18 July 2024

Global Economics & Market Strategy

Trump 2.0? – Five Scenarios We Think Will Happen

- **We pen five scenarios we think will happen if Trump is re-elected as the 47th US president, with topics ranging across geopolitics, dedollarisation and rates, as well as the implications on the global and ASEAN economies.**
- **Arguably, a Trump-win in the upcoming November 2024 US Presidential Election will mean (1) a weaker dollar, (2) stronger US-centric equities, and (3) higher global inflation pressures.**
- **Key trade ideas for a Trump-win are to (1) long DM-equities, especially US-centric, (2) short the DXY, and (3) buy UST on dips. We look for higher market volatility over in the next four months, with the US FOMC likely to refrain from cutting rates in 3Q24 on the back of tariff-induced inflation risk.**

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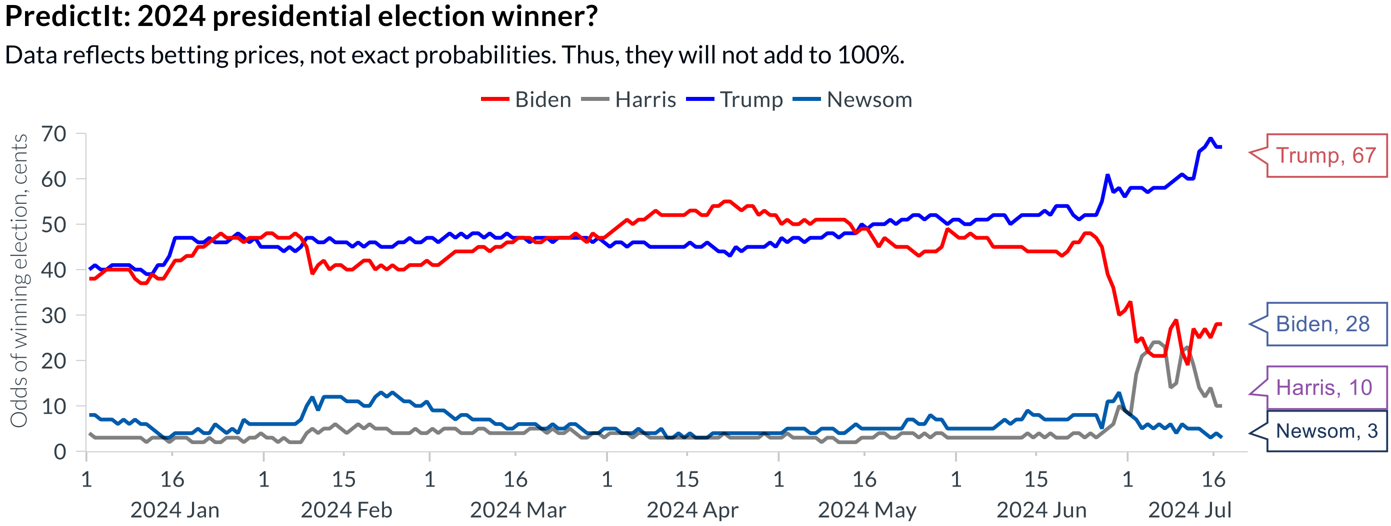
A Four-Month Wait - Winter is Coming

Many Americans look forward to winter, which typically starts in December and lasts till March. From now till then, holidayers may dream of a white Christmas, ice-skating in New York, or mounting a sleigh ride in Lake Tahoe. It is merely four months till the end of autumn and the coming of winter. Coincidentally, perhaps, it is also four months more before Americans head to the presidential polls. It could be a short wait for some. But for global markets, the long four months towards winter may mean increased volatility, uncertainty, and the likely presence of short-term risk-off appetite as political noise loudens.

Western media has been arguably mixed on how markets may react should Donald Trump win the 60th U.S. Presidential election. According to Reuters[1], the recent gains in Wall Street were from investors firming bets on a Trump win, while the Economist[2] views market concerns as "more terrible than its reality". On the flip side, others quickly retorted, with former Department of Homeland Security chief of staff Miles Taylor[3] citing that another Trump presidency will be worse than the first one, with The Atlantic[4] echoing a similar message. Suffice it to say, the relatively polarised views at this juncture will only simply reinforce the political haze seen in how market assets may trend.

What is clear, however, is that polls are broadly indicating a Trump-win, albeit it is normal for polls not to match the final results, sometimes by considerable amounts. Political scientists are arguing that the recent assassination attempt has helped Trump's popularity amongst the Make America Great Again (MAGA) base[5]. The PredictIt Poll results, which incorporate post attempted assassination results, already indicate an almost-sure-win scenario for Trump.

Figure 1: MAGA and the attempted assassination have clearly helped Trump's popularity



Source: The New York Times (Link)

With the new information we gathered, as aforementioned, we pen five scenarios we think will happen if Trump is re-elected as the 47th US president, with topics ranging across geopolitics, dedollarisation and rates, as well as the implications on the global and ASEAN economies. In a nutshell, we curated five scenarios (amongst many others), on how the world may be in a Trump win in the upcoming US Presidential Election: We detail the five scenarios below:

1. China tensions and negative spillover to ASEAN
2. Political pressure to cut rates
3. Stronger global drive to de-dollarise
4. Increased geopolitical noise
5. Bifurcation of world order

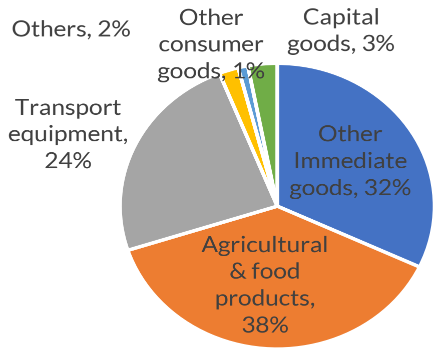
[1] Reuters, Wall St ends higher as investors firm bets on Trump win, rate cuts, 16 July 2024
[2] The Economist, Trumponomics would not be as bad as most expect, 11 July 2024
[3] Time.com, Another Trump Presidency Would Be Even Worse Than You Think, 12 July 2023
[4] The Atlantic, If Trump Wins, A Warning, February 2024
[5] Kelly R., Trump assassination attempt may have just won him the US presidential election, 14 July 2024

Scenario 1: China Tensions & Negative Spillover Effects

How U.S. relations may materialise with China will be the cornerstone of a Trump presidency. Arguably, investors are most concerned with potential higher US-led tariffs against China, and the impact on global growth and inflation. Based on estimates, the tariffs imposed during Trump's term were estimated to have dragged global growth[6] by 0.1% in 2018, 0.8% in 2019, and 1.4% in 2020. Trump's recent proposal – a 10% tariff on all imports and a 60 – 100% China-specific tariff rate – would also mean U.S. headline inflation to move towards the 4.0% handle with upside bias on average in 2025 from a current May 2024 print of 3.0% YoY, as businesses especially those reliant on Chinese-imports are more likely to offset higher production and import costs to consumers. Beyond GDP and inflation, we think the repercussions may be far greater; economic tenets suggest protectionist policies to be disruptive, inefficient, and have longer-term negative effects on corporate governance and industrial development.[7]

The truth, however, is a Biden-win may still mean a relatively hard stance against China, albeit that Trump's approach is rhetorically more extreme. Specifically, in May, Biden announced that the U.S. would impose higher tariffs on Chinese imports, including raising tariffs on new-energy vehicles from 25% to 100% and semiconductors and solar cells from 25% to 50%.[8] Unsurprisingly, Trump argues for more, specifically that the new tariffs on Chinese electric vehicles, semiconductors and medical products broadened to other vehicles and products.[9]

Figure 2: U.S. exports on China's 15 June tariff retaliation list by type



Source: Peterson Institute for International Economics (Link), RHB Economics & Market Strategy

The implications of this scenario are three-fold. First, higher tariffs against China will likely lead to elevated supply chain constraints and higher global consumer prices. Empirically, the tariffs implemented against China had introduced implicit tax against U.S. household (see Figure 3). Second, we think trade tariffs will cap China's potential growth in 2025, as they lose potential market share in the U.S. and Europe. In this, investor sentiment against China will deteriorate, while a lower handle for China-led import demand will mean negative economic effects for China's key trading partners, specifically ASEAN. Third, asset allocation strategies will likely evolve to prefer US-centric equities, away from China & ASEAN, thus suggesting that investors should be overweight in developed market (D.M.) equities and underweight emerging market (E.M.) assets.

Figure 3: U.S. tariff history in 2018 - 2020

No.	Products	Amount	When	Impact on US
1	US tariff on Chinese products (semiconductors, solar cells, syringes and needles, electric vehicles)	US$60 billion of imports	First tariff began 6 July 2018 on US$34 billion, and the remaining US$16 billion on 23 Aug 2018.	Equivalent to US$12.5 billion tax increase on households
2	Section 301 tariffs – 10% on Chinese products	US$200 billion worth imports from China	Sep-18	Equivalent to US$20 billion tax increase
3	US Tariff on Chinese products	25% tariff hike	May-19	Amounting to US$30 billion tax increase
4	Imposed "List 4a" tariff on Chinese imports	US$112 billion of imports	10% tariff on US$112 billion imports and the remaining US$160 billion take effect on 15 December 2019	Equivalent to US$11 billion tax increase
5	Tariff hike	Hike of "4a" tariff from 10% to 15%	Aug-19	Equivalent to US$5.6 billion tax increase
6	Reached "Phase One" trade deal with China	Postponing "4b" tariffs and reducing stage "4a" tariff from 15% to 7.5%	Jan-20	Reducing tariff revenues by US$8.4 billion

Source: RHB Economics & Market Strategy, Various Newswires

[6] S&P Global, Impact of a Global Trade War on the Economy
[7] The European Corporate Governance Institute, Protectionism: A Threat to Corporate Governance, 25 May 2020
[8] The White House, President Biden Takes Action to Protect American Workers and Businesses, 14 May 2024
[9] Reuters, Trump says US China tariffs needed on other vehicles, products, 14 May 2024

Scenario 2: Political pressure to cut rates

U.S. real rates can decline sharply in a Trump-win scenario. Empirical evidence, once again, is useful in depicting what Trump may do – to pressure the U.S. Federal Reserves to cut rates. Specifically, in 2019, Trump wants the Federal Reserve to push interest rates down to zero or even into negative territory[10]. Back then, Trump cited that high rates put the U.S. at a competitive disadvantage to other countries, while arguing that the relatively low inflation was evidence that the economy was well-positioned to handle lower rates. We do not disagree to an extent – theory suggests that lower rates equate to reduced cost of funds, bolsters consumer spending and investment demand and is imperative for supporting economic and business conditions.

The understanding that lower rates and a weaker dollar may be seen, and even encouraged, in a Trump-win scenario cannot be discounted. Coincidentally (or not?), All three Republican presidents since 1989 (starting with George W. H. Bush) were accompanied by (1) lower Fed Funds Rate (FFR), (2) lower DXY index and (3) higher S&P readings (see Figure 4).

Figure 4: A Republican president since 1989 suggests a lower DXY, higher S&P readings, and lower FFR

U.S. Presidents	Start	End	Party	DXY (% Chg)	S&P (% Chg)	UST10Y (bps Chg)	LEI (% Chg)	FFR (bps Chg)
George W.H. Bush	Jan-89	Dec-92	Republican	-1.8%	55.3%	-223.3	-1.6%	-568.8
Bill Clinton	Jan-93	Dec-00	Democrat	24.8%	201.8%	-105.3	35.9%	350.0
George W. Bush	Jan-01	Dec-08	Republican	-21.0%	-32.1%	-171.4	-6.3%	-550.0
Barack Obama	Jan-09	Dec-16	Democrat	24.8%	143.4%	-27.4	28.4%	25.0
Donald Trump	Jan-17	Dec-20	Republican	-10.1%	61.8%	-162.2	8.0%	-50.0
Joe Biden	Jan-21	Jun-24	Democrat	16.4%	40.5%	354.9	-7.8%	525.0

Source: Macrobond, RHB Economics & Market Strategy

The prognosis on US inflation is unclear given the conflicting factors. We think the path of least resistance is for U.S. inflation to head lower into the new year, albeit the Trump-induced tariffs may eventually lead prices higher into the medium term. For now, the data is suggesting that the bar to lower the FFR in the coming year isn't high to begin with. U.S. inflation in June 2024 declined sequentially for the first time in four years amid lower gasoline and moderating rents. At the time of writing, swap prices are pencilling a >100% chance for a September FFR cut, followed by two more cuts, once in November and another in December 2024. The Fed's recent dot-plot chart also indicated four rate cuts in 2025, suggesting officials appear comfortable in guiding rates lower in the new year on the assumption that inflation is persistently meeting the Fed's 2.0% inflation objective. Should our expectations for three FFR cuts come to pass in 2025, it may mean that market conditions will support Trump's call for lower rates, albeit we think more cuts beyond our base case may be needed to sate his expectations.

Implications from this scenario are: (1) Lower US-centric rates will reinforce our aforementioned point on the rally into D.M. equities, especially U.S.-centric ones. We think U.S. equities, in this scenario, will see a potential 15 – 20% gain in 2025 from Trump's MAGA and lower rates rhetoric. (2) We observe a balance of risks tilted towards more FFR cuts beyond our base case of three cuts in 2025, suggesting that rates may be reduced significantly and inject a bull-steepening bias for the UST 2-10Y spread. (3) The faster-than-anticipated decline in US-centric rates will likely trigger global central banks to follow in tandem, with the ECB likely to follow step-in-step with the FOMC. In contrast, ASEAN-centric rates will see downside bias against current levels. (4) DXY will soften considerably to below 100 as early as 1H25, as the dollar's positive carry dissipates with yield-chasing behaviour preferring the high-yield spectrum. (5) UST 10Y yields will fall below 4.0% in the next year as rates across the yield curve are pressured lower on the back of FFR cuts.

[10] Reuters, Trump reverses course, seeks negative rates, 12 September 2019

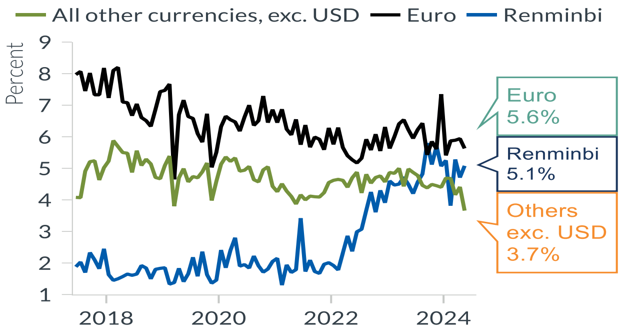
Scenario 3: Stronger global drive to de-dollarise

The idea of de-dollarisation was started in the wake of the 2007-2008 global financial crisis, which surfaced the vulnerabilities of the global economy and its reliance on the U.S. economic prognosis. Economic tenets suggest that de-dollarisation can help economies diversify their foreign exchange reserves, reduce currency risk, assert greater monetary independence,[11] and reduce the exposure one economy may have against the rising US-centric political uncertainty. The efforts to de-dollarise have certainly taken place, seen recently from Brazil and Argentina being able to pay for China-centric trade in the Yuan rather than in Dollars. Closer to home, Malaysia, as well as Thailand, signed local currency transaction pacts with Indonesia for trade, investment, and cross-border payments.[12]

We think a Trump presidency, with his calls for higher tariffs to potentially dampen global growth, could accelerate the drive to de-dollarise. Global Times cited that "the de-dollarisation trend was reinvigorated by the U.S. sanctions spree", with US-centric tariffs covering 29% of the global economy and 40% of global oil reserves as of 2023. Should Trump's proposal materialise, the tariff-induced shocks to global trade in 2025 may accelerate the establishment of a new trade currency. We see that the nations of Brazil, Russia, India and China (BRICs) are looking to establish a new reserve currency backed by the currencies of their respective currencies. Media reports of Malaysia and Thailand seeking to join the BRICs, with other supporting reasons – Malaysia cited priority was to strengthen trade and the economy[13]. At the same time, Thailand voiced its goal to enhance its role as a leader among emerging countries[14].

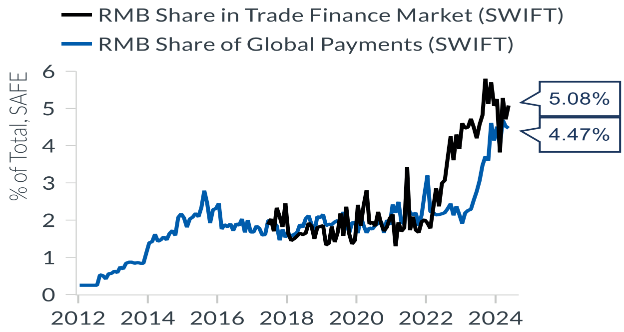
Despite the de-dollarisation efforts to date, we think there still remains no suitable alternative to the USD as the lingua franca of global trade, whereby virtually all international trade, worth roughly USD 25 trillion annually, is largely managed through the U.S. dollar.[15] Robert Greene argues that "the dollar's widespread use in these regards is self-reinforcing, preserving its dominant global role and impeding efforts to de-dollarise". We believe that the rise of BRICS currency may have more leg to run before it becomes a reality - in 2022, approximately 58% of global foreign exchange reserves were dollar assets. Comparatively, that figure is estimated at around 50% in China and India, while in Brazil, it was reportedly over 80%. Still, the progress is undeniable, as seen in the rising dominance of the RMB (Figures 5 and 6).

Figure 5: Renminbi's share as a global currency in the trade finance market has risen sharply…



Source: Macrobond, RHB Economics & Market Strategy

Figure 6: … and with it, the increasing dominance of RMB in global trade and payments



Source: Macrobond, RHB Economics & Market Strategy

While there are likely no immediate implications given the slow de-dollarisation progress, the stronger drive to de-dollarise will mean a reduction of demand for U.S. dollar-denominated assets and negatively impact asset flows into U.S. shores. This will translate into a gradual and structural decline of demand for USD and USTs, thus equating to a weaker DXY and higher UST yields. On the flipside, across Asia and ASEAN, we are already seeing a stronger use of the CNY for trade financing and global payments, which could persist in tandem, coupled with more potential rise of more local currency transaction pacts to circumvent the use of the greenback. ASEAN's endeavour to increase the use of local currency transactions would be key to watch, especially with Malaysia assuming the new chairmanship in 2025.[16]

[11] Imran Khalid, De-dollarization and emergence of Chinese yuan, 21 June 2023,
[12] Jakarta Globe, Indonesia Inks Local Currency Transaction Pact with Malaysia, Thailand, 25 August 2023
[13] The Star, Malaysia studied all implications before seeking BRICS membership, 9 July 2024
[14] Nikkei Asia, Thailand aims to become first Southeast Asian BRICS member, 29 May 2024
[15] Anshu Siripurapu and Noah Berman, 'The Dollar: the world's reserve currency, 19 July 2023
[16] RHB Economics & Market Strategy, ASEAN: Walking Together on A Single Path – Strengths Amid Challenges, 10 July 2024

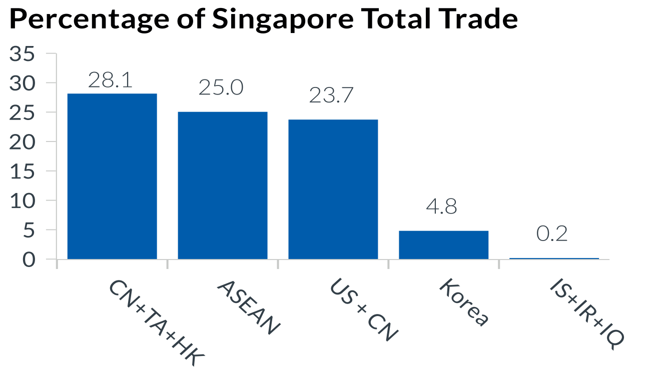
Scenario 4: Increased Geopolitical Noise (Or Not?)

This scenario, perhaps, is more geopolitical in nature rather than having clear economic implications for the global arena. We are hearing two key issues at this juncture – (1) the U.S. to seek Taiwan's payment for continued U.S. military protection[17] and (2) the risk for the U.S. to halt military aid to Ukraine[18]. Both issues, in our view, have the potential to re-ignite geopolitical uncertainties and drag global consumer and investor risk appetite in a Trump-win event.

We are already seeing some early proxy of weaker risk appetite; Trump's rhetoric to seek Taiwan's payment for military protection has already sent the Taiwan Weighted Stock Exchange (TWSE) index down by 1.4% on intra-day trading on 17 July. As a proxy for a safe haven, gold prices have rallied to an all-time high at around US$2,480/oz over the same period. In the same vein, UST 10Y yields have plummeted to near 4.15%, a far cry from the prior high of 5.0% as of 23 October 2023. Considering the above two issues, and coupled with the potential escalation of US-China trade tensions, some flight to quality assets and safe havens cannot be discounted in the months to winter. Still, we are not seeing the same in D.M. equities, especially US-centric ones, suggesting that investor appetite remains buoyant on US GDP growth prognosis.

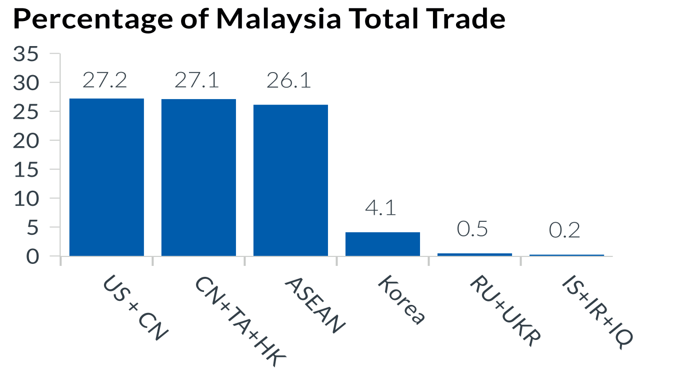
Beyond the above-mentioned US-China, China-Taiwan, and Ukraine-Russia tensions, we also note other potential hotspots for geopolitical tensions in 2025, specifically North-South Korea and the Middle East. Based on trade exposures, the severe US-China and China-Taiwan-Hong Kong tensions will most negatively impact ASEAN. However, across economies, we see differing trade exposures. Notwithstanding, any form of trade tension, assuming ceteris paribus, will negatively impact Singapore the most, followed by Malaysia, Thailand, and Indonesia, based on their total trade as a percentage of GDP.

Figure 7: Singapore trade is most exposed to China



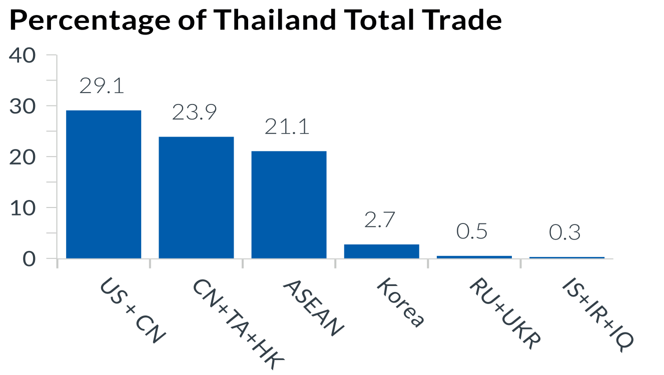
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: Malaysia's trade is dependent on U.S. + C.N.



Source: Macrobond, RHB Economics & Market Strategy

Figure 9: Thailand's trade exposure is similar to MY



Source: Macrobond, RHB Economics & Market Strategy

Figure 10: Ditto for Indonesia

Source: Macrobond, RHB Economics & Market Strategy

[17] The Guardian, Trump says Taiwan should pay the US for its defence as 'it doesn't give us anything', 17 July 2024
[18] Reuters, Trump handed plan to halt US military aid to Kyiv, 25 June 2024

Scenario 5: The set-up for a bifurcation of world order

Trump's rhetoric on U.S. foreign policy has also taken headlines, which could worsen the political relationship between the U.S. and its allies. One can easily imagine the repercussions, including the slow preference for the U.S. economic isolationism to materialise, with its trading partners adjusting away from traditional reliance on U.S. growth, rates, and currencies, and thus, forming trade pacts in championing what trade barriers threaten to break apart – free trade. What this entails, to us, is the implicit set-up for a bifurcation of world order.

Our concerns for such a scenario stems from Trump's rhetoric on U.S. foreign policies which invariably threatens to isolate the U.S. away from its allies and, arguably, the world. Under his prior office as president, Trump has surfaced the notion that America needs to fundamentally rethink "NATO's purpose and mission", while in 2019, the New York Times[19] reported that Trump had privately said he wanted to withdraw from NATO. Beyond these, Trump floated the idea of deploying a military presence to immigration enforcement and building more of the border wall,[20] carrying out mass deportation operations, and reimposing travel bans that will target seven Muslim-majority countries.[21]

The truth is, bifurication moves are already in force – the rise in geopolitical tensions, and the need to secure trade and economic resilience, have invariably led regions to establish trade and economic zones. We have seen several zones, including RCEP, CPTPP, E.U., NATO, etc. The establishment of these zones is evidence that the world is already moving towards bifurcation into different orders. With the slow rise of local currency transaction pacts, there is no telling when USD dominance may come to an end. Purely on the topics of bifurcation, we see the pros and cons of this scenario for ASEAN:

Pros: The establishment of trade and economic zones will establish (1) more resilient economic blocs, whereby economies can seek to reduce their reliance on non-bloc trade sources, thereby enhancing resilience against economic shocks and mitigating risk associated with over-dependence. It will also (2) stimulate regional integration efforts and potentially translate into more significant intra-regional trade and economic development with their respective regions while at the same time (3) promote collective innovation and competition in stimulating innovation, tech advancement and productivity growth.

Cons: On the flip side, there are potential shortfalls, which include (1) possible disruption of global trade flows via the increased fragmentation of supply chains and increased cross-zone trade barriers, (2) giving rise to protectionism across differing zones, which may raise the cost of production and overall inflation and finally (3) introduce a greater level of global geopolitical tension across blocs.

Overall, the trajectory of U.S. foreign policy under Trump's administration presents a significant risk of exacerbating political rifts between the United States and its allies. His rhetoric advocating for economic isolationism and questioning the foundations of longstanding alliances like NATO not only signals potential shifts in global economic dynamics but also forewarns of a broader geopolitical reconfiguration. This could catalyse the formation of distinct trade and economic blocs, each vying for stability and influence in a gradual move towards a bifurcated world order.

The good news, may stem from hopes that ASEAN and its goals towards establishing the ASEAN Economic Community (AEC) will serve to build the region's resiliency. As cited in our ASEAN thematic report, ASEAN must foster dialogue, cooperation, and strategic partnerships that transcend geopolitical divides. The region's future stability hinges on active communication and international partnership to navigate these challenges with foresight and collaboration, ensuring that while the world may evolve into distinct economic blocs, it does so without sacrificing the principles of cooperation, mutual benefit, and shared prosperity globally.

[19] The New York Times, Trump Discussed Pulling U.S. From NATO, 14 Jan 2019
[20] AP News, Trump's plans if he returns to the White House, 12 Nov 2023
[21] Ditto.

Conclusion: Trading Strategies

We have discussed five scenarios: China tensions and negative spillover to ASEAN, political pressure to cut rates, stronger global drive to de-dollarise, increased geopolitical noise, and the possible bifurcation of world order. These topics, arguably, are probably the tip of what Trump may have more in store and are specially curated in view of what we think is most important to the global economy social, and political arena. Other scenarios may also include issues surrounding abortion, climate change, and potential legal actions against Biden unless he is granted immunity in his own legal battles[22]. With Trump's musing to be a dictator on day one of his office[23], it will be no surprise that political noise and economic uncertainties in the months leading to winter will cloud global risk appetite.

Key trade ideas for a Trump win are to (1) long DM-equities, especially US-centric, (2) short the DXY, and (3) buy UST on dips. We think a Trump-win will mean higher U.S. equities by 15 – 20% in 2025, with an upside bias, while DXY will likely decline to below 100 in 1H25, earlier than what we previously forecasted to occur only in 2H25 in our Pathfinder 3Q24 report. Higher market volatility amid political noise in the next four months may continue to mean investor preference towards inflation-proof assets and safe havens, which means higher gold prices and lower UST 10Y yields towards 4.0%. Conversely, Trump's foreign policy ideas may continue to sink investor confidence in Asia asset valuations, a trend we are already experiencing, especially in China and Taiwan-centric equities, and probably lead to negative spillover effects to China's key trading partners, including ASEAN. In the same vein, the US FOMC will likely refrain from cutting rates in 3Q24, and preserve its policy space on the back of tariff-induced inflation risks.

As Michael Buble puts it, "It is beginning to look a lot like Christmas" as the weather cools in the coming months ahead. The wait may be short for some, but for others, a long, gruelling wait for what may materialise in November's U.S. Presidential elections. Global concerns for a Trump win are writings on the wall, but they may well be overstated at this juncture. The fact is that global views could be biased at this point, considering the tint Trump's legal battles may be painting on voters' impressions. The good news is that trading strategies are probably clear despite the haze, and history has helped foretell how best to navigate this. The bad news, however, is that global markets can only wait for winter to come.

[22] The Guardian, Trump threatens to prosecute Biden, 30 April 2024

[23] AP News, Trump's vow to only be a dictator on 'day one' follows growing worry over his authoritarian rhetoric, 8 Dec 2023

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