

Treasury Advisory
Corporate FX & Structured
Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured
Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

MTI cuts full year growth forecast to 1-2%

Thursday, 11 August 2016

- **2Q growth was little changed at 2.1% yoy (+0.3% qoq saar).** The key revisions were the downgrade in services growth from 1.7% yoy (previous estimate) to 1.4% yoy for 2Q, mainly dragged down by (a) business services at -0.2% yoy (-3.6% qoq saar) which is the first yoy contraction since 2Q 2003 and largely due to the real estate segment, as well as (b) rapidly slowing momentum in financial services which decelerated to +0.8% yoy (-11.2% qoq saar) which is the slowest growth pace since 3Q12. The big swings in risk appetite contributed to the pullback in both ACU (-5.5%, namely due to credit to East Asia) and DBU non-bank lending activities which were hit by trade-related segments like general commerce and manufacturing. In addition, fees and commissions for banks was dismal amid dampened demand for portfolio management and trade financing.
- **However, MTI trimmed the full year growth forecast from 1-3% to 1-2%,** citing additional risks post-Brexit and a weaker global growth outlook (see extended write-up in the press release). MTI also mentioned the possibility that China's debt defaults could spike as the economy continues to restructure, leading to a tightening of financial services and a sharper growth slowdown. Moreover the caveat was that this narrowed forecast was "barring the full materialisation of downside risks". MTI tips that the manufacturing improvement may not be sustained given sluggish global demand and expects construction growth to also weaken in the coming quarters amid a more pessimistic business outlook, albeit there may be support from tourism-related sectors given healthy visitor arrivals, and other services industries like ICT could still be supported by the education, and health & social services demand.
- **We maintain our 2016 GDP growth forecast at 1.8% yoy for now** as we think the 2H slowdown could be limited to around 1.5% yoy from 1H's 2.1% yoy, even though there may be some downside risks for 3Q growth given the brunt of the Brexit referendum could be felt in the financial markets and business/consumer confidence. The 1-2% official growth forecast revision is slightly more bearish than what we anticipated given 1H growth is already 2.1% yoy and 2H growth would have to potentially slip to zero for the full year to hit the lower 1% floor of the revised official forecast range.

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W