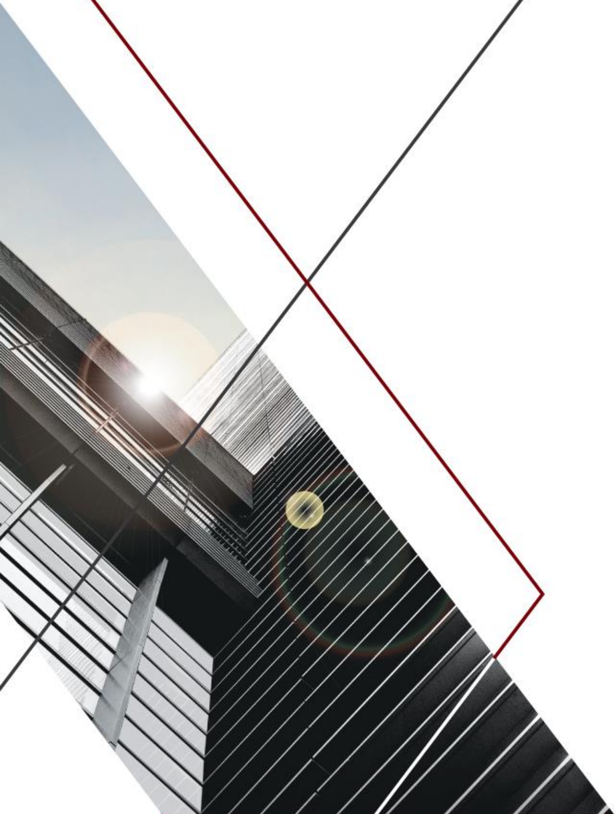

CIMB PRIVATE BANKING

Economic & Market Outlook 2018: Risks & Opportunities

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CIMB Private Banking Singapore

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FORWARD Together

Economic growth is projected to continue in 2018…

Overview of IMF's WEO Jan 2018 Projections						Difference from IMF Oct17's forecasts (pts)		
	2015	2016	2017e	2018f	2019f	*2017*	*2018*	*2019*
Global GDP growth (%YoY)	3.4	3.2	3.7	3.9	3.9	*0.1*	*0.2*	*0.2*
Advanced economies	**2.2**	**1.7**	**2.3**	**2.3**	**2.2**	*0.1*	*0.3*	*0.4*
USA	*2.9*	*1.5*	*2.3*	*2.7*	*2.5*	*0.1*	*0.4*	*0.6*
Eurozone	*2.0*	*1.8*	*2.4*	*2.2*	*2.0*	*0.3*	*0.3*	*0.3*
Emerging/Developing Asia	**6.8**	**6.4**	**6.5**	**6.5**	**6.6**	*0.0*	*0.0*	*0.1*
China	*6.9*	*6.7*	*6.8*	*6.6*	*6.4*	*0.0*	*0.1*	*0.1*
India	*8.0*	*7.1*	*6.4*	*7.4*	*7.8*	*-0.3*	*0.0*	*0.0*
ASEAN5	*4.9*	*4.9*	*5.3*	*5.3*	*5.3*	*0.1*	*0.1*	*0.0*
Global trade volume	2.8	2.5	4.7	4.6	4.4	*0.5*	*0.6*	*0.5*

Source: IMF's WEO Jan 2018, e = estimate, f= forecast

Overview of IMF's WEO Jan 2017 Projections						Difference from IMF Oct16's forecasts (pts)		
	2014	2015	2016e	2017f	2018f	*2016*	*2017*	*2018*
Global GDP growth (%YoY)	3.4	3.2	3.1	3.4	3.6	*0.0*	*0.0*	*0.0*
Advanced economies	**1.9**	**2.1**	**1.6**	**1.9**	**2.0**	*0.0*	*0.1*	*0.2*
USA	*2.4*	*2.6*	*1.6*	*2.3*	*2.5*	*0.0*	*0.1*	*0.4*
Eurozone	*1.1*	*2.0*	*1.7*	*1.6*	*1.6*	*0.0*	*0.1*	*0.0*
Emerging/Developing Asia	**6.8**	**6.7**	**6.3**	**6.4**	**6.3**	*-0.2*	*0.1*	*0.0*
China	*7.3*	*6.9*	*6.7*	*6.5*	*6.0*	*0.1*	*0.3*	*0.0*
India	*7.2*	*7.6*	*6.6*	*7.2*	*7.7*	*-1.0*	*-0.4*	*0.0*
ASEAN5	*4.6*	*4.8*	*4.8*	*4.9*	*5.2*	*0.0*	*-0.2*	*0.0*
Global trade volume	3.7	2.7	1.9	3.8	4.1	*-0.4*	*0.0*	*-0.1*

Source: IMF's WEO Jan 2017, e = estimate, f= forecast

- **IMF's World Economic Outlook 2018**: Global economic activity continues to firm up. Global output is estimated to have grown by 3.7% in 2017, which is 0.1%-pts faster than projected in Oct 2017 and ½ percentage point higher than in 2016. The pickup in growth has been broad based, with notable upside surprises in Europe and Asia. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2%-pts to 3.9%. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.

- **Risks to the global growth forecast appear broadly balanced in the near term,** but remain skewed to the downside over the medium term. On the upside, the cyclical rebound could prove stronger in the near term as the pickup in activity and easier financial conditions reinforce each other. On the downside, rich asset valuations and very compressed term premiums raise the possibility of a financial market correction, which could dampen growth and confidence. *A possible trigger is a faster-than-expected increase in advanced economy core inflation and interest rates as demand accelerates*. If global sentiment remains strong and inflation muted, then financial conditions could remain loose into the medium term, leading to a build-up of financial vulnerabilities in advanced and emerging market economies alike. Inward-looking policies, geopolitical tensions, and political uncertainty in some countries also pose downside risks.

Source: IMF's WEO January 2018

….and the World Bank is also cautiously optimistic

							Difference from WB Jun2017's forecasts (%-pts)			
Overview of WB's GDP forecast (%YoY)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	***2017***	***2018***	***2019***	***2020***
Global GDP growth	**2.8**	**2.4**	**3.0**	**3.1**	**3.0**	**2.9**	***0.3***	***0.2***	***0.1***	-
Advanced economies	**2.2**	**1.6**	**2.3**	**2.2**	**1.9**	**1.7**	***0.4***	***0.4***	***0.2***	-
Emerging and developing economies	**3.6**	**3.7**	**4.3**	**4.5**	**4.7**	**4.7**	***0.2***	***0.0***	***0.0***	-
East Asia and Pacific	**6.5**	**6.3**	**6.4**	**6.2**	**6.1**	**6.0**	***0.2***	***0.1***	***0.0***	-
East Asia excluding China	***4.9***	***4.9***	***5.2***	***5.3***	***5.3***	***5.2***	***0.6***	***0.4***	***0.2***	-
China	6.9	6.7	6.8	6.4	6.3	6.2	***-0.1***	***-0.5***	***-0.4***	-
Indonesia	**4.9**	**5.0**	**5.1**	**5.3**	**5.3**	**5.3**	***-0.1***	***0.0***	***-0.1***	-
Malaysia	5.0	4.2	5.8	5.2	5.0	4.7	***0.9***	***0.3***	***0.0***	-
Philippines	**6.1**	**6.9**	**6.7**	**6.7**	**6.7**	**6.5**	***-0.2***	***-0.2***	***-0.1***	-
Thailand	2.9	3.2	3.5	3.6	3.5	3.4	***0.3***	***0.3***	***0.1***	-
Vietnam	**6.7**	**6.2**	**6.7**	**6.5**	**6.5**	**6.5**	***0.4***	***0.1***	***0.1***	-
Cambodia	7.0	7.0	6.8	6.9	6.7	6.7	***-0.1***	***0.0***	***0.0***	-
Laos	**7.4**	**7.0**	**6.7**	**6.6**	**6.9**	**6.9**	***-0.3***	***-0.2***	***-0.3***	-
Myanmar	7.0	5.9	6.4	6.7	6.9	6.9	***-0.5***	***-0.5***	***-0.4***	-
Mongolia	**2.2**	**1.4**	**2.8**	**3.1**	**7.3**	**5.5**	***3.0***	***1.2***	***-0.7***	-
Fiji	3.6	0.4	3.8	3.5	3.3	3.2	***0.1***	***0.0***	***0.0***	-
Papua New Guinea	**8.0**	**2.4**	**2.1**	**2.5**	**2.4**	**3.4**	***-0.9***	***-0.7***	***-1.0***	-
Solomon Islands	2.5	3.3	3.0	3.0	2.8	2.7	***-0.3***	***0.0***	***-0.2***	-
Timor-Leste	**4.0**	**5.7**	**2.4**	**4.2**	**5.0**	**5.0**	***-1.6***	***-0.8***	***-1.0***	-
Global trade volume	**2.7**	**2.3**	**4.3**	**4.0**	**3.9**	**3.8**	***0.3***	***0.2***	***0.1***	-

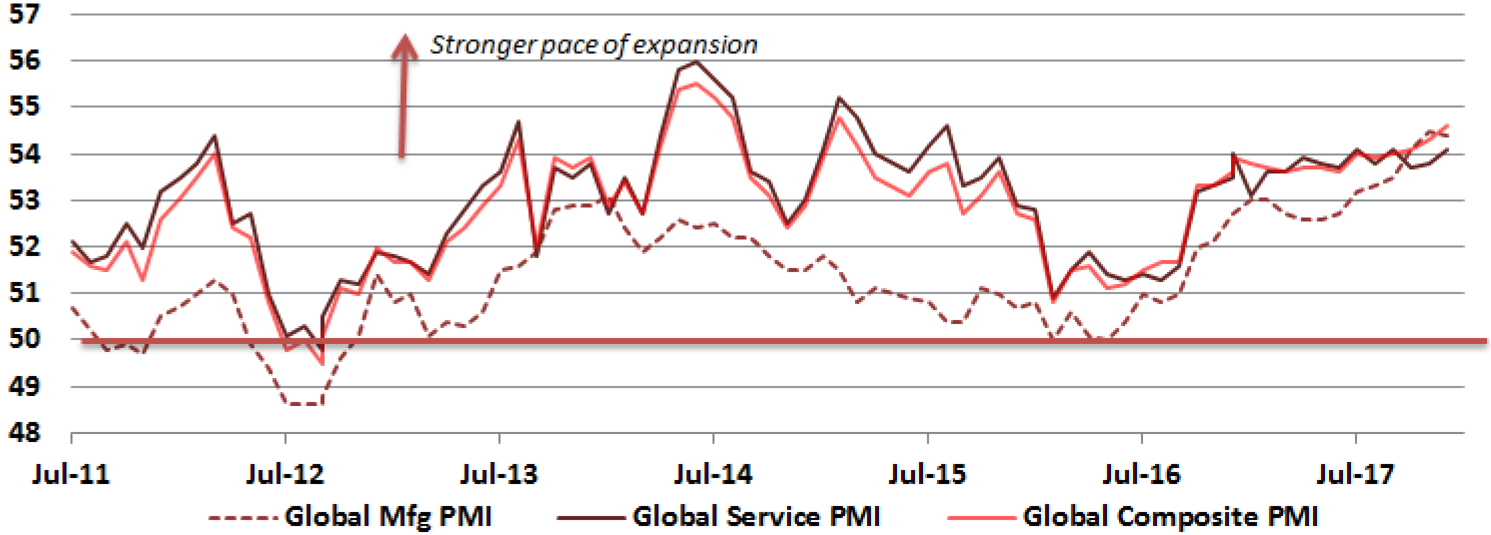
Source: World Bank's Global Economic Prospects January 2018

- **Global Economy**: According to the World Bank, global growth is expected to expand 3.1% in 2018 vs. an estimated 3.0% in 2017. Continued recovery in emerging market and developing economies more than offset a slight moderation in advanced economies.

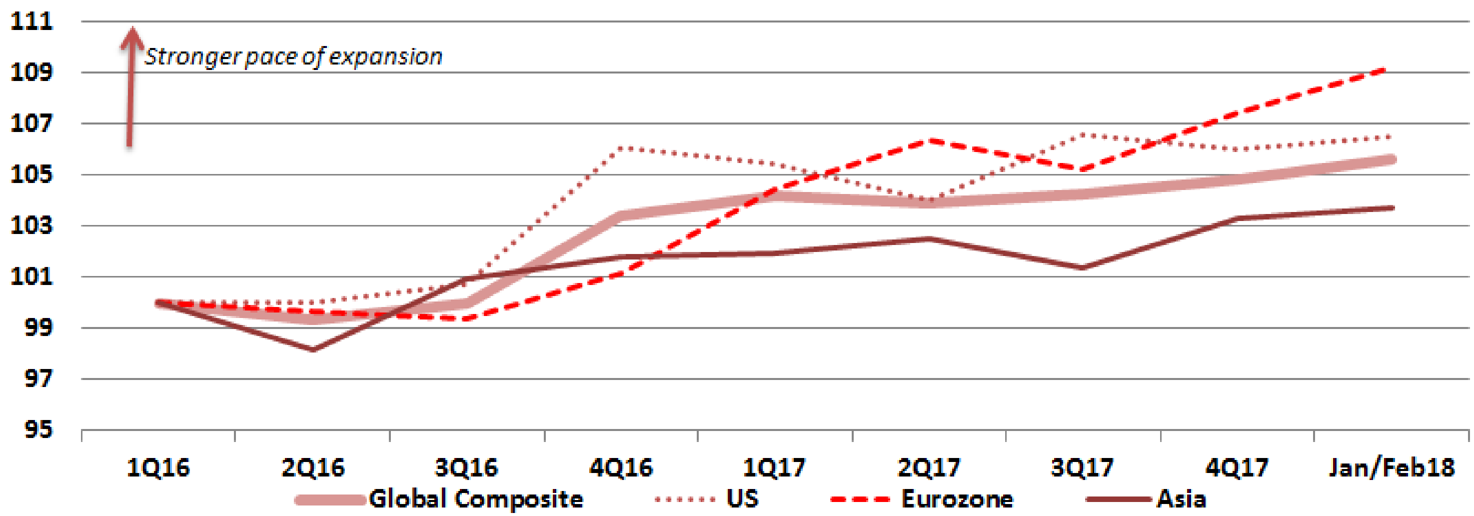
What's the economic data telling us so far…

Global economy started 2018 on encouraging note

IHS Markit Global Purchasing Managers' Index (PMI)

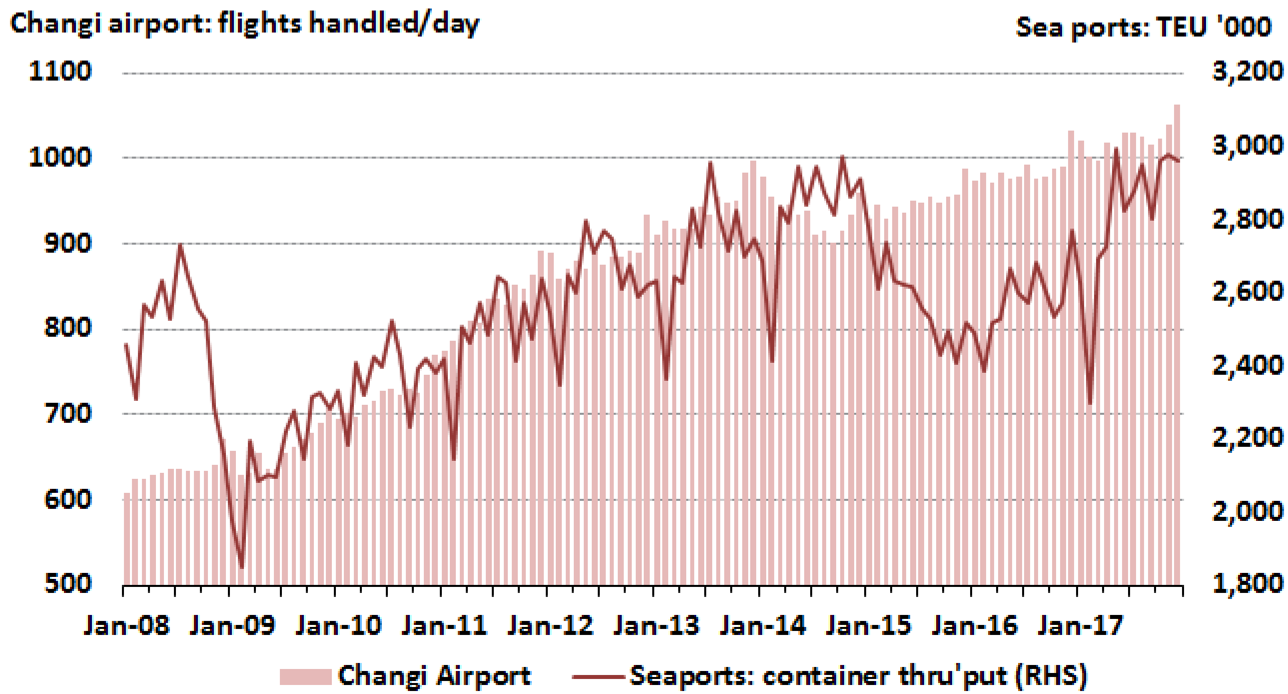


Jan-Feb 2018 PMI readings suggest a good start to global economy*



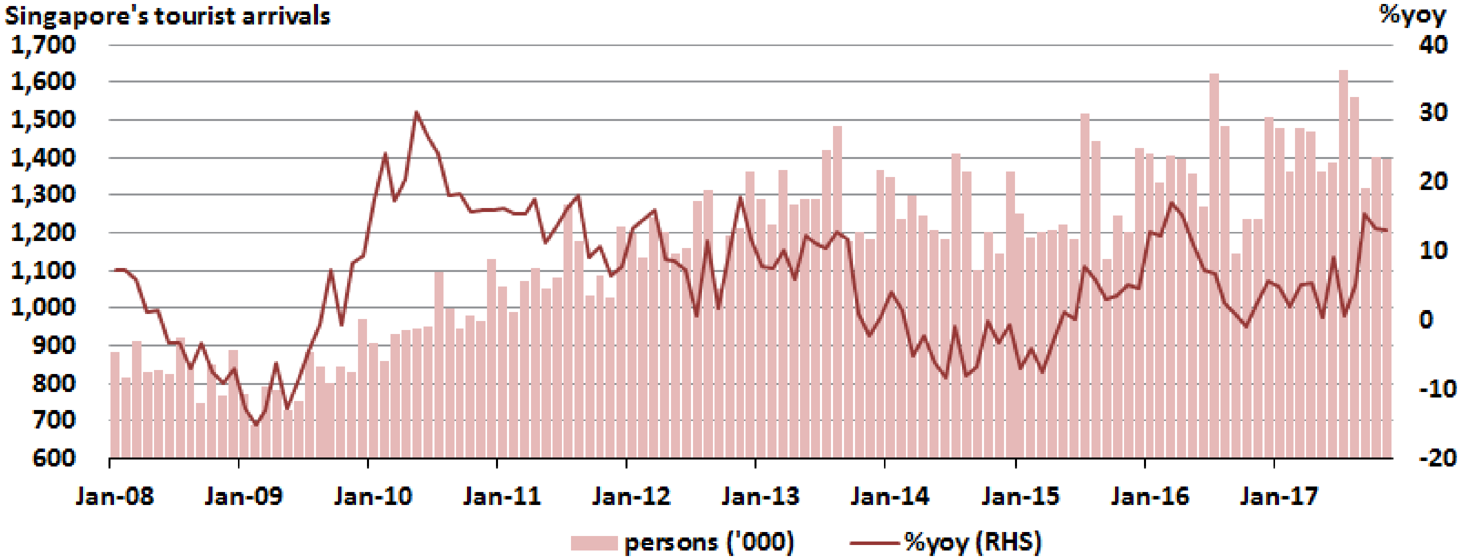
*Source: HIS Markit, * Proxy by the monthly IHS Markit Composite PMI readings, index rebased to 1Q16=100*

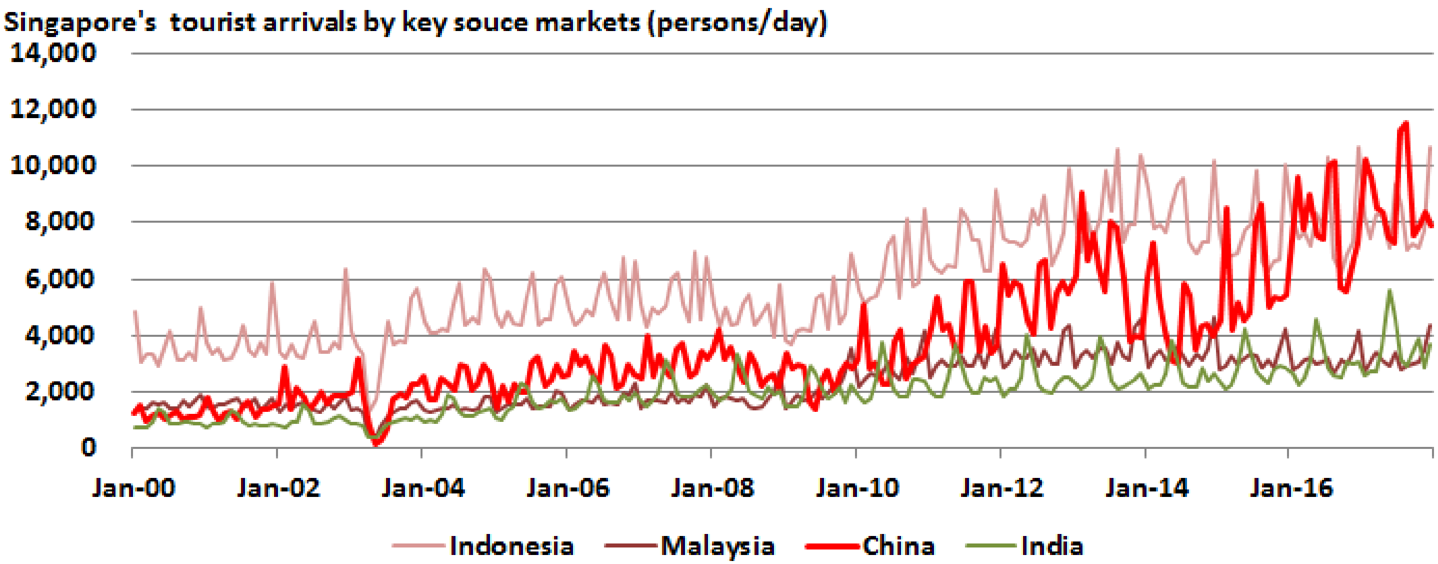
Busier S'pore ports are reflection of the pickup in global economic activities…



Source: CEIC, Bloomberg,

S'pore hospitality sector is recovering

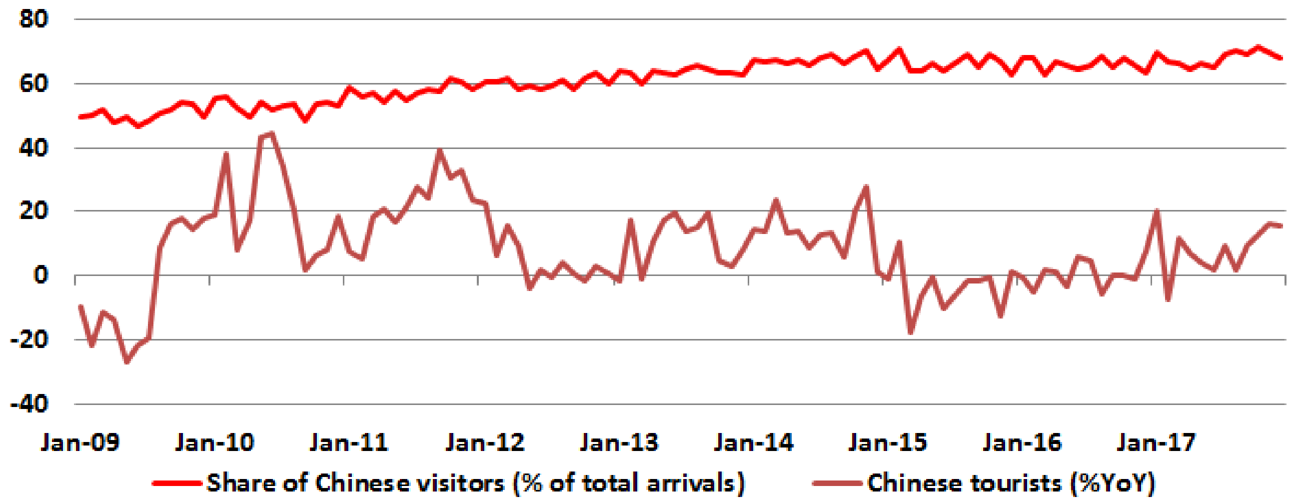




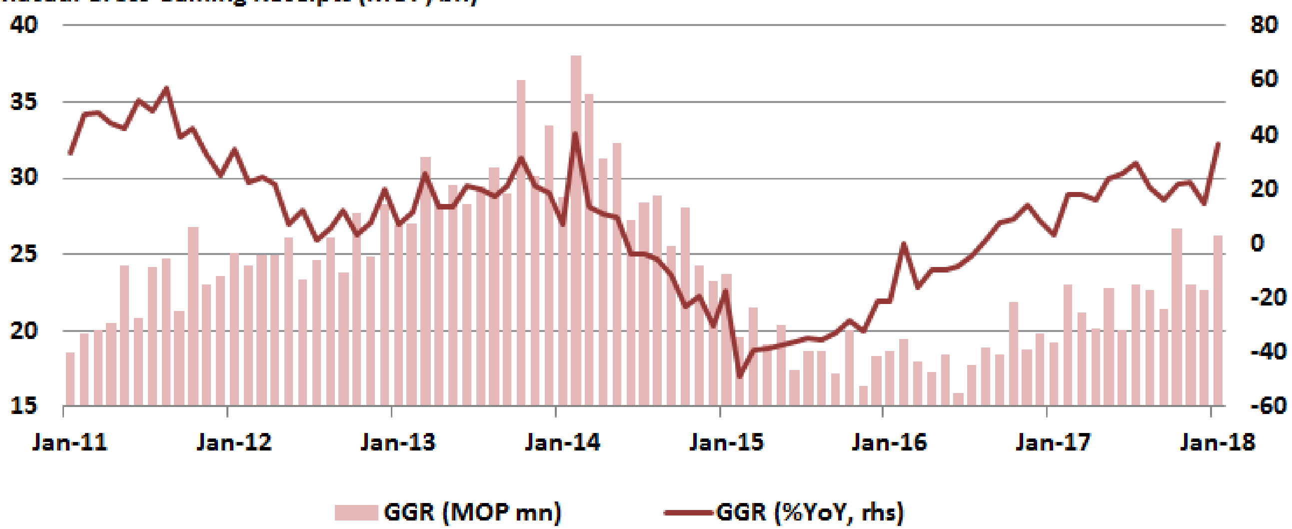
Source: CEIC, Bloomberg,

The casinos in Macau are much busier too

Macau: Share of Chinese tourists & Chinese tourist arrivals growth

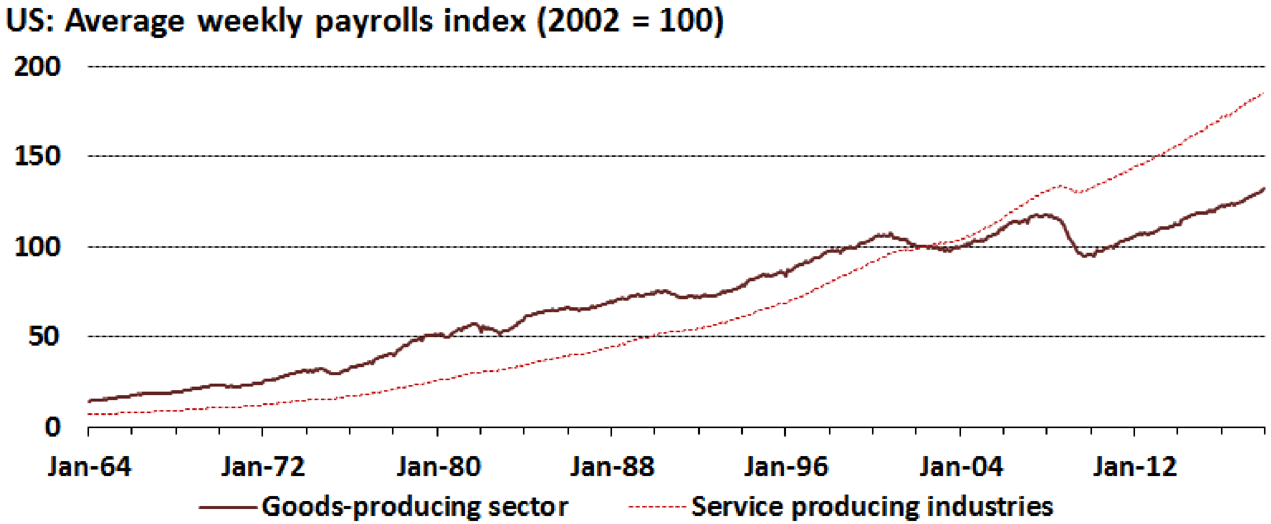


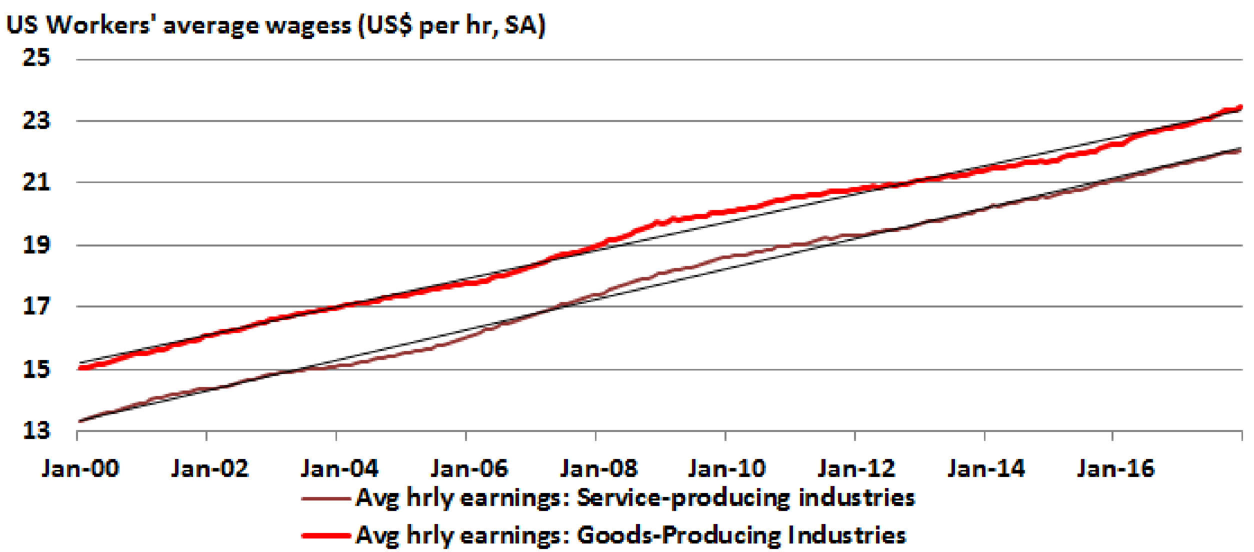
Macau: Gross Gaming Receipts (MOP, bn)



Source: CEIC, Bloomberg,

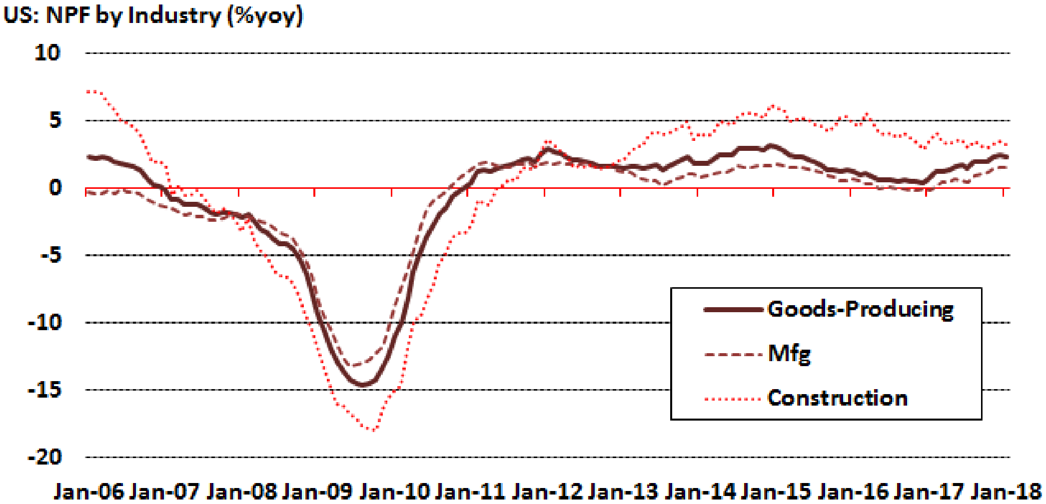
In the US, the economic recovery is supported by jobs recovery…

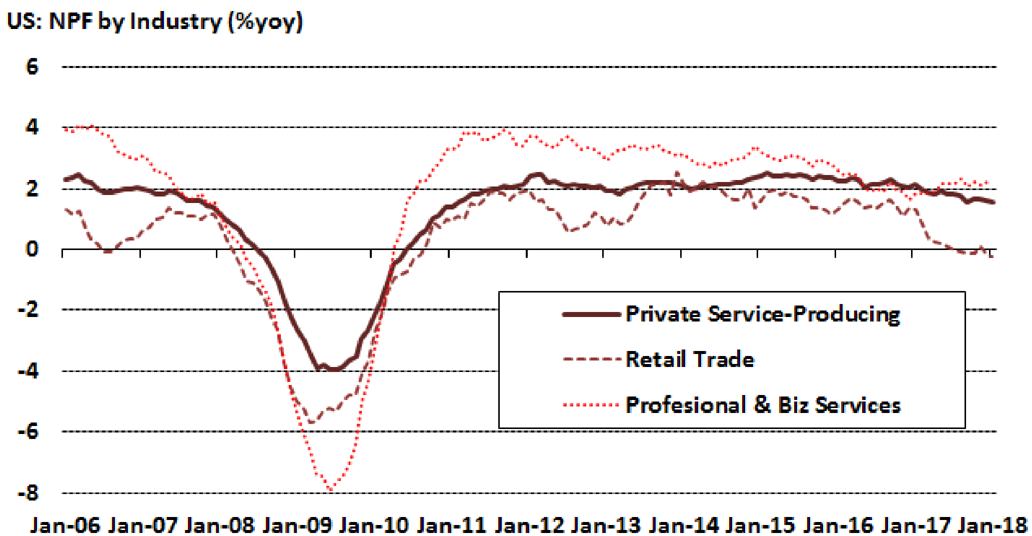




Source: CEIC, Bloomberg

…but not all US employers hiring…

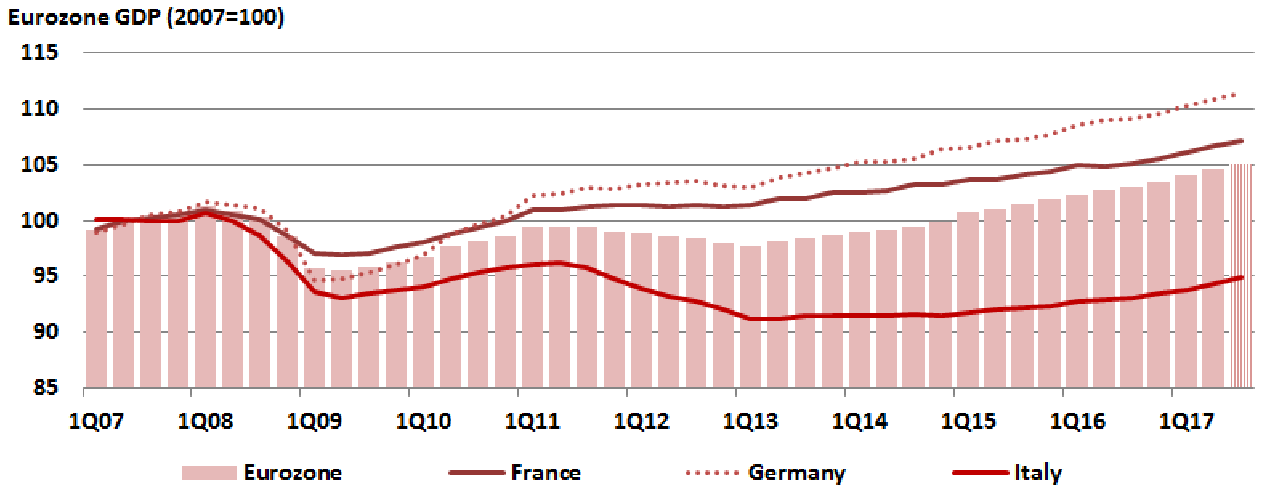


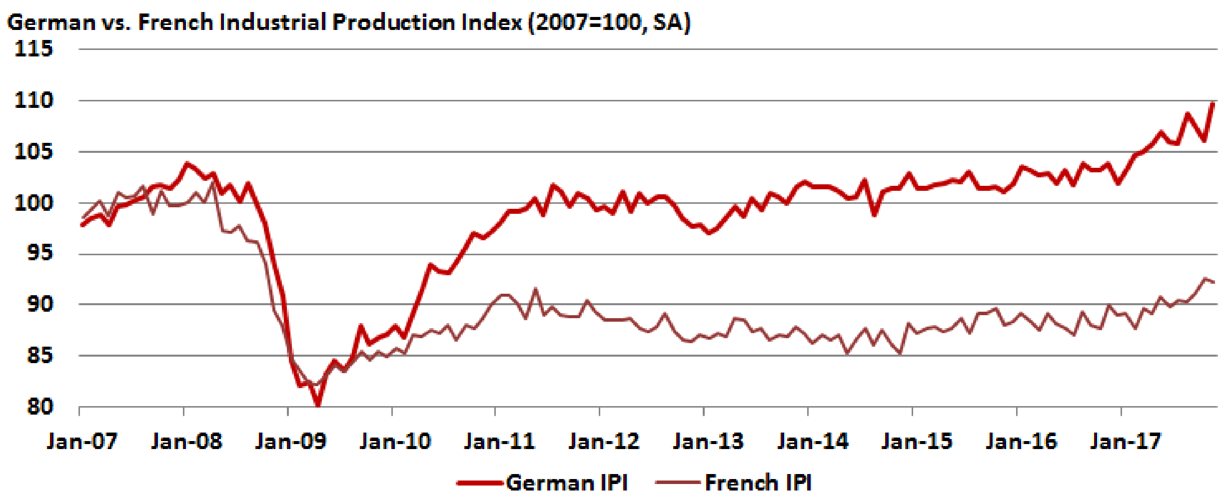


The US economy is still creating jobs on a sustained basis, driving jobless rate down to 17-year low. But not all sectors are adding to payrolls. Bricks-and-mortar Retail Trade (11% of NPF) has been disrupted by e-commerce. In 2017, this segment lost 29k jobs vs. +213k in 2016 (+182k in 2015), the first time this segment lost jobs since 2008/09

Source: Bloomberg, CEIC

Eurozone



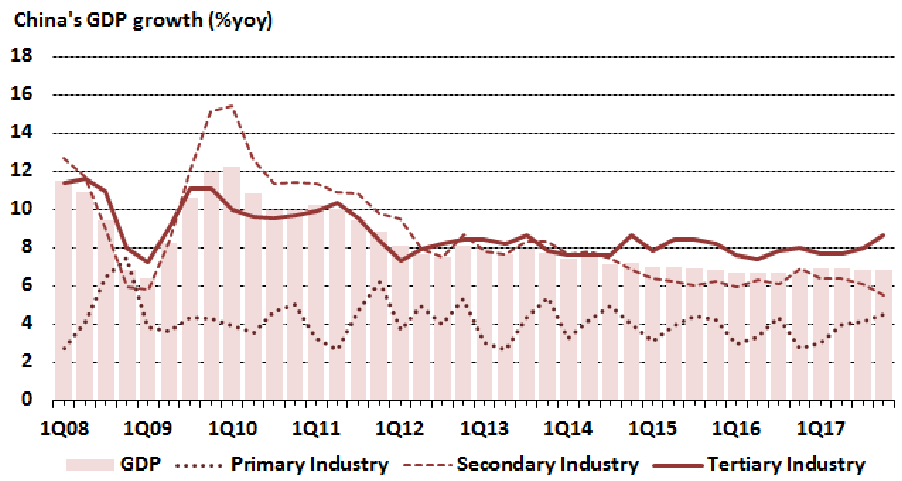


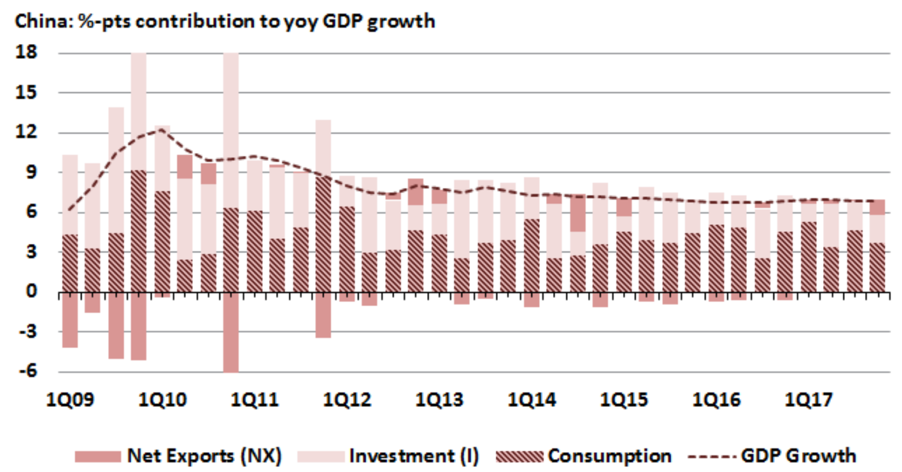
ECB more confident about recovery of the largest single market and recovery is broadening beyond Germany and France. The European Commission recently raised its Eurozone growth forecast for 2017 to 2.2%, the strongest pace of expansion since 2007, from 1.7% previously estimated. And, the GDP forecast for 2018 was raised to 2.1% in 2018 (vs 1.8% in spring) and at 1.9% in 2019. Stronger euro has not dented exports.

Source: Bloomberg, CEIC

China is on stable growth path

- **There are challenges in moving away from export- and investment-led growth**. Default risks could rise. China's unique financial system of state-owned borrowers and lenders may mitigate some risks. IMF forecasts China's growth to moderate to 6.5% & 6.3% in 2018/19. The economy grew 6.9% in 2017.
- **Post 19th National Congress of the Communist Party of China:** President Xi's ongoing restructuring efforts has been strengthened after his position in the party was elevated. He is now the most powerful Chinese leader since Mao Zedong as his name and his "Thought on Socialism with Chinese Characteristics for a New Era" is imprinted into China's Communist Party constitution together with his "military thinking" at the twice a decade congress. According to Pres. Xi, "the Communist Party of China will generate waves of positive energy which can build into a mighty and nationwide force driving China's development and progress". And, China is set to play a larger role in the global political and economic stage.
- **Notable milestones for China over next 5 years:** 2018 marks the 40th anniversary of China's "open door" policy. Deng Xiaoping set in train the transformation of China's economy when he announced a new "open door" policy in Dec 1978. Before then, China's main trading partners had been the USSR and its satellites. The country will celebrates the 70th anniversary of the founding of the People's Republic of China in 2019. Finally, the CPC will celebrates its centenary in 2021.





Source: Bloomberg and CEIC

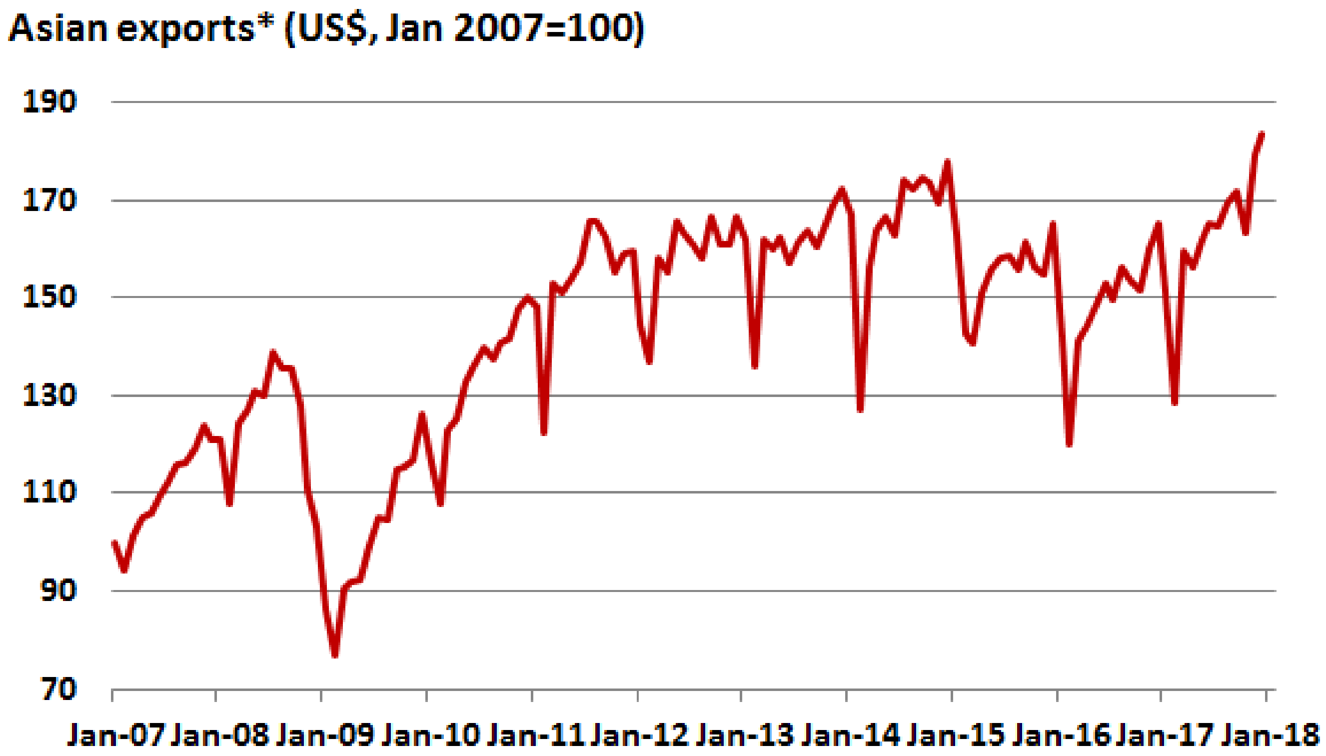
China's Belt and Road Initiative

- First proposed by China's President Xi in Sep 2013, the Belt and Road initiative focuses on connectivity and cooperation among 43 countries primarily between China, Eurasia, Oceania and East Africa. This development strategy and framework is to underscore China's push to take on a bigger role in global affairs by boosting "the interconnection between Asia and the rest of the world".
- In 2017, some 4,200 direct flights connect China with the BRI countries with 39 China-Europe freight train routes currently in operation. Nearly 3,600 freight trains have run with services reaching 27 Chinese cities and 28 cities in 11 countries in Europe.

Source: China Daily, Reuters

Asia

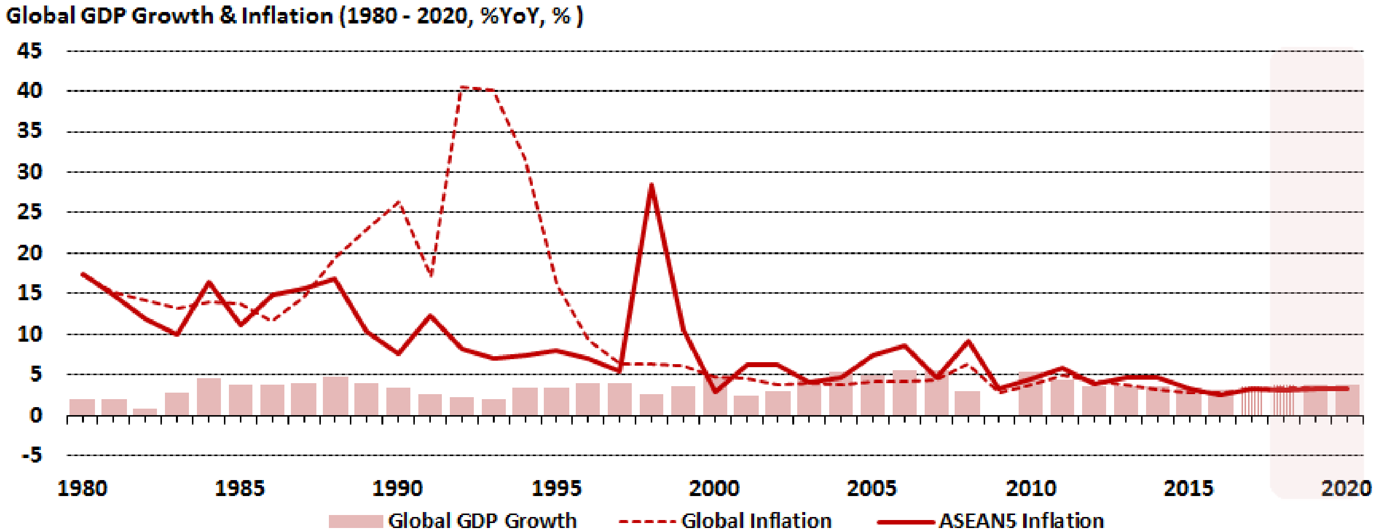
Encouraging macro news flows led by improved external demand

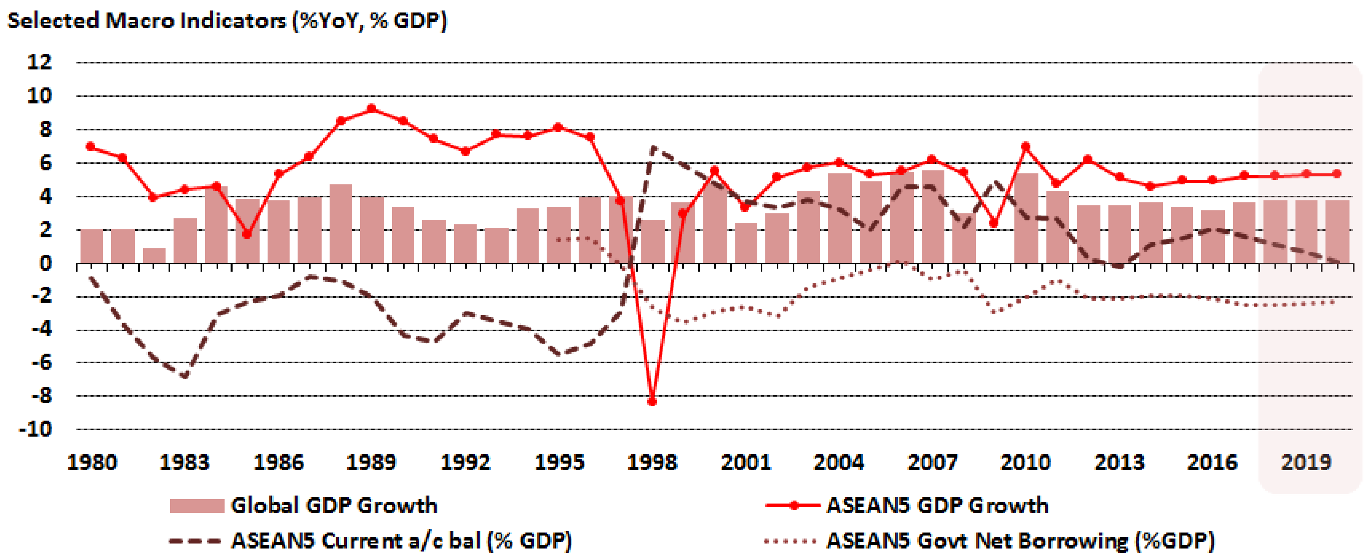


Source: Bloomberg, CEIC, CIMB PB

** China, Japan, S Korea, HK & ASEAN-5*

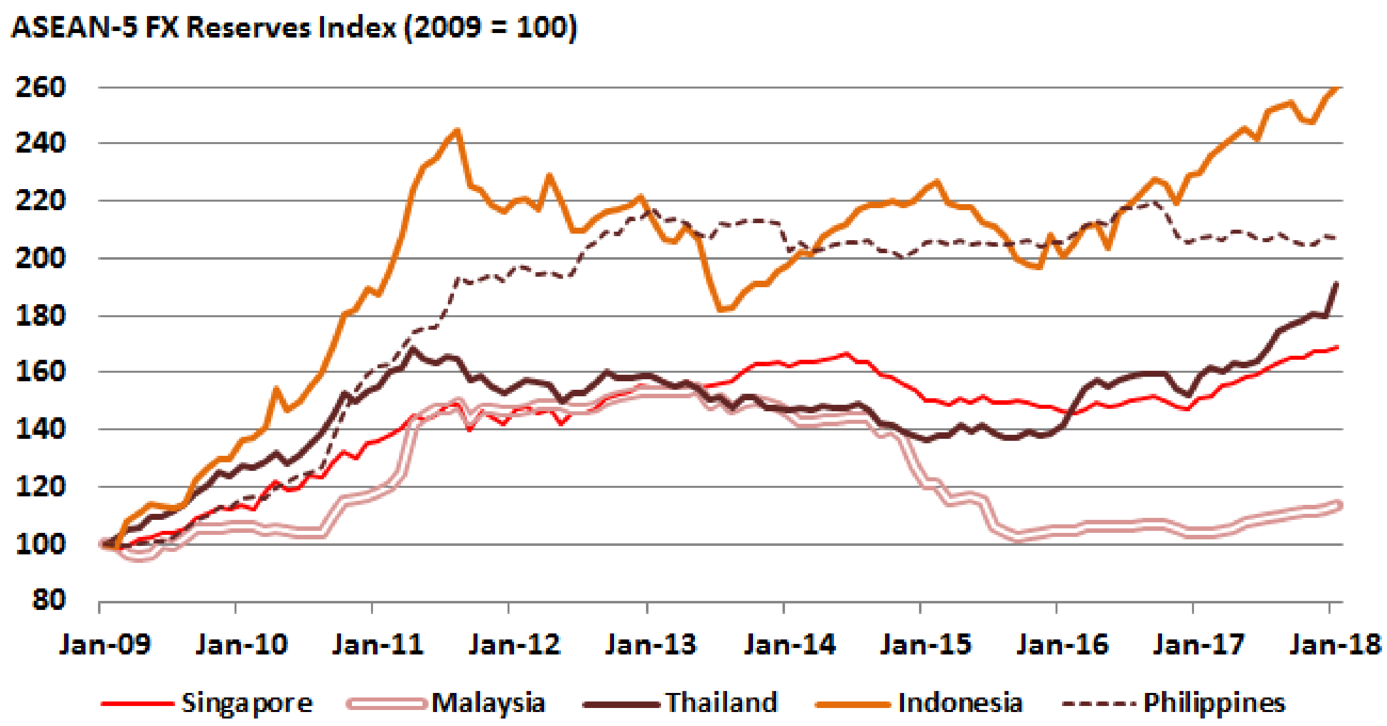
Favourable macro backdrop for this region





Source: IMF's World Economic Outlook, various years.

Favourable macro backdrop for this region…cont'd



Source: IMF's World Economic Outlook, various years.

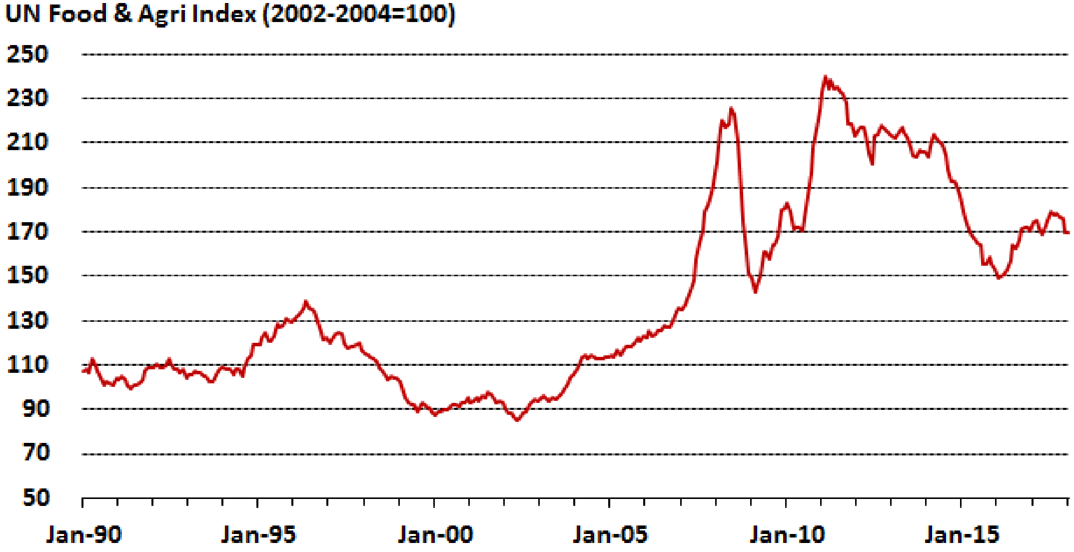
Key risks in 2018

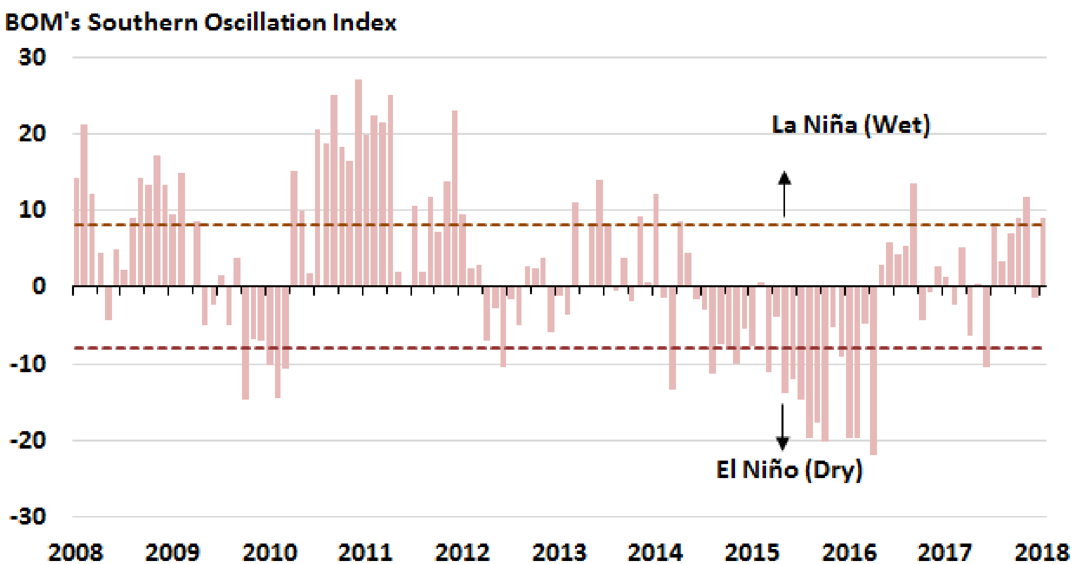
- **"Goldilocks" economy and patient central bankers had helped support market bulls. More of the same in 2018 or recent market volatility a sign of "normalisation"?**
- **Although more central banks are expected to normalising monetary policies in the coming months, the risks of an accelerated pace of global monetary policy tightening is low given relatively mild global inflation**
- **Policy missteps in China amid government efforts to soft-land property market. Containing leverage risks in the financial system could trigger a hard landing**
- **Geo-political risks still high in Middle East, East/South China Seas, Korea Peninsula, and North Africa and even in Europe. An erratic US President is an added destabilising influence although he has not done any real harm to the global economy. Brexit? Italian election?**
- **Trade wars? For a trade dependent city state, Singapore will be adversely affected by any disruptions to global trade**

Trade disruptions set to rise in 2018

- **Trade disruptions set to rise in 2018:** The US Commerce Department recently issued a report claiming that imports of steel and aluminium were a threat to US national security and providing President Trump with various options for remedies via a combination of either across-the-board tariffs, tariffs on specific countries, particularly China and Vietnam, or quotas. President Trump can accept or reject the report and implement any of the options or choose another.
- Given Pres. Trump's long-standing views on trade, tariff/quota protection is almost certain to ensue. Given the President's penchant for avoiding multilateral deals, he could impose higher tariffs for a reduced set of countries. In the case of steel that would mean a 53% tariff on 12 countries that include China, India, South Korea and Vietnam. The likely response of countries to tariffs at the levels being discussed would be tit-for-tat tariffs on US exports. For the US, higher prices and lower growth would ensue all in pursuit of a simplistic view of national security, better termed national insecurity.
- US tariffs on metals imports would be another step in the populist policy agenda that scapegoats foreigners and others, proposing solutions to problems that are far costlier than the problems they are designed to address. That said, trade has lost broad support in the US. The Trump administration is likely to continue with more trade protection in the run-up to the November mid-term elections, particularly in the face of the difficulties his administration is facing on the Russia investigation, immigration and sexual harassment.
- The next step in this area is likely to be sanctions against China for stealing intellectual property (IP). The US Trade Representative has already put out a report arguing the US industry losses due to IP rights violations are in the hundreds of billions of dollars. Such losses are the legal basis for seeking protection.
- Higher US metals tariffs, tit-for-tat trade sanctions by other countries, likely US IPR sanctions against China all point to diminished trans pacific trade flows. While some trade may be diverted to Asia, the net effect is likely to be negative. In the US, higher inflation will add to the market's expectations of higher interest rates, putting upward pressure on local rates and downward pressure on capital inflows.

Inflation risk: Return of La Niña cycle





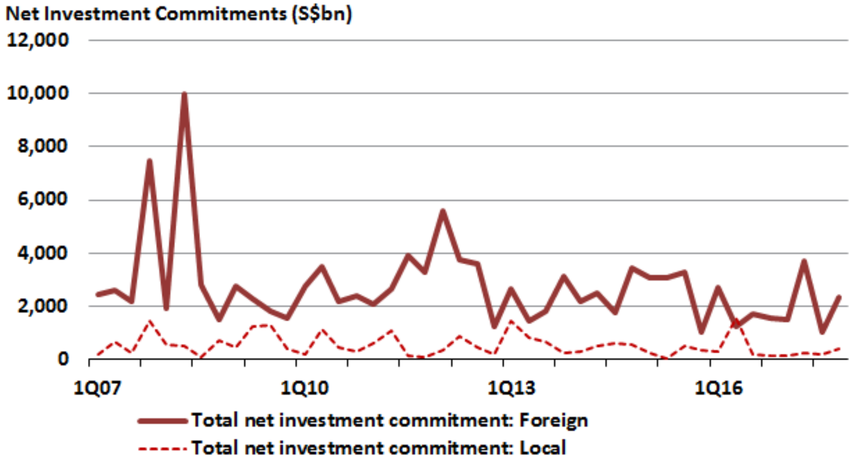
- In 4Q17, Australia's Bureau of Meteorology (BOM) had announced that the Bureau's ENSO Outlook has been raised to La Niña, indicating that the tropical Pacific has reached La Niña levels. However, BOM added that this current cycle is likely to be less severe than during the last La Niña cycle over 2010–2012
- In February, BOM announced that the La Niña conditions in the Pacific Ocean continues to decline, with most models forecasting La Niña will end early in the southern hemisphere autumn.

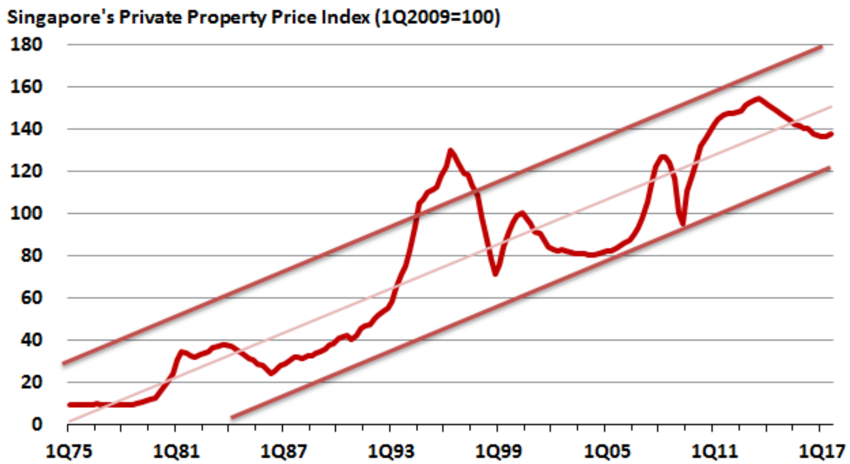
Source: CEIC, Bloomberg, Australia's Bureau of Meteorology

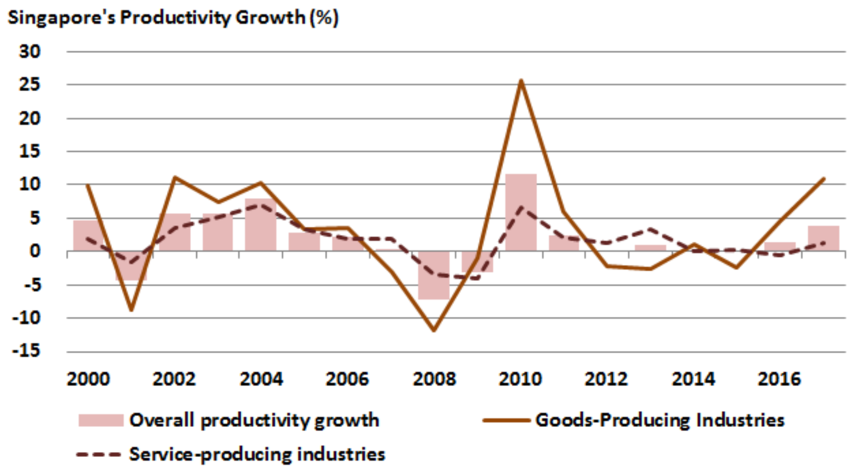
Singapore Budget 2018:

Future-proofing the small city state without breaking the bank

Singapore: Economy on more stable ground

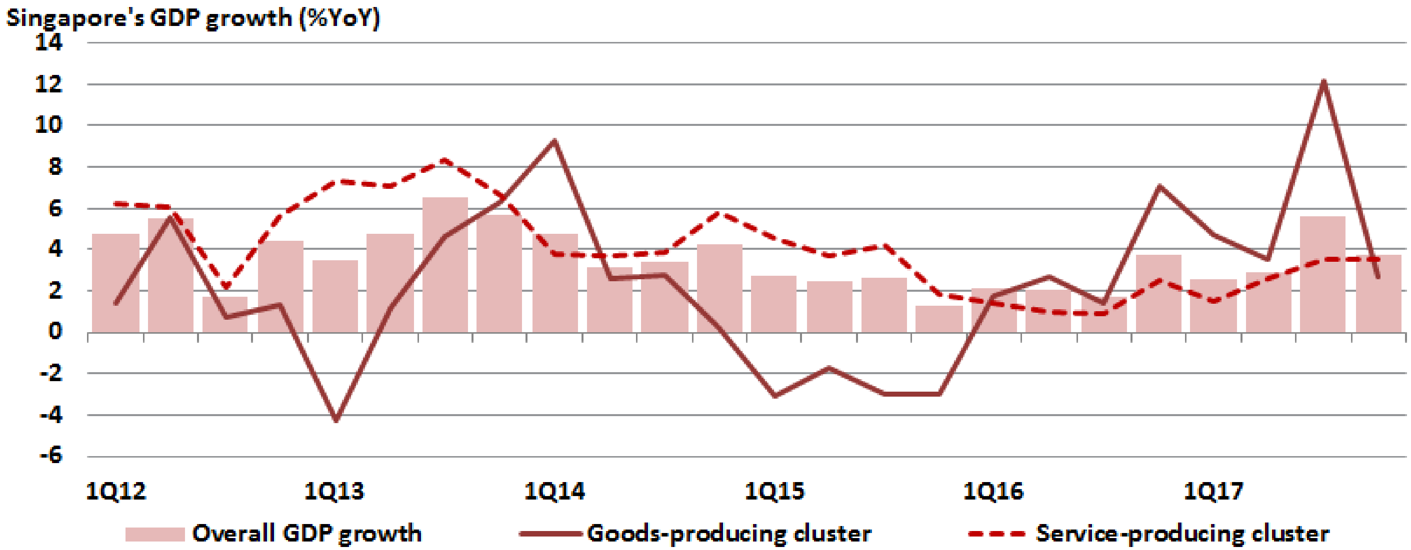


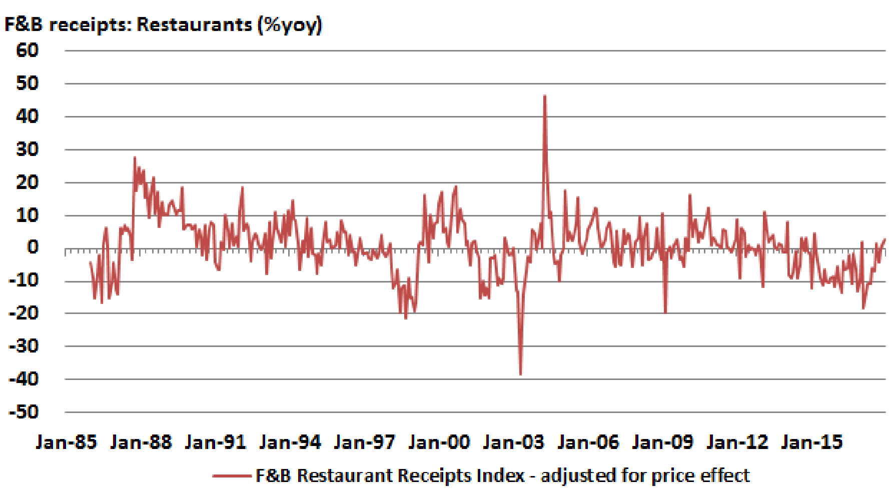


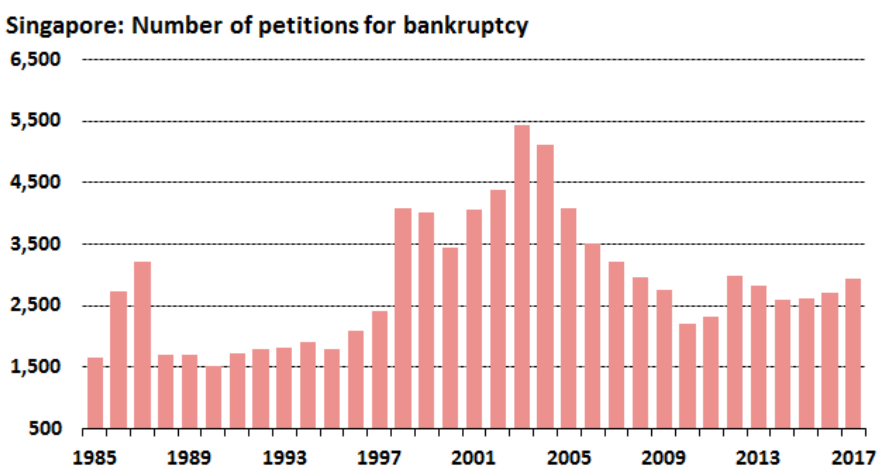


Source: CEIC. Bloomberg

…but not all businesses doing well

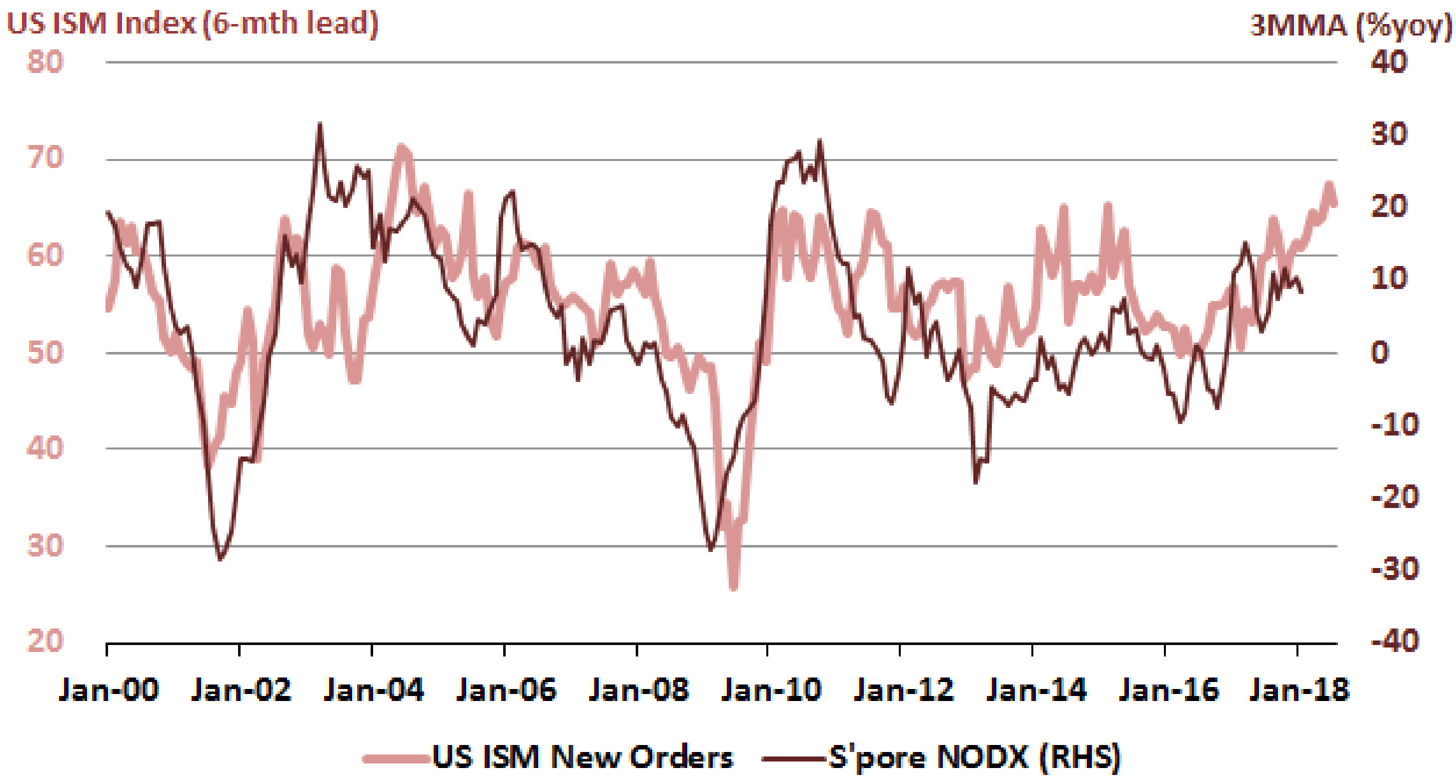






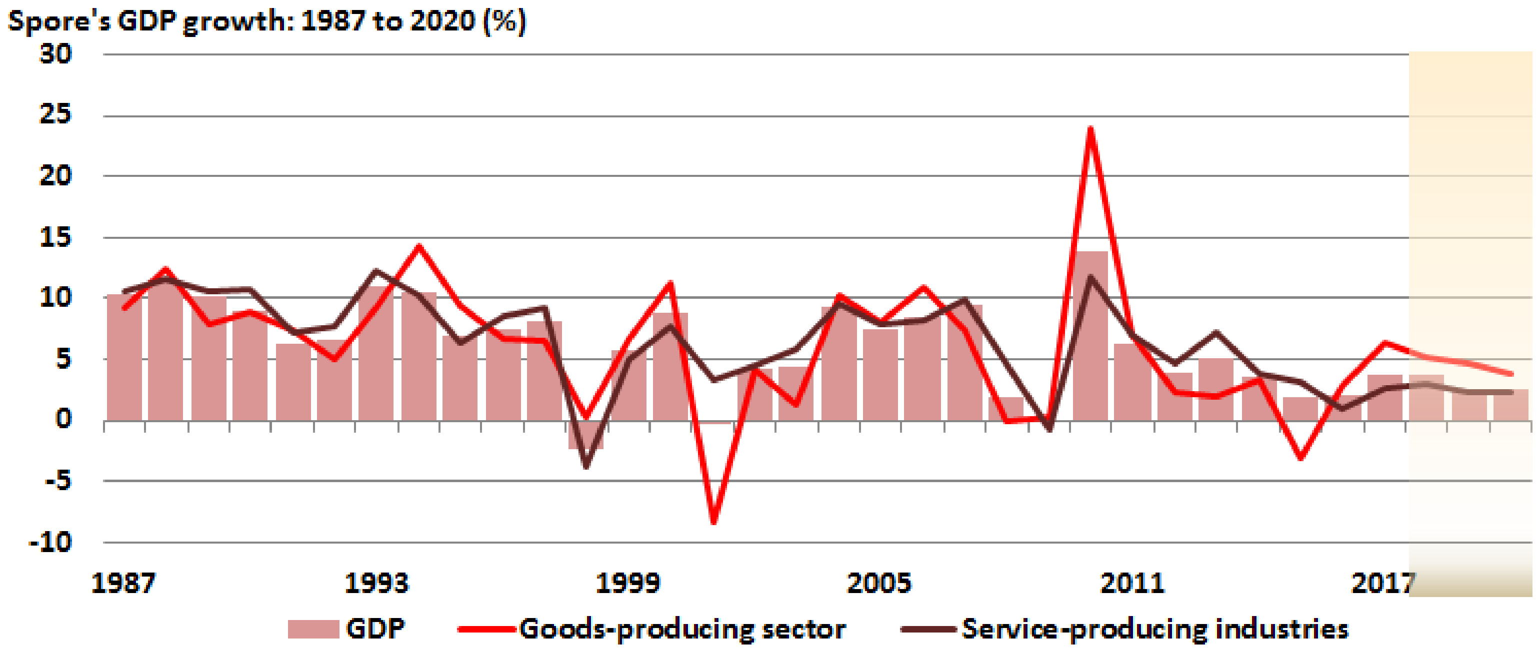
Source: Bloomberg, CEIC

Positive near-term outlook for Singapore's non-oil exports



Source: Bloomberg, CEIC

Medium-term macro outlook for Singapore

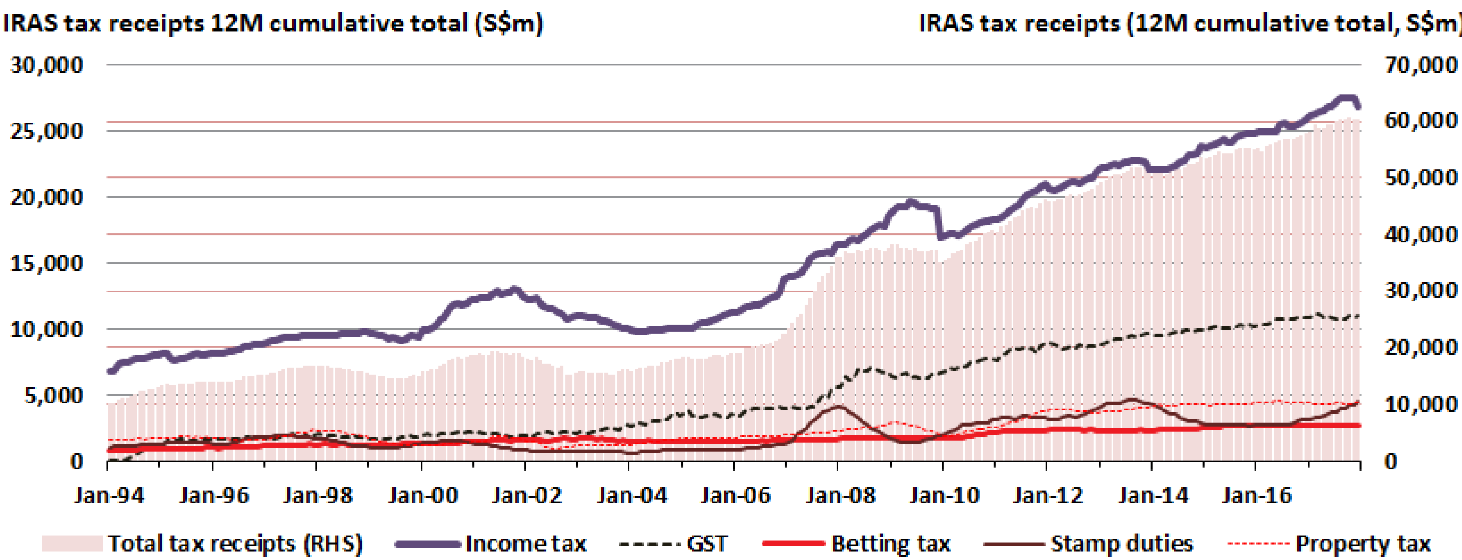


Budget 2018: Pragmatic fiscal stance

Singapore Govt Budget ($bn)

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17r	FY18f
Operating revenue*	**28.5**	**25.5**	**25.3**	**27.5**	**28.2**	**31.3**	**40.4**	**41.1**	**39.5**	**46.1**	**51.1**	**55.8**	**57.0**	**60.8**	**64.8**	**69.0**	**75.2**	**72.7**
% chge from previous yr	-9.4	-10.6	-0.6	8.5	2.6	11.1	29.0	1.8	-3.7	16.5	10.9	9.3	2.2	6.7	6.6	6.4	9.0	-3.3
Total spending	**27.3**	**27.2**	**28.5**	**29.0**	**28.6**	**29.9**	**33.0**	**38.1**	**41.9**	**45.3**	**46.6**	**49.0**	**51.7**	**56.6**	**67.4**	**71.0**	**73.9**	**80.0**
% chge from previous yr	-2.2	-0.6	5.0	1.6	-1.1	4.4	10.3	15.5	10.0	8.2	2.7	5.2	5.6	9.5	19.1	5.3	4.0	8.3
Operating expenditure	**18.5**	**19.4**	**20.0**	**20.4**	**21.4**	**23.9**	**26.0**	**28.7**	**30.9**	**33.3**	**35.2**	**36.4**	**39.7**	**42.7**	**48.1**	**52.1**	**56.1**	**57.7**
% chge from previous yr	0.7	4.4	3.3	1.8	5.4	11.6	8.5	10.7	7.6	7.6	5.6	3.6	9.1	7.5	12.7	8.4	7.6	2.8
Development expenditure	**8.8**	**7.8**	**8.5**	**8.6**	**7.2**	**6.0**	**7.0**	**9.4**	**11.0**	**12.1**	**11.4**	**12.6**	**12.0**	**14.0**	**19.4**	**18.9**	**17.8**	**22.4**
% chge from previous yr	-7.6	-11.1	9.2	1.1	-16.4	-16.8	17.5	33.1	17.4	9.9	-5.4	10.3	-4.6	16.3	38.6	-2.3	-5.8	25.4
Primary fiscal balance	**1.2**	**-1.7**	**-3.2**	**-1.5**	**-0.5**	**1.4**	**7.4**	**3.0**	**-2.3**	**0.7**	**4.5**	**6.8**	**5.3**	**4.2**	**-2.6**	**-2.1**	**1.2**	**-7.3**
% GDP	0.8	-1.0	-1.9	-0.8	-0.2	0.6	2.7	1.1	-0.8	0.2	1.3	1.9	1.4	1.0	-0.6	-0.5	0.3	-1.2
LESS Special Transfers	**5.3**	**1.8**	**0.6**	**1.2**	**2.7**	**3.6**	**2.1**	**7.1**	**5.5**	**7.1**	**8.4**	**8.9**	**8.6**	**12.8**	**10.5**	**6.4**	**6.2**	**9.1**
ADD NIR	**1.4**	**3.7**	**1.9**	**3.0**	**2.8**	**2.8**	**2.4**	**4.3**	**7.0**	**7.4**	**7.9**	**7.9**	**8.3**	**8.6**	**9.9**	**14.6**	**14.6**	**15.9**
Overall budget balance*	**-2.7**	**0.2**	**-1.9**	**0.3**	**-0.4**	**0.7**	**7.7**	**0.2**	**-0.8**	**1.0**	**4.0**	**5.8**	**5.0**	**-0.1**	**-3.3**	**6.1**	**9.6**	**-0.6**
% GDP	*-1.7*	*0.1*	*-1.1*	*0.2*	*-0.2*	*0.3*	*2.8*	*0.1*	*-0.3*	*0.3*	*1.1*	*1.6*	***1.3***	***0.0***	***-0.8***	***1.4***	***2.1***	***-0.1***

NOTE: FY = Financial Year covering April 1 to March 31, r = revised, f = forecast, e = estimated,
* excludes capital receipts



Source: MoF, CEIC. Bloomberg

Singapore Budget 2018: Playing the long game

- **Creating bandwidth to tackle long-term structural challenges:** Budget 2018 has sought to expand measures to address longstanding challenges that include "future-proofing" the economy, a rapidly-ageing population and ensuring fiscal sustainability. The government said it has sufficient resources to meet planned spending until 2020, and hence, the announcement of pre-emptive steps to bridge the growing gap in spending needs was made with the next decade in mind.
- **2% hike in GST proposed for 'sometime' in 2021-2025:** Subject to prevailing economic conditions, the government has proposed to raise the goods and services tax (GST) progressively by 2% sometime in the earlier part of 2021 to 2025, which skirts around the next election due in Jan 2021. This would be the first GST hike since 2007, when the rate was increased from 5% to 7%, and adds 0.7% of GDP annually to the fiscal coffers. Mitigating measures include: 1) absorption of GST on public healthcare and education, 2) top up of GST voucher fund, and 3) a GST offset package
- **Taxes shape incentives on the environment, equitability and health:** The Budget Speech revealed details of a S$5/tonne carbon tax on facilities with emissions exceeding 25,000 tonnes in 2019 to 2023, after which the rate is up for review, with an end target of S$10-15/tonne by 2030. To expand the tax base and level the playing field, the government imposed GST on imported services effective 1 Jan 2020. A broad "e-commerce" tax may be introduced when the new 9% GST rate kicks in.
- **In a nod to progressive taxation**, buyers' stamp duty (BSD) for residential property will increase from 3% to 4% for properties valued at more than S$1m, effective 20 Feb 18. BSD for non-residential properties will remain unchanged at 1% to 3% Upcoming enbloc deals (i.e. those that have not signed any sale agreements) would have higher all-in land cost with the higher stamp duty. This may dampen the appetite for new enbloc transactions and slow the pace of new completions in the medium term when these sites are redeveloped.
- **"Sin" taxes are always handy for government coffers.** The government raised the tobacco excise duty by 10%.

Singapore Budget 2018…cont'd

- **Financing an ageing population and infrastructure upgrades:** The demographic shift to an ageing population is increasing the strains on public spending, the government said. Predictably, Budget FY2018 devoted ample resources to helping households cope with the costs associated with elderly care, healthcare and education. A higher-than-estimated budget surplus of S$9.6bn in FY2017 (vs. forecast of S$1.91bn) also allowed the government to set aside funds for rail infrastructure (S$5bn), health subsidies (S$2bn) and dole out a one-off SG Bonus of S$100 to S$300 to Singaporeans aged above 21 tiered by accessible income in YA2017 totaling S$700m.
- The plans for infra financing via infra fund-based bonds issuances by stats boards guaranteed by the (AAA-rated) Singapore govt, not only: 1) deepened the local bond market, 2) provides banks with high quality papers to achieve capital compliance (under Base III) but, 3) it may mean the Singapore government does not have to go back to taxpayers as often for "lumpy" funding needs.
- **Future-proofing Singapore…** Talk of the future was not limited to life, death and taxes, as Budget FY2018 also ruminated on themes from recent Budgets centered on establishing a vibrant and innovative economy. Policies included extensions of the Wage Credit Scheme, the corporate income tax rebate, the Career Trial Scheme, Productivity Solutions Grant, tax deductions on licensing payments and R&D, and were particularly targeted at SMEs.
- **… without breaking the bank**. Officials expect the economy to grow 1.5-3.5% in 2018 (+3.6% in 2017), with operating revenue projected to fall 3.3% to S$72.7bn against total spending of S$80.0bn (+8.3%), yielding a primary deficit of S$7.3bn or 1.6% of GDP. After factoring in NIR and Special Transfers, Singapore's budget deficit is estimated at S$0.6bn or 0.1% of GDP in 2018. To maintain prudence, the government will also cap the growth in ministries' block budgets to 0.3x of GDP growth in FY2019 from 0.4x in FY2018.

Budget 2018: Implications for S'pore equities

- **Higher stamp duty rate** may dampen the appetite for new enbloc transactions. Nonetheless, CGSCIMB remains positive on the residential developers and maintain Add ratings on UOL (UOL SP, Add, TP S$9.62) and City Dev (CIT SP, Add, TP S$13.15).
- **Healthcare spending** will rise to at least S$13bn over the next decade, or c.3% of GDP (2.2% currently). Additional healthcare facilities and hospital beds are unlikely to threaten private hospital players like IHH and Raffles Medical Group (RFMD). The hospital bed density in Singapore is still low at 2.5 beds per 1000 people, vs. developed nations like Japan and Korea. The market share of private hospital inpatient admissions has also been stable in recent years. *CGSCIMB has Add ratings on IHH (IHH MK, TP RM6.36) and RFMD (RFMD SP, TP S$1.24), which have ventured overseas for exposure and growth.*
- **Higher infrastructure spending.** A S$20bn budget has been set aside for infrastructure spending in 2018, above the S$16bn-19bn forecast for public construction demand announced by BCA in January. *CGSCIMB sees civil engineering company Yongnam (YNH SP, ADD, TP S$0.53) as a beneficiary*.
- **S$700m one-off SG bonus for Singaporeans (>21 years old)**. The "hongbao" could give a slight boost to private consumption. However, the operating environment for the retail sector continues to be challenging and the scope for retail landlords to raise rents significantly would e limited. For investors who would like exposure to retail landlords, *CGSCIMB prefer retail REITs, trading at attractive valuations, such as MCT (MCT SP, Add, TP S$1.75) and FCT (FCT SP, Add, TP S$2.41).*
- **Tax transparency for S-REITs ETF**. Distributions made by S-Reits to S-Reits ETFs out of specific income derived by S-Reits are now subject to the prevailing corporate tax rate of 17%. Following the FY18 Budget, the tax transparency applied to S-Reits distributions will now apply to S-Reit ETFs. This means that the Reits ETF will not be subjected to tax on the specified income that is distributed to the unitholders. This is positive for S-REITs ETFs and should encourage more investments into ETFs or more REIT ETFs being established.

Looking ahead: Major policy challenges

- **In the near to medium-term: The impact of the "sharing" economy, e-commerce, disruptive technologies, on bricks and mortar business businesses is already apparent, and it will be even more so in coming years. Policy makers will continue to address this issue because it will drastically change the way we live, work and do the business.**

- **Businesses must adapt to changing business conditions or become redundant. <u>Depending on "economic hand-outs" merely delaying the inevitable.</u> Disruptive technologies will destroy some "old" jobs while creating others.**

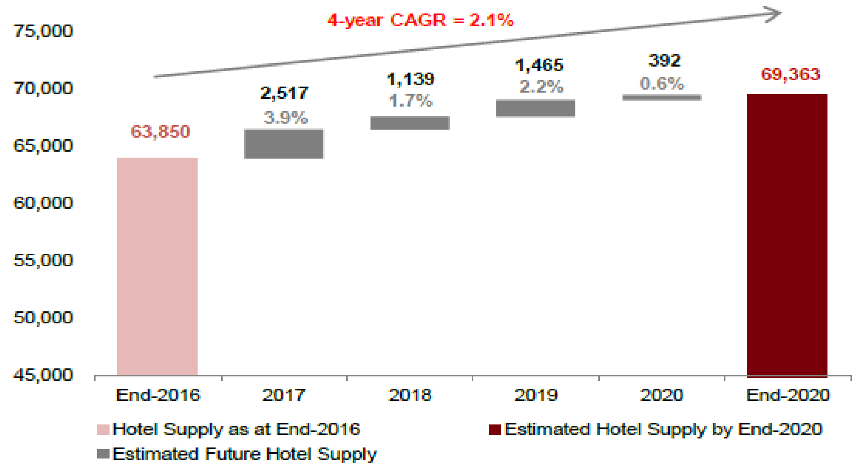
- **Added policy challenge is the <u>aging population</u>. In the last decade, S'pore resident life expectancy at birth rose from 80 yrs in 2006 to 83 yrs in 2016, and the resident population has grown older. As at end-June, the proportion of residents aged 65 yrs and over has increased from 8.5% in 2007 to 13.0% in 2017, according to the Dept. of Statistics Singapore. There are now fewer working-age adults to support each resident aged 65 yrs and over as indicated by the falling resident old-age support ratio from 7.7 in 2007 to 5.1 in 2017.**

STI Outlook: Leveraged to global growth

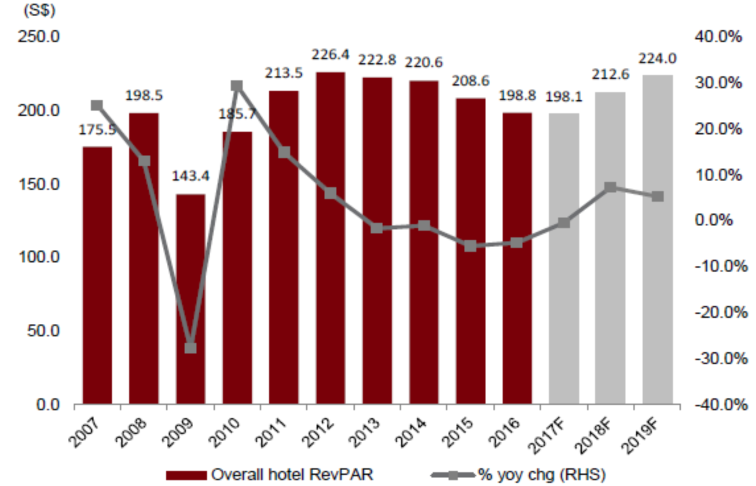
- Singapore is experiencing firmer growth given improved global trade. An improving property market also should bode well for confidence. There is limited scope for re-rating given STI's 14x 2018 PER but share prices can continue to trend higher as corporate deliver earnings growth. CGSCIMB Research (CGSCIMBR) has year end-2018 target of 3600 for the STI, supported by 7.6% projected EPS growth.
- CGSCIMBR favours recovery stories with strong re-rating potential as earnings improvements beat expectations. These include stocks in the telecom, e-commerce/logistics, consumer and property sectors.
- Rising rates favour Singapore banks but may not be same for S-REITs. However, any pullback in S-REITs when interest rates rise would be an opportunity to invest for income growth as demand improves, and oversupply dissipates in 2018.

STI: A Note on Hospitality

Supply is tapering



RevPAR could climb to peak levels



- **CGSCIMBR calls stronger recovery in industry RevPAR (Revenue Per Available Room). CIMBR forecast hotels' RevPAR to improve 7% yoy in 2018F vs 3% previously.**
- **Together with the lack of new land for hotels, CGSCIMBR believes limited supply going forward will underpin a recovery in RevPAR.**

Thank You & Happy Lunar New Year!