	721		(0)	9	1	(19)	(34)	(0)	5	(28)
MSCI Emerging Asia	691		0	(0)	0	2	4	0	0	3
MSCI EM Latin America	2,368		5	17	5	(9)	(40)	4	15	(38)
MSCI EMMEA	235		1	4	(2)	(17)	(33)	0	(2)	(31)
MSCI Frontie	552		(0)	(3)	(6)	(13)	(30)	(1)	(8)	(24)
MSCI Asia x JP Small Cap	1,183		1	4	(1)	4	(3)	(1)	0	(0)
China - Shanghai Composite	3,445	6.5	1	(1)	(6)	1	2	(1)	(3)	2
China - H-shares	10,625	7.8	(3)	(3)	(6)	(21)	(23)	(3)	(2)	(23)
Hong Kong - HSI	26,836	7.8	(1)	(1)	(5)	(18)	(23)	(1)	(0)	(23)
Taiwan - TAIEX	14,132	28.3	2	3	3	3	5	1	1	6
Korea - KOSPI	2,731	1,082	5	13	13	15	18	4	12	14
Singapore - STI	2,840	1.3	(1)	6	3	(18)	(35)	(2)	3	(30)
Malaysia - KLCI	1,622	4.1	0	5	(4)	(19)	(20)	1	(4)	(16)
Thailand - SET	1,450	30.2	0	14	2	(20)	(34)	(0)	8	(28)
Indonesia - JCI	5,810	14,105	(1)	9	3	(10)	(32)	0	11	(28)
Philippines - PSEi	7,135	48.0	4	2	11	(14)	(30)	2	8	(22)
India - Sensex	45,080	73.8	1	4	3	8	(20)	(1)	4	(13)
Vietnam - Ho Chi Minh	1,021	23,131	0	0	0	(12)	(21)	(1)	(2)	(12)
Australia ASX 200	6,634	1.3	(0)	5	2	(10)	(18)	(1)	4	(14)
New Zealand - NZX50	12,631	1.4	(1)	0	(1)	(5)	(6)	(4)	(0)	(4)
Japan - Nikkei 225	26,751	104.2	(1)	4	4	(5)	(7)	(2)	2	(1)
Japan - TOPIX	1,776	104.2	(2)	1	(1)	(12)	(18)	(2)	(4)	(11)
S&P 500	3,699	1.0	1	(1)	(5)	(9)	(8)	(1)	(5)	(4)
Russell 2000	1,892	1.0	1	8	10	2	(10)	1	11	(5)
FTSE 100	6,550	1.3	3	7	2	(18)	(34)	2	2	(30)
Euro Stoxx	3,539	1.2	1	7	(2)	(12)	(21)	(0)	0	(16)

Source: Maybank Kim Eng, Factset, MSCI, data as of 4 Dec 2020

Equity performance by MSCI Asia x Japan Sector

		--- Absolute performance ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	817	1	9	13	28	27	3	15	19
Energy	599	(2)	12	2	13	(3)	2	4	(8)
Materials	398	4	18	20	40	31	5	25	22
Industrials	143	1	10	12	14	4	3	15	(1)
Capital goods	126	1	10	14	16	6	2	16	(1)
Transportation	195	1	14	11	12	(2)	3	16	(6)
Consumer discretionary	728	(3)	(0)	9	40	51	1	8	40
Automobiles & Components	1017	(4)	16	46	100	69	(1)	39	61
Retailing	328	(4)	(6)	2	34	59	1	1	46
Consumer staples	557	2	8	5	14	15	4	9	12
Food/staples retail	138	1	8	3	(5)	(6)	2	6	(6)
Food/beverage/tobacco	489	2	9	6	20	23	5	10	19
Health care	1158	4	7	8	26	60	4	11	51
Financials	368	1	13	16	18	3	3	21	(2)
Banks	271	1	13	19	12	(4)	2	25	(9)
Diversified financials	664	1	9	9	34	30	2	13	21
Insurance	415	2	15	15	22	8	4	18	2
Real estate	202	(2)	7	4	3	(9)	(1)	6	(16)
Technology	938	5	17	26	52	60	6	23	44
Software services	4424	3	5	18	47	45	3	11	40
Tech hardware	363	5	20	27	40	50	6	25	33
Semiconductors/equipment	1092	5	16	27	67	75	7	23	57
Communication Services	167	1	2	8	23	41	4	11	29
Telecoms	101	(1)	6	(1)	(6)	(13)	1	5	(16)
Utilities	198	0	9	7	0	(9)	1	12	(12)

Source: Maybank Kim Eng, Factset, MSCI, data as of 4 Dec 2020

Equity performance by MSCI Asia x Japan Sector - relative performance

		--- Relative performance MSCI Asia x Japan ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	817								
Energy	599	(3)	3	(12)	(15)	(30)	(2)	(11)	(26)
Materials	398	3	10	7	12	3	2	11	4
Industrials	143	0	2	(1)	(14)	(23)	(1)	0	(20)
Capital goods	126	(0)	1	0	(12)	(22)	(1)	2	(19)
Transportation	195	0	5	(2)	(16)	(29)	(0)	2	(25)
Consumer discretionary	728	(4)	(9)	(4)	12	23	(2)	(7)	21
Automobiles & Components	1017	(5)	7	32	72	41	(4)	24	43
Retailing	328	(5)	(15)	(11)	6	31	(2)	(14)	27
Consumer staples	557	1	(0)	(8)	(14)	(12)	1	(5)	(6)
Food/staples retail	138	(0)	(0)	(11)	(33)	(33)	(1)	(9)	(24)
Food/beverage/tobacco	489	1	0	(8)	(8)	(5)	1	(4)	0
Health care	1158	3	(2)	(6)	(2)	33	1	(4)	33
Financials	368	(0)	5	3	(10)	(24)	(0)	6	(21)
Banks	271	(0)	5	6	(16)	(31)	(1)	10	(27)
Diversified financials	664	0	1	(5)	6	3	(1)	(2)	2
Insurance	415	1	6	2	(6)	(19)	1	3	(16)
Real estate	202	(3)	(2)	(10)	(25)	(36)	(4)	(8)	(34)
Technology	938	4	8	12	24	32	3	8	25
Software services	4424	2	(4)	5	19	18	(1)	(4)	21
Tech hardware	363	4	11	14	12	23	3	10	15
Semiconductors/equipment	1092	4	8	13	39	48	3	8	39
Communication Services	167	(0)	(7)	(6)	(5)	14	0	(4)	10
Telecoms	101	(2)	(3)	(15)	(34)	(40)	(2)	(10)	(35)
Utilities	198	(1)	0	(6)	(28)	(37)	(2)	(3)	(30)

Source: Maybank Kim Eng, Factset, MSCI, data as of 4 Dec 2020

MSCI Country valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Asia-ex-Japan	19.9	16.0	13.8	3	24	16	9	11	11	1.9	1.7	1.6	1.9	2.1	2.4
China	18.2	15.4	13.2	8	18	17	11	12	13	2.1	1.9	1.7	1.5	1.7	1.9
Hong Kong	21.7	16.7	14.7	-27	30	14	6	7	8	1.2	1.2	1.1	2.7	3.0	3.4
Taiwan	19.6	17.5	15.9	21	11	11	12	13	14	2.4	2.3	2.2	2.9	3.3	3.6
Korea	18.7	13.2	11.1	24	41	20	7	9	10	1.2	1.2	1.1	1.7	1.9	2.0
Singapore	19.6	14.6	12.5	-36	35	17	6	7	8	1.1	1.1	1.0	3.5	4.2	4.8
Malaysia	21.9	15.6	15.2	-14	41	3	8	10	10	1.7	1.6	1.5	2.7	3.5	3.6
Thailand	26.8	20.2	16.9	-41	33	20	7	9	10	1.8	1.7	1.6	2.1	2.5	2.9
Indonesia	22.3	16.9	14.2	-26	32	19	11	13	15	2.5	2.3	2.1	2.5	2.6	3.2
Philippines	27.3	19.1	15.3	-41	43	26	7	9	10	1.8	1.7	1.6	1.7	1.5	1.7
Vietnam	17.2	13.4	11.2	-8	29	20	16	16	17	2.3	2.0	1.8	1.4	1.7	2.7
India	32.4	23.2	19.1	-3	39	22	10	13	14	3.2	2.9	2.7	1.2	1.4	1.6
Japan	23.2	18.2	15.3	-14	27	19	6	7	8	1.4	1.3	1.3	2.1	2.2	2.3
US	26.2	21.6	18.6	-7	22	16	21	29	28	3.9	3.7	3.3	1.6	1.7	1.8
Europe	25.5	17.8	14.9	-20	44	19	4	7	8	1.6	1.6	1.5	2.5	2.8	3.2

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 4 Dec 2020

MSCI Asia-ex-Japan Sector valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Asia-ex-Japan	19.9	16.0	13.8	3	24	16	9	11	11	1.9	1.7	1.6	1.9	2.1	2.4
Energy	21.0	13.6	10.8	-42	55	26	5	7	9	1.1	1.0	0.9	2.6	2.9	3.5
Materials	21.2	15.6	13.8	1	36	13	7	9	9	1.5	1.4	1.3	2.1	2.6	2.8
Industrials	17.2	12.6	10.6	-15	36	18	6	8	9	1.1	1.0	0.9	2.1	2.4	2.6
Capital goods	13.3	10.6	9.3	-5	25	14	7	8	9	0.9	0.9	0.8	2.4	2.6	2.9
Transportation	75.5	23.6	16.0	-71	229	48	2	7	9	1.7	1.6	1.5	1.6	1.8	2.1
Consumer discretionary	42.8	25.7	20.1	-5	66	28	9	13	14	3.7	3.3	2.9	0.4	0.5	0.6
Automobiles & Components	31.3	16.5	14.1	-7	90	17	5	9	10	1.6	1.5	1.4	1.3	1.4	1.6
Retailing	39.9	29.3	22.4	24	36	31	14	16	18	5.6	4.7	3.9	0.1	0.1	0.1
Consumer staples	26.6	23.7	21.6	15	12	10	14	15	15	3.8	3.5	3.3	1.9	2.1	2.2
Food/staples retail	25.6	25.2	21.0	6	2	20	10	10	11	2.6	2.4	2.3	1.6	1.8	2.0
Food/beverage/tobacco	24.6	21.9	20.1	17	12	9	15	15	15	3.6	3.3	3.1	2.0	2.2	2.4
Health care	50.1	36.9	34.0	54	36	9	11	14	13	5.7	5.2	4.6	0.6	0.8	0.7
Financials	11.2	9.8	8.9	-6	13	11	9	10	10	1.1	1.0	0.9	3.1	3.5	3.8
Banks	9.5	8.4	7.6	-9	13	10	9	10	10	0.9	0.8	0.7	3.6	4.0	4.5
Diversified financials	17.4	15.4	13.9	17	13	11	11	11	12	1.9	1.7	1.6	2.4	2.7	2.9
Insurance	13.6	11.9	10.7	-3	14	11	11	11	12	1.4	1.3	1.2	2.5	2.7	3.0
Real estate	9.6	8.2	7.2	-4	17	13	8	9	9	0.8	0.7	0.7	4.5	5.0	5.5
Technology	22.1	18.1	15.0	37	22	21	12	14	15	2.7	2.5	2.2	2.0	2.3	2.5
Software services	32.4	28.1	24.5	6	16	14	17	18	19	5.5	5.1	4.6	1.5	1.9	2.1
Tech hardware	18.4	14.4	11.9	33	28	21	10	12	13	1.8	1.7	1.5	2.3	2.4	2.6
Semiconductors/equipment	25.3	22.0	18.0	53	15	22	17	18	20	4.4	3.9	3.5	1.9	2.3	2.6
Communication Services	27.1	23.3	19.9	19	16	17	12	13	13	3.3	3.0	2.7	1.2	1.3	1.4
Telecoms	14.1	13.0	12.0	2	8	9	9	9	9	1.2	1.2	1.1	4.8	4.9	5.2
Utilities	13.4	11.9	11.0	28	12	8	9	9	10	1.2	1.1	1.1	3.9	4.1	4.4

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 4 Dec 2020

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