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Economic Research

APAC Economic Snapshots

CAN THE GOOD MACRO STORY WITHSTAND RISING TRADE TENSIONS?

The macro story looks reasonably good despite the U.S. ratcheting up trade tensions. Growth was steady or higher in most countries in Q1 (Japan being the exception), and retail sales are looking up, although trade growth has begun to fade. The fallout from higher U.S. rates has been modest so far, with India, Indonesia, and the Philippines raising rates recently. The Trump-Kim summit has lowered geopolitical tension.

CHINA'S GROWTH THREATENED BY TRADE TENSIONS AND DELEVERAGING

Escalating trade tensions between China and the U.S. dominate the headlines, adding to worries about a faster-than-desired slowdown in growth. The drop in activity indicators picked up steam in May as fixed asset investment and retail sales growth declined more than expected. Loan growth remained fast, but that reflected off-balance sheet items returning to the balance sheet. Export growth rebounded and the trade surplus has receded to about US\$25 billion, but that seems not to matter to U.S. trade negotiators. The People's Bank of China held rates steady following the U.S. Fed rate hike in mid-June.

INDIA'S GROWTH HIGHEST IN TWO YEARS

GDP growth in January-March reached its highest in two years at 7.7% year-on-year, encouragingly led by private investment. But indicators point to slower growth ahead. Industrial production growth has fallen in the past two months, and the PMIs are slipping. Global capital market volatility and rising oil prices complicate the picture. The Reserve Bank of India (RBI) raised rates by 25 basis points at its last meeting.

JAPAN'S CONSUMPTION GROWTH PUZZLE PERSISTS

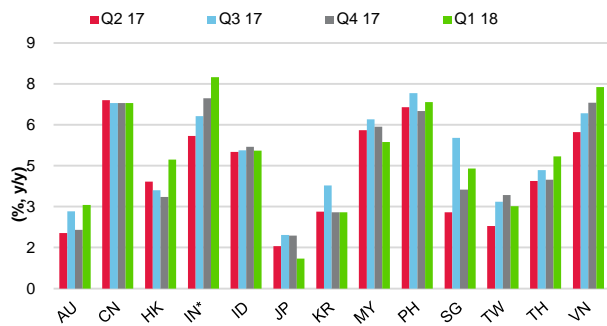
The consumption story is puzzling with real household consumption spending falling and retail sales momentum flat at the same time as employee compensation looks stronger. Industrial production growth has picked up and the PMIs remain above 50, although they appear to have peaked. Consistent with the weaker macro story, inflation has flattened out in recent months. The bright spot is double-digit export growth.

Asia-Pacific Region Overview

- State of Play:** The region's macro story looks reasonably good despite the U.S. ratcheting up trade tensions. Growth was steady or higher in most countries in Q1 (Japan being the exception), and retail sales are looking up, although trade growth has begun to fade. The fallout from higher U.S. rates has been modest so far, with India, Indonesia, and the Philippines raising rates recently. The Trump-Kim summit has lowered geopolitical tensions.
- Outlook:** Our outlook remains broadly unchanged, although we will be marking down Japan's growth forecast following a weak Q1 and a lackluster rebound in Q2. Chinese growth looks to be slower, based on the indicators, although overall GDP growth may not be affected. U.S. rate normalization has had only modest effects on the region so far. This is not the Taper Tantrum of 2013.
- Risks:** Trade risks remain front and center as the U.S. launched a new round of tariffs against China, as well as Europe and Canada. The objectives remain unclear to us, given the alternating focus on bilateral trade balances and broader investment and intellectual property objectives. Geopolitical risks have dropped for now following the Trump-Kim summit in Singapore, although there are questions about how much was actually achieved.

GDP GROWTH PICKED UP ACROSS THE REGION IN Q1

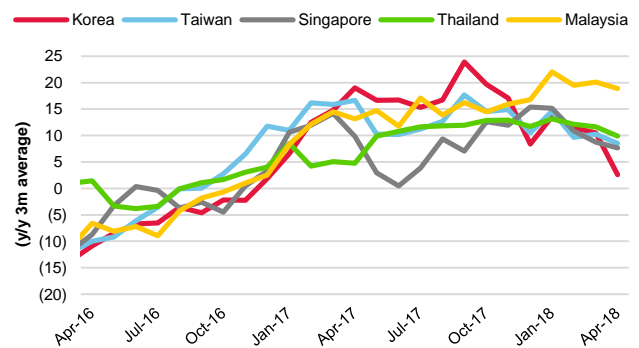
The Asia-Pacific region continued to post solid GDP growth across the board (except Japan), broadly supported by private spending. Investment picked up too. Net exports contributed positively in most of the open economies, reflecting global demand holding up well, amid trade tensions.



Source: CEIC.

EXPORT GROWTH SLOWING DOWN

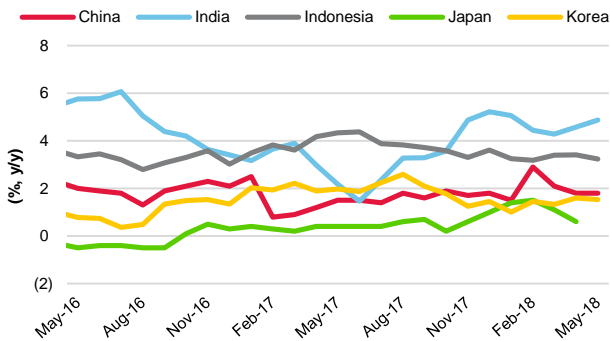
Nominal export growth was slightly weak at the start of Q2 across the region. This points to possible slowing global demand, amid growing trade protectionism. The high base last year could also be one of the attributing factors.



Source: CEIC.

HEADLINE INFLATION COOLED IN MAY (EXCEPT INDIA)

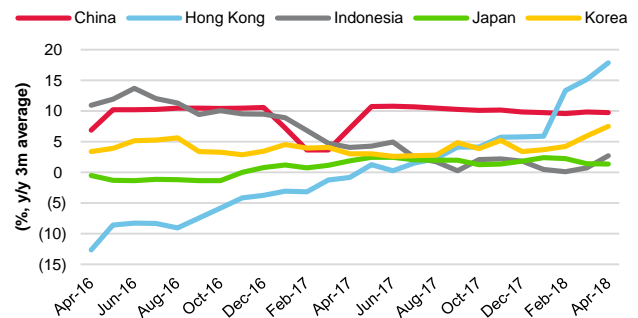
Broadly, inflation slowed across the region. In China, inflation remained steady amid an ease in food prices. In Japan, inflation slowed again, after rising to a nearly three-year high in February. In contrast, inflation in India edged up for the second straight month due to rise in food and fuel prices.



Source: CEIC.

RETAIL SALES GROWTH EDGING UP

Retail sales growth gradually picked up across the region, except in Japan where retail sales growth remained low. The uptick in retail sales augers well for the region's growth as household spending continued to remain the major driver.



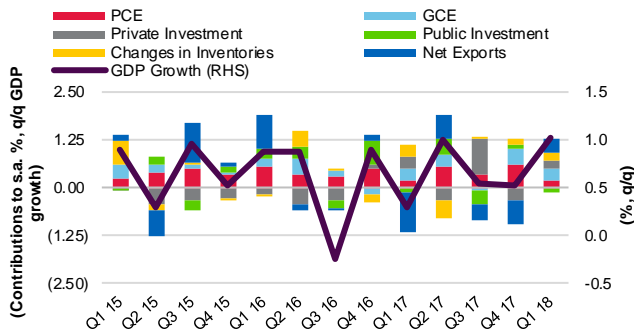
Source: CEIC.

Australia

- State of Play:** Growth jumped to a 4% annualized rate in Q1 (double the rate of the previous quarter), reflecting a broad contribution across all expenditure components. Private investment and exports were the biggest swing factors, with the former finally lining up with the strong sentiment indicators we have observed for some time. The Reserve Bank of Australia held rates steady at the record low of 1.50% despite an upward revision of the U.S. Fed's rate path.
- Outlook:** A strong first quarter always leads to upside risks to annual growth forecasts owing to base effects. While we acknowledge this, we prefer to wait and see if consumption will strengthen, private investment will persist, and whether China's slowdown will move the Australian growth needle. It will be interesting to see how the Reserve Bank plays the policy rate divergence across the world's major central banks.
- Risks:** Australia's risks continue to be balanced, in our view. U.S.-China trade policy risks are negative for the outlook, although they are likely not too closely related to Australia's export basket. Slowing Chinese fixed asset growth is a concern, however. The dramatic improvement in North Korean geopolitical risks is positive.

GDP GROWTH DOUBLED IN Q1

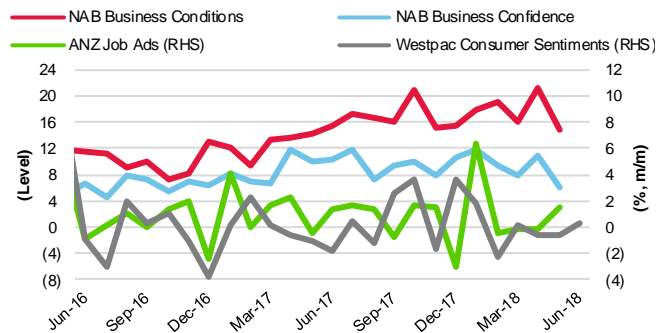
GDP growth rebounded strongly to 1.0% q/q (sa) in Q1 from 0.5% growth in the previous quarter. This reflected broad strength across expenditure components. Exports and private investments posted the largest turnarounds from Q4 2017. Consumption's contribution fell in the quarter.



Source: CEIC.

BUSINESS CONDITIONS FELL IN MAY; CONSUMER SENTIMENT UP

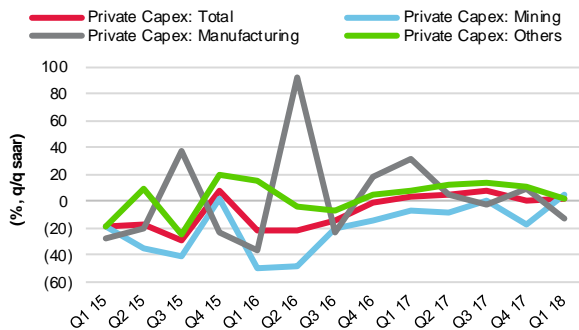
The NAB business conditions index fell sharply in May from the historical high in April, led primarily by a decline in profitability. The Westpac consumer sentiment rose 0.3% in June, led by better family finances while the ANZ job ads bounced back solidly in May.



Source: Bloomberg.

PRIVATE NEW CAPEX GROWTH IN Q1 LED BY MINING

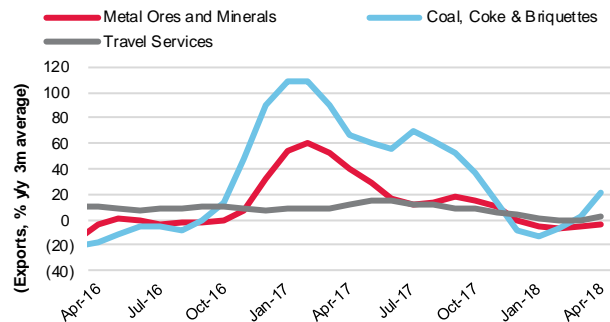
Private capital expenditure growth increased on a seasonally adjusted annualized basis in Q1. The rise in new capex was driven by recovery in the mining sector after falling sharply in the previous quarter. Manufacturing sector capex growth declined in the quarter.



Source: CEIC.

COMMODITY EXPORT GROWTH MOMENTUM ROSE IN APRIL

Export growth momentum increased in April, with commodities exports on top. Coal led the way followed by minerals. Shipments to China, Australia's major trading partner, rebounded in April. Travel services export growth also recorded faster growth in the month.



Source: CEIC.

Australia Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Exports: SITC (y/y- US\$)	28.7	21.1	(0.8)	(4.9)	13.5	7.5	3.8	15.8	
Exports: SITC, Crude Materials, Inedible, Except Fuels(y/y- US\$)	17.1	20.7	0.0	(3.6)	(0.4)	1.0	(5.1)	2.3	
Imports: SITC (y/y- US\$)	30.6	22.4	12.8	15.6	20.7	20.3	6.9	17.6	
China's Imports, Iron Ore & Concentrates (y/y- US\$)	25.8	6.3	15.5	(15.9)	(2.8)	(6.6)	(14.3)		
Trade Balance: SITC (US\$mn)	(112.3)	(861.9)	(235.5)	2,581	702.5	1,917	2,843	2,094	
Bank Lending (y/y)	6.0	6.1	5.6	5.0	5.0	5.1	5.3	5.2	
Retail Sales (y/y)	4.1	2.8	3.5	1.6	2.3	3.0	4.4	1.2	
Unemployment Rate (sa)	5.5	5.6	5.4	5.5	5.5	5.5	5.5	5.6	5.4

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	2.7	3.3	1.8	2.5	1.9	2.0	2.8	2.1	3.1
Real Private Consumption (y/y)	2.9	3.2	2.6	2.9	2.4	2.5	2.7	3.0	2.9
GFCF (y/y)	(3.5)	(2.7)	(3.5)	0.6	1.5	2.5	6.4	2.7	2.3
Current Account Balance (US\$bn)	(9.7)	(11.0)	(13.4)	(4.6)	(4.1)	(7.4)	(11.1)	(11.7)	(7.0)
CPI (y/y)	1.3	1.0	1.3	1.5	2.1	1.9	1.8	1.9	1.9
IP: Mining excl. services to Mining (y/y)	10.0	8.9	2.9	5.6	3.0	6.0	2.5	1.0	4.4

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.2	2.6	2.5	2.6	2.3	2.8	3.0	2.7	2.8
CPI Inflation %	2.4	2.5	1.5	1.3	1.9	2.3	2.4	2.2	2.3
Unemployment Rate %	5.7	6.1	6.0	5.7	5.6	5.5	5.3	5.3	5.2
Policy Rate %	2.74	2.50	2.11	1.73	1.50	1.50	1.75	2.13	2.38
Policy Rate % (EOP)	2.50	2.50	2.00	1.50	1.50	1.50	2.00	2.25	2.50
Exchange Rate (A\$ per US\$)	0.97	0.90	0.75	0.74	0.77	0.78	0.80		
Exchange Rate (A\$ per US\$) EOP	0.93	0.85	0.72	0.75	0.77	0.79	0.81		

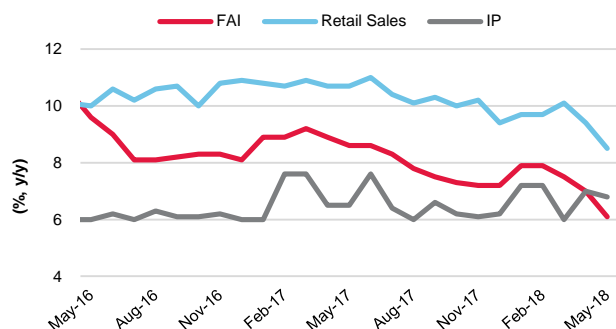
Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

China

- State of Play:** Escalating trade tensions between China and the U.S. are dominating the headlines, and adding to worries about a faster-than-desired slowdown in growth. Activity indicators weakened further in May as both fixed asset investment and retail sales growth declined more than expected. Loan growth remained healthy, but that reflected off-balance sheet items returning to the balance sheet rather than a pick-up in credit demand. Export growth rebounded and the trade surplus has receded to about US\$25 billion, but that didn't seem to matter to U.S. trade negotiators. The People's Bank of China held rates steady following the U.S. Fed rate hike in mid-June.
- Outlook:** There is no change to our outlook this month, but business sentiment as well as activity indicators have softened over the past few months. This may not move the overall GDP growth numbers. We have heard little about managing growth expectations lower. The PBOC appears rightly focused on domestic issues rather than the diverging rate movements of the major central banks.
- Risks:** We now see clear downside risks to our macro forecast. The activity and sentiment numbers, as well as deleveraging efforts, all point to slower GDP growth, but we will wait for Q2 data to see to what extent these line up with each other. China generally does not deliver growth surprises. The Trump-Kim summit lower geopolitical risks, including for China, which is arguably a medium- to long-term beneficiary should things work out.

DOMESTIC ACTIVITIES CONTINUED TO SLOW

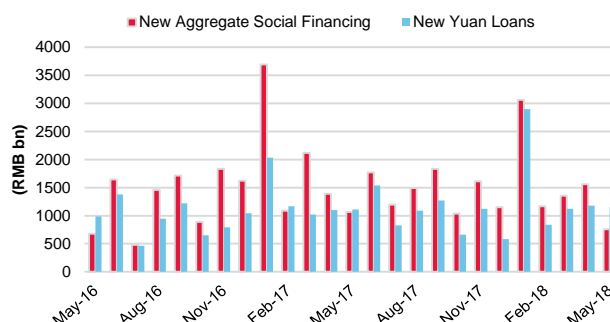
Domestic activity indicators slowed further in May, signaling the effects of ongoing deleveraging. Fixed asset investment growth continued to fall, largely due to a deceleration in infrastructure investment, while retail sales growth slowed sharply. IP growth edged down as well.



Source: CEIC.

OVERALL CREDIT GROWTH FELL IN MAY

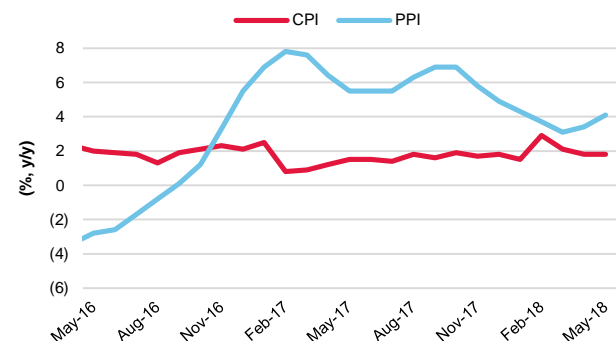
New yuan loans fell to 1.15 trillion yuan, lower than market expectations in May, while total social financial declined sharply by nearly 51% from the previous month, amid an effort to reduce off-balance-sheet loans. Notably, household loans (mostly mortgages) picked up to 614 billion yuan.



Source: CEIC.

PPI AND CPI INFLATION GAP WIDENED ANEW IN MAY

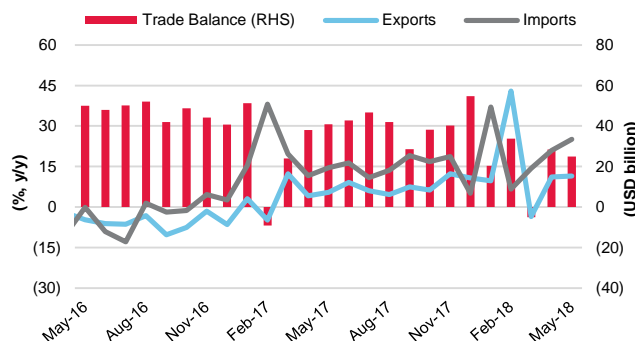
Factory gate inflation edged up for the second straight month, lifted by a sharp rise in raw material and manufactured goods prices, which could boost industry earnings. Consumer price inflation meanwhile remained steady at 1.8%, largely due to drop in food prices.



Source: CEIC.

TRADE FLOWS REMAINED STRONG

Exports rebounded to double-digit growth after an unexpected drop in March, underpinning strong global demand. Exports picked up to Japan, Hong Kong, and the U.S. Imports meanwhile grew at their fastest pace in four months, narrowing the trade surplus to US\$25 billion.



Source: CEIC.

China Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	1.5	1.8	1.7	1.8	1.5	2.9	2.1	1.8	1.8
Core CPI (y/y)	2.1	2.2	2.3	2.2	1.9	2.5	2.0	2.0	1.9
Exports (y/y- US\$)	5.5	4.6	12.3	10.7	9.7	42.9	(3.6)	11.1	11.4
Imports (y/y- US\$)	14.6	13.6	18.7	5.1	37.1	6.7	14.3	20.9	25.1
Trade Balance (US\$bn)	40.8	41.9	40.2	54.7	20.3	33.8	(5.0)	28.4	24.9
Industrial Production (y/y)	6.5	6.0	6.1	6.2			6.0	7.0	6.8
Retail Sales (y/y)	10.7	10.1	10.2	9.4			10.1	9.4	8.5

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.8	6.8
Primary Industry (y/y)	2.9	3.0	3.5	3.3	3.0	3.5	3.7	3.9	3.2
Secondary Industry (y/y)	6.0	6.2	6.3	6.3	6.4	6.4	6.3	6.1	6.3
Tertiary Industry (y/y)	7.5	7.5	7.5	7.7	7.7	7.7	7.8	8.0	7.5
Current Account Balance (US\$bn)	45.9	66.2	75.4	14.7	15.7	52.6	34.3	62.3	(28.2)

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	7.8	7.3	6.9	6.7	6.9	6.5	6.3	6.1	6.0
CPI Inflation %	2.6	2.0	1.4	2.0	1.5	2.2	2.2	2.0	2.3
Unemployment Rate %	4.1	4.1	4.0	4.0	3.9	3.9	3.9	3.9	4.0
Policy Rate %	6.00	5.96	4.97	4.35	4.35	4.35	4.23	4.10	4.10
Policy Rate % (EOP)	6.00	5.96	4.97	4.35	4.35	4.35	4.23	4.10	4.10
Exchange Rate (Per US\$)	6.15	6.16	6.28	6.64	6.76	6.31	6.35		
Exchange Rate (Per US\$) EOP	6.09	6.15	6.39	6.83	6.61	6.29	6.38		

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Hong Kong

- State of Play:** Economic momentum is strong in Hong Kong as several key pillars of the economy are showing strength. Property prices continue to rise despite several price-cooling policies. Visitor arrivals and retail sales are growing strongly, and trade activity remains firm on good global economic and trade activity. This mix of data suggests solid economic growth in the second quarter of the year.
- Outlook:** The outlook for economic activity remains positive. We expect trade growth to remain firm although it should ease from the rapid growth seen over the past few months as global trade momentum slows. Property prices and transactions show no sign of slowing down. Resilient economic activity in mainland China will continue to support growth in Hong Kong.
- Risks:** Higher interest rates have already raised mortgage costs for households. This could reduce disposable incomes and lead to slower growth or a slowdown in property prices, which continue to remain very unaffordable. Unfavorable global trade conditions arising from protection or slower global growth could also pose a risk to the growth outlook.

RETAIL SALES GROWTH LED BY CHINA ARRIVALS

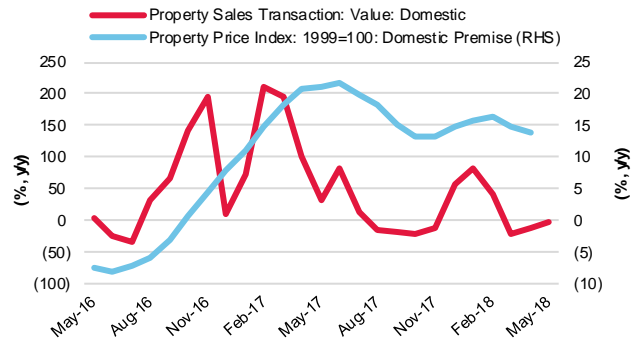
Retail sales growth picked up in April on the back of solid growth in tourist arrivals, especially from mainland China. Retail sales growth was led by a rebound in motor vehicles sales along with consumer durables, department stores, and jewellery.



Source: CEIC.

PROPERTY TRANSACTION VALUE FELL IN APRIL

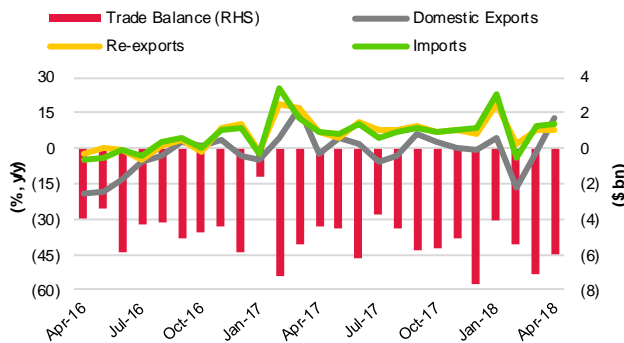
The value of domestic property transactions declined for the third consecutive month in May. However, the rate of fall was less steep as unfavorable effects of higher base have diminished. Domestic property price growth eased for the second straight month in April.



Source: CEIC.

TRADE DEFICIT NARROWED IN APRIL; TRADE FLOWS STEADY

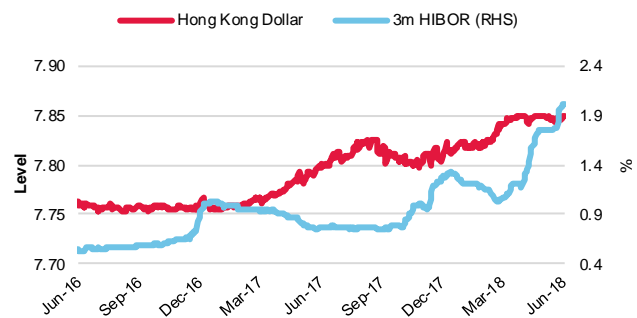
The trade deficit narrowed to US\$6.0 billion in April from US\$7.1 billion in March due to a fall in the import bill. Re-export growth was steady as demand rebounded from the U.S. Growth in shipments to mainland China eased.



Source: CEIC.

HIBOR ABOVE 2.00% AFTER RECENT FED RATE HIKE

The mid-June policy rate hike by Fed has put further pressure on the three-month HIBOR, which has nearly doubled to 2.01% since March. The Hong Kong dollar remained at 7.85, the upper level of its target band, with the central bank continuing intervention in the forex market.



Source: Bloomberg. Data as of June 15, 2018.

Hong Kong Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	Apr-17	Jul-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
CPI (y/y)	2.1	1.9	1.5	1.5	1.7	1.6	3.1	2.6	1.9
CPI excluding Govt.'s one-off relief measure(y/y)	2.0	2.0	1.5	1.6	1.7	1.7	3.1	2.6	2.2
Exports (y/y- US\$)	6.8	6.5	6.0	7.1	5.2	17.2	0.9	8.9	11.0
Imports (y/y- US\$)	7.1	4.7	7.2	7.9	8.3	22.8	(4.0)	9.7	10.0
Trade Balance (US\$bn)	(4.4)	(3.8)	(5.6)	(5.1)	(7.7)	(4.1)	(5.5)	(7.1)	(6.0)
Tourist Arrivals (Numbers in million)	4.8	5.2	5.3	5.0	5.6	5.3	5.3	5.0	5.3
Retail Sales (y/y)	0.2	4.0	3.9	7.6	5.8	4.2	30.0	11.4	12.2

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	1.1	1.8	2.2	3.4	4.4	3.9	3.6	3.4	4.7
Real Private Consumption (y/y)	1.6	0.2	2.0	4.1	3.7	5.8	6.3	6.3	8.6
GFCF (y/y)	(7.7)	(5.7)	7.2	6.0	5.7	7.6	(2.1)	3.1	3.8
Current Account Balance (US\$m)	3.3	1.5	4.9	3.0	2.6	2.4	7.6	2.0	
Trade Balance (US\$bn)	(12.6)	(13.3)	(13.6)	(15.1)	(14.3)	(15.2)	(14.1)	(18.4)	(16.6)

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	3.1	2.8	2.4	2.1	3.8	3.0	2.6	2.7	2.8
CPI Inflation %	4.3	4.5	3.0	2.4	1.5	2.3	2.5	2.3	2.4
Unemployment Rate %	3.4	3.3	3.3	3.4	3.1	2.9	3.0	3.0	3.1
Exchange Rate (Per US\$)	7.76	7.75	7.75	7.76	7.79	7.82	7.79		
Exchange Rate (Per US\$) EOP	7.75	7.76	7.75	7.76	7.81	7.81	7.77		

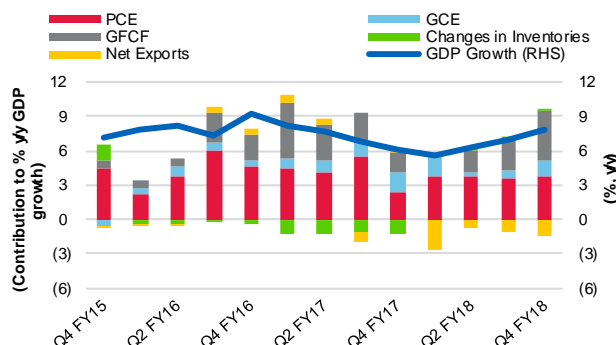
Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

India

- State of Play:** GDP growth in January-March reached its highest in two years at 7.7% year on year, encouragingly led by private investment. However, indicators point to slower growth ahead. Industrial production growth has fallen in the past two months, and the PMIs are heading lower. The picture is complicated by global capital market volatility and rising oil prices. The Reserve Bank of India (RBI) raised rates by 25 basis points at its last meeting.
- Outlook:** We feel somewhat vindicated by the rebound in growth in the first quarter of the calendar year, which proved the pessimists wrong, at least for now. We remain comfortable with our 7.5% trend growth forecast. On inflation, oil price rises seem to be largely over for now, but depreciation pressures may mean more RBI hikes.
- Risks:** India remains vulnerable to capital flow volatility and higher oil prices, but we should be careful not to confuse 2018 with the Taper Tantrum of 2013. Developments this year have been much more moderate, and the RBI is acting prudently. The pick-up in investment is welcome, but seems to be fading again.

GDP GROWTH AT SEVEN-QUARTER HIGH IN JAN-MAR QUARTER

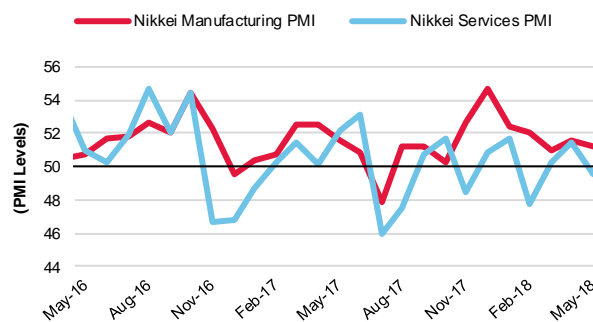
First-quarter GDP growth was a seven-quarter high of 7.7% y/y from 7.0% in October-December. Growth was driven primarily by gross investment and private consumption. GDP growth in FY2018 (April 2017 to March 2018) eased to 6.7% from 7.1% in FY2017.



Source: CEIC.

NIKKEI PMIs SIGNALLED WEAKER BUSINESS CONDITIONS IN MAY

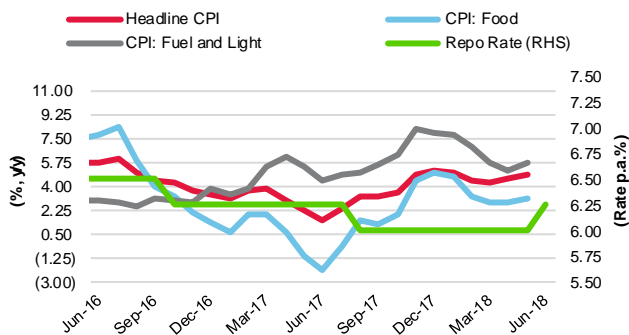
Manufacturing sentiment continued to be net positive in May, but declined from April. Output, new orders and employment grew slowly amid rising input and output cost pressures. Services business sentiment, however, dipped below the neutral 50-level as growth in new businesses stagnated.



Source: Bloomberg.

HEADLINE INFLATION ROSE AGAIN IN MAY; REPO RATE HIKED

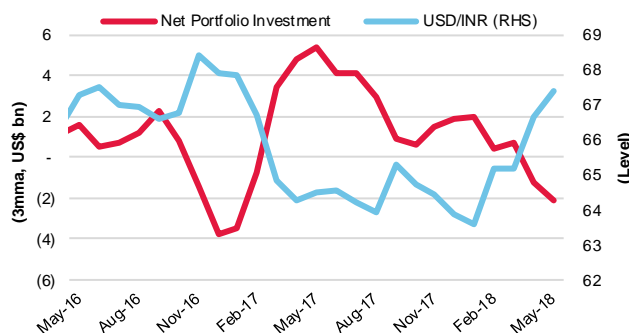
Headline inflation rose for the second straight month in May, led by food and fuel inflation. The RBI raised the benchmark repo rate by 25 basis points to 6.25% at its most recent meeting, citing considerable uncertainty to the inflation outlook from sharp rise in crude oil prices.



Source: CEIC.

NET CAPITAL OUTFLOW CONTINUED; RUPEE WEAKENED

The net outflow of foreign portfolio investment continued for the second straight month in May. So far in 2018, net outflow from all securities stood at US\$4.6 billion. The Indian rupee depreciated 1.1% against the U.S. dollar in May, and has fallen 5.5% in the first five months of 2018.



Sources: CEIC, Bloomberg.

India Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	2.2	3.3	4.9	5.2	5.1	4.4	4.3	4.6	4.9
WPI (y/y)	2.3	3.2	4.0	3.6	3.0	2.7	2.5	3.2	4.4
Exports (y/y- US\$)	6.9	7.3	30.0	15.0	11.6	4.5	(0.7)	5.2	20.2
Imports (y/y- US\$)	34.1	23.0	20.8	21.1	26.0	10.4	7.1	4.6	14.8
Trade Balance (US\$bn)	(14.0)	(12.9)	(14.3)	(14.2)	(15.7)	(12.0)	(13.7)	(13.7)	(14.6)
Industrial Production (y/y)	2.9	4.8	8.5	7.3	7.5	7.0	4.6	4.9	
Manufacturing Production (y/y)	2.6	3.8	10.4	8.7	8.7	8.5	4.7	5.2	

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	9.3	8.1	7.6	6.8	6.1	5.6	6.3	7.0	7.7
Private Consumption Expenditure (y/y)	8.2	8.3	7.5	9.3	4.2	6.9	6.8	5.9	6.7
Government Consumption Expenditure (y/y)	7.1	8.3	8.2	12.3	22.5	17.6	3.8	6.8	16.9
GFCF (y/y)	7.2	15.9	10.5	8.7	6.0	0.8	6.1	9.1	14.4
Current Account Balance (US\$mn)	(317.8)	(382.4)	(3,449)	(7,964)	(3,433)	(14,966)	(6,944)	(13,704)	(13,047)

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	6.4	7.5	8.1	7.1	6.7	7.5	7.8	7.9	8.1
CPI Inflation %	9.4	5.9	4.9	4.5	4.0	4.6	4.5	4.5	4.4
Policy Rate %	7.55	7.93	7.04	6.38	6.08	6.06	6.25	6.25	6.06
Exchange Rate (Per US\$)	60.47	61.15	65.46	67.09	64.62	65.93	67.03		
Exchange Rate (Per US\$) EOP	60.10	62.59	66.33	64.84	65.00	66.50	67.40		

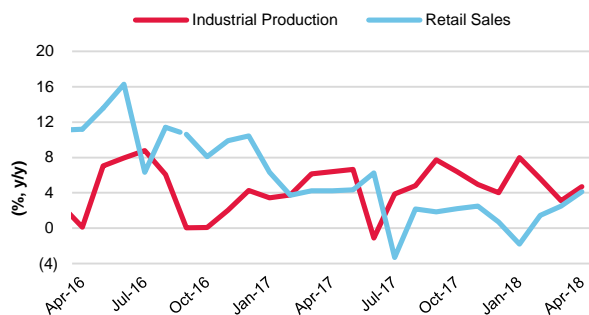
Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values. Data for all years is for fiscal years. For instance, 2016 means April 2016-March 2017.

Indonesia

- State of Play:** Retail sales appear to be showing some improvement after months of being dampened when households adjusted to the government efforts to increase tax compliance. However, a full consumption recovery is likely still at least a few quarters away. Meanwhile, Bank Indonesia raised rates twice in May (50bps in total) in what Governor Perry Warjiyo calls a “pre-emptive, front-loaded and ahead of the curve” effort to instill confidence in the rupiah.
- Outlook:** We continue to expect GDP growth to be slightly above 5% in 2018, with a gradual uptrend toward 5.5% over the next two years or so as private consumption and investment adjust further to the push for greater tax compliance. BI is likely leaning toward more rate hikes, but the slight dampening effect that would have on growth is likely to come at a significant lag of about two years.
- Risks:** The most immediate risk to Indonesia’s growth path comes from potential sharp reversals of capital flows, if market uncertainty spikes regarding major central bank moves and global trade tensions. Besides the fact that foreign funds finance the modest current account deficit, many Indonesian corporates anecdotally have sizeable unhedged foreign currency exposures as well, making them vulnerable to sharp rupiah depreciation.

DOMESTIC ACTIVITIES PICKING UP

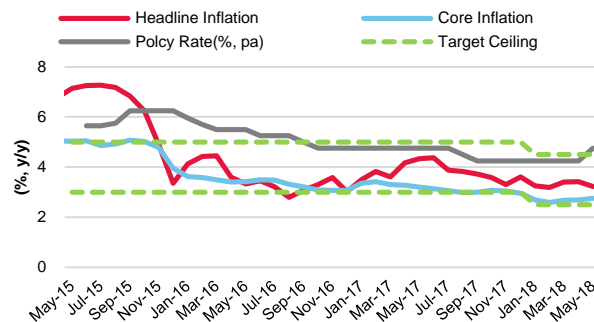
Retail sales showed improvement at the beginning of Q2, after staying weak for several months at least in part due to the crackdown on tax compliance. Meanwhile, industrial production growth picked up as well, ahead of Ramadan.



Source: CEIC.

INFLATION EASED; INTEREST RATE RAISED BY 50 BPS IN MAY

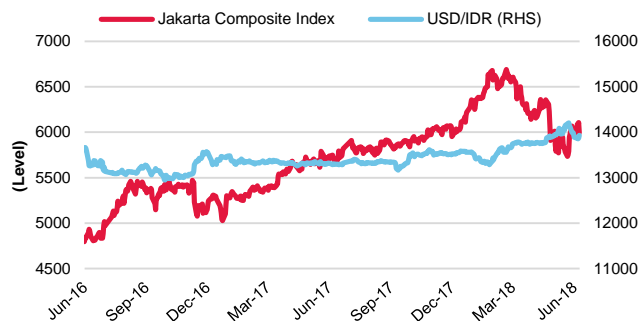
Bank Indonesia raised the benchmark seven-day reverse repo rate twice, by a cumulative 50 bps in May to 4.75%, to support the rupiah. Headline inflation continued to remain comfortably within BI's target range.



Source: CEIC.

IDR RELATIVELY STABLE; EQUITY MARKET RECOVERED

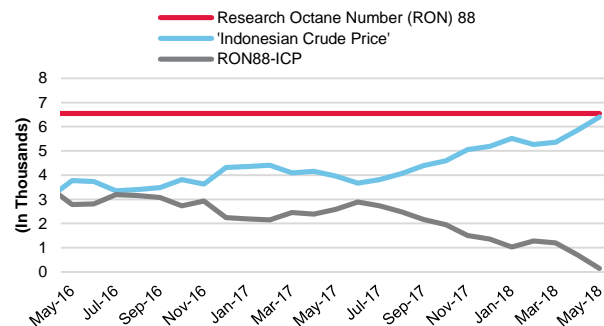
The Indonesian rupiah (IDR) gained by nearly 2% from the last week of May to mid-June following the Bank Indonesia's rate hikes. Likewise, the Jakarta Composite Index rallied by nearly 4%. Some outflow pressures resumed since the tariff announcements by China and the U.S., however.



Source: Bloomberg, Data as of June 08, 2018.

INDONESIAN CRUDE PRICES ROSE FURTHER

The Indonesian crude prices (ICP) rose nearly 53% y/y in May to \$72.3/barrel amid rising global crude prices. The government decided to provide more relief from soaring oil prices by increasing diesel subsidies fourfold. Also, prices of RON 88 would remain steady until 2019.



Source: CEIC.

Indonesia Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	4.3	3.8	3.3	3.6	3.3	3.2	3.4	3.4	3.2
Core CPI (y/y)	3.2	3.0	3.1	3.0	2.7	2.6	2.7	2.7	2.7
Exports (y/y- US\$)	24.6	19.4	13.5	7.5	8.6	12.0	6.2	9.0	
Oil and Gas Exports (y/y- US\$)	35.3	12.1	16.0	20.8	4.1	16.1	(11.5)	14.5	
Imports (y/y US\$)	23.6	9.1	19.2	18.1	27.9	24.9	8.9	34.7	
Trade Balance (US\$mn)	578.2	1,720	215.3	(220.1)	(756.0)	(52.9)	1,123	(1,629)	
Industrial Production (y/y)	6.6	4.8	5.0	4.0	8.0	5.6	3.1	4.7	
Retail Sales (y/y)	4.3	2.2	2.5	0.7	(1.8)	1.5	2.5	4.1	

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	4.9	5.2	5.0	4.9	5.0	5.0	5.1	5.2	5.1
Real Private Consumption (y/y)	5.0	5.1	5.0	5.0	4.9	4.9	4.9	5.0	4.9
GFCF (y/y)	4.7	4.2	4.2	4.8	4.8	5.3	7.1	7.3	7.9
Current Account Balance (US\$bn)	(4.6)	(5.6)	(5.0)	(1.8)	(2.2)	(4.7)	(4.6)	(6.0)	(5.5)
Trade Balance (US\$mn)	1,766	2,364	2,283	3,120	4,088	3,561	3,224	996.5	314.4

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	5.6	5.0	4.9	5.0	5.1	5.3	5.5	5.6	5.5
CPI Inflation %	6.4	6.4	6.4	3.5	3.8	3.6	4.0	4.0	4.3
Unemployment Rate %	5.9	5.8	6.0	5.5	5.4	5.0	5.0	4.9	4.6
Policy Rate %	5.15	6.28	6.28	5.34	4.59	4.31	4.69	5.00	5.00
Policy Rate % (EOP)	6.14	6.37	6.25	4.81	4.25	4.50	4.75	5.00	5.00
Exchange Rate (Per US\$)	10,420	11,850	13,394	13,304	13,379	13,591	13,573		
Exchange Rate (Per US\$) EOP	11,552	12,252	13,769	13,259	13,484	13,561	13,551		

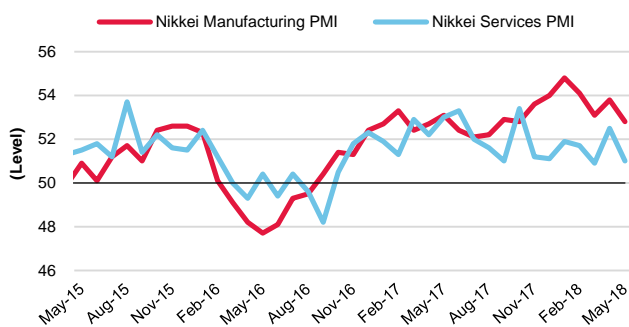
Sources: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Japan

- State of Play:** The consumption story is puzzling with real household consumption spending falling and retail sales momentum flat at the same time as employee compensation looks stronger. Industrial production growth has picked up and the PMIs remain above 50, although they appear to have peaked. Consistent with the weaker macro story, inflation has flattened out in recent months. The bright spot is double-digit export growth.
- Outlook:** There are clear and present downside risks to our 1.4% GDP growth forecast for 2018. Q1 revisions showed no change to the -0.2% growth outturn in the quarter and spending weakness has persisted into Q2. The BOJ policy stance remains unchanged, and hopefully the 2019 consumption tax hike will be made contingent on the 2% medium-term inflation target being credibly met.
- Risks:** Not much has changed on the economic risk front in the past month. Second order effects from ongoing global trade tensions remain our key concerns, although flagging consumption spending has crept onto our list as well. The Trump-Kim summit in Singapore has changed the Northeast Asia security paradigm for the better, at least for now.

PMIs STILL ABOVE 50, BUT DECLINED IN MAY

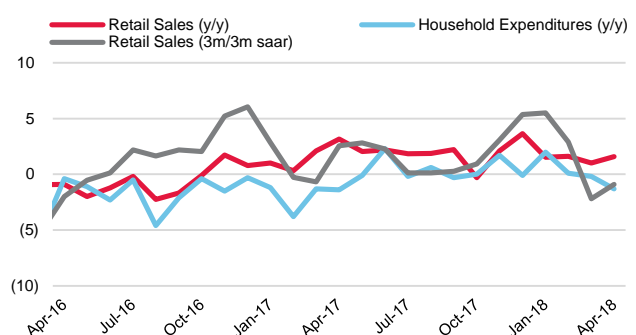
Manufacturing and services PMIs from Nikkei remained above 50 in May, but both declined. This is consistent with softer activity in recent months. The manufacturing PMI fell by 1.0 ppt, while services PMI fell by 1.5 pts, driven by softer new orders growth.



Source: Bloomberg.

HOUSEHOLD SPENDING AND RETAIL SALES GROWTH STILL WEAK

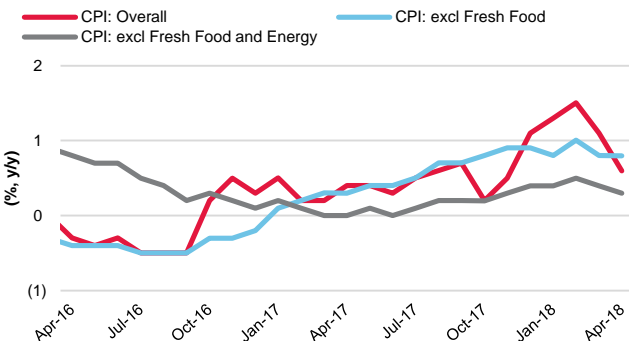
Household spending remained sluggish at the start of Q2, following a weak Q1 GDP outturn. Meanwhile, retail sales momentum was negative for the second consecutive month, although this appears to have bottomed. Household spending remains a concern overall.



Source: CEIC.

INFLATION DECLINED FURTHER IN APRIL

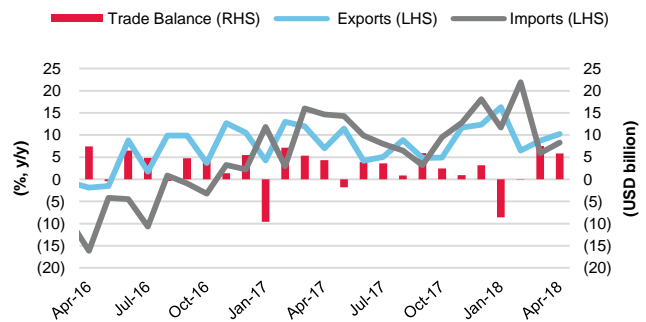
Headline inflation fell by ½ percentage point to 0.6% y/y in April, largely due to a sharp slowdown in food and transport & communication prices. Core inflation remained steady at 0.8% and inflation excluding fresh food and energy, the preferred measure of the BoJ, edged down to 0.3%.



Source: CEIC.

TRADE FLOWS GROWTH STAYED ELEVATED

Nominal exports continued to post solid growth as shipments to Japan's major trading partners such as China, the U.S., and EU grew faster, especially machineries, automobile, and electronics. Import growth was also strong, largely driven by a rise in global commodity prices.



Source: CEIC.

Japan Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	Apr-17	Jul-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
CPI (y/y)	0.4	0.5	0.2	0.5	1.1	1.3	1.5	1.1	0.6
Core CPI (y/y)	0.3	0.5	0.8	0.9	0.9	0.8	1.0	0.8	0.8
Exports (y/y- US\$)	7.0	5.1	4.9	11.7	12.3	16.3	6.5	8.8	10.2
Exports to China (y/y- US\$)	14.2	9.0	15.9	20.2	19.0	35.5	(5.6)	18.0	13.4
Imports (y/y- US\$)	14.7	8.0	9.5	12.7	18.1	11.7	22.0	5.9	8.3
Trade Balance (US\$mn)	4,344	3,617	2,467	932.4	3,154	(8,553)	(0.9)	7,481	5,802
Industrial Production (y/y)	5.7	4.5	5.7	3.6	4.5	2.9	1.6	2.4	2.5
Retail Sales (y/y)	3.2	1.9	(0.3)	2.1	3.7	1.5	1.6	1.0	1.6
Current Account Balance (US\$bn)	18.0	20.9	19.4	11.9	7.1	5.5	19.2	29.4	17.1
Household Consumption Expenditure: Real (y/y)	(1.4)	(0.2)	0.0	1.7	(0.1)	2.0	0.1	(0.2)	(1.3)

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (SAAR)	3.4	0.9	0.8	1.0	2.7	2.1	2.0	1.0	(0.6)
Private Consumption Expenditure (SAAR)	1.6	(1.2)	1.6	0.0	2.2	2.9	(2.7)	1.3	(0.3)
Government Consumption Expenditure (SAAR)	5.0	(4.8)	1.8	(0.7)	1.1	1.7	0.2	0.2	0.4
GFCF (SAAR)	0.2	4.3	0.4	2.8	1.8	6.9	(0.5)	0.1	(0.2)

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.0	0.3	1.4	0.9	1.7	1.4	1.2	0.2	1.2
CPI Inflation %	0.3	2.8	0.8	(0.1)	0.5	1.0	1.3	1.8	1.6
Unemployment Rate %	4.0	3.6	3.4	3.1	2.8	2.7	2.7	2.7	2.7
Policy Rate %	0.08	0.07	0.07	(0.03)	(0.05)	(0.04)	(0.04)	(0.03)	(0.01)
Policy Rate % (EOP)	0.07	0.06	0.08	(0.04)	(0.04)	(0.04)	(0.04)	(0.02)	0.00
Exchange Rate (Per US\$)	97.56	105.86	121.02	108.76	112.14	106.00	104.38		
Exchange Rate (Per US\$) EOP	100.43	114.55	121.44	109.45	112.89	105.80	104.00		

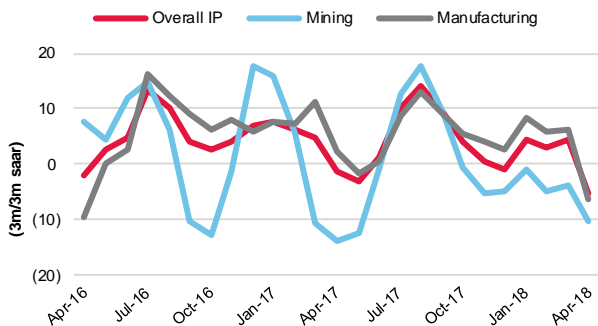
Sources: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Malaysia

- State of Play:** Domestic demand and consumption activity are both firm. The labor markets are showing some tightness as job additions have been fairly strong since December. Higher oil prices are supporting Malaysia's oil and gas sector. Industrial production slowed in April, however, and inflation remains subdued.
- Outlook:** Policymakers set the Goods and Services Tax rate to 0% from 6% previously, which will result in a temporary fall in inflation until the substitute Sales and Services Tax takes effect in September. This will lift consumption this quarter (which was strong to begin with), and will ultimately result in steady consumption-driven growth for the full year.
- Risks:** Higher U.S. interest rates have increased capital outflow pressures, but resulting financial risks are contained because the domestic financial sector has the capacity to support funding needs. A slowdown in external demand and trade is a risk that could dampen the current growth environment.

INDUSTRIAL OUTPUT GROWTH MOMENTUM FELL IN APRIL

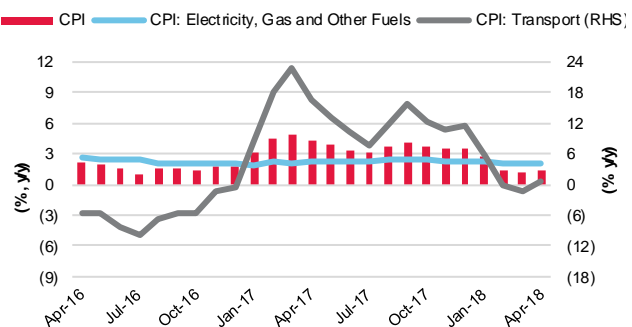
Industrial output growth momentum declined for the third successive month in April, led by declining manufacturing production growth, motor vehicles in particular. Mining output momentum also declined with a fall in natural gas output.



Source: CEIC.

HEADLINE INFLATION ROSE SLIGHTLY IN APRIL

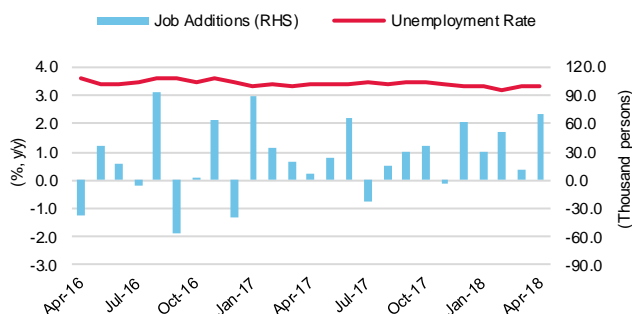
Headline inflation increased slightly to 1.4% y/y in April from 1.3% in March. This uptick was led by a turnaround in transport inflation that declined in February and March. Fuel inflation remained steady at 2.0% y/y.



Source: CEIC.

UNEMPLOYMENT RATE STEADY IN APRIL

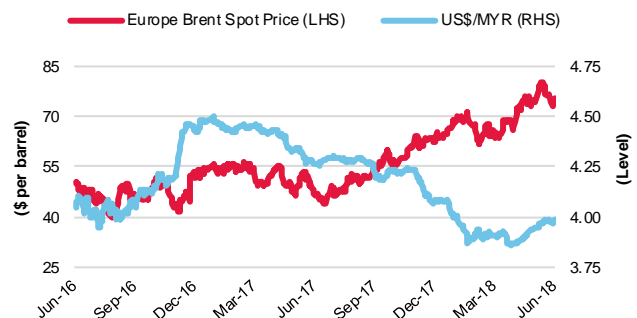
The seasonally adjusted unemployment rate was unchanged at 3.3% in April. Employment growth was faster at 2.6% y/y in April from 2.2% in March. The labor force increased by 70,000 persons, which was the fastest pace on increase in 15 months.



Source: CEIC.

BRENT CRUDE PRICES STABLE IN JUNE; RINGGIT WEAKENED

The benchmark Brent crude oil price steadied at US\$75 per barrel in early June on expectations of easing supply-side pressure from increased output by the U.S. and OPEC. The ringgit depreciated 1.4% in May and the weak trend continued in early June trade.



Source: CEIC, Bloomberg. Data as of June 11, 2018.

Malaysia Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	Apr-17	Jul-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
CPI (y/y)	4.3	3.1	3.7	3.4	3.5	2.7	1.4	1.3	1.4
Exports (y/y- US\$)	6.6	22.6	17.2	18.8	14.4	32.9	11.3	16.2	29.2
Export - Mineral Fuels (y/y- US\$)	11.3	41.1	24.2	7.1	16.2	17.0	21.6	4.2	22.0
Imports (y/y- US\$)	10.4	14.0	19.3	19.5	17.9	25.9	10.4	2.7	23.7
Trade Balance (US\$mn)	2.0	1.9	2.5	2.4	1.8	2.4	2.3	3.8	3.4
Industrial Production (y/y)	3.6	6.1	3.1	4.6	2.9	5.5	3.0	3.1	4.5
Mining Production (y/y)	(2.6)	(0.9)	(0.5)	(0.2)	(4.1)	1.6	(1.6)	0.0	1.9
Unemployment Rate (sa)	3.4	3.5	3.5	3.4	3.3	3.3	3.2	3.3	3.3

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	4.1	4.0	4.3	4.5	5.6	5.8	6.2	5.9	5.4
Real Private Consumption (y/y)	5.2	6.2	6.3	6.1	6.7	7.1	7.2	7.0	6.9
GFCF (y/y)	0.1	6.1	2.0	2.4	10.0	4.1	6.7	4.3	0.1
Current Account Balance (US\$mn)	1.5	0.8	1.9	3.0	1.1	2.0	3.0	3.3	3.8
Retail Sales (y/y)	7.9	8.7	9.0	9.1	10.1	13.5	12.2	10.4	9.2

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	4.7	6.0	5.0	4.2	5.9	5.5	5.2	5.0	4.9
CPI Inflation %	2.1	3.1	2.1	2.1	3.8	2.8	3.0	3.0	2.9
Unemployment Rate %	3.1	2.9	3.2	3.4	3.4	3.3	3.3	3.3	3.2
Policy Rate %	3.00	3.12	3.25	3.13	3.00	3.25	3.50	3.50	3.50
Policy Rate % (EOP)	3.00	3.25	3.25	3.00	3.00	3.38	3.50	3.50	3.50
Exchange Rate (Per US\$)	3.15	3.27	3.91	4.15	4.30	3.91	3.96		
Exchange Rate (Per US\$) EOP	3.21	3.36	4.29	4.32	4.16	3.90	4.00		

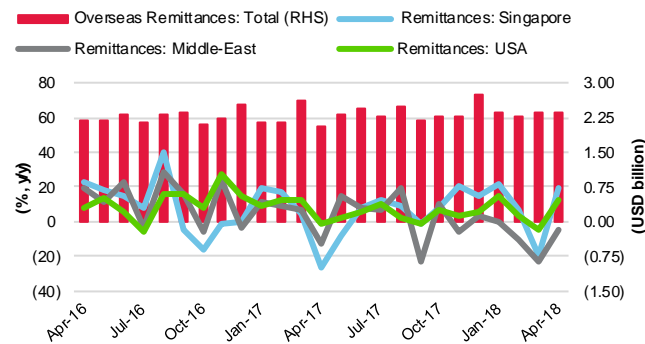
Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Philippines

- State of Play:** Domestic economic activity still appears quite strong, but inflation has led to concerns about overheating. However, we hold strong on our view that the current inflation trends are due to factors other than domestic demand and capacity – namely, the first tax reform package as well as higher oil prices. Nonetheless, we expect Bangko Sentral ng Pilipinas to keep its tightening bias, partly as a tool to mitigate inflation expectations and partly to counter the depreciation pressure from portfolio outflows.
- Outlook:** We expect GDP growth to stay robust in 2018 at 6.7%, boosted by income tax cuts and strong demographic trends that can compensate for the moderation of the previous export boom. Inflation will likely stay relatively high for a few more months before the tax-induced one-off spike dissipates in the second half of the year.
- Risks:** Global trade tensions, especially between the U.S. and China, are escalating, and this could further dampen Philippine export growth. Not only is the U.S. a major trading partner, but the Philippines also supplies a significant amount of intermediate inputs to China, likely linked to exported goods targeted by U.S. tariffs. With the balance of payments likely to end up in a slight deficit in 2018, a global trade shock could increase the country’s exposure to sudden reversals in capital flows.

REMITTANCE GROWTH REBOUNDED IN APRIL

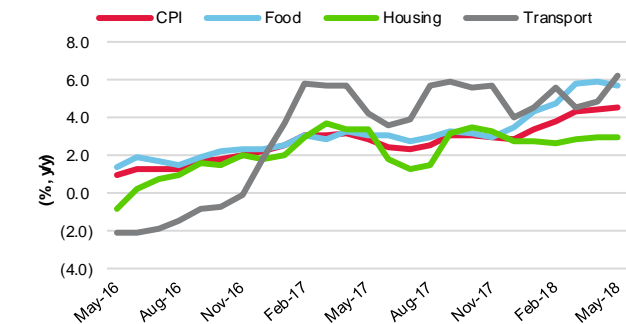
Overseas remittances bounced back in April after falling briefly in March. Remittances from the U.S., Europe, and Singapore returned to strong double-digit growth. Remittance growth from the Middle East fell for the fourth straight month, albeit less steeply.



Source: CEIC.

HEADLINE INFLATION INCHED UP IN MAY

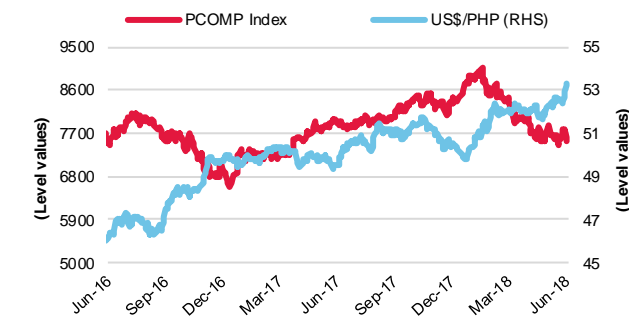
Headline inflation continued to rise, hitting 4.6% y/y in May from 4.5% in April. First-round effects of recent tax reforms on certain commodities looked complete now with easing of food inflation. Transport inflation surged, on the other hand, driven by the rise in crude oil prices.



Source: CEIC.

PHP AND PCOMP CONTINUE TO SEE WEAK TRENDS

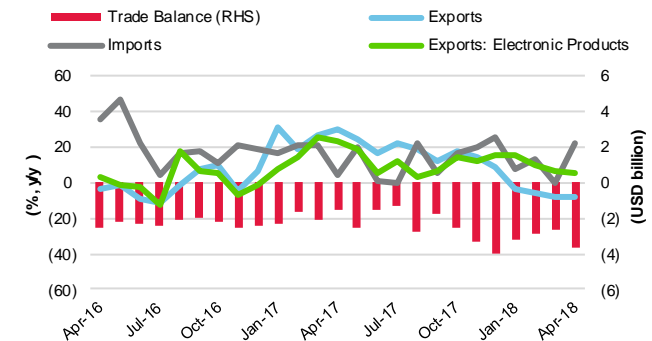
The PCOMP index recovered modestly in early June following a 3.1% m/m fall in May, but started to dip again by mid-June. The peso continued to depreciate in the wake of strength in the U.S. dollar. Year-to-date, the peso has weakened 6.7%.



Source: Bloomberg. Data as of June 14, 2018.

TRADE DEFICIT WIDENED IN APRIL; EXPORT GROWTH FELL

Trade deficit increased to a four-month high of US\$3.6 billion in April on the back of capital goods imports. Exports continued to fall on sluggish demand growth from major trade partners, China and Japan.



Source: CEIC.

Philippines Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	2.9	2.6	3.0	2.9	3.4	3.8	4.3	4.5	4.6
Core CPI (y/y)	2.9	3.0	3.3	3.0	3.9	4.4	4.7	5.0	5.0
Exports (y/y- US\$)	24.0	18.7	14.2	8.4	(4.0)	(5.5)	(8.2)	(8.5)	
Export - Electronic Products (y/y- US\$)	18.8	3.3	12.4	15.4	15.9	10.2	6.8	5.5	
Imports (y/y- US\$)	20.2	21.6	20.1	25.9	7.7	13.7	0.1	22.2	
Trade Balance (US\$bn)	(2.5)	(2.7)	(3.3)	(4.0)	(3.2)	(2.9)	(2.6)	(3.6)	
Overseas Workers Remittances (US\$bn)	2.3	2.5	2.3	2.7	2.4	2.3	2.4	2.3	
Industrial Production (y/y)	(2.5)	(0.1)	(10.7)	(7.0)	16.2	21.3	15.8	31.7	

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	6.7	7.0	7.1	6.7	6.5	6.6	7.2	6.5	6.8
Real Private Consumption (y/y)	7.2	7.5	7.3	6.7	5.9	6.0	5.4	6.2	5.6
GFCF (y/y)	31.4	30.6	22.4	16.6	11.4	7.6	10.3	8.3	12.5
Current Account Balance (US\$m)	786.1	(1,329)	(90.6)	(565.6)	(859.9)	(211.1)	1,850	(3,297)	(208.2)

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	7.1	6.1	6.1	6.9	6.7	6.7	6.8	6.7	6.6
CPI Inflation %	2.6	3.6	0.7	1.3	2.9	3.6	2.7	2.8	2.5
Unemployment Rate %	7.1	6.8	6.3	5.5	5.7	5.3	5.1	4.9	4.1
Policy Rate %	3.50	3.68	4.00	3.42	3.00	3.38	4.13	4.25	4.50
Policy Rate % (EOP)	3.50	4.00	4.00	3.00	3.00	3.75	4.25	4.25	4.50
Exchange Rate (Per US\$)	42.44	44.40	45.50	47.49	50.40	51.83	51.93		
Exchange Rate (Per US\$) EOP	43.62	44.81	46.87	49.11	50.93	51.84	51.95		

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Singapore

- State of Play:** After strong economic performance in the first quarter, high frequency activity indicators point to continued strength in external demand. Net exports account for nearly a third of domestic production, meaning the economy is heavily externally oriented. Domestic demand growth seems to be modest as retail sales growth and inflation remain subdued.
- Outlook:** We expect external demand to stay strong this year as the global steady economic expansion continues and trade activity remains resilient. A tight labor market means that firm domestic demand is likely to hold, although external demand will continue to be the main growth driver. Inflation looks set to stay low as global inflationary pressures have faded.
- Risks:** Two main risks to trade are on the horizon. First, U.S.-China trade measures escalation could disrupt supply chains in the region and Singapore will be affected. Second, there are risks to global growth arising from higher interest rates and slower growth in the EU, which could dampen external demand.

VISITOR ARRIVALS SLOWED; RETAIL SALES GROWTH WEAK

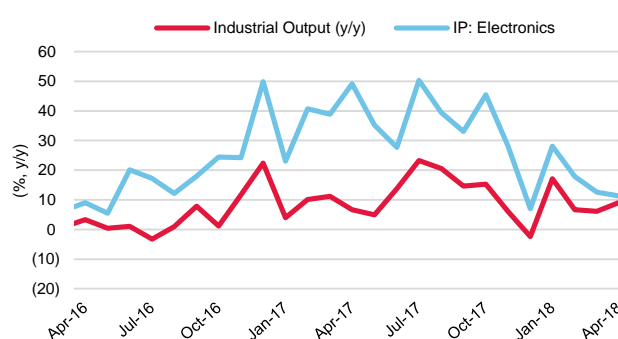
Visitor arrivals growth slowed in March as arrivals from China and Indonesia decelerated sharply after surging in February. Meanwhile, retail sales growth remained sluggish for the past two months, reflecting weak household spending despite improving labor markets and rising wages.



Source: CEIC.

INDUSTRIAL OUTPUT GROWTH REMAINED ELEVATED

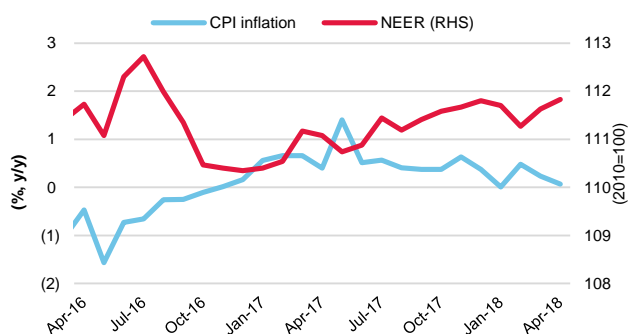
Industrial output continued to trend higher, buoyed by solid output growth of electronics, especially semiconductors. In addition, pharmaceutical output rebounded strongly, after contracting for six straight months; that reflected broad-based overall output growth.



Source: CEIC.

INFLATION NEAR ZERO; NEER RISING

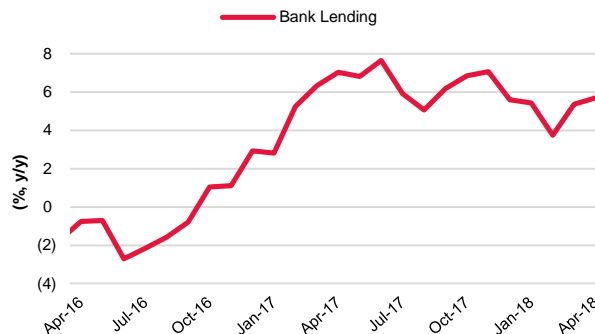
NEER has been rising gradually to reach its highest level since August 2016, reflecting the monetary tightening measures on the back of the U.S. Federal Reserve's move to raise the Fed fund rate. Meanwhile, headline inflation remained subdued due to low transport inflation.



Source: CEIC.

BANK LENDING GROWTH PICKED UP FURTHER IN APRIL

Bank lending growth continued to rise, driven by a recovery in lending to manufacturing and building & construction sectors. In addition, lending growth to financial institutions remained in double digits.



Source: CEIC.

Singapore Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	1.4	0.4	0.6	0.4	0.0	0.5	0.2	0.1	
Core CPI (y/y)	1.6	1.4	1.5	1.3	1.4	1.7	1.5	1.3	
Exports (y/y- US\$)	10.9	14.0	14.0	7.3	18.0	6.0	5.8	16.9	14.7
Non-Oil Domestic Exports (y/y- US\$)	(0.8)	15.5	13.5	10.0	22.0	0.7	3.5	18.8	20.4
Imports (y/y- US\$)	16.7	14.3	15.1	8.4	13.2	12.2	6.2	18.2	14.1
Trade Balance (US\$bn)	3.4	4.2	3.3	3.3	4.3	3.3	4.5	4.6	4.1
Industrial Production (y/y)	5.0	20.5	6.1	(2.4)	17.1	6.6	6.1	9.1	
Retail Sales (y/y)	0.2	3.0	5.3	6.3	(7.7)	8.6	(1.1)	0.4	

Source: CEIC

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	2.1	2.0	1.7	3.7	2.5	2.8	5.5	3.6	4.4
Private Consumption Expenditure (y/y)	4.5	1.4	0.9	0.2	(0.9)	2.7	5.3	5.5	2.0
Government Consumption Expenditure (y/y)	5.4	7.8	(3.2)	4.5	4.0	5.3	7.1	0.5	9.6
GFCF (y/y)	2.8	2.5	(3.1)	(4.1)	(3.2)	(3.5)	(2.7)	2.2	0.2
Current Account Balance (US\$bn)	11.3	16.5	18.1	13.1	14.9	14.6	18.4	13.1	15.6

Source: CEIC

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	5.1	3.9	2.2	2.4	3.6	3.0	2.9	2.6	2.6
CPI Inflation %	2.4	1.0	(0.5)	(0.5)	0.6	0.9	1.8	2.3	2.1
Unemployment Rate %	1.9	2.0	1.9	2.1	2.2	2.0	2.0	2.1	2.2
Exchange Rate (Per US\$)	1.25	1.27	1.37	1.38	1.38	1.32	1.31		
Exchange Rate (Per US\$) EOP	1.25	1.29	1.41	1.41	1.35	1.31	1.30		

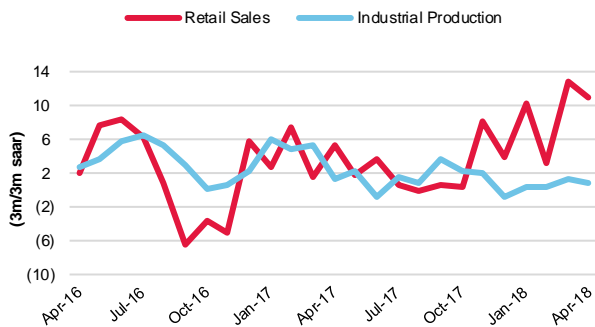
Sources: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

South Korea

- State of Play:** Despite decent GDP growth in Q1, the unemployment rate returned to 4% in May after a brief dip in the previous month. This is raising concerns domestically about the negative impact of the minimum wage hike on employment, and has led the government to discuss another round of extra budget spending to generate jobs. Meanwhile, global trade tensions are escalating, leading to a slightly dimmer external demand outlook in the second half of the year.
- Outlook:** We still expect the overall 2018 growth to ease to 2.7% from last year's 3.1%, notwithstanding the decent Q1 GDP growth numbers. Export momentum has been weaker relative to last year's boom; the recent uptick was likely to be at least partially due to front-loading before increased tariffs between U.S. and China begin to affect flows across Asian supply chains.
- Risks:** Externally, trade tensions have been escalating at a time when the export boom from last year has all but normalized. This could constitute a major headwind to short-term growth. For the longer term, household debt and its financing costs remain high and continue to accelerate. On the positive side, geopolitical risks have significantly abated.

DOMESTIC ACTIVITY MOMENTUM EASED IN APRIL

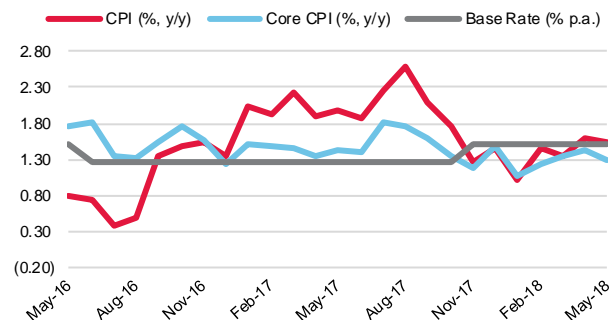
The momentum for retail sales growth eased in April with moderation in semi-durables sales growth. Industrial output growth momentum, on the other hand, also dipped as manufacturing production remained sluggish with the exception of electronic components.



Source: CEIC.

HEADLINE INFLATION DIPPED IN MAY; BASE RATE HELD

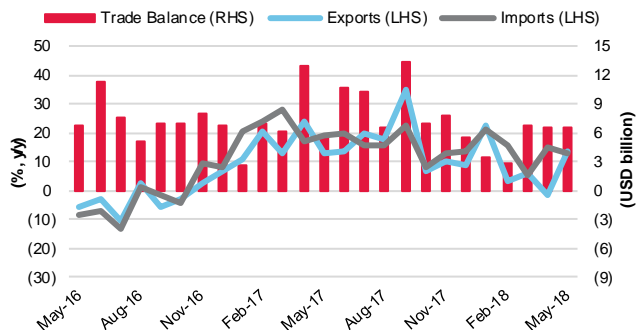
Headline as well as core inflation slowed in May as inflation in all major components, with the exception of transport, weakened in the month. The Bank of Korea, at its monetary policy meeting in May, decided to hold the base rate unchanged at 1.50%.



Source: CEIC.

TRADE SURPLUS STEADY IN MAY; EXPORTS REBOUNDED

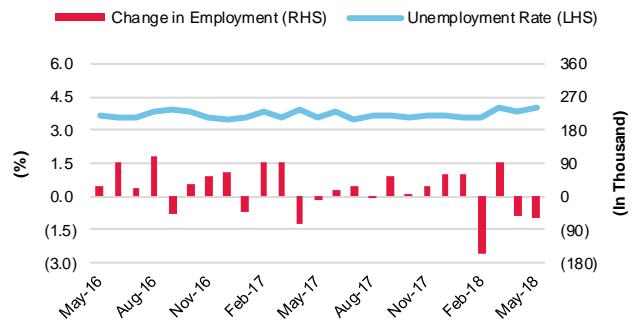
Trade surplus was stable at US\$6.6 billion in May. Export growth rebounded in the month, largely helped by a lower base alongside increased demand from the U.S., China, and India. Import growth eased in the month following a sharp growth in April.



Source: CEIC.

UNEMPLOYMENT RATE ROSE IN MAY

The seasonally adjusted unemployment rate increased for a second time in the last three months to 4.0% in May. The overall employment level declined as monthly new job additions fell for the second straight month. The labor force also shrank in the last two months.



Source: CEIC.

South Korea Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	2.0	2.6	1.3	1.5	1.0	1.4	1.3	1.6	1.5
Core CPI (y/y)	1.4	1.8	1.2	1.5	1.1	1.2	1.3	1.4	1.3
Exports (y/y- US\$)	13.1	17.4	9.7	8.8	22.3	3.3	6.0	(1.5)	13.2
Export - Electrical Machinery (y/y- US\$)	36.9	39.4	47.4	43.4	40.6	23.8	28.8	24.1	26.9
Imports (%y/y- US\$)	19.0	15.5	12.8	13.6	21.4	15.2	5.4	14.7	12.7
Trade Balance (US\$bn)	5.6	6.6	7.7	5.5	3.5	2.9	6.7	6.6	6.6
Industrial Production (y/y)	2.4	2.1	1.4	(0.8)	4.2	(1.2)	(0.6)	2.0	
Retail Sales (sa - m/m)	2.1	2.3	6.4	2.8	2.0	7.9	7.9	6.6	

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	3.0	3.5	2.7	2.6	2.9	2.8	3.8	2.8	2.8
Real Private Consumption (y/y)	2.4	3.6	2.8	1.4	2.1	2.4	2.6	3.4	3.5
GFCF (y/y)	3.2	5.2	5.8	7.8	11.0	10.0	9.2	5.0	3.7
Current Account Balance (US\$bn)	27.0	27.0	22.6	22.7	19.2	16.5	25.6	17.2	11.8
Trade Balance (US\$bn)	21.4	26.7	19.4	21.8	15.6	29.2	30.2	20.1	13.1
Loans of Commercial and Specialized Banks(y/y)	6.9	8.0	7.6	5.7	5.5	4.8	4.8	5.6	6.3

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.9	3.3	2.8	2.8	3.1	2.7	2.6	2.8	2.6
CPI Inflation %	1.3	1.3	0.7	1.0	1.9	1.9	2.0	1.9	1.8
Unemployment Rate %	3.1	3.5	3.6	3.7	3.7	3.7	3.7	3.5	3.2
Policy Rate %	2.59	2.35	1.66	1.36	1.27	1.56	1.88	2.00	2.00
Policy Rate % (EOP)	2.50	2.04	1.50	1.25	1.33	1.75	2.00	2.00	2.00
Exchange Rate (Per US\$)	1,095	1,053	1,131	1,161	1,131	1,068	1,064		
Exchange Rate (Per US\$) EOP	1,062	1,087	1,157	1,156	1,107	1,068	1,057		

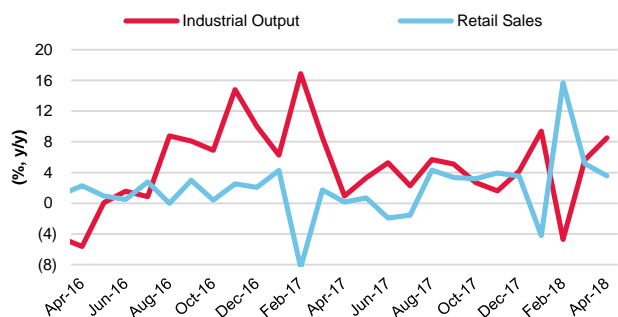
Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Taiwan

- State of Play:** Monthly activity indicators were mixed midway into Q2, but show declining momentum on balance. Consumption is not looking as strong as it was in Q1, and new export orders have been either flat or declining on a sequential basis. Export growth is still strong on a year-on-year basis, but it is still unclear how much of this growth is due to front-loading before tariffs are imposed between China and the U.S.
- Outlook:** We expect a slight GDP growth moderation over the next two years, as last year's export boom eases. Nonetheless, the strong Q1 performance helps to buttress the overall 2018 growth rate, so we are keeping our 2.7% growth forecast despite expecting a slower expansion in the second half of the year.
- Risks:** Escalating trade tensions between the U.S. and China continue to pose the biggest near-term threat to Taiwan's export-oriented economy. As it is, additional tariffs on US\$34 billion worth of imports from both sides are already poised to take effect in July, with US\$16 billion more likely to follow. If the situation further deteriorates, it would change not only the global trade outlook but also the pattern of Taiwan's trade, given that both the U.S. and China are among its largest trading partners.

MIXED DOMESTIC ACTIVITIES IN MAY

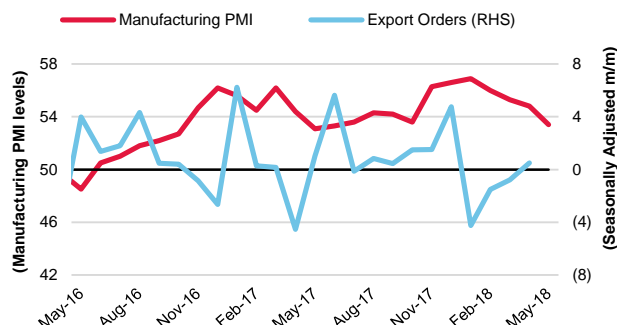
Industrial output expanded strongly in May at 8.5% y/y, led by faster output growth of machineries, electronics, and electrical equipment. A low base from May 2017 also contributed. Meanwhile, retail sales growth eased further.



Source: CEIC.

MANUFACTURING PMI GROWTH SLOWED; EXPORT ORDERS UP

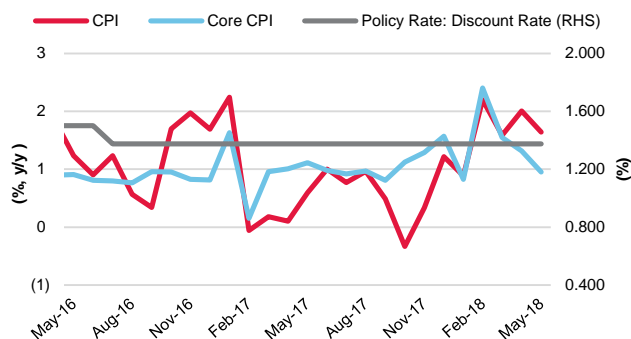
The Nikkei manufacturing PMI stayed above 50, but eased compared to the past few months as new orders growth moderated, signaling slight loss of growth momentum midway through Q2. The seasonally adjusted export orders meanwhile recovered and increased 0.5% m/m.



Source: CEIC.

HEADLINE INFLATION COOLED IN MAY

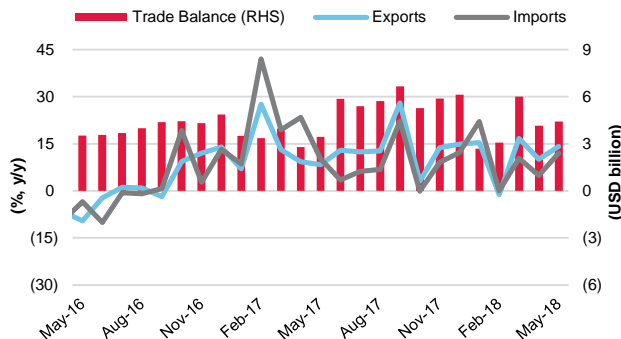
Headline inflation edged down in May after picking up in the previous month as food, transport & communication, and services inflation moderated. Meanwhile, core inflation softened as well.



Source: CEIC.

TRADE FLOWS TRENDING HIGHER

Nominal exports growth picked up in May, led by a surge in demand from U.S., mainland China, Hong Kong, and Japan. Imports posted solid growth as well. The trade balance inched up to US\$4.4 billion, up from US\$4.2 billion previously.



Source: CEIC.

Taiwan Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	0.6	1.0	0.3	1.2	0.9	2.2	1.6	2.0	1.6
Core CPI (y/y)	1.1	1.0	1.3	1.6	0.8	2.4	1.5	1.3	0.9
Exports (y/y- US\$)	8.4	12.7	13.7	14.8	15.3	(1.2)	16.7	10.0	14.2
Machineries and Electrical Equipments (y/y- US\$)	9.1	15.4	15.4	20.0	12.4	(2.2)	17.6	7.5	14.0
Imports (%y/y- US\$)	10.2	6.8	9.0	12.2	22.0	0.0	10.4	4.9	12.0
Trade Balance (US\$bn)	3.4	5.7	5.9	6.1	2.7	3.1	6.0	4.2	4.4
Industrial Production (y/y)	3.3	5.7	1.6	4.2	9.4	(4.7)	5.6	8.5	
Bank Credit (y/y)	5.1	5.0	5.0	4.4	4.2	4.5	5.0	4.7	
Retail Sales (y/y)	0.7	4.3	4.0	3.5	(4.2)	15.7	5.2	3.6	

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	(0.3)	1.0	2.0	2.8	2.6	2.3	3.2	3.4	3.0
Real Private Consumption (y/y)	2.7	1.7	2.8	2.1	1.8	2.0	2.6	3.0	2.7
GFCF (y/y)	(0.1)	0.1	3.4	5.3	4.8	0.8	(2.7)	(3.5)	0.5
Current Account Balance (US\$bn)	19.7	17.0	16.6	19.6	18.2	17.3	21.7	25.6	20.1
Trade Balance (US\$bn)	12.2	11.9	12.0	13.6	10.8	12.1	17.8	17.3	11.8

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.2	4.0	0.8	1.4	2.9	2.7	2.6	2.5	2.5
CPI Inflation %	0.8	1.2	(0.3)	1.4	0.6	1.0	1.2	1.3	1.1
Unemployment Rate %	4.2	4.0	3.8	3.9	3.8	3.5	3.4	3.1	3.1
Policy Rate %	1.875	1.875	1.837	1.466	1.375	1.469	1.625	1.625	1.625
Policy Rate % (EOP)	1.875	1.875	1.731	1.375	1.375	1.625	1.625	1.625	1.625
Exchange Rate (Per US\$)	29.77	30.36	31.91	32.33	30.44	29.62	29.87		
Exchange Rate (Per US\$) EOP	29.63	30.86	32.85	31.78	29.85	29.73	29.90		

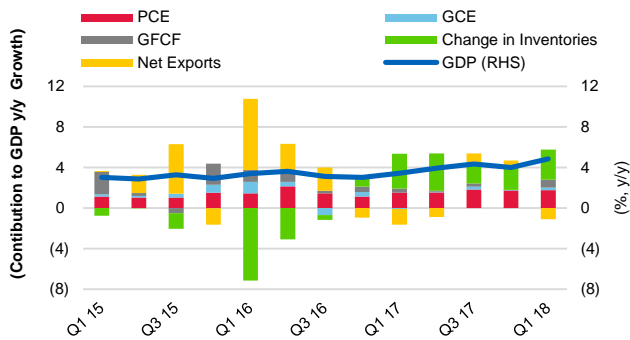
Sources: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Thailand

- State of Play:** The economy expanded a fast 4.8% year-on-year in the first quarter. The tourism sector continues to drive growth. On the other hand, net exports in the first quarter had a negative contribution to overall growth. Several quarters of steady growth have buoyed consumer confidence and tightened labor markets, resulting in firm domestic demand growth.
- Outlook:** We expect the external sector to continue to perform well. Trade numbers are likely to show a slowdown from the high base of last year. Visitor arrivals showed very quick growth and should continue to drive economic activity. Inflation, particularly excluding fuel, remains subdued, meaning the central bank is likely to keep monetary policy unchanged for at least the rest of the year.
- Risks:** Trade activity supported growth over 2017, and some weakness in real exports in the first quarter highlights risks that trade activity may soften this year, particularly amid a less favorable global trade environment. Visitor arrival growth also could be affected if the global economic outlook deteriorates.

STRONG DOMESTIC DEMAND BOOSTED Q1 GDP GROWTH

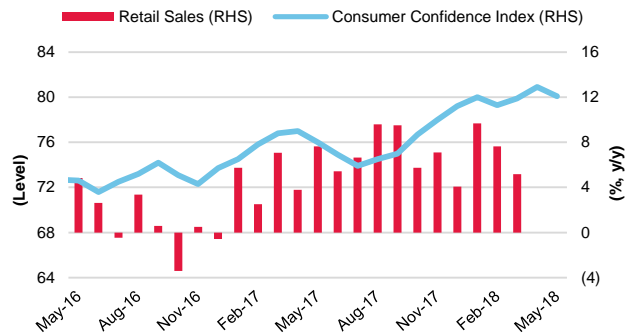
The economy continues to show resilience, recording the fastest quarterly growth since Q1 2013, driven by solid domestic demand. Private spending remained steady, while government spending rebounded. Investment grew strongly, mainly in machineries, while net exports weighed on growth.



Source: CEIC.

CONSUMER CONFIDENCE FELL IN MAY

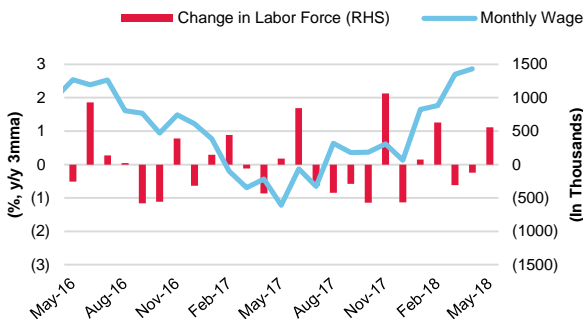
The consumer sentiment index fell by 0.9 point in May, after rising to a 40-month high in April, amid concerns on surging crude oil prices. The index remains well above its long-term average. Meanwhile, retail sales growth was solid, even though it eased modestly in March.



Source: CEIC.

MONTHLY WAGES PICKING UP; EMPLOYMENT RECOVERED

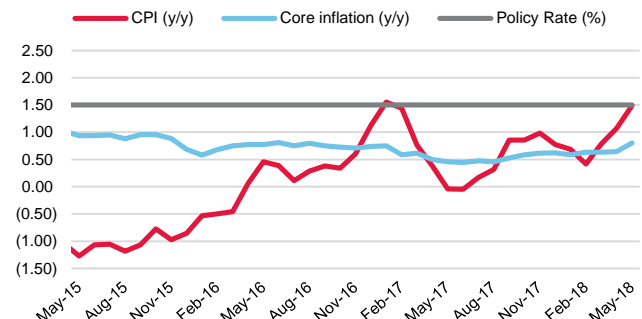
After remaining weak in 2017, monthly wages have been gradually picking up for the past few months, due to strong economic activity. Meanwhile, net employment increased by 500,000 in May. This was a significant recovery after employment contracted in the previous two months.



Source: CEIC.

HEADLINE INFLATION ACCELERATED TO 16-MONTH HIGH IN MAY

Headline inflation picked up further to 1.50% y/y, beating market expectations driven by a surge in fuel prices. Core inflation inched up as well. The Bank of Thailand, meanwhile, kept the policy rate unchanged at 1.50%.



Source: CEIC.

Thailand Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	(0.0)	0.3	1.0	0.8	0.7	0.4	0.8	1.1	1.5
Core CPI (y/y)	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.8
Exports (y/y- US\$)	12.7	13.2	13.4	8.6	17.6	10.3	7.1	12.3	
Agricultural Exports (y/y- US\$)	20.3	25.4	20.2	6.4	12.4	0.4	(9.7)	14.9	
Imports (y/y- US\$)	18.3	14.9	13.7	16.6	24.3	16.0	9.5	20.4	
Fuel Imports (y/y- US\$)	19.8	58.1	20.6	29.7	48.1	21.0	13.2	60.7	
Trade Balance (US\$mn)	944.0	2,090	1,763	(278.1)	(119.2)	807.6	1,268	(1,283)	
Industrial Production (y/y)	3.0	5.6	6.3	5.8	4.7	4.6	3.2	4.0	
Retail Sales (y/y)	7.6	9.6	7.1	4.1	9.7	7.6	5.2		
Consumer Confidence Index	76.0	74.5	78.0	79.2	80.0	79.3	79.9	80.9	80.1

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	3.4	3.6	3.1	3.0	3.4	3.9	4.3	4.0	4.8
Private Consumption Expenditure (y/y)	3.0	4.0	2.7	2.3	3.1	2.9	3.4	3.4	3.6
Government Consumption Expenditure (y/y)	8.3	2.8	(3.9)	2.9	(0.7)	0.4	1.8	0.2	1.9
GFCF (y/y)	4.9	3.3	1.0	2.1	1.7	0.3	1.2	0.3	3.4
Current Account Balance (US\$mn)	16.8	9.0	11.7	10.8	15.0	7.8	13.9	11.3	17.1

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.7	1.0	3.0	3.3	3.9	3.9	3.6	3.6	3.6
CPI Inflation %	2.2	1.9	(0.9)	0.2	0.7	1.2	1.5	1.9	2.1
Unemployment Rate %	0.7	0.8	0.9	1.0	1.2	0.7	0.8	0.8	0.8
Policy Rate %	2.58	2.05	1.63	1.50	1.50	1.50	1.63	1.81	2.19
Policy Rate % (EOP)	2.41	2.00	1.50	1.50	1.50	1.50	1.75	2.00	2.25
Exchange Rate (Per US\$)	30.73	32.48	34.25	35.30	33.94	31.90	31.35		
Exchange Rate (Per US\$) EOP	31.73	32.71	35.84	35.39	32.68	31.44	31.28		

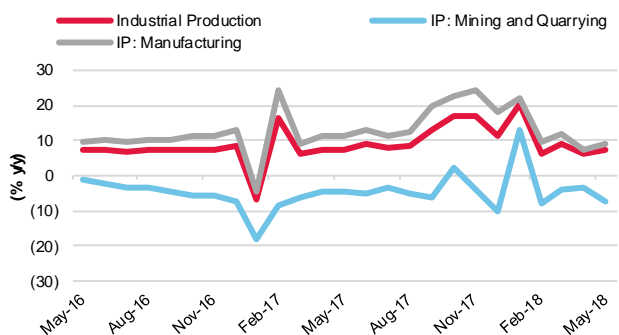
Sources: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Vietnam

- State of Play:** The economy posted impressive growth of 7.4% in Q1, and May data appears to be showing continued strength in domestic activity. However, export growth has eased, led by year-on-year drops in exports of phones and spare parts.
- Outlook:** Despite the economy's strong showing so far in the first half of the year, the moderation in some key electronics exports will likely rein in GDP growth in the second half. However, consumption and tourism will likely provide support, making the government's 6.7% growth target easily achievable this year.
- Risks:** The main risk to the economy and the financial system is still the potential for a fresh bout of non-performing loans in the banking sector, even before the previous stock of NPLs have been fully resolved. As such, we continue to watch the strong expansion of domestic credit. Meanwhile, challenges to world trade growth emanating from an escalation in U.S.-China tension pose some risks to Vietnam's exports, but they would be relatively less significant compared to some of its neighbors', given the economy's weaker vertical integration with China's supply chain.

INDUSTRIAL OUTPUT ACCELERATED IN MAY

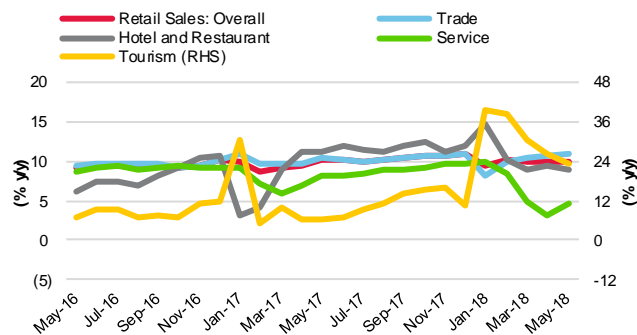
Industrial output growth picked up in May, led by faster growth in manufacturing production, particularly in motor vehicles and electronic components. Mining output continued to decline, led by coal and natural gas.



Source: CEIC.

RETAIL SALES GROWTH INCHED HIGHER IN MAY

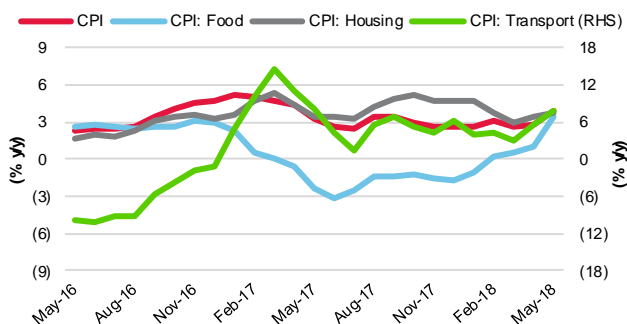
Year-to-date retail sales growth edged higher in May, driven by sales growth in trade, hotel and restaurants, and services. Tourism-related sales growth eased from high growth with slowing of visitor arrivals from China and South Korea.



Source: CEIC.

HEADLINE INFLATION ROSE FASTER IN MAY

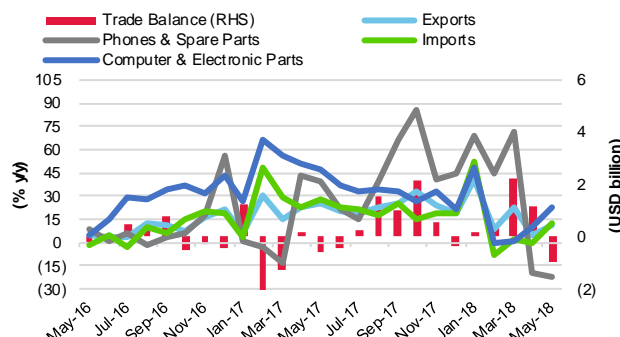
Headline inflation increased for the second successive month in May, driven primarily by food and transport inflation, which in turn was propelled by the rapid rise in crude oil prices. Housing inflation also rose in May.



Source: CEIC.

TRADE BALANCE SWUNG INTO DEFICIT; EXPORTS UP

The trade balance swung into a deficit in May as the import bill surged with crude oil prices. Exports grew faster with a rise in overseas demand for computer and electronic components, textiles, aqua products, and rice. Export growth in phones and spare parts declined for a second straight month.



Source: CEIC.

Vietnam Economic Data and Forecast Summary

SELECTED ECONOMIC INDICATORS

	May-17	Aug-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CPI (y/y)	3.2	3.4	2.6	2.6	2.7	3.2	2.7	2.8	3.9
Core CPI (y/y)	1.3	1.3	1.3	1.3	1.2	1.5	1.4	1.3	1.4
Exports (y/y- US\$)	25.0	23.1	24.4	19.2	40.2	8.6	22.3	4.5	11.3
Computer & Electronic Components (y/y- US\$)	47.3	34.7	32.5	21.6	48.3	(1.0)	1.0	9.2	23.2
Imports (y/y- US\$)	27.2	17.6	18.9	18.4	52.1	(8.1)	1.7	(1.1)	12.8
Trade Balance (US\$mn)	(601.7)	1,526	520.0	(403.3)	180.8	293.9	2,258	1,163	(954.5)
Industrial Production (y/y)	7.5	8.4	17.2	11.2	20.2	6.1	8.9	6.3	7.1
Credit Outstanding (y/y)	20.0	19.5	19	18.2	14.0	14.5	14.1		
Retail Sales (y/y)	10.2	10.3	10.7	10.9	9.5	10.1	9.9	9.9	10.1

Source: CEIC.

REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Real GDP (y/y)	5.5	5.5	6.0	6.2	5.1	5.7	6.4	6.8	7.4
Current Account Balance (US\$mn)	3,102	2,242	3,499	155.0	(1,169)	270.0	4,300	3,018	3,934
Trade Balance (US\$mn)	1,321	(32.4)	1,741	(1,252)	(2,110)	(835.5)	2,752	2,229	2,732

Source: CEIC.

S&P GLOBAL RATINGS ECONOMIC OUTLOOK

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	5.4	6.0	6.7	6.2	6.8	6.7	6.6	6.6	6.6
CPI Inflation %	6.6	4.1	0.9	3.2	3.5	4.0	4.3	4.2	4.2

Source: S&P Global Ratings.

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