DBS GROUP RESEARCH

December 2024

Defying the Trend

2025 economic outlook and market strategy

DBS

DBS Economics Outlook and Market Strategy 2025

Defying the trend

Group Research November 2024

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Economics & Strategy

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Summary

Historical trends are breaking down in a swirl of geoeconomic fragmentation, fiscal dominance, and tech disruption. Asset markets are turning volatile adjusting to this new landscape.

Market narrative is one of softening growth, inflation, and interest rates ahead.

Under that scenario, Asian currencies should be well supported and capital inflows to the region ought to pick up.

We worry that inflation and rates may not come down as much as market pricing suggests, and there is some risk of financial instability.

Still, for Asia, trade, travel, and investments have upside in the near-and-medium term.

China and India may have contrasting growth dynamic, but both will remain highly consequential,

Southeast and North Asian economies are on track to expand through trade, defying global fragmentation.

We see growth and asset price upside for 2025.

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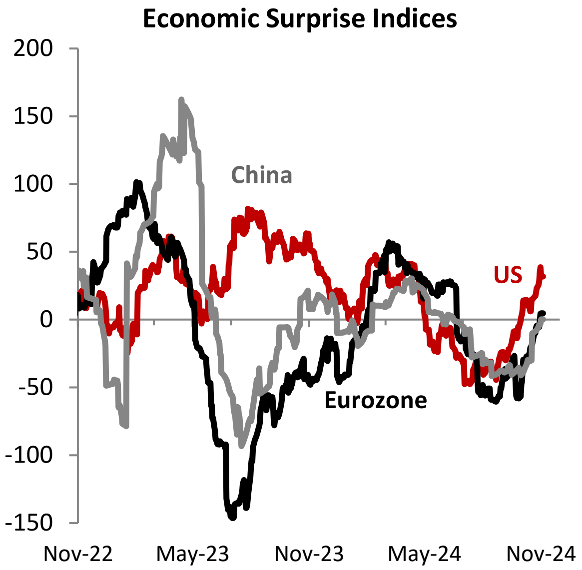
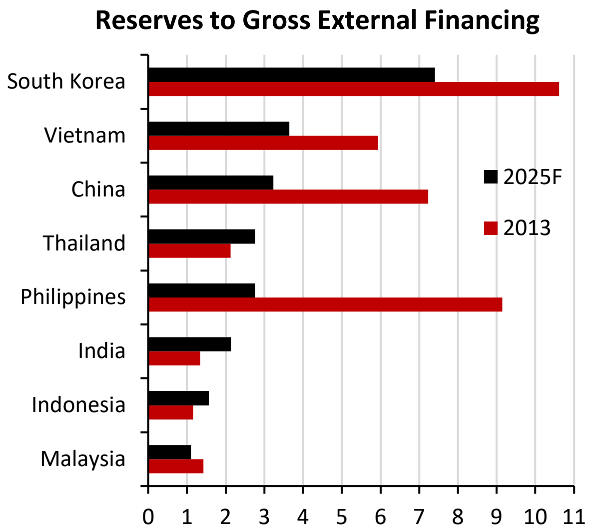
Key charts

In a remarkable display of resilience, global growth has held up despite a couple of years of monetary tightening, helped in particular by US economic outperformance Momentum looks favourable for early 2025.



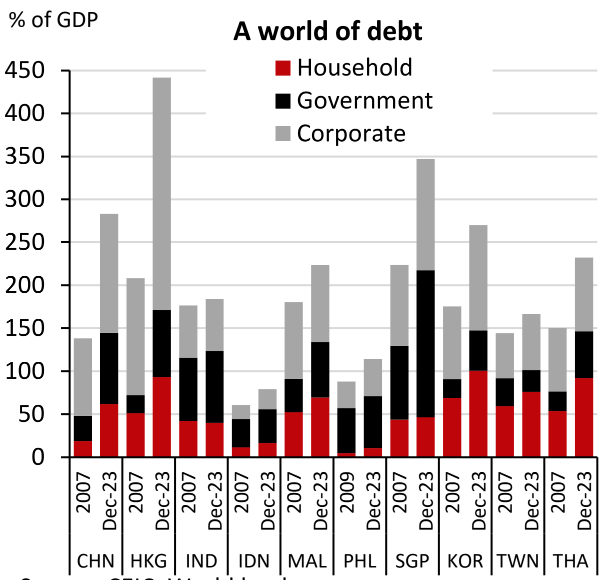
Source: Bloomberg, DBS

India and Indonesia's external vulnerability markers have improved. There is concern about Malaysia and the Philippines. Buffers are not as ample as they used to be for some economies



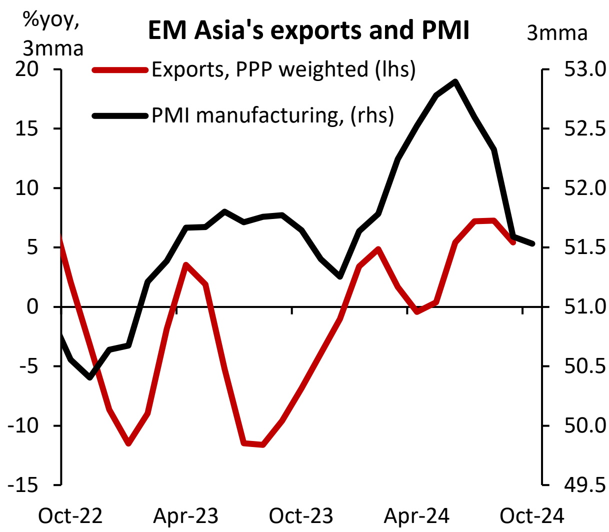
Source: CEIC, World Bank, IMF, Country authorities, DBS

Debt ratios have risen over the past decade and a half, especially since the pandemic, but public sector indebtedness in Asia is modest by international comparison.



Source: CEIC, World bank,

Exports have lost some momentum lately, but unless the US slows appreciably in 2025, exports, especially of electronics products, will continue growing with the ongoing tech boom.



Source: CEIC, DBS. PMI through October, exports through September

Key charts

Overview: Defying the trend

Historical trends are breaking down in a swirl of geoeconomic fragmentation, fiscal dominance, and tech disruption. Asset markets are turning volatile adjusting to this new landscape.

Market narrative has been one of softening growth, inflation, and interest rates ahead. Under that scenario, Asian currencies should be well supported and capital inflows to the region ought to pick up.

But the election of Donald Trump as the 47th president of the US poses considerable challenges to this narrative. Now it looks as though inflation and rates may not come down as much as market pricing suggests, and there is some risk of financial instability. This would be particularly on the cards if growth and inflation prove to be higher than forecasted by Fed officials in recent months, and the central bank begins to walk back its guidance for many rate cuts next year. This would undoubtedly displease Trump, setting the grounds for a conflict between the President and the Fed, which is mandated as an independent body.

While the threat of higher tariffs looms large, for Asia, trade, travel, and investments have upside in the near-and-medium term. Asia's strong ties with the US and China would survive Trump, we're sure. The region's openness to trade and commerce makes it more attractive to investors, especially as the contrast with an inward-looking West becomes stark. Exports will face more scrutiny, there will be more regulatory headaches, but the region's scale, excellence in manufacturing and logistics, strong corporate and public sector balance sheets will hold it in good stead during Trump 2.0. China would likely push for more stimulus to boost domestic demand. India will likely be a big beneficiary of China-plus-one dynamics, as will be the case for several countries in South-East Asia. This election marks a firm rightward shift of the US; Asia will have to learn to live with it.

On asset prices, the near-term outlook is clear. Near certainty of tariffs will push up the USD, and many export-oriented economies will see their currencies come under pressure. Heightened geopolitical uncertainty is bullish for gold. Same holds for crypto, especially as Trump has shown a great deal of support for Bitcoin. Energy prices, especially fossil fuel, will be dampened by Trump's intention to boost production, renewables may suffer from his neglect. Equities are likely to rally around expectations of corporate tax cuts and wide-ranging deregulation.

Then there is the fixed income outlook, which is likely to turn cloudy. Even exorbitant tariffs won't make much of a difference to US fiscal revenues, while various tax cuts and spending plans Trump has talked about would cause a wider budget deficit. Rising long-term interest looks likely for the US, and by extension, the rest of the world. At the short end of the duration spectrum, some easing is on the cards in the near term, but the extent of cuts possible in 2025 is going to be under considerable uncertainty, in our view.

We expect Asia's trend defying efforts to maintain open economies and good relationship with both superpowers to be the hallmark of 2025. It won't be easy, but we hope this region has the mettle to pull it off.

Taimur Baig

US: Trump trades

	2023	2024f	2025F	2026F
Growth, yoy%	2.5	2.5	2.0	2.0
Inflation, yoy%	4.1	3.0	2.3	2.5
Policy rate, % eop	5.50	4.50	3.50	3.50
10-yr yield, % eop	3.90	4.30	4.40	4.50

After record breaking spending and considerable drama, the US presidential elections took place on Tuesday, November 5. Along with picking a President and Vice President, Americans also voted for a range of other bodies, including the US Senate, House, state governorships, and state legislatures.

This was a coin-toss election, with polls suggesting leads and lags within the margin-of-error. But given the vagaries of the electoral college system, the ultimate verdict ended up not being narrow. As Donald Trump takes office, the US will remain a deeply divided nation on its choice of leadership. Lack of consensus on immigration, tax policy, entitlements, public debt, immigration, education, healthcare, and foreign policy will remain the hallmark of the US under Trump.

The elections took place at calm economic times, unlike four years ago when pandemic related distortion and uncertainty clouded the horizon. This time, the economy is maintaining strong growth momentum despite a multi-year monetary policy tightening cycle. High rates have not dented the asset markets, which have been buoyed by strong corporate and household balance sheets, a major investment cycle around AI, and substantial fiscal support. Goods inflation has dissipated, while numerous geopolitical risks have come and gone without hurting domestic activities or sentiment.

After President Trump takes office on January 20 next year, he will not be able to rest easy though, as behind the cyclical comfort lies major structural challenges. The fiscal situation, characterised by net public debt amounting to over 100% of GDP and USD1trln+ in annual interest payments, is increasingly untenable. Foreign investors' inclination to hold US treasury as the world's premier AAA-rated asset runs deep, but it is not unconditional. Stubborn services inflation, lack of fiscal consolidation, weaponisation of the USD, all are a source of rising discomfort, something that would need to be addressed sooner than later.

The US, over the past eight years, have made a decisive switch from promoting free trade to resorting to increasingly protectionist policies. Tariffs against China in particular, and the rest of the world in general, would rise under Trump 2.0, but they were not going to be reduced under Harris either. Restriction on China's access to high tech continues to be ratcheted up, with those who trade with China also facing scrutiny; we expect no relent to this dynamic in the coming years.

On USD and rates, would the outlook have been different under the marginally more rules-based policy of Harris as opposed to the transactional and mercurial Trump? Perhaps one can make the case that Trump's policies of tax cuts and tariffs would be more inflationary; but it is also not the case that Harris had major anti-inflation plans in her arsenal. Are rates likely to be higher as fiscal issues are left unaddressed? Of course.

Social cleavages run deep along partisan lines in the US. But having assessed the last two electoral cycles, we suspect that lack of clarity on economic policies is bipartisan.

Taimur Baig

USA

Eurozone: The core drags

	2023	2024f	2025f	2026f
Growth (y/y %)	0.4	0.8	1.0	1.2
Inflation (y/y %)	5.5	2.3	2.2	2.0
Currency, vs USD eop	1.10	1.08	1.11	1.10
Policy rate*, % eop	4.0	3.0	2.0	2.0
10-year yield, % eop	2.02	2.45	2.25	2.5

**Deposit facility rate; Source: CEIC, Bloomberg, DBS*

The Eurozone economy expanded by an average 0.7% yoy in 1Q-3Q24 slightly better than 2023's 0.5%. There is considerable heterogeneity amongst the member countries, with the core economies still exhibiting a lack of momentum, especially Germany and Italy. There are both cyclical and structural developments behind this divergence. Firstly, core economies are relatively more exposed to manufacturing sector underperformance, as it faces headwinds by way of sluggish demand for its key exports i.e., autos as well as capital goods, consequently lagging export recovery in the region besides subdued investment sentiments. A leading carmaker plans to close three plants in Germany, after posting its lowest profit margin since the pandemic. PMI prints (slipped into contractionary territory) and industrial activity indicators also mirror this uncertain outlook. A protectionist turn in US politics is an additional headwind.

Secondly, despite the weak economic impulse, labour market is resilient, marked by positive wage growth and a low unemployment rate. An ECB study highlighted the dichotomy of strong employment growth in an environment of weak economic activity. Surveys showed that firms preferred to hold on to workers in the initial phase of a slowdown in economic activity, even as it impacted labour productivity. This also coincided with the government's short-term schemes to support firms to retain workforce during the pandemic as well as a strong rise in corporate profitability in 2022-23 which provided the headroom for firms to retain headcount. On a cyclical basis, this has led to a decline in labour productivity in the euro area, in contrast to an improvement in the US. The impact of the restrictive policy stance is also likely to gradually dissipate as the ECB embarks on its gradual rate-cutting cycle.

Thirdly, softening inflation has boosted real purchasing power, but has fallen short of materially lifting consumption demand. This gap is explained by the sharp rise in savings by European households, surpassing pre-Covid levels. In 2Q24, the European saving rate rose to 15.7% (World Bank), above the pre-pandemic 12%, reflecting underlying lack of confidence over forward-looking income and employment prospects.

Service sector outperformance, including the tourism sector, has helped to offset some part of the slump as Spain benefits from this mix, but is likely to fall short of putting the zone on a stronger growth path. To reflect these two-sided risks, we lower our growth forecast modestly to 0.8% yoy for 2024, with an improvement to 1.0% likely in 2025 as the central bank stays on a dovish path. The inflation environment is benign, with September's easing to 1.7%, below target for the first time in more than three years. We expect the ECB to lower the deposit facility rate to 2.0% by 2025. Eurozone is also in a political and fiscal quagmire, a case in point is France where the new Premier faces a challenging fiscal balance. Fitch rating put the sovereign on a negative outlook. Together with inflation and growth, markets will be focused on the bloc's fiscal health as well.

Radhika Rao

Japan: Further rate increases

	2023	2024F	2025F	2026F
GDP growth, yoy %	1.7	0.0	0.9	0.6
Inflation, yoy %	3.3	2.5	1.6	1.3
Policy rate, % eop	-0.10	0.25	0.75	1.00
10-yr yield, % eop	0.61	1.10	1.15	1.25
JPY per USD, eop	141	150	139	146

The Bank of Japan (BOJ) is expected to continue its monetary policy normalisation in 2025, which will include rate increases and quantitative tightening. We expect a total increase of 50bps, raising the overnight call rate from 0.25% to 0.75%.

The growth outlook supports further interest rate normalisation. GDP growth is projected to rise by 0.9% in 2025, driven by a recovery in private consumption despite slowing exports. This year's Shunto negotiations resulted in a 5.1% wage hike, the largest increase in three decades, translating to an approximate 2.5% rise in average wages for 2024. The largest labor union group, Rengo, has announced plans to seek additional wage hikes of at least 5% in 2025, mirroring this year's increase. Average wage growth is expected to increase by approximately 2% in 2025, with inflation-adjusted real wage growth projected to turn positive, supporting consumption growth.

Inflation is projected to remain close to the BOJ's 2% target, justifying the need for interest rate normalisation. Headline CPI is expected to be around 1.6% in 2025, influenced by stable oil and food prices, a stabilising yen, elevated inflation expectations, and strengthening wage-price dynamics.

The influence of political developments on monetary policy should not be overstated. The Liberal Democratic Party and its coalition partner Komeito lost their majority in the lower house during the October general elections. Prime Minister Shigeru Ishiba will need to secure a third coalition partner to form a government. Among the opposition parties, the Democratic Party for the People supports fiscal and monetary policy expansion to achieve higher wage growth, while the Japan Innovation Party seeks to revise the law that grants the BOJ independence in monetary policy and to add a mandate for maximizing job creation and sustaining economic growth. Conversely, the main opposition party, the Constitutional Democratic Party, advocates for redefining the BOJ's inflation target to "above 0%" from 2%, suggesting a desire for tighter monetary policy. There is no strong consensus among politicians regarding the direction of monetary policy. Additionally, BOJ Governor Kazuo Ueda, who assumed office in 2023, has a five-year term till 2028. This differs from 2013, when former governor Haruhiko Kuroda was appointed by PM Shinzo Abe following elections to implement Abenomics policies.

In the financial markets, carry trade unwinding has the potential to continue, bolstering the yen's performance in 2025. During the latest Fed tightening cycle, the outstanding short-term loan position of Japanese financial institutions increased by JPY 34tn, rising from JPY 67.5tn in 4Q21 to JPY 101.4tn in 2Q24. The inter-office account assets of foreign banks in Japan grew by approximately JPY 3tn during the same period. This trend indicates significant potential for yen carry trade unwinding, driven by further BOJ rate hikes and/or Fed rate cuts.

Ma Tieying

G3 Rates: Normalisation & upside risks

2025 will probably be defined by further normalisation for DM central banks. Below, we lay out some of the key themes.

Policy normalisation – For much of the G10, normalisation means lower policy rates. Seven out of ten have already cut rates in 2024 and further cuts are likely forthcoming given that policy settings are still restrictive. That said, the pressure to cut differs for each central bank. Right now, the BOC, RBNZ and the ECB appear to have the most compelling cases for an extended easing cycle heading well into 2025. However, that is not the case for the Fed as US data proved surprisingly resilient. The **risk is that the Fed would ultimately deliver a shallower cut cycle than currently anticipated. On the other end of the spectrum, normalisation means higher rates for the BOJ.** Although political uncertainties (the LDP coalition has lost its majority) would mean that the BOJ is biased to be more cautious, we note that excessive yen weakness would still prompt the BOJ to react. BOJ rate hikes could well spill over into 2026. Accordingly, **we see modest curve steepening across DM curves with the exception of Japan.**

Inflation expectations bottom – Inflation has cooled off significantly across much of the DM space. This is the pretext for central banks to lower interest rates. However, we note that base effects would no longer be favourable going forward and there is sticky inflation to consider. Moreover, the prospect of further tariffs and other trade frictions could well return in 2025, perhaps more so with Trump back at the helm. In the absence of a recession, the risks to breakevens may be to the upside.

Resilient growth outlook – Market participants have wrongly bet on a global / US recession several times over the past few years. In each instance, the global economy, excluding China, has proven to be surprisingly resilient despite elevated interest rates. The US is not showing signs of slowing. Moreover, there are perceived upside growth risks with Trump's victory. More corporate tax cuts may be in the offing. We also note that the Chinese economy may make a cyclical turn in 2025 if the fiscal stimuli prove to be successful. The rise in term premium in the UST curve reflects an improved growth outlook. However, at current levels, as markets factored in the Red Sweep, we think a fair amount of optimism may already be in the price.

Bond vigilantes lurk – Concern on USD assets including US Treasuries is likely to be a recurring theme. There appears to be no political will to fix the US budget position and the fiscal deficit would likely run at 5-6% of GDP even if the economy stays strong. The bias to the deficit is probably tilted wider with Trump back as President. Confidence in USD assets could erode on wide fiscal deficits and / or any kind of threat to central bank independence. We also note that de-dollarization may be a critical theme as asset managers diversify holdings to avoid getting caught if the USD gets weaponised. **Investors may well demand a larger yield premium to hold USTs if the USD starts losing some of its allure as a store of value.**

We see risks as balanced for EUR and JPY rates. However, risks to our USD rates forecasts are modestly tilted to the upside. Given these shifts, our Asia rates forecasts are also tilted slightly higher.

Eugene Leow

Currencies: USD, debt, and dedollarisation

We consider the US Presidential Election on November 5 an event risk. We recalled that the USD rally heralding Donald Trump's first victory in 2016 reversed into a decline throughout 2017. The greenback weakened despite the Fed hiking cycle and Trump withdrawing the US from the Trans-Pacific Partnership three days after his inauguration. Global markets and businesses have demonstrated resilience and adaptability to supply-chain disruptions, trade shocks, a pandemic outbreak, and geopolitical tensions over the last two presidential terms.

We expect the DXY Index to remain soft in its two-year range of 99 to 107 through 2025. The presidential term in 2025-2028 will differ from the prior two administrations.

First, the Fed is now in a rate-cutting rather than a hiking cycle. The US economy will become less exceptional in 2025, with the lowest growth of 2% since 2016. The Fed believes the US economy and the labour market have become more balanced compared to previous years, enabling inflation's return to the 2% target next year. As a result, we expect the Fed Funds Rate to decline further to 3.50% by mid-2025 after its first cut from 5.50% in September, near the 3% neutral rate estimated by some Fed officials.

Second, fiscal sustainability has become a prominent theme. The first thing the US Congress must address in 2025 is the federal debt ceiling, suspended until January 1, 2025. The next administration will face the challenge of promoting fiscal sustainability while honoring its election commitments. The Committee for a Responsible Budget estimated that Trump's tax spending and spending plans would add USD7.5 trillion to deficits over the next ten years. Unfortunately, the federal debt held by the public has surged from 76% of GDP to almost 100% over the last two terms.

Third, dedollarisation will continue to be a critical discussion point. While USD's role in the global financial system remains dominant, it is gradually diminishing. In 2024, the full membership of BRICS doubled to ten countries, including the United Arab Emirates, Saudi Arabia, Iran, Egypt, and Ethiopia. Additionally, four Southeast Asian countries – Malaysia, Indonesia, Vietnam, and Thailand – became partner countries of BRICS. Expect more progress in central bank digital currencies (CBDCs) as more countries move from pilot programs to implementation.

Assuming no critical shocks to the global economy or financial markets, **a "Goldilocks" US economy with narrowing US bond yield differentials should support Asian currencies.** The JPY should regain its composure as the Bank of Japan moves towards rate hikes again. Confidence in the CNY should improve as China's economy and markets respond to the stimulus addressing the property sector and local government debt, along with more fiscal spending in the future to rely more on domestic consumption amid more trade tensions and tariffs. Companies diversifying beyond China should continue to favour India and Southeast Asia for manufacturing and supply chain realignments.

Philip Wee

Credit: Tempering exuberance

Global credit markets are entering 2025 with historically tight spreads, raising the hurdle for another year of outperformance. Admittedly, US credit fundamentals are quite solid, with the corporate default rate hovering below 0.5% as of late 2024. US corporate rating upgrades had also been outpacing downgrades, supported by resilience in US consumption and investment. But the low rate of default is a strikingly rare outturn in the pre-pandemic years, and a reversion back to the long-run average cannot be discounted if a slowdown eventuates. Across both US IG and HY credit, spreads are approaching their 2017 lows, reflecting a search for yield behaviour in markets. Buffers against unexpected economic shocks are thus quite slim and may not compensate enough given uncertainties related to geopolitics, including US-China trade tensions and the ongoing Middle East conflict. **It could be prudent to limit exposure to highly rated US credit for now until valuation improves,** particularly with US credit supply looking poised to expand further.

In China, defaults have also eased significantly, with the real estate sector still accounting for the bulk of defaults**. But unlike credit markets in the US and Europe, China's net credit issuance has turned sharply negative in 2H 2024,** to the tune of around RMB 2trn. Risks of China slipping into a deleveraging cycle are present, with Chinese loan growth also having eased to a multi-year low of 7.6% y/y in Sep. **The good news is that Chinese policymakers had rapidly expanded policy support** in late Sep, enacting a 20bps cut to the 7d repo rate, 25bps cuts to the 1Y and 5Y LPRs, and a 50bps RRR cut. Furthermore, China is planning to issue special sovereign bonds to boost consumption and help local governments in tackling LGFV debt problems. With additional fiscal stimulus coming through, risks of debt-deflation should be kept at bay.

With a shift in Chinese policy away from structural reforms to increased central government support, risks of LGFV debt defaults in 2025 look small. However, investors must contend with China's ongoing trade tensions with the West. Tariffs on Chinese goods, most notably EVs, were recently raised by both US and EU. Such measures are unlikely to directly impact Chinese credit fundamentals, since a large proportion of Chinese credit is domestic demand oriented. **But fears of escalating tit-for-tat tariffs may indirectly result in an additional risk premium for Chinese assets**, which is conditional on the contours of protectionist politics. With Chinese aggregate IG credit spreads already tight and undershooting US IG credit spreads, **there may be scope for a re-widening of Chinese credit spreads in 2025.**

Hong Kong real estate credit had to contend with a torrid property market, with residential prices having fallen by around 27% from its 2021 peak. **But credit spreads are reasonable, and debt levels for HK companies are not excessively stretched**, unlike their mainland Chinese peers. A further easing of US rates in 2025 should lower borrowing costs, while HK home sales are also starting to pick up. This **bodes well for a recovery and outperformance of HK credit in 2025**, particularly if China's growth improves too. For India and Indonesia credit, credit spreads are as tight as they had been. The Asian EM risk premia is not too compelling at this juncture, especially if economic reform momentum is to slow.

Wei Liang Chang

Asean Equities: Look for resilience against a variety of macro risks

We favour regional markets with improving GDP growth forecasts for 2025, large domestic markets and attractive stock market valuations. Our base case of a US soft landing, calibrated rate cuts, China+1 supply chain diversification, strengthening China-ASEAN trade, and stable ASEAN growth should continue to create a supportive environment for regional equities.

Risks to our view come from:

(1) Protectionist and heightened tariff policies that could hinder global trade, push inflation higher and dial back rate cut expectations.

(2) prolonged China slowdown despite policy stimulus.

(3) Return of the US no-landing narrative

(4) Oil supply disruptions due to war in the Middle East

Positive Thailand – We like Thailand with the return of political stability, support from stimulus measures and pickup in tourist arrivals as well as consumer spending. These factors should underpin Thai equities even on a pullback in the event of a Trump victory. The PEG ratio for the Thai equity market improves to 1.6 for FY25F from 2.5 this year. Strong tourism recovery, beneficiaries of Vayupak Fund and digital wallet handouts are our preferred themes.

Positive Indonesia - Steady 5% GDP growth, stable transition to a new government and the latest Chinese government stimulus that has the potential to drive up commodity exports to China are reasons backing our positive stance. Indonesia's large domestic market also provides a cushion against any big potential negative market reaction regardless of who the next US president is. We like large caps with undemanding valuations, beneficiaries of the government's free meal program and interest rate downtrend.

Neutral Singapore - Being an open economy with a small domestic market, Singapore will be negatively affected if tariff escalation affects global trade. On a positive note, some of these risks are partly offset by the US-Singapore FTA and Singapore's position as one of the key beneficiaries of China+1 inflows into ASEAN. Relative to ASEAN markets, Singapore's attractive 5.4% dividend yield offsets its weak PEG. We like beneficiaries of interest rate downtrend, China+1 supply chain diversification and MAS' efforts to revive the equity market in Singapore.

Neutral Philippines - Nascent signs of an economic recovery have emerged, with key high-frequency data turning more favourable. Recent and forthcoming policy rate cuts by the BSP and the Fed provide support for valuations. With the stock market having done well in recent months, we prefer to be buyers on pullback for large cap cyclicals, grocers and rate cut as well as friendshoring beneficiaries.

Yeo Kee Yan

China/HK SAR equities: Beyond policy hope

Revived hope. Thanks to China's surprising and coordinated policy package in late September, the Hang Seng Index rallied 39% from its August-trough to early October, before giving up roughly half of those gains by end October. Still, the benchmark is set to become one of best-performing indices globally. Trading activity surged in both mainland and Hong Kong markets, reaching an average daily turnover of Rmb1.85trln and HKD273bn, respectively, since the policy pivot on Sep 24. Previously struggling sectors, such as brokerages and real estate, saw strong rallies, followed by gains in tech hardware and consumer-related stocks. Market attention is now focused on anticipated announcements regarding fiscal support at the NPC Standing Committee Meeting and life under Trump 2.0.

Remain positive. We remain optimistic about Hong Kong stocks going into the new year. Among the factors influencing the direction of Hong Kong equities, domestic elements are expected to drive the upside. We expect China to employ fiscal policy tools to address critical issues and push GDP growth to around 5%. Fiscal stimulus may have to increase if US president-election Donald Trump initiates another round of trade tension with China, as widely expected. External factors, however, are likely to be more complex: both the USD and rates may face upward pressure, with Trump's tax cuts and tariffs policies likely to prove inflationary. While this could pose a headwind for EM markets broadly, equity fund flows within the EM could shift toward China from crowded markets such as India, especially if policymakers effectively implement the promised measures.

Index target. Against such background, we expect the Hang Seng Index to rise 17% to 24,000 in 2025, driven by 1) 6.7% of EPS growth amid a stabilizing domestic economy, 2) a FY25 PE expansion to 11x vs current 9.7x, thanks to better investor sentiment triggered by policies, and potential fund rotation by regional investors. Our EPS growth is 0.1ppt below consensus as of Nov 5, reflecting our more conservative view on the consumer discretionary sector, which outweighs our positive outlook on the financial sector. Key factors affecting risk sentiments include the scale and timing of additional fiscal stimulus, US-China tensions, and the likely trajectory of US Fed rate cuts.

Windows for the market to have further rally include 1) late Nov to early Dec, when stock market begin to anticipate stimulus packages for 2025 and speculating on an ambitious GDP growth target during the Central Economic Work Conference, 2) late 3Q25-4Q25, as investors may start trading fundamental improvement when property market show signs of stabilization.

Sector preferences. We continue to prefer internet and tech hardware for their resilient fundamental and still attractive valuation. We will still hold high-yield SOEs until we gain greater visibility on the implementation and effectiveness of domestic fiscal supports. Consumer and property stocks – derated significantly in 2024 - may offer trading opportunities in end-Nov to early-December on policy hope, but a sustained rebound in these sectors requires a stabilization in property market, which is unlikely to be seen in 1H25.

Moxy Ying

China: Stimulus to bring growth back on track

	2023	2024F	2025F	2026F
GDP growth, yoy%	5.2	5.0	5.0	4.5
Inflation, yoy%	0.2	0.6	1.0	1.5
1Y LPR, % yoy	3.45	3.00	2.50	2.25
10-yr yield, % eop	2.56	2.10	2.00	1.90
CNY per USD, eop	7.10	7.12	7.04	7.12

Thanks to stimulus measures since 24th September, the economy will likely maintain 5.0% growth in 2024. The CNY126 trillion economy could expand another 5.0% in 2025 if stimulus is executed swiftly. That said, **China's economy will continue facing uneven growth.**

Exports will remain as the pillar of growth in 2025, thanks to resilient global demand. Per IMF, global real GDP is expected to rise by 3.2% in both 2024 and 2025, while Asean-5 is slated to rise by 4.5% in both years. Demand for electronics and machinery will stay strong amid AI development. Meanwhile, China is well-positioned to sail through trade protectionism. The loss of trade income from ongoing US and EU tariff could be partly offset by rising EM demand. ASEAN has become China's largest export destination, comprising 16.2% of total exports in the first three quarters of 2024.

Retail sales growth is expected to remain lacklustre at 4.5% in 2025 alongside asset market correction and loosening labour market condition. Our estimate shows a 10% property price will drag overall retail sales growth down by 1.26 percentage points. Rebound in the equity market will likely have limited impact on consumption given it comprises just 10% of Chinese household assets in 2022. This is best evidenced by the marginal improvement in National Days Golden Week holiday in the first week of October, despite a 19.9% rally of CSI300 Index in just a week time since the announcement of stimulus policy on 24th September. The per capita spending was 2.1% below its 2019 level. As for the labour market, the moderating new employment and wage growth will curb the spending power.

State owned enterprises will continue to lead the investment. Investment into strategic sectors such as infrastructure and tech hardware are the key. The government's initiative to promote large-scale equipment upgrades will also support the subdued private investment in the year ahead. **Yet, the headline growth, projected to grow by 3.8% in 2025, will be dragged by sluggish property investment.** Property developers are prioritizing completion of unfinished homes as the residential inventory is now at 31.9 months as of September. Against this backdrop, **the aggregate demand will likely remain weak.** The widening gap between M1 and M2 growth indicates both households and corporates hesitate to hold liquid cash for investment. CPI will likely be capped at bay at 1.0% next year.

The government has implemented forceful measures, especially on property. These include cutting mortgage rates with deadlines, lowering downpayment ratios, and raising white-list injection to CNY4 trillion. Local government special bond proceeds can now be used for unsold homes and idle land purchases. The central government is also issuing ultra-long special sovereign bonds to defuse local government debt risks. This will in turn leave more room for the local governments to absorb property supply. Central government debt is relatively low at 24.0% of GDP (as of 1Q24), far below the G20 average of 74%. There is plenty of room for additional stimulus.

Mo Ji, Nathan Chow, Samuel Tse & Byron Lam

Hong Kong SAR: Rate cut and stimulus to aid subdued growth

	2023	2024F	2025F	2026F
GDP growth, yoy%	3.3	2.4	2.5	2.5
Inflation, yoy% ave	2.0	1.5	1.5	1.5
HKD per USD, eop	7.81	7.77	7.77	7.78
3M HIBOR, % eop	5.15	3.33	2.88	2.88

Hong Kong's economic recovery has restored pre-pandemic GDP levels, though growth remains below prior trends. We forecast annual GDP expansion of 2.4-2.5% in 2024-2025, lagging the 2010-2019 average of 2.8%.

China's slowdown, intensified geopolitics tensions, and lingering pandemic effects have collectively weighed on the global financial hub. **Monetary conditions tightened as interest rates rose while loan growth weakened, evident in the credit-to-GDP gap declining from 48.9% in 3Q20 to -30.2% in 1Q24.** Rising business closures, restructuring and acquisitions underscores the downturn's impact across beleaguered sectors like retail, food & beverage, manufacturing, and construction.

Recent HKMA measures aim to ease capital buffers and restart loan concessions to support small-medium enterprises. Further interest rate cuts coupled with relaxed lending standards should also alleviate liquidity constraints for local firms. **While interbank rates may briefly surge year-end, 3-month HIBOR is forecast to decline in 1H25 to 2.88-3.38%.** Lower rates will benefit investment banking and wealth management at institutions with capital market exposure. A narrowing HKD-CNY spread also supports mainland corporate offshore borrowing. **Bank lending is projected to turn positive in mid-2025, growing modestly for the full year driven by trade finance.**

Exports remain a key growth pillar, bolstered by surging global demand for AI, servers, PCs, smartphones and other digital devices. Initiatives to boost energy efficiency will further increase electronics needs. Projected strong worldwide semiconductor sales portend continued momentum in Hong Kong's exports and parts shipments to mainland production hubs across Asia. **Headline export is expected to gain around 7% in 2025.**

Following a sharp 40% contraction from 2021-2024, modest M1 expansion is anticipated as households redirect funds into demand deposits amid lower cash holding costs, potentially lifting spending. Further USD weakness could induce Hong Kong dollar depreciation vis-à-vis other currencies, offering respite to struggling retail and food & beverage sectors. **However, evolving spending habits toward value as visitors seek unique experiences beyond luxury goods, combined with local residents pursuing cheaper mainland options, may curb retail gains.** The proliferation of "experiential stores" reflects this shift toward more frugal tastes.

No straightforward solutions exist for addressing Hong Kong's price competitiveness given its linked exchange rate system precludes currency devaluation. Internal deflation must run its course across a broad spectrum, with office and retail space rents staying depressed. **Positive carry on residential investment could help stabilize house prices after a 25% slump from 2021's peak.** Yet substantial inventory means full recovery remains distant, with downside risks including slower rate cuts and prolonged downturn in China.

Mo Ji, Nathan Chow,
Samuel Tse & Byron Lam

Hong Kong

India: Structural strength, cyclical headwinds

	2023 FY24	2024 FY25	2025 FY26	2026 FY27
GDP growth, yoy%, ave	8.2	6.7	6.6	6.5
Inflation, yoy%, ave	5.4	4.7	4.1	4.0
Policy rate, %, eop	6.50	6.25	5.50	5.50
INR per USD, eop	83.4	83.7	83.0	83.5
10-year yield, %, eop	7.05	6.55	6.60	6.40

Source: CEIC, Bloomberg, DBS

India's structural growth story continues to gain traction, even as cyclical trends soften. Catalysts, including investments into physical infrastructure, digitalisation, pursuing high value-added sectors including semiconductors, and expanding presence in global value chains, will continue to be medium-term tailwinds. Strong equity markets have provided corporates with growth capital for investments, just as businesses maintain low leverage levels. The cyclical trend is softening at the margin. The economy expanded 6.7% yoy in 1QFY25 (Apr-Jun24) from 7.8% in 4QFY. The breakdown showed private consumption grow by the fastest in seven quarters, amidst an uptick in rural demand, while urban ebbed as signaled by consumer related loans, 4W sales etc. With consolidated centre (-35% drop) and state spending down in the quarter, a still resilient investment (GFCF) performance stems from consistent support from the private sector (India: Exploring the degrees of capex uplift).

Our consolidated gauge for key growth drivers shows that industrial activity and net exports (goods & services) held up into the final quarter of CY2024, whilst investments and consumption lost momentum. While there is likely to be a short-term bounce due to near-term festivities and recovery in centre's capex, the macro backdrop of tight monetary conditions, regulatory action, soft hiring trends, and sticky inflation are likely to stay as hurdles for rest of the year. On the supply-end, the southwest monsoon for 2024 ended with rainfall at 8% above the long-term average. Foodgrain production was up marginally in 2023-24, and the centre expects a 2.7% lift in 2024-25, led by pulses and oilseeds. Horticulture output declined marginally in 2023-24, with an increase necessary to address most volatile parts of the inflation basket, especially vegetables. Construction activity is expected to benefit from ongoing government's capex projects as well as investments in real estate projects. Housing loans grew 17.4% yoy (excluding merger) in Apr-Aug24 vs 14% in FY24. On the services end, PMIs are still in expansionary terrain but have slipped from highs, alongside GST rising by slowest pace in over three years in September. Port traffic rose but railway freight slowed, not help by unfavourable weather conditions. Upcoming festive demand should provide a temporary fillip before trend softens. We temper our FY25 real GDP growth forecast to 6.7% yoy from 7.0% held earlier, and 6.6% year after.

The food basket continues to disrupt India's disinflationary process, validating the central bank's caution over premature rate cuts. CPI inflation is expected to stay above 5% until November before easing to align with the inflation target, leaving the full year average at 4.7% yoy. MPC changed its stance to neutral in October, with liquidity holding up in surplus since 2QFY. Given the Governor's cautious commentary, unless growth disappoints sharply, we delay the start of cuts to February 2025. Our baseline forecast is for 100bp cuts factoring in our GDP forecasts. If growth trends around 7%, we see a shallow rate cut.

Radhika Rao

Indonesia: New innings

	2023	2024f	2025f	2026f
Growth (y/y %)	5.1	5.0	5.2	5.0
Inflation (y/y %)	3.7	2.3	2.2	2.0
Currency, vs USD eop	15500	15640	15170	15500
Policy rate*, % eop	6.00	6.00	5.00	5.00
10-year yield, % eop	6.70	6.45	6.10	6.20

Source: CEIC, Bloomberg, DBS

Indonesia's new President Prabowo Subianto took office in October. Markets drew confidence from the reappointment of the well-regarded and seasoned Finance minister Mulyani Indrawati, who represents fiscal rectitude and discipline. Experienced names such as senior member Luhut Panjaitan, erstwhile Coordinating Minister for Maritime Affairs and Investment, returned as the chief of the new economic advisory council. Number of ministries jumped to 48, with creation of new departments including investment and downstreaming as well as housing (carved out from an existing ministry). A familiar cabinet will make it easier to build consensus, but the administration will need to deal with authority overlap and coordination hurdles with a larger team in place.

The new President is set to play a bigger role in domestic and global diplomatic circles, pursuing food security/ higher welfare push, anti-corruption and better governance, energy security, and encourage down-streaming activity. Consumption-related policies included free medical checkups, free school meals, poverty alleviation etc. are likely to help improve the quality of human capital. There is a proposal to form a new state-owned investment agency, after discussions with the SOE ministry as well as sovereign wealth fund, INA. The 2025 Budget proposals might be relooked.

We expect the President and the cabinet to set their priorities in first half of the year, which coupled with religious festivities and higher fiscal spending will be positive for growth. Household consumption has moderated as minimum wages and real purchasing power were under pressure. Signs that subsidies will be maintained, coupled with higher investments towards human capital (including nutritious food in schools) and easing inflation will be positive for demand. We expect growth to average 5.2% yoy in 2025.

Encouragingly, the earlier rhetoric on breaching the fiscal and debt thresholds has been dialed down. Spending on the flagship school lunch initiative will be conducted in a phased manner over the next few years. Accordingly, a more measured IDR 71trn (0.3% of GDP) was set aside for the 2025 Budget. Higher spending needs will be required to be matched with efforts to lift tax receipts, including the planned 1% increase in the VAT next year, besides medium-term goals to widen the tax base and improve due diligence to boost collections on a sustained basis. As it stands, the fiscal deficit has widened by 1% of GDP compared to the budgeted estimate for 2024 and is estimated to stay wide at -2.5% in 2025.

With the government formation proving to be market-neutral, global developments hold a larger sway on the rupiah and bond markets. Slowing inflation and rupiah stability are expected to lay the ground for rate cuts. We expect the BI rate to ease to 5% in 2025, with the quantum and speed to be determined by domestic inflation path, rupiah (by extension US Dollar direction) and the US Fed.

Radhika Rao

Malaysia: Sustaining economic growth and reform momentum

	2023	2024F	2025F	2026F
Growth, yoy%	3.6	5.3	4.8	4.6
Inflation, yoy%	2.5	1.9	2.8	2.3
Policy rate, % eop	3.00	3.00	3.00	3.00
MYR per USD, eop	4.59	4.35	4.30	4.45
10-year yield, % eop	3.73	3.90	3.90	4.00

Malaysia's economy is set to extend its relatively robust expansion in 2025, a year in which it will hold the ASEAN Chairmanship. We project real GDP growth of 4.8% in 2025 following the strong recovery to 5.3% in 2024, barring any major negative shocks to the global economy. We expect broad-based economic growth, bolstered by government policies under the Ekonomi MADANI framework and still supportive monetary stance.

Advance estimates indicated that real GDP growth registered at a robust 5.3% YoY in 3Q24 and 5.1% YoY in the first three quarters of 2024, rebounding nicely from 3.8% YoY in the first three quarters of 2023. The stronger economic performance in 2024 has been driven by higher goods exports, rising foreign tourist arrivals, robust investment expansion, and healthy household spending. Base effects are favourable in 4Q24, and we expect these positive growth drivers to sustain into 2025.

External demand for Malaysia's electronics products should be supported by the ongoing global semiconductor upswing bolstered by the increasing use of artificial intelligence (AI) in consumer devices. Domestic demand is likely to remain robust. Investment growth will be supported by the realisation of private sector projects, particularly in technology, including future investments in the upcoming Johor-Singapore Special Economic Zone, and public sector initiatives in transportation and utilities. Private consumption will continue to be buoyed by resilient labour market conditions, ongoing targeted cash assistance programs, and higher minimum wages.

Budget 2025 announced in October maintained a focus on economic growth and fiscal consolidation. Overall expenditures were proposed to rise by 3.3% to a record high of MYR421bn in 2025, but a 5.5% increase in overall revenues to MYR339.7bn would lower the fiscal deficit to GDP ratio of 3.8% in 2025 from 4.3% in 2024. Beyond measures to safeguard the people's welfare, the comprehensive budget also aimed to boost the economy through various initiatives in investments, technology, and energy transition.

However, fiscal reforms and other policies are likely to push average headline inflation up, which we forecast to rise to 2.8% in 2025 from 1.9% in 2024. This reflects the upside impact of the minimum wage hike, revenue measures like the broadening of the Sales & Service Tax, and further subsidy rationalisation. The much-anticipated targeted RON95 fuel subsidies will be implemented in mid-2025. The government is removing RON95 subsidies for the top-15% income earners, and is considering a two-tier price system.

We expect Bank Negara Malaysia (BNM) to maintain its overnight policy rate (OPR) at 3.00% in 2025, with rising inflation likely to be manageable. However, BNM will remain vigilant on upside inflation risks in 2025, complicated by domestic policy changes and robust economic growth. If second-round price effects on inflation emerge, the central bank could raise its OPR, bucking the global easing trend.

Chua Han Teng

Philippines: On a dovish path

	2023	2024f	2025f	2026f
GDP growth, yoy%, ave	5.6	6.0	5.8	5.6
Inflation, yoy%, ave	6.0	3.0	2.6	2.4
Policy rate, %, eop	6.5	5.75	4.75	4.75
PHP per USD, eop	55.38	58.1	56.6	57.5
10-year yield, %, eop	6.00	5.50	5.40	5.50

Source: CEIC, Bloomberg, DBS

Philippines' growth averaged a firm 5.8% yoy in 1Q-3Q24, improving from 5.6% in 2023. 2024 growth is likely to meet the lower end of the official target at 6%. Household consumption grew by the slowest pace of 4.8% yoy in the post-pandemic quarters on the back of sustained high inflation in the past year and a half, along with soft credit growth and weak growth in durable equipment. July unemployment rate jumped to the year's high at 4.7%, driven by lower job generation in construction, services, and agriculture. By contrast, investment spending 6% yoy in 1H on higher domestic output, along with net exports also turning a net contributor. Growth momentum is expected to get a hand from easing inflation into 2025, which will provide relief to household purchasing power and a cut in rice tariffs which lowers the staple's prices. Lower borrowing costs will also be a positive for private sector's financing needs, including working capital requirements.

Taking a step towards incentivising the private sector, Philippines passed the CREATE (Corporate Recovery and Tax Incentives for Enterprises) bill in 2021 to lower operational costs for domestic and foreign companies through tax incentives and reforms. In three years after its enactment, the government plans to amend the law through the CREATE MORE (Maximise Opportunities for Reinvigorating the Economy) bill this year. The proposed changes would include a shift in the authority from the FIRB to Investment Promotion Agency (IPA), in effect nullifying the change that was brought about under CREATE. There is more work to be done as market participants have highlighted inconsistencies in the framework with other laws, especially the tax bodies, which are expected to be subsequently eased. Impact of these forward-looking legislations and shifts under the China+1 strategy is yet to materially push up foreign flows. FDI inflows have been largely steady between 2022 and 2023, with Jan-Jul24 flows about 7.5% higher compared to the same period last year.

The BSP front-ran the US Fed in beginning its rate cutting cycle. Policymakers were likely convinced of the timing of the cut ahead of a base-effect driven correction in domestic inflation and a high probability of a US Fed move in September. Having raised benchmark rates by the most in the region in the last two years, the BSP cut rates in August, with Governor Remolona signalling that more are likely as inflation recedes. To complement the dovish bias, the BSP also undertook a deep reserve requirement ratio cut of 250bps to 7% for commercial banks and non-banks earlier. The BSP[1] had projected a one-two year lag period before monetary policy easing impacts the economy, suggesting that rates will maintain a dovish bias into 2025. We expect end-2024 rate at 5.75% followed by another 100bp to take the benchmark rate to 4.75% by end-2025.

Radhika Rao

[1] BSP

Singapore: Dynamic in a volatile world

	2023	2024F	2025F	2026F
Growth, yoy%	1.1	3.5	2.8	2.5
Inflation, yoy%	4.8	2.4	2.0	2.0
SGD per USD, eop	1.32	1.32	1.29	1.32
10-year yield, %, eop	2.71	2.95	2.95	3.15

Singapore's economy is poised to remain dynamic in a volatile world in 2025. We expect continued favourable economic growth prospects, and further easing of inflation, barring unexpected significant global negative shocks. Policy priorities will continue to centre around the 4G leadership's Forward Singapore agenda, with the island-nation anticipating imminent general elections that are due by November 2025.

We expect Singapore's economic expansion to be buoyant at 2.8% in 2025, in line with our estimated medium-term potential rate of 2-3%. Economic activity is experiencing a robust external-led recovery in 2024, following a soft patch in 2023, and is likely to be supported in the coming quarters by resilient external demand. Advance real GDP data showed firm growth of 3.4% YoY in the first three quarters of 2024, rebounding from 0.7% YoY in the first three quarters of 2023, with our 2024 forecast at 3.5%. Stable global growth in 2025 would provide conducive external demand conditions to support resilient expansion in Singapore's external-oriented sectors - manufacturing, trade-related services, and modern services. The outlook for the global tech and trade cycles remains sanguine. The adoption of artificial intelligence (AI) applications is set to broaden, with Singapore firms capitalising on these opportunities. Continued gradual global interest rate cuts would also support global growth, spilling over positively to Singapore's financial services growth.

We anticipate Singapore's inflation to cool further in 2025. Our average headline and core inflation forecasts of 2.0% and 1.8% for 2025, respectively, would be aligned with the average core inflation rate of just under 2% that the Monetary Authority of Singapore (MAS) usually assesses as consistent with overall medium-term price stability in the economy. The disinflation trend, albeit bumpy, remains intact in 2024 and going into 2025. Our expectations for lower inflation in 2025 reflect the fading impact of the previous goods and services tax hikes, well-managed imported price inflation, and reduced pace of domestic cost pass-through to consumer prices.

Singapore's policy focus in 2025 will continue to be anchored by the 4G leadership's Forward Singapore (Forward SG) agenda. We see the government having some fiscal room in 2025. The authorities would aim to balance near-term issues with long-term initiatives to refresh the social compact and sustain growth amid a volatile and uncertain world and rising domestic constraints. The government has kickstarted the multi-year execution of Forward SG policies in Budget 2024, and will look to maintain the momentum. On monetary policy, the MAS kept its SGD NEER policy parameters unchanged in October 2024 to ensure continued disinflation. The timing of easing the SGD NEER's appreciation pace in 2025 hinges on inflation's progress back into the MAS's historically comfortable range.

Our outlook faces considerable downside risks. These include the intensification of lingering geopolitical and trade tensions that could disrupt global production and raise costs, hurting Singapore's highly open economy.

Chua Han Teng

South Korea: More rate cuts

	2023	2024F	2025F	2026F
GDP growth, yoy %	1.4	2.3	2.0	2.2
Inflation, yoy %	3.6	2.4	2.3	2.0
Policy rate, % eop	3.50	3.25	2.50	2.50
10-yr yield, % eop	3.18	2.90	2.85	2.95
KRW per USD, eop	1291	1380	1320	1350

Following the rate cut initiated at the October meeting, the Bank of Korea is expected to implement further significant cuts in 2025. We forecast a total reduction of 75bps, lowering the base rate from 3.25% to 2.50% by the end of the year.

The notable slowdown in inflation provides ample room for these cuts. CPI inflation is expected to remain close to the BOK's 2% target, projected at 2.3% in 2025, down from 2.4% this year. This outlook takes into account the lagging effects of previous monetary tightening, decreasing public inflation expectations, and stable oil and food prices. With a real interest rate around 0% (in line with the 10-year average), a neutral policy rate is expected to be approximately 2.50%.

Growth uncertainties, particularly the ongoing weakness in domestic demand, further support the need for additional rate cuts. GDP growth is forecasted to remain subdued at 2.0% in 2025, compared to 2.3% this year, below the 10-year average of 2.7%. Export growth is expected to decelerate in 2025 as semiconductor demand normalises after a strong surge this year. Current growth is largely driven by demand for AI data centers and servers, with future expansion relying on the rise of AI-enabled PCs and smartphones. Consumption growth is projected to improve modestly in 2025, supported by rising real disposable incomes. The slowdown in inflation will enhance real wage growth, while further boosts to consumption will depend on reductions in interest rates.

The primary challenge for rate cuts is the rebound in housing prices and the expansion of household debt. We remain skeptical that the property and credit markets will experience a strong and broad recovery in 2025. Despite a tentative rebound in property transactions, a significant inventory of unsold residential properties indicates that destocking is not yet complete. The ongoing rebound in property prices is primarily concentrated in Seoul rather than occurring nationwide.

Should rate cuts stimulate a resurgence in property and credit markets, the financial regulator and the government have the capacity to implement tighter macroprudential measures, such as adjusting the debt service ratio, loan-to-value ratio, and designating special areas for stricter regulations.

Anticipated rate cuts, along with South Korea's inclusion in the World Government Bond Index (WGBI) by FTSE Russell, are expected to positively impact the KTB performance. The inclusion, set to begin in November 2025, will be implemented gradually over a year, with Korea's weight in the index increasing to 2.22%. This move is expected to generate an inflow of approximately USD 55-66bn, creating a stable source of KTB demand. The influx of capital is likely to help maintain low bond yields and funding costs in the medium to long term, further enhancing the attractiveness of KTBs for domestic and international investors.

Ma Tieying

Taiwan: Cooling and stabilising

	2023	2024F	2025F	2026F
GDP growth, yoy %	1.3	4.4	3.0	2.4
Inflation, yoy %	2.5	2.2	1.9	1.7
Policy rate, % eop	1.875	2.00	2.00	1.875

The economy is expected to continue expanding in 2025, albeit at a slower pace compared to this year. **GDP growth is projected to reach 3.0% in 2025, down from 4.4% in 2024, but still in line with the long-term trend**. Export growth is likely to decelerate following a strong AI-driven recovery this year, while consumption growth may also ease after benefiting from the wealth effects of robust property and equity market rallies.

That said, exports are expected to remain in expansionary mode in 2025. Although demand for AI data centers and servers may moderate after a surge this year, demand for AI-enabled mobile phones, PCs, and other consumer electronics could pick up. According to Gartner, AI smartphones are projected to account for 32% of global smartphone shipments in 2025, up from 22% this year, and the penetration rate of AI PCs is expected to rise to 43% from 22%. Additionally, the WSTS projects that global semiconductor shipments will grow by 12.5% in 2025, though this is slower than the 16.0% growth seen this year.

Domestically, the property market is likely to approach a soft landing in 2025. While investment and speculative demand may diminish due to tightened credit controls, property taxes, and anti-speculation measures, demand from first-time homebuyers and those seeking home upgrades is expected to remain resilient. The central bank has recently granted exemptions to credit control measures to support genuine homebuyers, including individuals inheriting homes, those needing to relocate, and buyers who signed purchase agreements before these measures were implemented.

CPI inflation is expected to ease to 1.9% in 2025, down from 2.2% this year. Food and housing prices may slow YoY in 2025, following boosts from typhoons, electricity price hikes, and rising rents this year. However, steady labor market conditions and minimum wage increases are likely to reinforce wage-inflation dynamics, keeping core inflation stable. The introduction of carbon fees could also contribute to inflation, as increased costs for carbon-intensive goods and services may be passed on to consumers.

The central bank is expected to maintain the policy discount rate at 2.00% in 2025. Rate cuts would contradict efforts to cool the property and credit markets. Further RRR hikes and credit controls cannot be ruled out if the anticipated property price correction, slowdown in real estate loans, and reduction in real estate loan concentrations do not meet expectations. Additional rate hikes seem unlikely, however, as overall inflation pressure is expected to ease in 2025.

The balance of payments is projected to improve modestly in 2025. Domestic portfolio outflows are expected to ease as Fed rate cuts reduce interest rate differentials. However, domestic direct investment outflows may continue to rise, as Taiwanese companies actively diversify supply chains and expand offshore production facilities in the US, Europe, Japan, ASEAN, and India.

Ma Tieying

Thailand: Recovery in a challenging landscape

	2023	2024F	2025F	2026F
Growth, yoy%	1.9	2.8	3.0	2.8
Inflation, yoy%	1.2	0.5	1.5	1.8
Policy rate, % eop	2.50	2.25	2.25	2.25
THB per USD, eop	34.1	33.8	33.3	34.5
10-year yield, % eop	2.68	2.40	2.45	2.60

Thailand's economy is entering 2025 in a gradual recovery phase, but not without challenges. The domestic political environment has become more stable after a brief period of uncertainty, following the swift formation of an administration led by Prime Minister Paetongtarn Shinawatra under a familiar Pheu Thai coalition government in August 2024. The government remains focussed on reviving the economy, addressing social issues, and restoring confidence among local and foreign investors.

We expect Thai real GDP growth to recover to 2.8% in 2024 and advance to 3.0% in 2025, marking the fastest pace of expansion since 2018. Foreign tourism, a key source of earnings, will continue to improve in the coming quarters, with arrivals set to reach at least the pre-pandemic 2019 levels of ~40mn. Chinese tourists have returned to the top spot as Thailand's top visitor source in 2024, and their arrivals will continue to recover, amid continued appetite to travel to the kingdom, and a stabilising Chinese economy.

Private consumption will continue to support overall economic activity, although at a normalised growth rate. Household spending is bolstered by government stimulus measures, with the first phase of the tweaked digital wallet scheme being implemented from 4Q24 to boost consumer confidence. The government plans to launch the second phase rollout of the digital wallet policy in 2025, but potential upside could be tempered by ongoing efforts to reduce still-elevated household debt.

Thailand's goods exports are recovering in tandem with the upswings in regional and global trade cycles, supported by improved electronics demand. Barring any significant negative shocks to the global economy, Thai shipments should remain in expansion, although they face structural competitiveness challenges. Thailand's private investment is likely to rebound from the weakness in 2024, driven by the realisation of foreign interest and inflows into promising areas such as digital technologies and electrical vehicle industries.

We anticipate that the Bank of Thailand (BOT) will maintain its policy rate in 2025, following its slight recalibration to neutral with a 25bps cut during its October 2024 meeting. The BOT views its recalibrated neutral policy stance as remaining appropriate with its higher economic growth and within target inflation outlook, while ensuring long-term financial stability. The statement in October also noted that the policy rate 'should not be at too low a level that would create build-ups of financial imbalances in the long term', suggesting a continued focus on household debt deleveraging, while balancing with economic growth and price stability.

Thailand's economic outlook in 2025 remains subject to high downside uncertainties, having experienced a difficult post-pandemic recovery compared to ASEAN peers. Domestically, financial conditions could tighten further amid weaker credit quality and loan growth on softer overall economic activities. Globally, increased protectionism and unexpected supply chains disruptions could severely hurt trade.

Chua Han Teng

Vietnam: Sustaining robust growth trajectory

	2023	2024F	2025F	2026F
Growth, yoy%	5.0	6.8	6.8	6.6
Inflation, yoy%	3.3	3.7	3.5	3.3
Policy rate, % eop	4.50	4.50	4.50	4.50
VND per USD, eop	24269	25260	24990	25330

Vietnam's economy is poised for resilient growth in 2025, after rebounding robustly in 2024. We forecast real GDP growth of 6.8% in 2025, sustained at the same rate from 2024. This growth will be underpinned by continued goods exports expansion, strong foreign direct investments (FDI), and supportive policies.

The rebound in Vietnam's export-oriented manufacturing activities has supported the overall economic recovery in 2024. **We expect Vietnam's ongoing exports growth to extend into 2025, assuming continued global economic expansion in 2025.** While factory activities could be temporarily disrupted by weather disruptions in the near-term, Vietnam's current exports expansion looks healthy and has broadened beyond electronics shipments, the largest goods exports product at ~30% of total, to categories such as 'textiles, garments, and footwear'. External demand for Vietnamese electronics products should also be supported by continued growth in global smartphone shipments, especially as more artificial intelligence (AI) features are rolled out to consumer devices.

Attracting increased FDI remains Vietnam's long-term economic development strategy. We expect Vietnam to stay as an attractive destination for multinational companies and Chinese enterprises that are adopting the 'China+1' strategy. These companies continue to diversify their supply chains amid increased geopolitical tensions and fragmentation. The IMF's Article IV analysis finds evidence of Vietnam benefitting from trade reallocation due to rising US-China tensions since 2017 that led to more FDI from both the US and China, rather than trade rerouting to circumvent tariffs. As the competition to attract FDI heats up, Vietnam continues to boast key advantages, including competitive wage costs, wide network of trade agreements, supportive business environment, expanding manufacturing ecosystem, while making efforts to improve its lagging transport infrastructure.

Real GDP growth has disappointed in recent years, and **we therefore expect both monetary and fiscal policies to be growth supportive in 2025.** Policymakers will still strive to achieve the best growth outcome in the final year of their 2021-2025 Five-Year Plan, even as they are likely to miss their average growth target of 6.5-7.0%. We expect the State Bank of Vietnam (SBV) to maintain its refinancing rate at 4.50% in 2025, which has been steady since its previous cut in mid-June 2023. Headline inflation that is likely to be contained within the policymakers' target of 4.5% in 2025, alongside an appreciation of the Vietnamese dong against the US dollar, should provide the SBV with greater policy flexibility. The government also has room for continued expansionary fiscal policy, as the public debt is well below the 60% of GDP ceiling set by the National Assembly.

We see some risks to our positive outlook. Exports could slow significantly if external demand weakens sharply unexpectedly and/or geopolitical tensions escalate. The anti-corruption campaign could delay investments to a greater extent.

Chua Han Teng

Growth, Inflation, & Policy Rates forecasts

	GDP growth, % YoY						CPI inflation, % YoY, ave					
	2021	2022	2023	2024f	2025f	2026f	2021	2022	2023	2024f	2025f	2026f
China	8.1	3.0	5.2	5.0	5.0	4.5	0.9	2.2	0.2	0.6	1.0	1.5
Hong Kong SAR	6.3	-3.5	3.3	2.4	2.5	2.5	1.6	1.9	2.0	1.5	1.5	1.5
India	8.9	6.7	7.8	7.0	6.7	6.6	5.1	6.7	5.7	4.8	4.2	4.2
Indonesia	3.7	5.3	5.1	5.0	5.2	5.0	1.6	4.2	3.7	2.3	2.2	2.0
Malaysia	3.3	8.9	3.6	5.3	4.8	4.6	2.5	3.4	2.5	1.9	2.8	2.3
Philippines	5.7	7.6	5.6	6.0	5.8	5.6	3.9	5.8	6.0	3.0	2.6	2.4
Singapore	9.7	3.8	1.1	3.5	2.8	2.5	2.3	6.1	4.8	2.4	2.0	2.0
South Korea	4.6	2.7	1.4	2.3	2.0	2.2	2.5	5.1	3.6	2.4	2.3	2.0
Taiwan	6.6	2.6	1.3	4.4	3.0	2.4	2.0	2.9	2.5	2.2	1.9	1.7
Thailand	1.6	2.5	1.9	2.8	3.0	2.8	1.2	6.1	1.2	0.5	1.5	1.8
Vietnam	2.6	8.0	5.0	6.8	6.8	6.6	1.8	3.2	3.3	3.7	3.5	3.3
Eurozone	5.3	3.5	0.5	0.8	1.0	1.2	2.6	8.4	5.5	2.3	2.2	2.0
Japan	2.7	1.2	1.7	0.0	0.9	0.6	-0.3	2.5	3.3	2.5	1.6	1.3
United States	5.9	2.1	2.5	2.5	2.0	2.0	4.7	8.0	4.1	3.0	2.3	2.5

*2020 represents Fiscal 21; ending Mar 21

Policy interest rates, eop

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
China*	3.45	3.45	3.35	3.00	3.00	2.75	2.50	2.50	2.50	2.25	2.25	2.25
India	6.50	6.50	6.50	6.50	6.25	5.75	5.50	5.50	5.50	5.50	5.50	5.50
Indonesia	6.00	6.25	6.00	5.75	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	6.50	6.50	6.25	5.75	5.50	5.00	4.75	4.75	4.75	4.75	4.75	4.75
Singapore**	3.62	3.70	3.25	3.08	2.78	2.58	2.58	2.58	2.58	2.58	2.58	2.58
South Korea	3.50	3.50	3.50	3.25	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.875	1.875
Thailand	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Vietnam***	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Eurozone^	4.00	3.75	3.50	3.00	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Japan	0.10	0.10	0.25	0.25	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00
United States	5.50	5.50	5.00	4.50	4.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50

* 1-yr Loan Prime Rate; ** 3M SORA OIS ; *** refinancing rate; ^ deposit facility rate

Exchange rates, eop

Ccy pair	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
USD/CNY	7.22	7.27	7.08	7.12	7.06	7.00	7.02	7.04	7.06	7.08	7.10	7.12
USD/HKD	7.82	7.81	7.79	7.77	7.77	7.76	7.76	7.77	7.77	7.77	7.78	7.78
USD/INR	83.4	83.4	83.7	84.1	83.7	83.3	83.4	83.5	83.5	83.6	83.7	83.8
USD/IDR	15770	16375	15320	15640	15320	15000	15080	15170	15250	15330	15420	15500
USD/MYR	4.75	4.72	4.25	4.35	4.30	4.20	4.25	4.30	4.30	4.35	4.40	4.45
USD/PHP	56.3	58.6	55.7	58.1	57.1	56.2	56.4	56.6	56.8	57.0	57.3	57.5
USD/SGD	1.35	1.36	1.29	1.32	1.30	1.28	1.29	1.29	1.30	1.31	1.31	1.32
USD/KRW	1340	1377	1320	1380	1340	1300	1310	1320	1320	1330	1340	1350
USD/THB	36.3	36.6	33.3	33.8	33.3	32.7	33.0	33.3	33.6	33.9	34.2	34.5
USD/VND	24760	25455	24610	25260	25040	24820	24910	24990	25080	25160	25250	25330
AUD/USD	0.65	0.67	0.68	0.66	0.67	0.69	0.68	0.68	0.68	0.68	0.67	0.67
EUR/USD	1.08	1.07	1.11	1.08	1.10	1.12	1.12	1.11	1.11	1.11	1.10	1.10
USD/JPY	151	161	142	150	143	136	138	139	141	143	145	146
GBP/USD	1.26	1.28	1.32	1.30	1.31	1.33	1.32	1.32	1.31	1.31	1.30	1.30

Interest rate forecasts

		2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	3M SOFR OIS	3.88	3.38	3.38	3.38	3.38	3.38	3.38	3.38
	2Y	3.90	3.60	3.60	3.60	3.70	3.80	3.80	3.80
	10Y	4.20	4.20	4.20	4.30	4.40	4.50	4.50	4.50
	10Y-2Y	30	60	60	70	70	70	70	70
Japan	3M TIBOR	0.65	0.65	0.90	0.90	1.00	1.15	1.15	1.15
	2Y	0.70	0.80	0.90	0.95	1.00	1.10	1.10	1.10
	10Y	1.05	1.05	1.10	1.15	1.25	1.25	1.25	1.25
	10Y-2Y	35	25	20	20	25	15	15	15
Eurozone	3M EURIBOR	2.70	2.20	2.20	2.20	2.20	2.20	2.20	2.20
	2Y	2.20	2.10	2.10	2.10	2.10	2.20	2.30	2.40
	10Y	2.35	2.30	2.25	2.25	2.30	2.40	2.50	2.50
	10Y-2Y	15	20	15	15	20	20	20	10
Indonesia	3M JIBOR	6.35	5.85	5.85	5.85	5.85	5.85	5.85	5.85
	2Y	6.20	5.90	5.90	6.00	6.05	6.10	6.10	6.10
	10Y	6.50	6.20	6.25	6.35	6.40	6.45	6.45	6.45
	10Y-2Y	30	30	35	35	35	35	35	35
Malaysia	3M KLIBOR	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	3Y	3.45	3.40	3.40	3.40	3.45	3.45	3.45	3.45
	10Y	3.85	3.80	3.85	3.90	3.95	4.00	4.00	4.00
	10Y-3Y	40	40	45	50	50	55	55	55
Philippines	3M PHP ref rate	5.50	5.10	5.00	5.00	5.00	5.00	5.00	5.00
	2Y	5.00	4.75	4.75	4.75	4.75	4.80	4.80	4.80
	10Y	5.50	5.30	5.35	5.40	5.45	5.50	5.50	5.50
	10Y-2Y	50	55	60	65	70	70	70	70
Singapore	3M SORA OIS	2.78	2.58	2.58	2.58	2.58	2.58	2.58	2.58
	2Y	2.75	2.55	2.55	2.55	2.60	2.70	2.70	2.70
	10Y	2.85	2.85	2.85	2.95	3.05	3.15	3.15	3.15
	10Y-2Y	10	30	30	40	45	45	45	45
Thailand	3M BIBOR	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
	2Y	2.05	2.00	2.00	2.00	2.05	2.15	2.15	2.15
	10Y	2.30	2.35	2.40	2.45	2.50	2.60	2.60	2.60
	10Y-2Y	25	35	40	45	45	45	45	45
China	1Y LPR	3.00	2.75	2.50	2.50	2.50	2.25	2.25	2.25
	2Y	1.40	1.30	1.30	1.30	1.30	1.20	1.20	1.20
	10Y	2.05	2.00	2.00	2.00	2.00	1.90	1.90	1.90
	10Y-2Y	65	70	70	70	70	70	70	70
Hong Kong, SAR	3M HIBOR	3.38	2.88	2.88	2.88	2.88	2.88	2.88	2.88
	2Y*	3.20	2.90	2.90	2.90	3.00	3.10	3.10	3.10
	10Y*	3.30	3.30	3.30	3.40	3.50	3.60	3.60	3.60
	10Y-2Y	10	40	40	50	50	50	50	50
Korea	3M CD	3.10	2.85	2.60	2.60	2.60	2.60	2.60	2.60
	3Y	2.65	2.50	2.50	2.50	2.55	2.60	2.60	2.60
	10Y	2.80	2.70	2.75	2.85	2.90	2.95	2.95	2.95
	10Y-3Y	15	20	25	35	35	35	35	35
India	3M MIBOR	6.75	6.50	6.50	6.50	6.50	6.50	6.50	6.50
	2Y	6.35	6.00	6.00	6.00	6.05	6.10	6.10	6.10
	10Y	6.55	6.45	6.50	6.55	6.60	6.65	6.65	6.65
	10Y-2Y	20	45	50	55	55	55	55	55

%, eop, govt bond yield for 2Y and 10Y, spread bps, *HKD swaps

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Completed Date: 21 Nov 2024 17:22:17 (SGT)
Dissemination Date: 21 Nov 2024 17:22:17 (SGT)

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