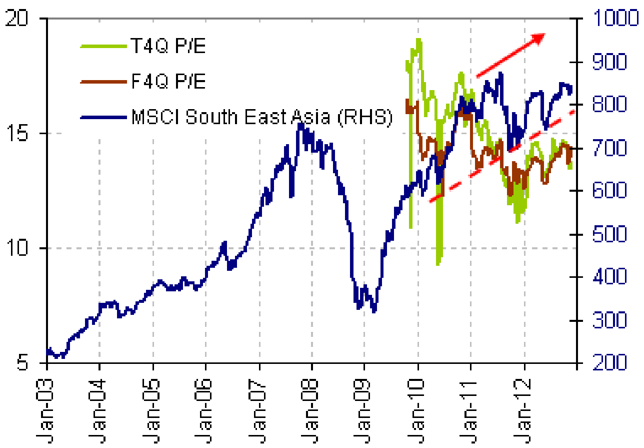
Ng Weiwen

- ***Maintain our Overweight ratings on Singapore, Thailand and Philippines as well as Marketweight ratings on Malaysia and Indonesia.***
- ***Table summary of ASEAN Asset Strategy with ETF and CFD instruments to trade the outlook as well as suggested Unit Trusts on Pg3.***

In 2013, global demand is likely to remain sluggish with G2 economies continuing to deleverage and kick the can (fiscal woes) further down the road. Specifically, US lawmakers will be engaged in a vigorous debate over the details of the fiscal budget compromise while the Eurozone will only just do enough to avoid an escalation of the EZ sovereign debt crisis. Austerity -rather than growth- will be the name of the game for Eurozone, in particular.

By contrast, ASEAN's robust domestic demand mitigated the broad weakness in its exports amid sluggish external demand during the sychronised global slowdown in 2012.

Fig 1. ASEAN has and will continue to remain a bright spot.



Source: PSR, Bloomberg

Looking ahead into 2013, what will be the main drivers of economic growth for ASEAN?

First, **domestic demand**, on the back of favourable demographics, as well as an upswing in investment cycle should continue to lend support to growth. Specifically:

(i) **Infrastructure building**, supported by foreign investment flows, will likely buoy domestic demand (particularly gross fixed capital formation). Some notable infrastructure projects include the private-public partnership in Philippines, Economic Transformation program in Malaysia, mega public infrastructure projects such as the six Jakarta Urban Toll Roads, MRT and Monorail network in Indonesia. Closer to home, the Singapore government has committed S$60 bn to double the MRT network (i.e. twice its 2008 scale) and increase the capacity of current rail lines. Other major infrastructure spending include the construction of new port facilities at Pasir Panjang and Tuas as well as Changi Airport Terminal 4.

(ii) **Domestic consumption** should also still remain firm, buoyed by the rise of the middle class and structural transformation particularly in Indonesia.

Second, **intra-regional trade** should pick up on the back of rising middle-income consumerism, favourable demographics as well as process of urbanization within ASEAN, China and India. This will help mitigate the tepid demand from the G2 (US and EU)- where a significant portion of final demand of Asia's exports is still derived from.

On account of a benign inflation environment thus far (except for Singapore), markets can take comfort that most central banks still have room to cut policy rates should external demand turn out to be weaker than expected. Already, Thailand and Philippines have recently cut rates in October as a pre-emptive measure to bolster domestic growth in view of sluggish external demand. On account of domestically-driven inflationary pressures, MAS also recently maintained a steeper appreciation of the SGD at its semiannual Oct monetary policy review in a bid to anchor inflation expectations and fend off QE3-induced capital inflows inflationary pressures.

Heading into 2013, we expect inflation in Indonesia and Malaysia to climb once subsidies for fuel (in the former) and essential items (for the latter) get scaled back. For Malaysia, the reduction in subsidies could take place as soon as the 13th Malaysia GE is over.

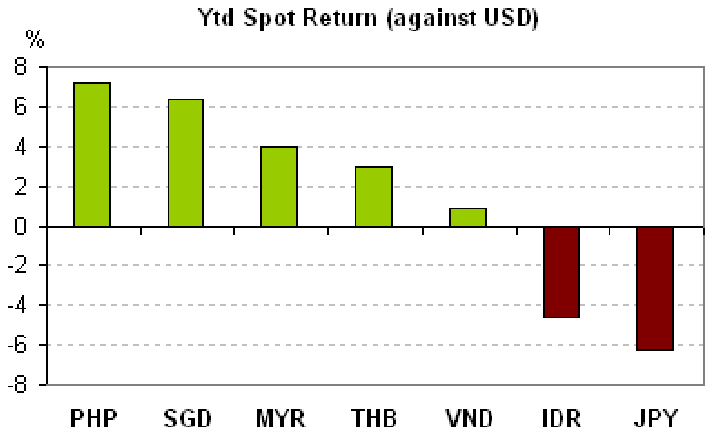
Fig 2. In 1H13, most central banks in ASEAN are expected to stand pat with room to cut rates if need. Moving into 2H13, central banks might gradually shift towards policy normalisation by undertaking a more hawkish rhetoric if global recovery is on a stronger footing and inflationary pressures rises by then.

Country	Policy Rate	Current	Last Change	PSR's baseline expectation
Singapore	SGD NEER	maintain modest and gradual appreciation of S$NEER	increase slope of policy band, restore narrower policy band (Apr 2012)	stand pat
Malaysia	O/N Policy Rate	3.00%	+25bp (May 2011)	stand pat with room to cut rate if need for most economies
Thailand	1-Day Repo	2.75%	-25bp (Oct 2012)	
Indonesia	O/N Rate	5.75%	-25bp (Feb 2012)	
Philippines	O/N Reverse Repo	3.50%	-25bp (Oct 2012)	

Source: PSR, Bloomberg

In terms of <u>**currency**</u> outlook, we expect the **Philippine Peso** (buoyed by robust macro fundamentals and remittances) and **Singapore Dollar (SGD)** to continue to outperform the region. For the SGD, we expect MAS to undertake a hawkish-biased policy stance -maintaining a modest and gradual appreciation- in view of inflation concerns. The Indonesia Rupiah (IDR) is likely to be a laggard. Persistent balance of payment deficit -though alleviated somewhat in recent times- and lower demand for commodities is likely to plague the IDR.

Fig 3. The Philippine Peso and Singapore Dollar have -and will continue to- outperform the region.



Source: PSR, Bloomberg, data as at 04 Dec 2012

In the global **equities** space, we are Overweight ASEAN. Within ASEAN, we prefer **Philippines, Thailand and Singapore**. In view of downside risks arising from the G2 fiscal front, ASEAN is likely to maintain its outperformance, barring unravelling of political risks (particularly in Thailand, Malaysia and Indonesia). **Should Malaysia's incumbent Barisan Nasional (BN) garner a strong mandate at the upcoming elections, we look to revisit our ratings on Malaysia with an Overweight**.

There is also possibility of currency translation gains, especially for our Japanese clients (owing to the relative weakness in the Japanese Yen). However, the reward to risk is dimming for ASEAN and instead North Asia (particularly China) looks more promising for long-term investors.

In the **fixed income** space, we prefer **Philippines sovereign bonds**, owing to (i) robust macro fundamentals which could (ii) lead to an upgrade to investment grade rating soon (with sovereigns currently rated one notch below investment grade) and (iii) should receive a further boost if interest rates are cut further (to temper the pace of currency appreciation of the Philippine peso rather than stimulate growth per se).

For Singapore, the **SGS** yields is likely to remain low as flight-to-quality flows continue to SGS in view of a smaller universe of AAA -rated sovereigns. Furthermore, SGS yields may even test fresh lows should uncertainties over the US fiscal cliff as well as EU sovereign debt crisis escalate.

Notwithstanding its resilient domestic demand, ASEAN is not immune from a global slowdown as well as external downside risks such as

(i) sharper-than-expected US fiscal withdrawal,
(ii) an escalation of the ongoing Eurozone sovereign debt crisis which is lurking in the backdrop,
(iii) flare up in Middle East tensions
(iv) weaker-than-expected growth on the China macro front.

For risks on the domestic front, we need to monitor the **accelerating credit growth in ASEAN**. Though credit expansion has been procyclical thus far, if credit expansion runs ahead of economic growth, an asset bubble might be brewing which would have severe effect on the economy through the multiple feedback loops -if burst.

Should these risks materialise, risk appetite will be dampened and ASEAN could see a reversal in capital flows with growth coming in weaker-than-expected; consequently weighing on risk assets such as equities.

Specific Country Analysis & Insights:

Fig 4. ASEAN Macro Strategy

Region/Country	Rating	ETF	CFD
ASEAN	OW	CIMB ASEAN40 ETF (QS0:SGX or M62:SGX)	
Prefer:			
Singapore		SPDR STI (ES3:SGX) / Nikko AM STI (G3B:SGX)	Straits Times Index SGD5 CFD (STI), Singapore Index SGD20 CFD (SMSCI)
Thailand		DBXT - MSCI Thailand TRN (LG7:SGX)	-
Philippines		DBXT - MSCI Philippines (N2E:SGX)	-
Neutral:			
Malaysia		DBXT - MSCI Malaysia (LG6:SGX)	FBM KLCI MYR10 CFD (Bursa Malaysia KLCI)
Indonesia		DBXT - MSCI Indonesia (KJ7:SGX)	Indonesia Index USD1 CFD (MSCI Indonesia Index)
Vietnam		DBXT - FTSE Vietnam (HD9:SGX)	-

Fig 5. Regional and Country Valuations

	Relative Return	Index	T4Q P/E (x)	F4Q PE (x)	P/BV (x)	Dividend Yield (%)	Return on Equity (%)	Total Return_Ytd (%)
MSCI World	-	1314.3	15.8	13.5	1.7	2.8	21.2	14.3
MSCI Asia Pac Ex Japan	-	452.0	13.3	13.0	1.7	3.1	19.2	19.2
MSCI South East Asia	OW	843.9	13.7	14.4	2.0	3.1	26.6	18.9
MSCI Singapore	OW	1626.7	11.6	13.7	1.5	3.5	28.7	19.2
MSCI Philippines	OW	939.7	19.2	18.7	2.9	2.2	18.0	34.6
MSCI Thailand	OW	490.5	14.6	13.4	2.4	2.8	26.6	24.4
MSCI Malaysia	MW	571.0	14.6	15.1	2.1	3.3	23.4	5.3
MSCI Indonesia	MW	5070.5	15.5	15.2	3.6	2.6	25.7	10.6

Source: Bloomberg, PSR est. Data as at close of Asia trading session, 03 Dec 2012.

Fig 6. Unit Trusts with exposure to ASEAN

Unit Trust

Equities	
ASEAN	JPM JF ASEAN Equity Fd A (Acc) -SGD
Singapore	Nikko AM Singapore Dividend Equity SGD
Malaysia	Aberdeen Malaysian Equity Fund SGD
Thailand	Aberdeen - Thailand Equity -SGD
Indonesia	Aberdeen - Indonesia Equity -SGD
Phillippines	Lion Global - Philippines Acc -SGD
Fixed Income	
ASEAN	Nikko AM Shenton Asia Bond (>50% exposure to ASEAN)
Singapore	PineBridge Singapore Bond Fund
Balanced Fund	
Singapore	Lion Global Singapore Balance SGD

UT investors please contact your FA for Portfolio matters.

Singapore - *Inflation and economic restructuring will continue to be the focus*

	2012 (f)	2013 (f)
GDP (%)	1.4	2.0
Inflation (%)	4.7	4.2

Macro Outlook:

- A modest growth (2 - 3%) and high inflation (domestically-driven) environment might be the new norm as the Singapore economy restructures and focuses on inclusive growth. If not for the tight labour market, the economy would be at risk of stagflation, which is defined as low growth, high inflation and significant slack in the labour market.

- Industries such as the construction sector as well as the marine and offshore engineering cluster (with order books relatively full) will be the main drivers of growth.

- Projects in the construction pipeline are as follows:
  - (i) major public infrastructure building over the next decade such as the expansion of MRT rail network (with S$60bn committed), construction of port facilities at Pasir Panjang and Tuas as well as Changi Airport Terminal 4
  - (ii) ongoing building of Sports Hub, Marina One
  - (iii) current healthy stream of private residential projects as well as record supply of HDB Build-to-Order flats.

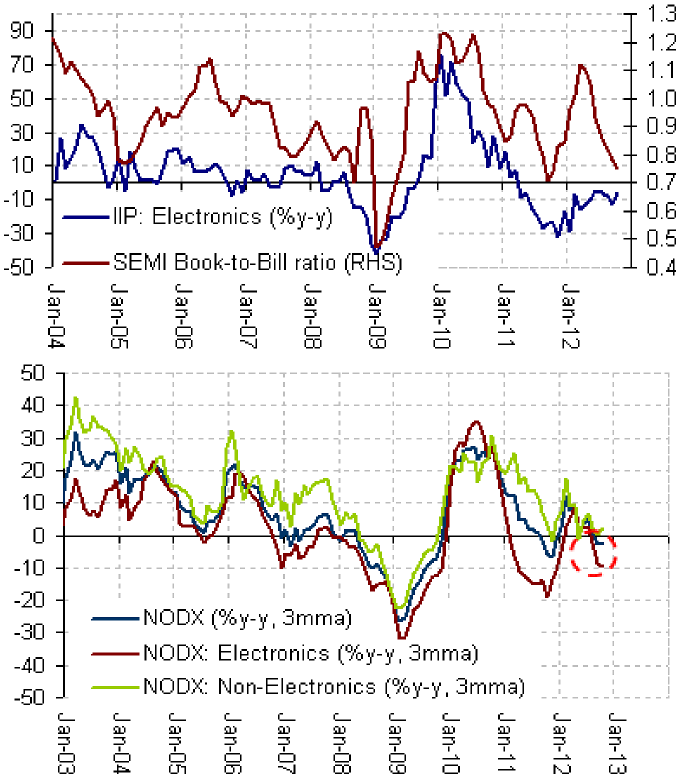
- These activities in the construction sector will also have positive spillovers to the financial sector (largely in term of lending activity) as well as real estate services.

- The chemicals cluster could also receive a potential boost with Shell expanding its upstream ethylene cracker in Singapore Jurong Island (an investment worth hundreds of millions). The increased availability in feedstock upstream (from Shell and ExxonMobil crackers) has attracted downstream players such as Mitsui Chemicals which has recently announced that it is setting up an additional US$115 million plant here to produce specialised polymers.

- External-oriented industries (electronics manufacturing cluster, wholesale trade) will be weighed down by sluggish external demand

- Unlike regional peers such as South Korea and Taiwan which has benefitted largely from the manufacturing of electronics in the tablets and smartphone sphere, Singapore's electronics has been -and will continue to remain lacklustre at best -especially since it is geared towards the production of PCs (where demand has been sluggish) instead.

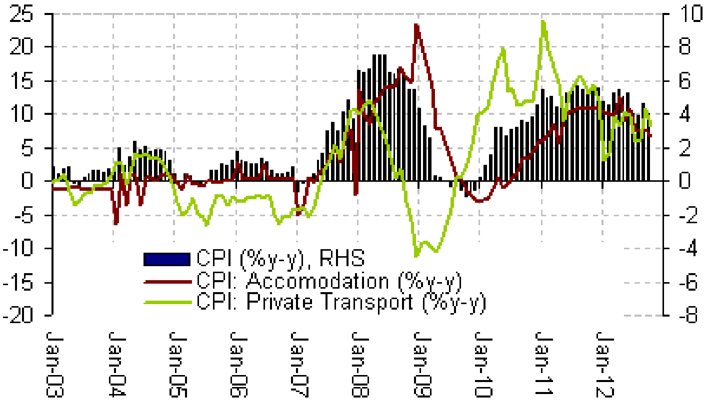
Fig 7. The weakness in electronics manufacturing output as well as exports is likely to persist in the near term as (i) Singapore is not plugged into the tablet and smartphone value chain and (ii) global demand -as reflected in the SEMI book-to-bill ratio- remains tepid.



Source: Bloomberg, CEIC, PSR est.

- While headline inflation is expected to moderate -albeit slightly, inflationary pressures are likely to persist on the back of domestic supply side factors such as (i) rising accommodation costs, (ii) private road transport costs (COEs) and (iii) persistent tightness in labour market (resulting in wage pass through as well as stickiness in prices). Furthermore, on the external front, a spike in oil prices -if tensions in the Middle East flare up- will result in inflation surprising on the upside.

Fig 8. Inflationary pressures are likely to persist on the back of rising accommodation costs, (ii) private road transport costs (COEs)



Source: Bloomberg, CEIC, PSR est.

- **We expect MAS to continue to stand pat-maintaining a modest and gradual appreciation of the S$NEER**- in a bid to anchor inflation expectations in view of QE3-induced capital inflows, barring a significant slowdown in the global economy. But do note that that a stronger Singapore dollar still might not be able to fully mitigate domestic drivers of inflation. To anchor inflation expectations in a high inflationary environment, forward guidance in monetary policy communication can also be used as a tool.

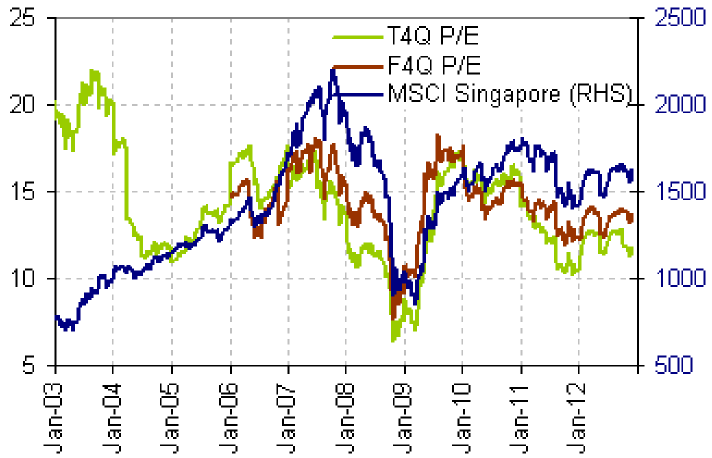
Equities:

- **Overweight (maintained)**. Construction and marine and offshore engineering equities should continue to do well. Reits are also likely to be a key beneficiary in global search for yield.

- ASEAN and emerging markets -which contribute to more than 60% (est) of STI EPS- will likely provide some support for Singapore equities in view of the slowdown in the developed markets. Furthermore, there is around 3.5% dividend yield to be garnered from MSCI SG.

- Foreign investors (especially our Japanese clients) could also benefit from possible currency translation gains -on top of capital gains- in view of a strong SGD.

Fig 9. MSCI Singapore



Source: Bloomberg, PSR est.

Malaysia - *Overweight if BN strong mandate*

	2012 (f)	2013 (f)
GDP (%)	5.0	4.0
Inflation (%)	1.7	2.2

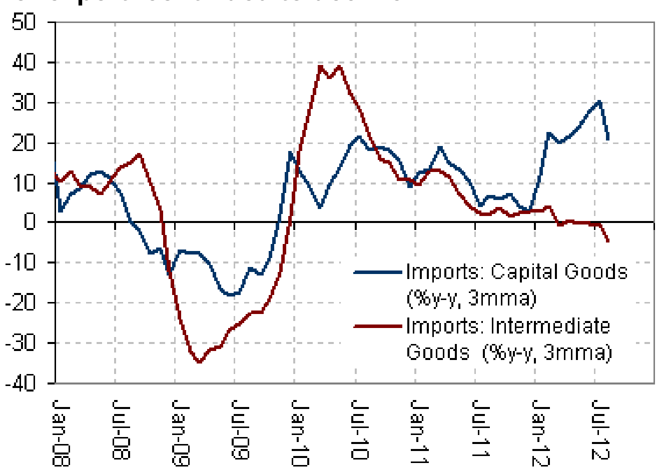
Macro Outlook:

- We expect gross fixed capital formation to continue to be the main driver of growth. The acceleration in investment will likely be due to increased public spending as well as private investments related to the Economic Transformation Program (ETP). Thus far, key investment projects include the RM 3 bn regasification plant contract awarded by Petronas Gas Bhd in the oil and gas sector.

- Looking ahead, as per Najib's November 2012 announcement, there will be a total of RM26 bn in investments for 20 projects under seven National Key Economic Areas (NKEAs) and three economic corridors in the Sabah Development Corridor, Northern Corridor Economic Region and Iskandar Malaysia. Furthermore, six services sub-sectors such as the education sector will be liberalised to allow greater foreign ownership, consequently attracting foreign direct investment.

- The automotive industry is also set to receive a boost from plans to turn Malaysia into a regional hub for energy-efficient vehicles to rival South-East Asia auto leader Thailand. Already, a roadmap has been drawn out under the National Automotive Policy and there have been efforts to engage the original equipment manufacturers to create a dynamic ecosystem.

Fig 10. Import of capital goods - a leading indicator of investment- continued to remain robust (around 20%) on the back of increased private and public sector investment. By contrast, leading indicators for export performance such as imports of intermediate goods - which are used to manufacture other products mainly for export- continued to decline.



Source: Bloomberg, CEIC, PSR est.

- On the political front, risks abound. We expect early elections (to be held by 2Q13 latest) to build on the feel good sentiment arising from various 'populist' moves such as the introduction of miniumum wage, civil service salary increases as well as the abolition of the Internal Security Act. However, the turnout size of the Bersih 3.0 rally - estimated to be around 250,000 participants (5 times that of the turnout of Bersih 2.0 rally) - spells discontent and might weigh on BN's odds of garnering a strong mandate - the two-thirds majority in Parliament (necessary to pass through any legislation it deem fit) - which it lost in the recent 2008 watershed elections.

- Furthermore, we caution that in view of the government's increasingly limited fiscal space, continued expansion in household consumption and private sector investment is necessary to sustain the growth momentum.

- While cash handouts and pre-election pump priming might help bolster domestic demand and mitigate weakness in external demand, these populist moves might push the government towards fiscal peril if not properly managed. Specifically, public debt is expected to rise from 51.8% of GDP in 2011 to 53% in 2012, just a whisker shy of the federal debt-to-GDP ceiling of 55%.

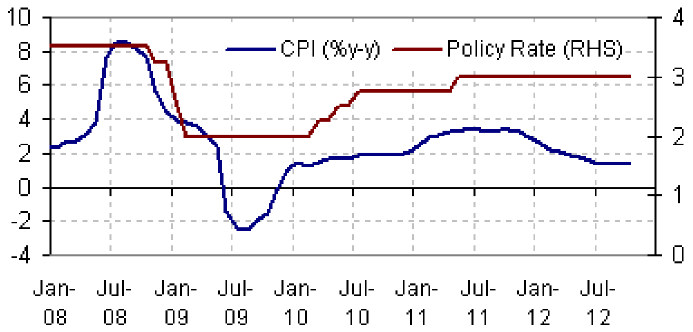
- Notwithstanding a sluggish external demand which have weighed on global commodity prices, there are still upside risks to the Malaysia inflation outlook - which is largely domestically driven.

  (i) First, it is likely that subsidies for food (eg. flour, sugar, cooking oil) and fuel (diesel, petrol) -major drivers of headline inflation – will get scaled back after the 13th General Elections. If the subsidies withdrawal comes in this year (though not our base case), our inflation forecast might be exceeded.

  (ii) Second, minimum wage hikes. In May, PM Najib introduced the minimum wage of RM900 for Peninsular Malaysia and RM800 for those in Sarawak, Sabah and Labuan. Most firms will have to start paying the minimum wage in six months, while small companies with have a year to comply. As the wage hike is not premised on higher productivity, the upside risk to inflation is that the increase in money could outpace the growth in output, firms which are able will likely decide to pass on the costs to consumers.

  (iii) Third, the proposed goods and services tax -aimed to broaden the tax base- might be implemented after the 13th General Elections.

Fig 11. On account of benign inflation and resilient domestic demand, we expect Bank Negara Malaysia to continue to stand pat, maintaining the Overnight Policy Rate at 3% in 1H13. However, if the inflation surprises on the upside (owing to domestic drivers), the government might be forced to hike rates (i.e. undertake a hawkish tone) instead, pending on how growth turns out.



Source: Bloomberg, CEIC, PSR est.

Equities:

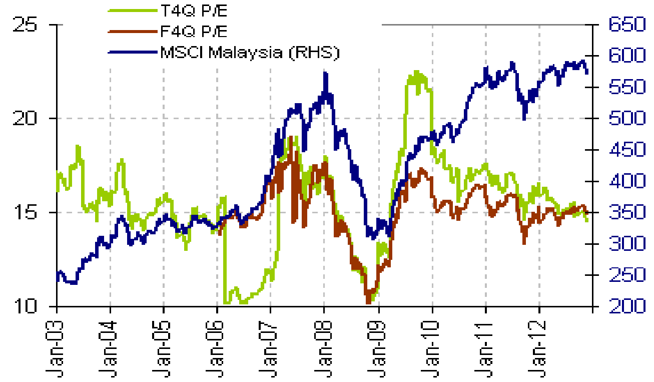
- Our outlook for the KLCI is **Marketweight (maintained)**, as although we like the domestic demand story, valuations are non-compelling in view of the considerable political risk ahead of the 13th General Elections which threatens to undermine Malaysia's robust macro fundamentals. Specifically, in the event that the incumbent Barisan Nasional fail to obtain a strong mandate, the Economic Transformation Program and Government Transformation Program -major pillars of the domestic demand story- may be confronted with headwinds. Conversely, **a strong mandate for BN may lead us to re-visit with an Overweight**.

- Thus far, notwithstanding an ongoing global slowdown, Malaysia's bourse has been buoyed by (i) healthy domestic demand as well as (ii) more critically Malaysia's Employees Provident Fund (EPF)'s significant investment in Malaysian equities (particularly the blue chips).

- While market valuations for Malaysia are not cheap compared to APxJ, we caution that valuations might not have priced in possible downside risks from the upcoming elections.

- After the 13th GE, we might see a rotation from politically apolitical sectors such as the telcos into construction and banking sector (beneficiaries of the ETP).

Fig 12. MSCI Malaysia



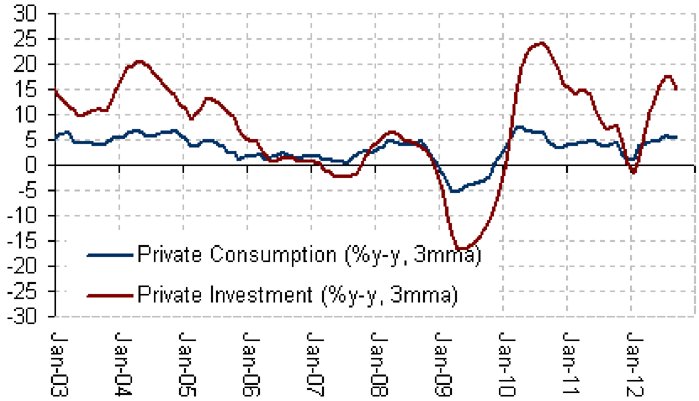
Source: Bloomberg, PSR est.

Thailand - *Be wary of political noise and delayed implementation of infrastructure building*

	2012 (f)	2013 (f)
GDP (%)	5.3	4.5
Inflation (%)	3.0	3.5

Macro Outlook:

Fig 13. While the boost from the post-flood reconstruction is petering out in 2H12, robust domestic demand (particularly consumption and investment) - aided by a low interest rate environment- should continue to drive growth in 2013.



Source: Bloomberg, CEIC, PSR est.

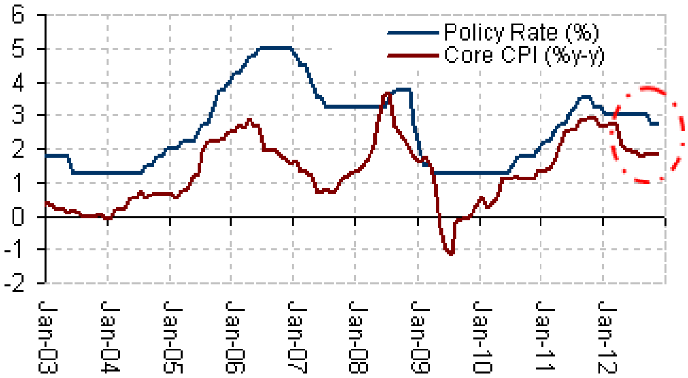
- The government has also pledged US$90bn over the next seven years to develop infrastructure such as the (i) high-speed train scheme between Thailand and Laos as well as the (ii) flood management and prevention system. These massive infrastructure investment are aimed at facilitating the expansion of the Greater Mekong Subregion as well as riding on opportunities arising from the Asean Economic Community. This robust investment demand has translated to strong capital goods imports in recent months.

- The boost in 1H12 -from the easing of supply-chain disruptions as well as resumption of plant operations- is fading. Notwithstanding healthy domestic demand, re-acceleration in global demand is necessary to sustain Thailand's factory output.

- Core CPI print has remained relatively benign (Nov: 1.85%- well within the target range of 0.5% to 3%), but might still surprise on the upside on account of: (i) Possible lagged effect of April minimum wage hike (ii) recent hikes in household electricity rates.

- While we did not rule out a 25 bps cut in the benchmark one-day bond repurchase rate (to 2.75%) for the Oct monetary meeting, we think that the move was also meant to curb the appreciation in the baht (where a stronger baht hurt exporters), rather than being a boost to growth (like in the official explanation by Bank of Thailand) after standing pat for the five consecutive meetings surprise 25bp cut was more about stemming hot money flows into Thailand and therefore THB appreciation, than a need to ease policy to boost growth.

Fig 14. Looking ahead, in view of the benign inflation as well as pre-emptive Oct rate cut, we expect BoT to stand pat unless economic activity substantially slows down. At the recent November Monetary Policy Committee meeting, the BoT stood pat, turning constructive on global demand. However, if downside risks to growth does materialise, we could see another 25bps cut in 1H13. Apart from accommodative monetary conditions, there might also be additional fiscal measures announced to stimulate the domestic activity.

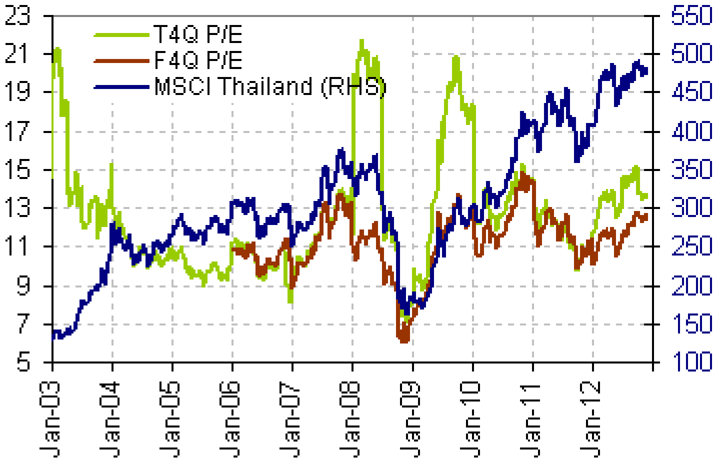


Source: Bloomberg, CEIC, PSR est.

Equities:

- **Overweight (maintained)**. MSCI Thailand has outperformed MSCI Asia Pacific ex Japan (APxJ) ytd. With T4Q P/E greater than F4Q P/E, there might be some potential upside to earnings.
- Trading at a slight premium valuation to APxJ and at 10yr average P/E, but discount to Malaysia and Indonesia. From a valuation standpoint, there is no compelling signal either way, but we continue to OW Thailand on relative resilience to the region.
- Beware of (i) political risks, (ii) delayed implementation of infrastructure building.
- Political noise -resurfaced in November's anti-government rally as well as no-confidence vote in Parliament (which PM Yingluck survived) - highlights the deep political divide in Thailand which might weigh on market sentiment and constrain any upward re-rating.

Fig 15. MSCI Thailand



Source: Bloomberg, PSR est.

Indonesia - *Beware of weak rupiah and political posturing ahead of the 2014 presidential elections*

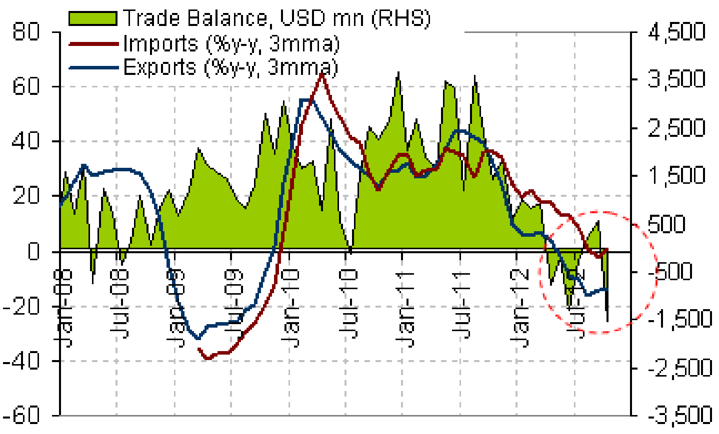
	2012 (f)	2013 (f)
GDP (%)	5.9	4.5
Inflation (%)	4.5	4.3

Macro Outlook:

- Fixed investment is expected to remain robust on account of the following infrastructure investment related to the targets set out in the Masterplan for the Acceleration and Expansion of Economic Development of Indonesia (MP3EI) in 2011. Major infrastructure projects in the pipeline include: the six Jakarta Urban Toll Roads, Soekarno-Hatta airport, Jakarta MRT and Monorail, plus various ports.

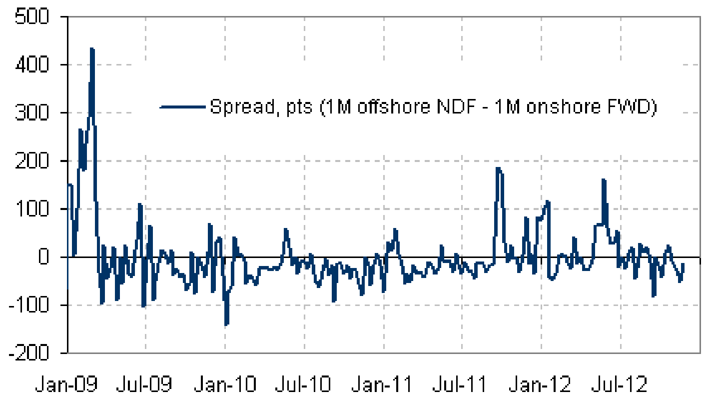
- The Indonesia government is also targeting US$ 40bn in investments in 2013- with foreign direct investment expected to make up three quarters. The government is optimistic that investors will ride on the 'rise of the middle class' with investments shifting form the mining sector into the consumer goods segment such as food and beverage as well as electronics. Already, L'Oreal, Nestle, Procter & Gamble and Foxconn have significant investments in Indonesia.

Fig 16. On the external front, the weakness in current account continued to persist, owing to sluggish exports as well as healthy import demand (particularly of intermediate and capital goods) despite a brief respite in recent months.

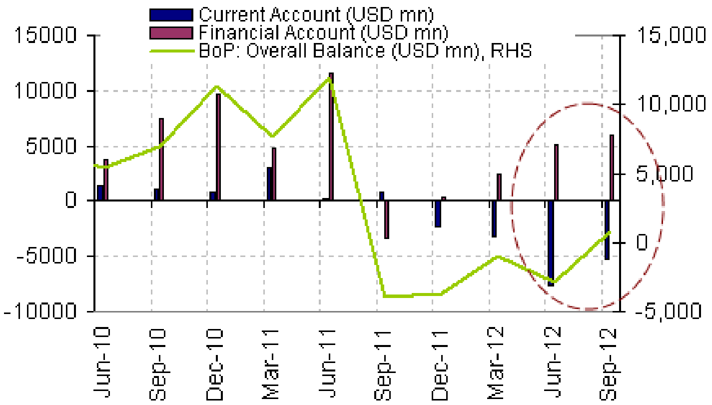


Source: Bloomberg, CEIC, PSR est.

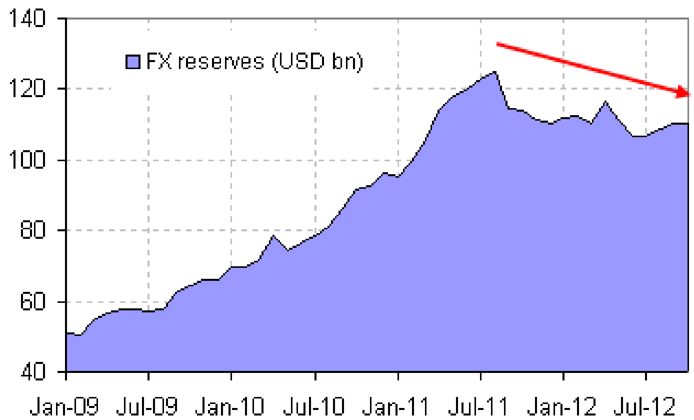
Fig 17. Though the USD liquidity tightness has eased, the Indonesian Rupiah (IDR) is likely to remain soft on account of sluggish external balances. Without intervention by Bank Indonesia, we suspect the IDR might be even weaker. While reserves remain adequate for now, import cover has been declining. The continued weakness in external balances is likely to pose a challenge in monetary policy formulation for the central bank.



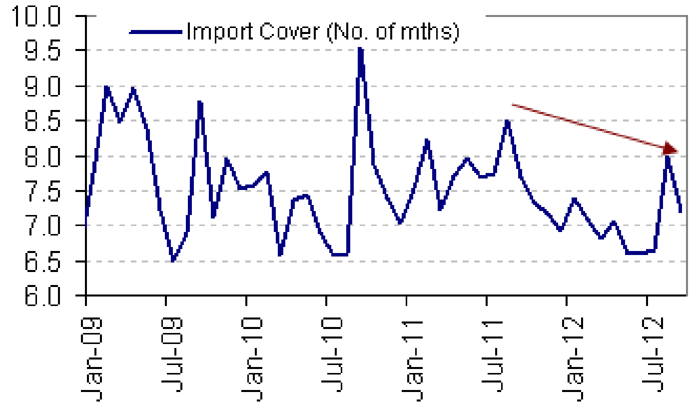
Source: Bloomberg, CEIC, PSR est.



Source: Bloomberg, CEIC, PSR est.



Source: Bloomberg, CEIC, PSR est.



Source: Bloomberg, CEIC, PSR est.

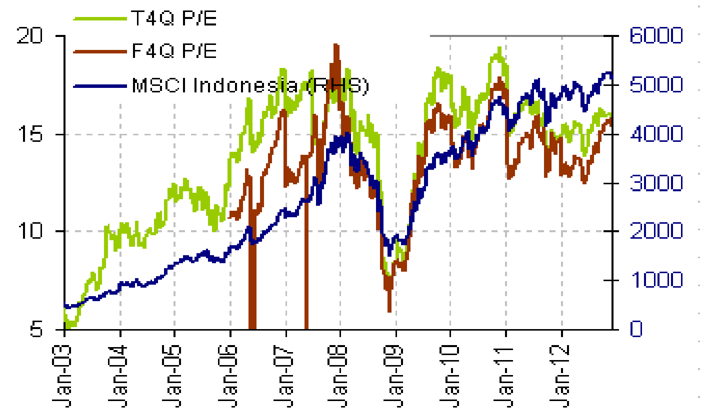
- Bank Indonesia stood pat in November (consistent with our expectations), maintaining the benchmark policy rate at a record low 5.75% for the ninth consecutive month. With inflation print ytd well within the central bank's year-end target range of 3.5 to 5.5%, we expect Bank Indonesia to continue to stand pat on the back of lower inflation expectations as well as resilient domestic demand. As we have guided previously, a rate cut is unlikely as such a dovish stance would further exacerbate the weakness in rupiah (IDR) in view of Indonesia's deteriorating external balances.

- Should the IDR stabilise, the monetary policy tone might turn hawkish to deal with possible upsides in inflationary pressures (from a possible hike in subsidised fuel prices). Until we see a stabilisation in the IDR, the policy toolbox is constrained to macro prudential measures such as reviewing loan-to-value ratios (for mortgages as well as sector-specific loans) for now.

Equities:

- **Marketweight (maintained).** We would have liked to Overweight Indonesia on account of resilient domestic demand offsetting a weak global economy. However, we maintain Marketweight in view of a weak rupiah as well as policy hazards given its "protectionist" stance of late. Going into 2H13, markets will likely turn volatile ahead of the 2014 presidential elections.

Fig 18. MSCI Indonesia



Source: Bloomberg, PSR est.

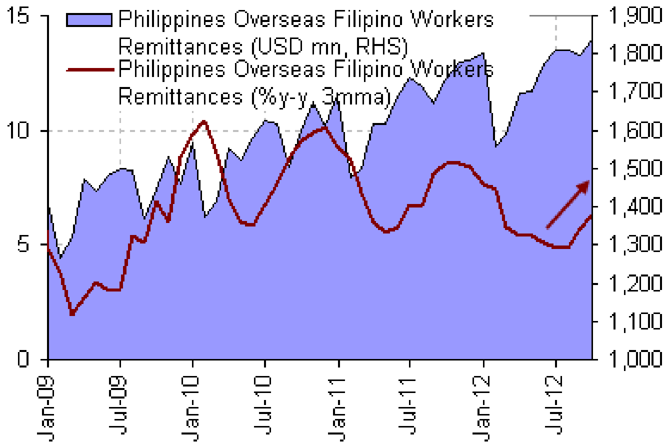
Philippines - *In a sweet spot with robust growth along with benign inflation*

	2012 (f)	2013 (f)
GDP (%)	5.5	4.5
Inflation (%)	3.3	3.0

Macro Outlook:

- Philippines should continue to outperform even if external demand continues to remain sluggish. In fact, Philippines is in a goldilocks situation with the economy being supported by resilient domestic demand and in the middle of an upturn in the investment cycle driven by record-low interest rates as well as a slew of reforms. Remittance inflows are likely to remain resilient and should continue to lend support to growth. Furthermore, the execution of government's private public partnership (PPP) program might boost gross infrastructure building and consequently gross fixed capital formation. But we caution that the slower-than-expected progress of the PPP program might weigh on sentiment.

Fig 19. Remittance inflows are likely to remain resilient and should continue to lend support to growth.

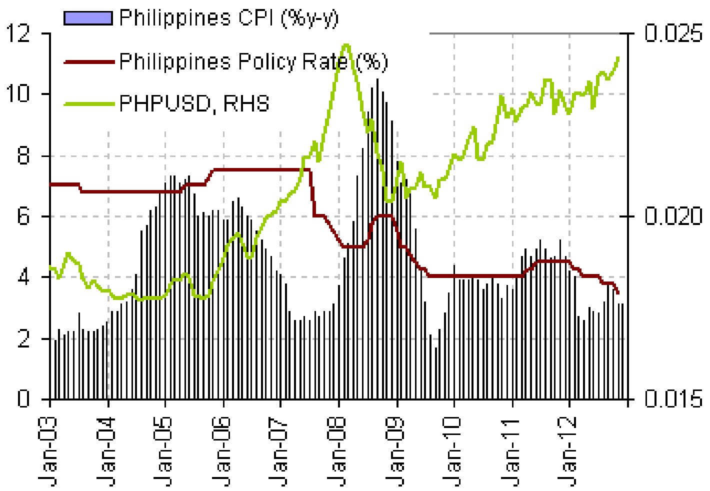


Source: Bloomberg, CEIC, PSR est.

- When the Philippine central bank - Bangko Sentral ng Pilipinas (BSP)- cut policy rates by 25 bps to 3.5% (bringing the cumulative reduction for this year to 1%pt) in Oct, the official stance was actually meant to cushion domestic demand amid sluggish external demand. But in view of the resilient domestic demand, we reckon that the main reason of the rate cut was also to temper the appreciation of the Philippine peso (which have hurt exporters) by lowering interest rate differentials and thereby curbing capital inflows.

- Furthermore, inflation remains benign. Markets can take comfort that there is still room to cut rates if need, which should provide a boost to corporate earnings.

Fig 20. Looking ahead, odds of a rate cut are low at this juncture in view of resilient domestic demand which continues to drive growth. But we do not rule out the possibility of the BSP either reducing policy rates or performing RRR cuts to temper the appreciation of the Philippine peso, rather than stimulating growth per se.



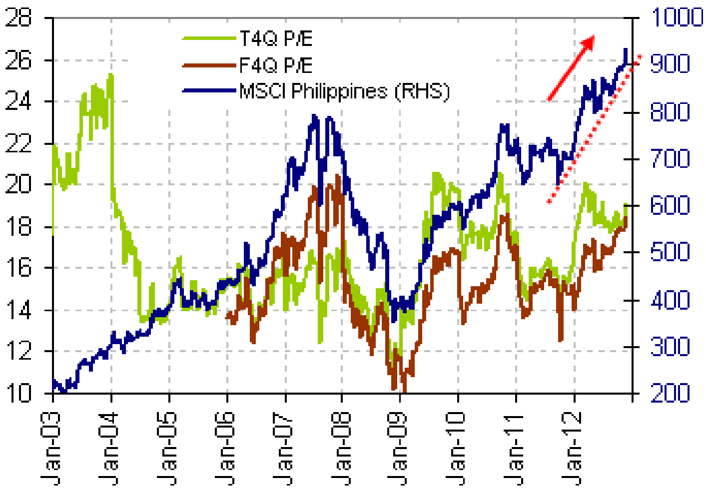
Source: Bloomberg, CEIC, PSR est.

Equities:

- **Overweight (maintained)** on relative and absolute performance basis. MSCI Philippines has gained around 35% ytd in terms of total return, registering the best performance in SEA region.

- Philippines equities are likely to continue to be a beneficiary of excellent macro fundamentals: Growth acceleration; benign inflation; accommodative monetary policy.

Fig 21. MSCI Philippines



Source: Bloomberg, PSR est.

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