

ASEAN

29 May 2024

Gauging ASEAN-China FDI Flows

- The ASEAN-6 region has benefited from a diversification of global and regional supply chain as well as the adoption of ‘China+1’ strategies.
- FDI inflows from Mainland China and HK SAR into the region have risen, with manufacturing and certain services receiving the bulk of inflows.
- Importantly, the region is primed for further FDI inflows as it further integrates into global supply chains and carves out stronger global position for itself.

Current State of Play

FDI inflows into the ASEAN-6 economies of Indonesia, Malaysia, Philippines, Thailand, Singapore and Vietnam have been gaining traction and rose to USD236bn in 2023 compared to annual average of USD190bn in 2020-22¹.

FDI inflows into the ASEAN region were the highest from the USA, Japan, EU and Mainland China & HK SAR (2022²). This was underpinned by global factors such as a diversification of global and regional supply chain as well as the adoption of ‘China+1’, ‘friend-shoring’, ‘offshoring’ and related strategies. Strong domestic reform momentum and improving macroeconomic fundamentals are adding to the attractiveness of the region.

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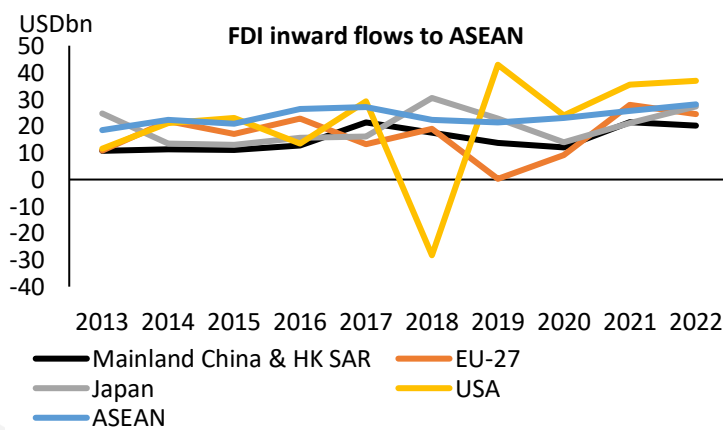
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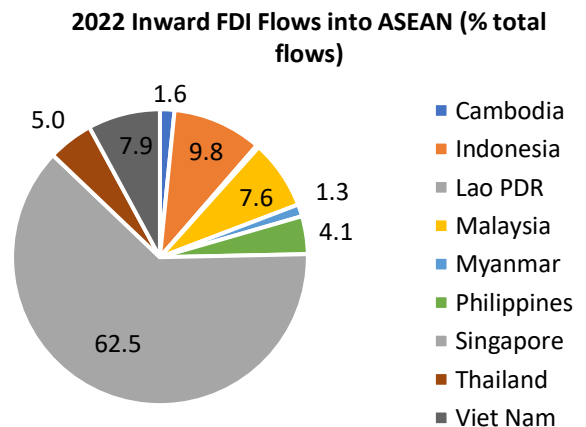
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Source: ASEAN Secretariat; OCBC.



Source: ASEAN Secretariat; OCBC.

Within the ASEAN-6 region, Singapore received the bulk of the inflows in 2022. Among the remaining economies, Indonesia was the biggest recipient of inflows, followed by Vietnam, the Philippines, Malaysia and Thailand. Most FDI inflows were directed towards the ‘manufacturing’ and ‘financial and insurance’ sectors. The

¹ We sum the FDI inflows over the three years and divide by the number of years to smooth out pandemic related disruptions.

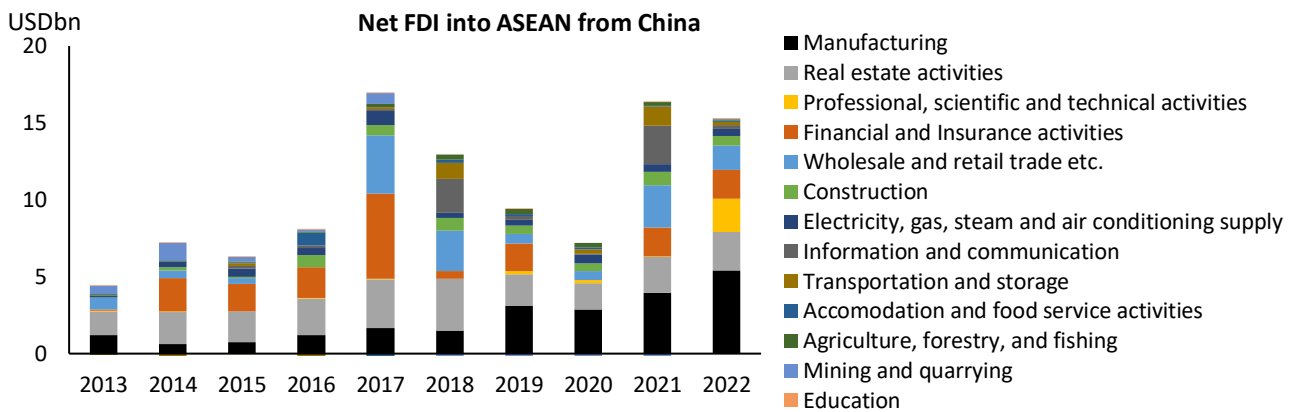
² The breakdown of FDI inflows by country and sector are only available until 2022.

transportation, construction and wholesale sectors also received a decent share of FDI inflows.

ASEAN-China Connections Run Deep

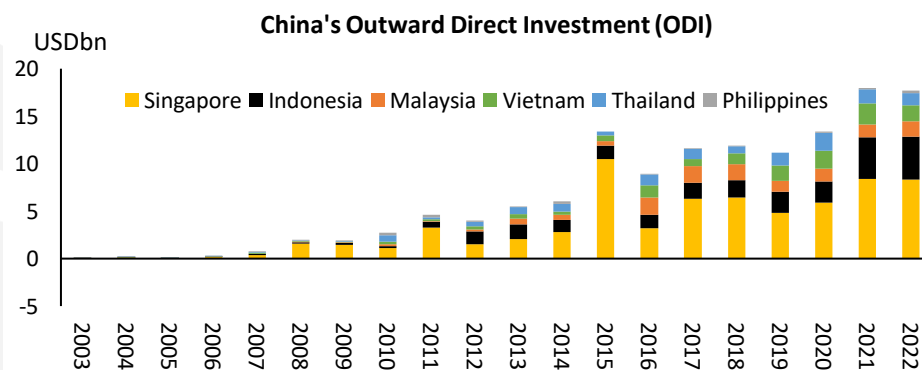
While the US remains the largest FDI investor in the region, supply chain diversification was expedited by US-China geopolitical tensions and pandemic related disruptions. This supported increased FDI inflows from other countries, with flows from China being closely regarded as bellwether of the ongoing changes.

To that end, FDI inflows from China into the region were sharply reduced during 2020 due to the pandemic but have since picked up sharply. Importantly, the nature of FDI inflows into ASEAN from China has evolved over the past decade, diversifying from infrastructure into electronics, resources, and food industries. More broadly, the manufacturing, wholesale & retail trade, finance and insurance, real estate and professional services sectors have witnessed higher FDI inflows from China.



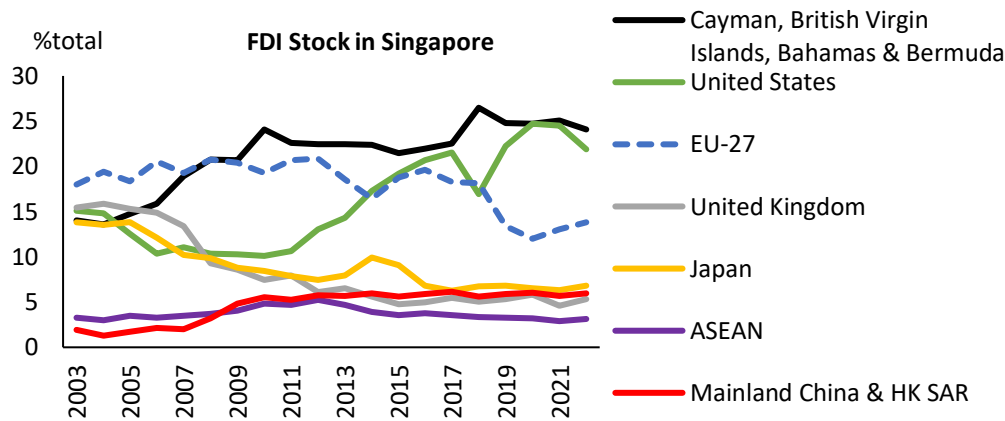
Source: ASEAN Secretariat; OCBC.

According to China’s Outward Direct Investment (ODI) flows, Singapore has traditionally been the largest beneficiary of FDI from China. This reflects Singapore’s position as a financial hub, with strong synergies in the manufacturing, real estate, and services sectors. After Singapore, China’s ODI goes to Indonesia, Malaysia, Vietnam, and Thailand. China’s ODI into Indonesia increased noticeably, accounting for almost a third of ODI to the region in 2022. By contrast, the Philippines has not benefited as much from Chinese investments. This is not entirely surprising given geopolitical tensions between the two countries have taken a turn for the worse over the past year.



Source: CEIC; OCBC.

Singapore: While Mainland China and HK SAR are not the biggest sources of FDI's into Singapore, its share has risen in recent years. The stock of FDI from these locations stood at USD113.2bn as of end-2022, more than doubling from USD51.9bn in 2015.



Source: CEIC; SingStat; OCBC.

By sectors, the finance and insurance sector has seen the biggest uptick over this period, followed by the wholesale & retail sectors. Investments into these sectors can be corroborated by anecdotal evidence, which shows that banking, finance and digitalisation³ investments from China into Singapore picked up.



Source: SingStat; OCBC.

Homegrown names in China's technology industry such as Alibaba, Tencent, ByteBance have set up regional offices in Singapore. Other Chinese technology companies with a presence in Singapore include Trip.com, iQiyi, Huawei Cloud, Yitu etc. Importantly, investments are coming from many important hubs in China. According to Enterprise Singapore, there were over 400 Shanghai companies in Singapore, as of end-2022⁴. In addition, the New International Land-Sea Trade Corridor (ILSTC), is a crucial trade and logistics passage, set up jointly by China's western provinces and Singapore has seen significant traction in recent years. There

³ Chinese companies set up in Singapore to hedge against geopolitical risk, Financial Times, 29 November 2022.

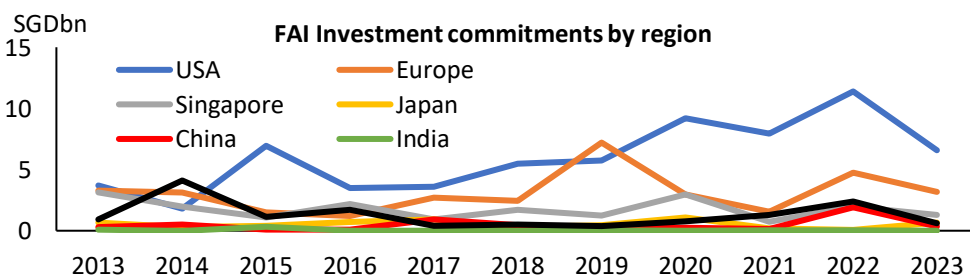
⁴ Shanghai eyes Singapore as it chases foreign investments amid slowing economy, Business Times, 30 January 2024.

is also anecdotal evidence to suggest higher wealth flows into Singapore from China including property purchases⁵.

| Sector | Project | Year | Description |
|--|--|---------|--|
| Infrastructure | China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity (CCI) | 2015 | Over USD17bn in cross-border deals (led by Singapore banks) have been signed. CCI cross-border financial services help drive the New International Land-Sea Trade Corridor (ILSTC) a trade and logistics passage. This was jointly built by Singapore and provincial-level regions of western China. (Chongqing is the corridor's operational center). |
| | Bayfront Infrastructure Management | 2021 | AiIB announced that it was committing US\$60 million to Bayfront Infrastructure Management's (Bayfront) debut issuance of infrastructure asset-backed securities (IABS). |
| | Keppel Asia Infrastructure Fund | 2020 | AiIB approved a US\$100 million investment as a commitment to the Keppel Asia Infrastructure Fund with co-investment rights for another US\$50 million. |
| AiIB announced that it would invest a further US\$100 million, again with co-investments up to US\$50 million, in the Keppel Data Centre Fund II, LP (KDCF II), a closed-end PE vehicle managed by Alpha Investment Partners Ltd (Alpha), a wholly owned subsidiary of Keppel Capital. | | | |
| E-commerce | Tencent investment into SEA Group | 2014-17 | Tencent participated in five rounds of funding to Sea, investing a total of US\$268 million. |
| | Alibaba investment into Lazada | 2016 | Alibaba initially acquired a 51% stake in Lazada. In 2017, it added another USD1bn to its investment increasing its stake to 83%. In 2018, Alibaba added another USD2bn, doubling its investment to USD4bn. |
| Digital Banking | Greenland Financial Holdings | 2020 | Greenland Financial Holdings Group Co. Ltd (Greenland), a subsidiary of the Greenland Group (Hong Kong), led a consortium on its successful application for a digital wholesale bank (DWB) license in Singapore (one of 4 licenses granted). |
| | Ant Digital Bank | 2022 | Ant Group soft-launched ANEXT Bank, a digital wholesale bank in Singapore following MAS approval for the bank to launch. |
| Blockchain/Crypto | Binance Asia Services | 2021 | Binance Asia Services, the Singapore arm of major cryptocurrency exchange Binance (China), announced that they planned to acquire a stake in a local private securities exchange, Hg Exchange (HGX) |
| Digitalisation | Baidu & AMI | 2018 | Baidu teamed up with Asia Mobility Industries (AMI) to launch a new Singapore-based mobility venture fund, called "Apollo Southeast Asia." |

Source: ASEAN Briefing (Dezan Shira & Associates); OCBC.

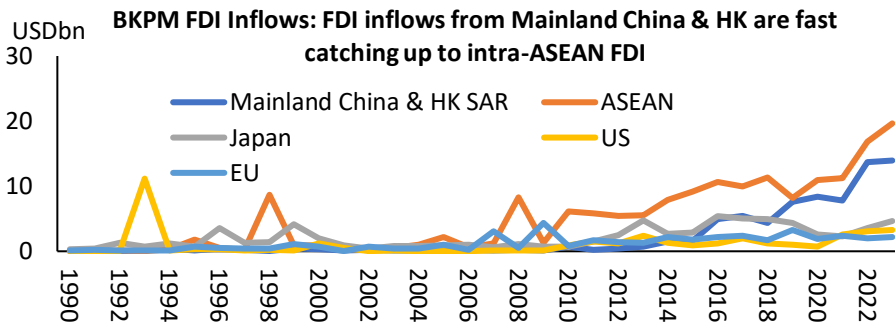
Looking ahead, FDI investment commitments, proxied by Fixed Asset Investments, from China into Singapore slowed in 2023 after a pickup in 2022, likely reflecting a subdued global economic growth backdrop and domestic growth challenges in China. While inflows may slow, the intent to deepen relations between the two countries is clear. The Singapore-China Economic Partnership Conference on 1 February 2024 culminated in both countries signing three MoU's and a visa waiver to increase people mobility between the two countries was introduced from February 2024.



Source: EDB; OCBC.

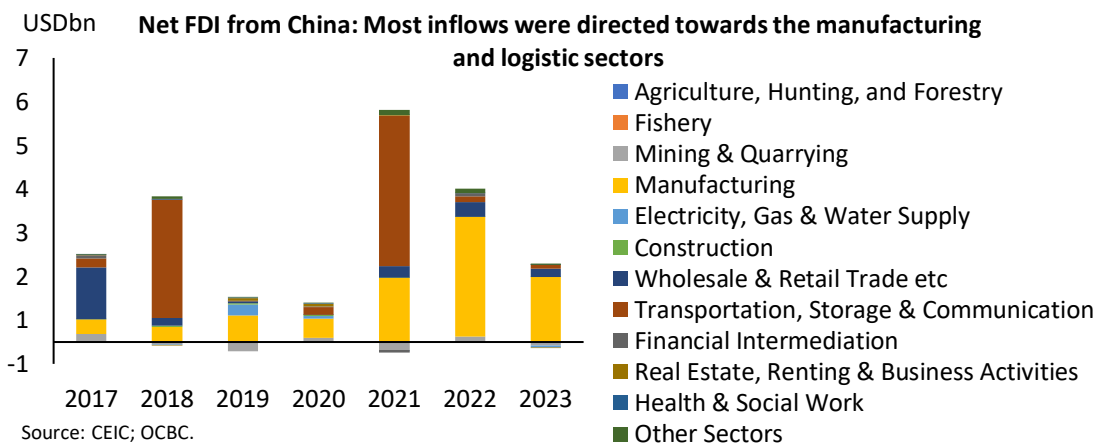
⁵ Rich mainland Chinese snap up luxury homes in Singapore despite tax hikes, Reuters, 6 October 2022.

Indonesia: China has become the one of the top contributors to FDI inflows in Indonesia. Although FDI inflows from Japan and the US have been picking up in recent years, it is dwarfed by inflows from Mainland China & HK SAR. Indeed, BKPM data showed that FDI inflows from Mainland China and HK SAR remained solid in 1Q24, rising to USD3.8bn from USD3.1bn in 4Q23.



Source: CEIC; OCBC.

Net FDI inflows from China have been mainly directed towards the manufacturing sector, increasingly consistently over the past decade. Net FDI inflows were resilient in the ‘transportation, storage & communication’ and ‘wholesale & retail trade; repair of motor vehicle, motorcycles; household goods’ sectors.



Source: CEIC; OCBC.

The country remains attractive as an FDI destination for China’s investments. China pledged USD21.7bn in new investments into Indonesia in September 2023. Prior to this, Presidents Xi Jinping and Joko Widodo had committed to USD44.9bn in July 2023. The deeper collaboration between Indonesia and China was also underscored by the intent to foster the ‘two countries, twin parks’ model. On the China side, the park is set up in the Yuanhong Investment Zone while on the Indonesia side, it includes the Bintan Industrial Estate, the Aviarna Industrial Estate and the Grand Batang City. Business fairs held in February and May 2023 saw deals worth USD9bn being discussed across sectors such as aquatic production and fishing & processing.

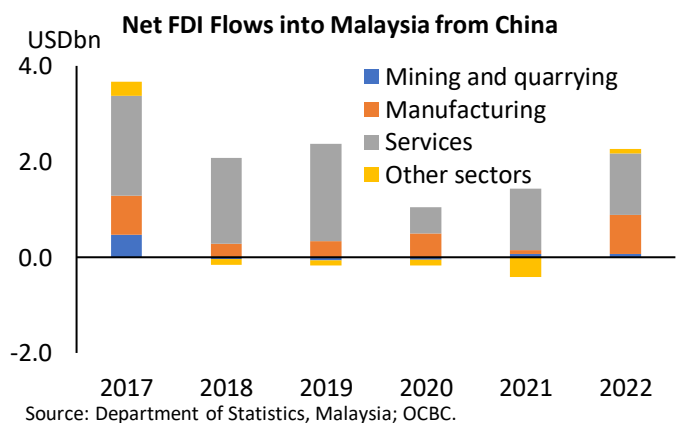
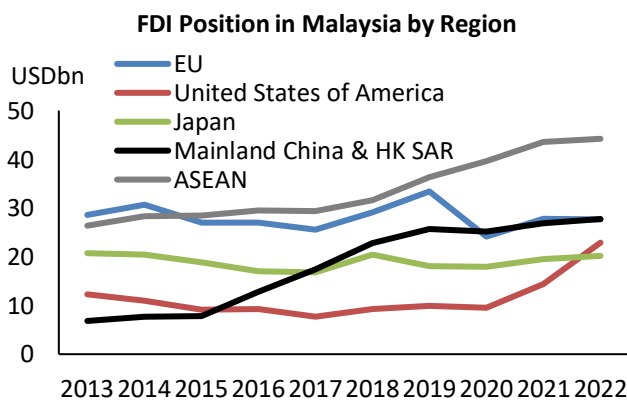
The announcements by Chinese corporations of expansion into Indonesia has continued into 2024. The Batam Island Authority in Indonesia officially inaugurated the direct shipping route from Batuampar Port to Guangzhou and Shenzhen, China on 31 March 2024 to facilitate trade between the two countries. FDI commitments

were enhanced in the nickel, furniture and medical equipment sectors. The authorities are also looking to broaden the FDI commitments to beyond the mineral resources sector into agriculture. Indonesia is planning to collaborate with China on rice farming in Central Kalimantan. It also plans to collaborate on curly chilli, garlic, durian and seaweed⁶.

Malaysia: Foreign capital investment approvals, a proxy for approved FDI, has been picking up into Malaysia. The source of the inflows has become more diverse in recent years, underscoring the broadening role of Malaysia in regional and global supply chains. Inflows from EU, other ASEAN countries, US, Japan and China have improved in recent years.

Specifically for 2023, approved investments were the highest from major EU countries, followed by the US and Mainland China & HK SAR. FDI inflows from Mainland China & HK SAR rose to USD3.4bn in 2023 from USD3.3bn in 2022, tripling from 2013 levels.

The FDI position (i.e., stock of FDI inflows) of Mainland China & HK SAR was second in 2022; the ASEAN region was in the top spot. Meanwhile, net FDI inflows were highest in the services and manufacturing sectors, implying that these sectors have been major recipients of inflows.



Data compiled by *American Enterprise Institute and the Heritage Foundation*⁷ shows that the bulk of investment from China has been directed towards the energy, technology and transportation sectors. Moreover, Chinese firms pledged around MYR170bn in investments into Malaysia in April 2023, with 19 MoU's signed, followed by commitments of MYR198.4bn in September 2023. These suggest that there is a strong pipeline of FDI commitments from China into Malaysia. Further commitments are likely to be made at the Malaysia-China Summit 2024, on 17-19 December 2024.

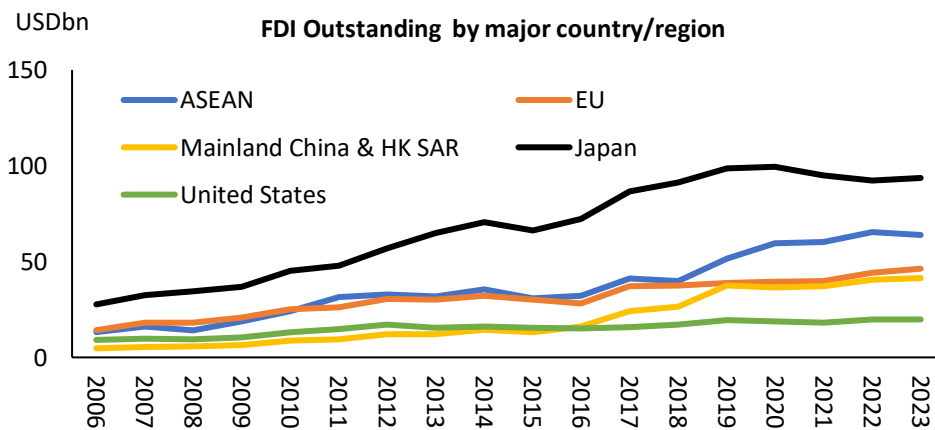
⁶ Indonesia plans food production collaboration with China, targeting self-sufficiency, Indonesia Business Post, 25 April 2024.

⁷ The China Global Investment Tracker is published by the American Enterprise Institute and the Heritage Foundation. The China Global Investment Tracker is the only comprehensive public data set covering the country's outbound investment and construction, which are documented both separately and together. It includes 4300 large transactions across metals, real estate, agriculture, technology, and other sectors (plus 370 troubled transactions). The full set, with the amount, Chinese parent company, host country, and sector, is available for public use with the proper citation. The tracker is published by the American Enterprise Institute.

| USDm | Agriculture | Chemicals | Energy | Finance | Logistics | Metals | Other | Real Estate | Technology | Tourism | Transport | Utilities |
|------|-------------|-----------|--------|---------|-----------|--------|-------|-------------|------------|---------|-----------|-----------|
| 2008 | | | 1150 | | | | | | | | 680 | |
| 2009 | | | | | | | | | | | | |
| 2010 | | | 770 | | | 1250 | | 140 | | | | |
| 2011 | | | 830 | | | 1140 | | 1000 | | | | 330 |
| 2012 | | | 200 | | | | 1480 | 1750 | | | 130 | |
| 2013 | | | 720 | | | 980 | 190 | 1370 | | | 1900 | |
| 2014 | | | 1570 | | | | 200 | 200 | | | | |
| 2015 | | 180 | 5360 | | | | | 1190 | 370 | | 830 | |
| 2016 | | 300 | 340 | | | 290 | | 680 | | 1890 | 500 | 160 |
| 2017 | 280 | 100 | 620 | 120 | | 1660 | | 280 | | 550 | 340 | |
| 2018 | | | 140 | | | | | 1190 | 440 | 130 | 2120 | 140 |
| 2019 | | | 250 | | | 310 | 590 | 610 | | | 2500 | |
| 2020 | | | 320 | | | | 140 | 110 | | | 100 | |
| 2021 | | | | | | | 300 | | | | | |
| 2022 | | | | 100 | | 310 | 940 | | 320 | | 1260 | |
| 2023 | | | 690 | | 790 | | | | 790 | | 1270 | |

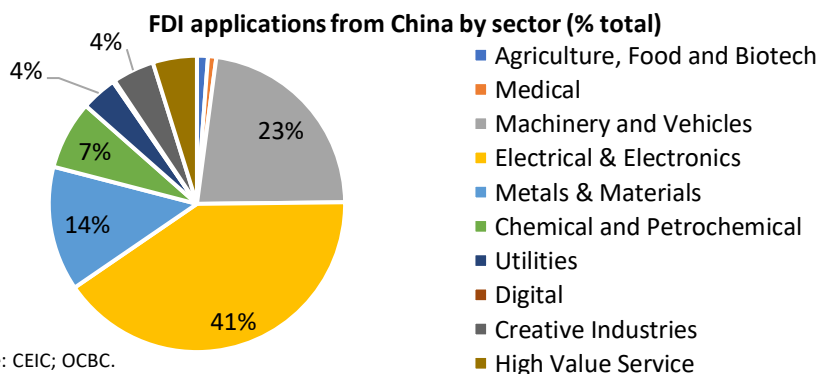
Source: The American Enterprise Institute and The Heritage Foundation; OCBC.

Thailand: China and Thailand share a long-standing relationship. China was one Thailand’s largest trading partners in 2023 (second after the US not accounting for intra-ASEAN trade). Similarly, FDI outstanding from Mainland China and HK SAR is among the larger contributors, by country. FDI application approvals in 2023 were higher from Mainland China and HK SAR compared to other bigger countries.



Source: CEIC; OCBC.

More than 75% of FDI applications in 2023 from Mainland China & HK SAR were in the ‘machinery and vehicles’, ‘electrical and electronics’ and ‘metals & materials’ sectors. In recent years, the electronics sector received ~40% of total FDI applications. The ‘machinery’ and ‘metals’ sectors have gained some traction along with the chemicals and services sectors. Inflows into the auto sector have also been strong as Chinese companies look to tap into Thailand’s already well-developed automotive supply chain and enhance new-energy vehicle (NEV) capabilities.



Source: CEIC; OCBC.

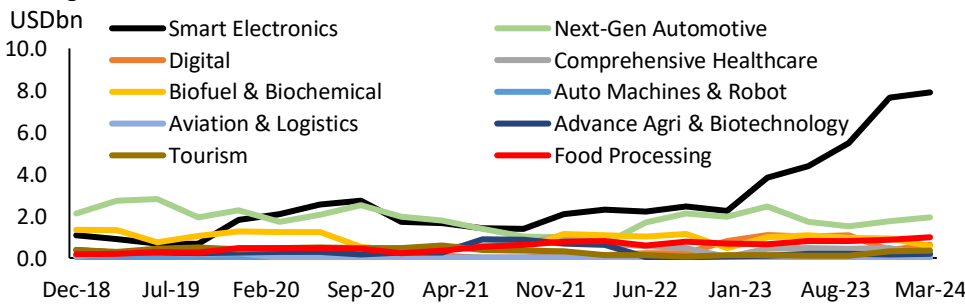
Furthermore, logistics and infrastructure projects under the Belt and Road Initiative continue including the China-Thailand Railway and China-Laos-Thailand Connectivity Development Corridor. Indeed, data from the American Enterprise Institute and the Heritage Foundation shows that the majority of investments from China has been directed towards to the transportation sector. There have also been some investments made in the technology sector in 2023.

| USDm | Agriculture | Chemicals | Consumer goods | Energy | Finance | Logistics | Metals | Other | Real Estate | Technology | Tourism | Transport | Utilities |
|------|-------------|-----------|----------------|--------|---------|-----------|--------|-------|-------------|------------|---------|-----------|-----------|
| 2008 | | | | | | | | | | | | | |
| 2009 | | | | | 530 | | | | | | | | |
| 2010 | | | | | | | | | 500 | | | 170 | |
| 2011 | 100 | | | | | | | | | | | | |
| 2012 | | | | 100 | | | | | | | | 270 | |
| 2013 | | | | 280 | | | | | | | | | |
| 2014 | | | | | | | | | | 1000 | | | |
| 2015 | | 220 | | 810 | | | | | | | | 400 | |
| 2016 | 540 | | | 110 | | | | | | 210 | | 280 | |
| 2017 | | | 230 | | | | | | | | | 170 | |
| 2018 | 470 | | 320 | | | | | | | | | 680 | |
| 2019 | | | | 280 | | | 130 | | | | | 300 | |
| 2020 | | | | 500 | | | | | | | | 1640 | |
| 2021 | | | | | | 280 | | 110 | | | | 480 | |
| 2022 | 210 | | | 560 | | | | | | | | 610 | |
| 2023 | | | | | | | | | | 330 | | 1060 | |

Source: The American Enterprise Institute and The Heritage Foundation; OCBC.

Moreover, Thai authorities are keen to develop the Eastern Economic Corridor (EEC) and recently there has been an increase in FDI applications in the ‘smart electronics’ and ‘next-gen automotive’ sectors. FDI from China accounted for 10% of foreign investment into EEC from 1Q18 to 1Q23⁸. From Jan-October 2023, investments from China were ~USD1.3bn, concentrated in the ‘automotive and auto parts’ as well as ‘electrical and electronics’ sectors.

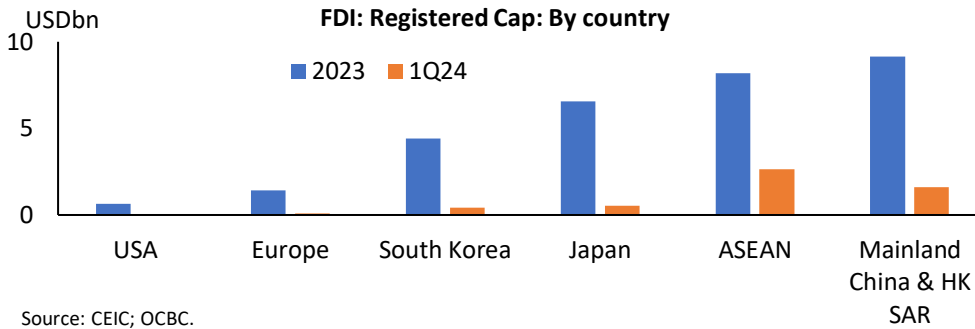
4 quarter rolling sum, **Approved FDI applications into the Eastern Economic Corridor (EEC)**



Source: CEIC; OCBC.

Vietnam: Registered FDI inflows from Mainland China & HK SAR into Vietnam rose significantly in 2023 and 1Q24. In 2023, FDI inflows from Mainland China & HK SAR stood at USD9.2bn, followed by Singapore (USD6.8bn), Japan (USD6.6bn) and South Korea (USD4.4bn). Year-to-April 2024 investments from Mainland China and HK SAR totalled USD885mn, rising 17.8% YoY compared to the same period last year.

⁸ Chinese investment in EV industries helps boost Thailand’s economy, says EEC panel ahead, Xinhua News Agency, Belt and Road Portal, 30 May 2023.



Source: CEIC; OCBC.

Vietnam’s Ministry of Planning and Investment (MPI) stated in April 2024, that the authorities are working on two joint high speed rail projects boost connectivity with China. These projects aim to connect China to Vietnam by 2030. The first project is to connect the northeastern Haiphong and Quang Ninh to the border with the Yunnan province in China. The other is a train line from Hanoi to near Guangxi in southern China.

The nature of Chinese FDI inflows into Vietnam had changed in recent years in a variety of areas, according to MPI⁹, with investors expanding into electronics, tire production, textiles and footwear; this is in addition to hotels and restaurants. There has also been some interest in expanding production into the solar panel sector.

Data from the American Enterprise Institute and the Heritage Foundation corroborates this to some extent. China’s outward FDI have risen in the consumer goods, energy, metals and transportation sectors. Changes in regulations mandating foreign companies to store user data in Vietnamese territory is encouraging Alibaba to consider establishing a data centre in Vietnam¹⁰. With Vietnam-China bilateral relations strong, there seems to be a strong interest from both parties on nurturing and developing deeper ties.

| USDmn | Agriculture | Chemicals | Consumer goods | Energy | Logistics | Metals | Other | Real Estate | Technology | Transport |
|-------|-------------|-----------|----------------|--------|-----------|--------|-------|-------------|------------|-----------|
| 2008 | | 900 | | | | 460 | | | | 160 |
| 2009 | | | | 1380 | | | | | | 1380 |
| 2010 | | | | 3400 | | 340 | | | | 170 |
| 2011 | | | | 3260 | | | | 140 | | 280 |
| 2012 | | | | 100 | | 2290 | | | | 300 |
| 2013 | | | | 870 | | | 120 | | 110 | 140 |
| 2014 | | | | | | | 210 | | | |
| 2015 | | | | 3070 | | | | | | 450 |
| 2016 | | | 170 | | | | | | | |
| 2017 | | | | 910 | | | | 460 | | 250 |
| 2018 | | | | 550 | | 1040 | 360 | | | 180 |
| 2019 | 170 | | | 650 | | | 110 | | 260 | |
| 2020 | | | | 3660 | 750 | 130 | | | | |
| 2021 | | | 210 | 930 | | | | | | 430 |
| 2022 | | | | | | 190 | 150 | | 270 | 140 |
| 2023 | | | 290 | 540 | | 390 | | | 150 | 240 |

Source: The American Enterprise Institute and The Heritage Foundation; OCBC.

Conclusion

FDI inflows from Mainland China and HK SAR into the region are gaining traction, with the manufacturing and certain services receiving the bulk of inflows. The

⁹ Vietnam expects strong wave of Chinese investment, Vietnam+, 18 December 2023.

¹⁰ Alibaba to build data centre in Vietnam, Vietnamnet Global, 2 May 2024.

ASEAN-6 region has benefited from a diversification of global and regional supply chain as well as the adoption of 'China+1' strategies.

Moreover, regional authorities remain focussed on pursuing domestic reform agendas, raising competitiveness and encouraging domestic investments to complement FDI inflows. That said, a bumpy global growth trajectory, 'high for longer' global interest rate environment, local currency depreciation risks are some near-term risks we continue to monitor.

APPENDIX: LIST OF SOME KEY PROJECTS BETWEEN ASEAN & CHINA

| Country | Project Name | Description | Companies/Consortium & Financing | Project Value | Status |
|-----------|--|--|---|--|---|
| Indonesia | Kereta Cepat Indonesia China - Whoosh | A 142km high-speed railway connecting the Jakarta-Bandung. | Consortium of state-owned enterprises (BUMN) formed PT Pilar Sinergi BUMN Indonesia (PSBI) and a consortium of Chinese railway companies established a joint venture called PT Kereta Cepat Indonesia China (KCIC). | USD 7.2bn (IDR 110.2tn). Original cost was USD 6bn (IDR 91.6tn) – cost overrun USD 1.2bn (IDR 18.4tn). | On October 17, 2023, commercial operations of the Whoosh high-speed train officially began. |
| | Indonesia Morowali Industrial Park (IMIP) | Located in Central Sulawesi, the IMIP was initially built for the purpose of nickel pig iron and stainless-steel production before expanding its focus on the EV supply chain. | PT Indonesia Morowali Industrial Park is a joint venture between: Shanghai Decent Investment (Group) Company Limited, 49.7%; PT Bintang Delapan Group, 25.3%; and PT Sulawesi Mining Investment, 25%. | Over USD 7bn. | In Operation. The nickel mine and nickel smelters are operational; the HPAL facilities are under construction. |
| | Rempang Eco City | Rempang Eco City was originally planned to be developed as a tourism hub in partnership with PT MEG. | A joint project between Batam Indonesia Free Zone Authority (BP Batam), Local Indonesian company (PT Makmur Elok Graha (MEG), and China's Xinyi Glass (the world's largest producer of glass and solar panels. PT | The project is expected to bring a total investment value of USD 26.6bn. | In progress. Rempang's Eco-City was upgraded to a national strategic project based on the Minister of Economic Affairs' Regulation No. 7 of 2023. |
| | Indonesia Weda Bay Industrial Park (IWIP) | IWIP is estimated to become one of the world's largest nickel production centres, alongside IMIP. | Tsingshan is collaboration with a number of different partners across a range of IWIP projects – this includes Eramet, Zhejiang Huayou Cobalt, Zhenshi Holding Group and now Nickel Industries. | USD 7.3bn | Industrial Park construction began in 2018, with mining operations commencing in 2019, and metallurgical production in April 2020. |
| Vietnam | Vinh Tan 1 Power Plant | Located in Binh Thuan province, the coal-fired power plant includes two 600-MW super critical generating unit. | A consortium of China Southern Power Grid, China Power International Development and Vinacomin-Power Holding Corporation, a subsidiary under Vietnam National Coal-Mineral Industries Corporation. | USD 1.76bn | Completed. Construction started in 2015 and the plant began operation in 2018. |
| Thailand | Thai-China High Speed Railway (Phase I) | The project was first announced in 2010 but has been plagued by long and tense negotiations. Nonetheless, construction has commenced from 2021. | A consortium that includes Chinese companies will be responsible for the civil engineering work on the first section. | The initial phase to Nakhon Ratchasima is expected to cost \$5.1bn. | Scheduled for completion in 2026 |
| | Three Airports (Bangkok's Suvarnabhumi and Don Mueang airports with U-tapao International Airport) High Speed Rail Project | The HSR project seeks to connect three airports that uses the original structure and route of the Airport Rail Link system that is currently in service. | A consortium led by China Railway Construction Corporation and supported by a loan from China Development Bank. The Thai government will provide 60% of the total funds for the project. | Budgeted at THB224.54bn | Scheduled for completion in 2028 |
| Malaysia | Melaka Gateway | Has been scaled down to a cruise terminal. | Kaj Development Sdn Bhd (KAJD). All equity of KAJD is held by Malaysians. China's role: Sinohydro has been tasked for land reclamation (Sinohydro is a subsidiary company of Power Construction Corporation of China. A state-owned engineering and construction company) | The resized project is now valued at RM682bn | Was supposed to be completed by 2025. However, the proposed timeline might not be met due to delays |
| | East Coast Rail Link | A 665km long railway project aims to connect Kelantan, Terengganu, and Pahang with the west coast state of Klang Valley. | The Malaysia Rail Link (MRLSB) will operate in a 50:50 joint venture with the China Communications Construction Company. | The ECRL has been renegotiated and the reported costs (as of 2022) is anticipated at RM74.96bn. | Track installation works began in December 2023. Completion scheduled for December 2026 and operations expected to commence in January 2027. |

Source: Bloomberg; Business Times, Malaysia Star, The Nation, Bangkok Post, Global Construction Review; OCBC.

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