

Good MornING Asia - 13 February 2020

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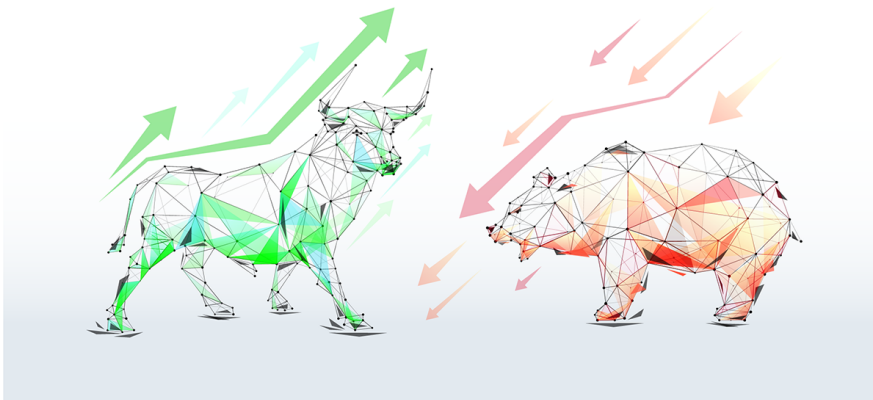
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Source: Shutterstock

Hubei records 14,840 new cases on new approach

It will take a while to figure out what the revised Hubei approach to confirming new cases will mean for the progression of this epidemic, though the details look a lot less scary than the initial headline. Of those 14840 "new" cases, 13,332 were, in fact, old cases that were reviewed and judged to have been Covid-19. If you make the deduction, this means a total of 1508 new cases (on the old methodology) for yesterday's tally, which is a bit less than the 2000 or so average of recent days and helps to keep the underlying headline new cases on a downward path.

This is, I think, the principal reason that people like Ray Dalio are taking an upbeat view and why markets are moving towards a more risk-on assessment. I can see the rationale. But still, I think a bit too much weight has been placed on these total new case figures. As I noted a few days ago, we need to consider this disease and its progression in terms of distinct cohorts, or populations, and with Hubei in total lockdown, what is happening there isn't really all that relevant for the rest of the world or for the S&P500, or US Treasury yields. Though it may still have relevance for Asian stocks and FX.

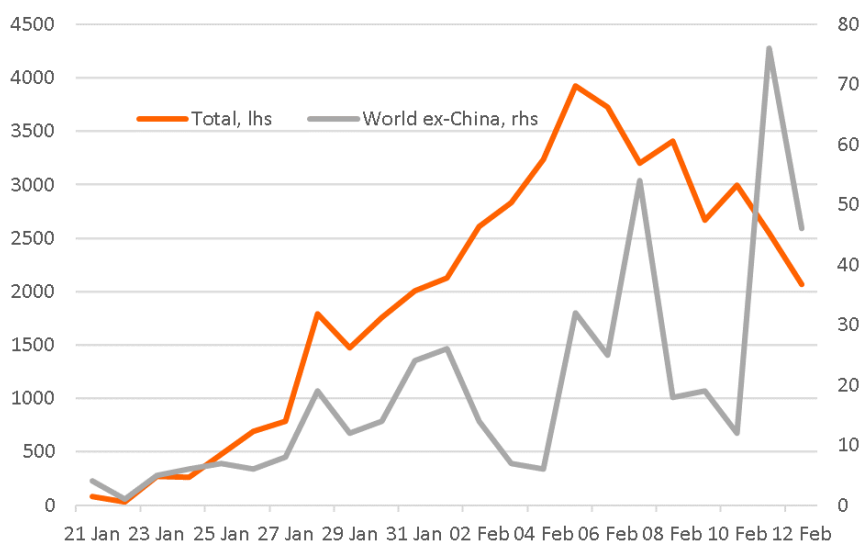
Even within China, and based on the old WHO approach, which is the only "reliable" time series we have, the ex-Hubei cases aren't on such a clear downtrend. And ex-China, although the figures are choppy, and ought to be adjusted for the 49 cases in HK SAR, and 18 each in Taiwan and Macao

SAR (which adds about 85 to the 441 ex-China total), it looks to me as if this choppy series is heading erratically higher, not lower.

The head of the World Health Organization is taking a much more sombre assessment over the direction of this epidemic. I'd have to say that my money is on him knowing what he is talking about, rather than Ray Dalio. But anything is possible I suppose. I attach some updated charts below using the old-style WHO numbers. Make of them what you will.

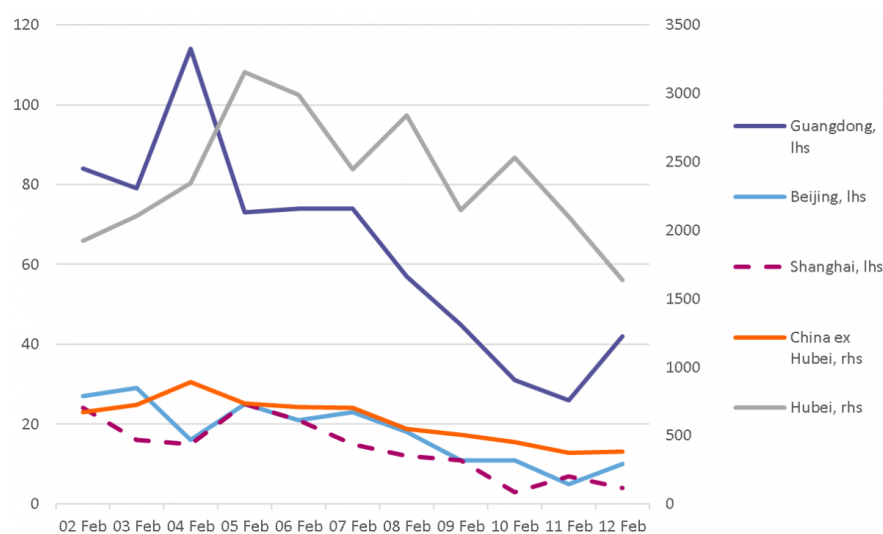
New Cases - Total, and Ex China*

Ex-China excludes HK SAR, Macao SAR and Taipei and its surrounds



Source: WHO
New Cases

New Cases Hubei and selected other areas



Source: WHO
New Cases China provinces

No need to worry about US inflation, unless the bulls are right

Another possible source of danger to the market's current bullishness is this afternoon's US inflation figures for January. With an expected 0.2%MoM increase (pre-dates most of the Covid-19 episode), the headline inflation rate should rise to 2.4%YoY. And if followed through in the later PCE figures, should show PCE inflation rising to 1.8%YoY. This is still less than the Fed's 2% target, but creeping ever closer to it. Could that eradicate thoughts of a "Powell put", and put rate hikes back into play? I think that is very unlikely, unless of course, Ray Dalio is right, and this is all a lot of fuss about nothing. If so, then crude prices are heading up to reverse their recent \$10/bbl decline, and the Fed may have some re-thinking to do, and so too will Ray Dalio and other risk asset bulls.

The day today

It's super quiet in Asia today - [I add a link here to Prakash Sakpal's write up of yesterday's Malaysian GDP numbers](#) - which were a big disappointment (the numbers, not his note). I was left wondering if Malaysia, which has been holding out far better than many of its regional peers, may be a harbinger for disappointing data across the region. I'm certainly beginning to lean that way.

In case you didn't see it, [here too is a link to Nicky Mapa's latest Indonesia write-up](#).

Iris Pang makes the following remarks about Aggregate finance data due shortly..."Aggregate finance data and new yuan loan data will be released soon (I don't want to say today, as it can change to tomorrow). We expect around a doubling in aggregate financing but even more than double new yuan loans in Jan compared to Dec's CNY2103 bn and CNY1140 bn, respectively. Banks in China usually book loans in the first two months to enjoy a full year of interest income. This year is no different. As shadow banking is shrinking we expect aggregate financing will not grow as fast as bank loans.

The market should focus more on Feb's loan and bond issuance data. We expect a further jump from Jan's data given the PBoC's special re-lending scheme and increase in local government bond issuance. Money added to the economy in Feb will be focused on fighting the coronavirus, which is different from Jan's money growth to deal with the technology war and the trade war.

And, as mentioned earlier, US CPI dominates the G-7 Calendar.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Coronavirus: Markets and the fear factor

The economic impact of an epidemic like the coronavirus typically transmits through a four-letter f word, called fear. Households have stopped doing certain things like going to restaurants, or the cinema or the theatre and this is having a substantial negative impact on the Chinese economy



Source: Shutterstock



Coronavirus: Markets and the fear factor

[Watch video](#)

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

ASEAN Morning Bytes

Risk sentiment is on the mend with investors looking past the economic impact of the virus



EM Space: Asian markets to tiptoe higher on hopes for quick recovery

- **General Asia:** Emerging markets are set to inch higher with investors betting on a quick recovery from the virus episode. Meanwhile, disappointing growth figures from the region (Malaysia and Taiwan) could spur further stimulus call to support growth in 2020. US inflation and China's domestic liquidity reports should give investors further impetus to trade on.
- **Malaysia:** BNM Governor Shamsiah Mohd Yunus told media at the GDP release yesterday that the central bank had 'ample room' for further monetary easing as inflation continued to be subdued. We now expect two more 25bp BNM rate cuts at each of its March and May meetings. This would take the OPR down to 2.25%, just shy of the 2% low reached during the global financial crisis a decade ago ([read more here](#)).
- **Thailand:** Deputy Prime Minister Somkid Satusripitak sees GDP growth slumping below 1% in the first quarter, noting the impact of the coronavirus denting Chinese tourist arrivals. He is hopeful of spending from the delayed budget helping the recovery in the second half of the year. We expect the Bank of Thailand to cut rates by another 25bp in March, the second rate cut this year, though it could do more as inflation would remain low throughout the year.

- **Indonesia:** Moody's affirmed the Baa2 rating with stable outlook for Indonesia, citing stable economic growth and the country's manageable debt and fiscal discipline. Meanwhile, President Jokowi plans to limit steel imports via non-tariff measures in order to help bolster the country's steel industry. The President noted the still wide current account deficit with the trade balance an integral reason for the external vulnerability.

What to look out for: Developments on the virus and US retail sales

- US inflation and initial jobless claims (13 February)
- US retail sales and consumer sentiment (14 February)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Asian FX Talking: Mixed prognosis

While the trade war dominated Asian FX in 2019, the coronavirus- and its impact on the global economy- will set the tone for markets in 2020. Recent market sentiment towards the epidemic has improved and FX rates have responded in line with this – but there may be further chapters to this story...



Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

New Zealand: Central bank paves way for currency rebound in medium-term

A surprising hawkish tilt by the central bank doesn't just give a short-term respite to the battered New Zealand dollar, but also paves the way for a sustained recovery once virus-related fears dissipate



RBNZ surprises markets with upbeat tone

Minutes before the Reserve Bank of New Zealand published its monetary policy statement and economic projections overnight, markets were attaching a 60% implied probability of a cut by the second quarter. At the time of writing, that probability is 20%, increasing to 57% for the year-end tenors. This shows how investors were surprised by what was a robustly hawkish message from Governor Adrian Orr and the Monetary Policy Committee. Here are the key points of the statement:

- As rates were kept at 1% (widely expected), policymakers clearly pointed to a flat profile for the Official Cash Rate throughout 2020, also hinting at some scope for monetary tightening further ahead.
- The coronavirus risk was mentioned as a risk to the outlook (this was also expected), but the Bank made an extra step compared to other central banks (the Reserve Bank of Australia, to name one) in assuming the outbreak should have only a time-limited impact on domestic activity.
- The Bank revised higher the large majority of its key economic indicators. It highlighted how

the round of fiscal stimulus recently announced by the government should work in tandem with accommodative monetary policy to provide fuel to economic growth. Inflation is expected to stabilise around the target mid-point.

In essence, the message clearly indicates that the Monetary Policy Committee feels quite at ease with the current level of interest rates as it awaits more information to assess the impact of the coronavirus. It also reflects optimism that the supportive domestic backdrop may provide a sufficiently protective cushion to the external shock.

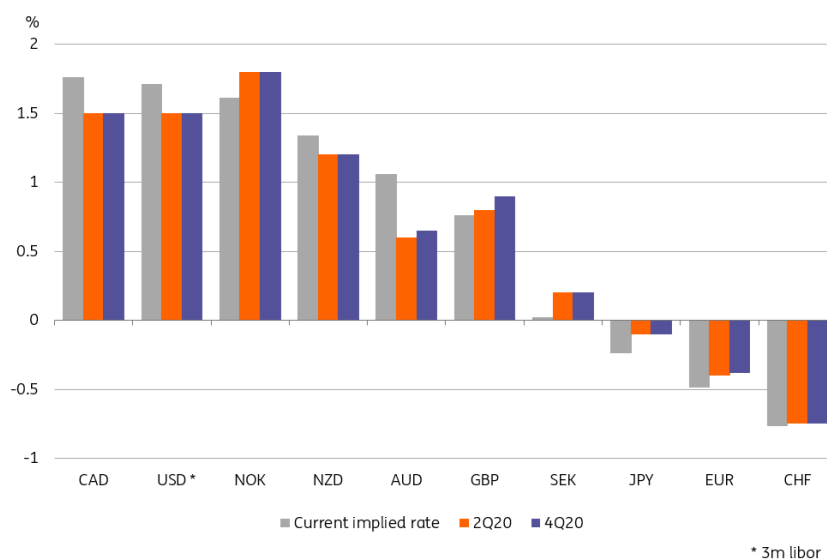
NZD set to recover in the medium-term

The repricing of rate expectations has inevitably triggered a jump in the New Zealand dollar, which had been among the major victims of the virus-related risk-off environment. After the RBNZ meeting, two different considerations must be made with regards to the NZD outlook, one for the short-term, one for the longer-term.

In the near-term, the virus remains the key story for NZD: the longer the outbreak keeps the Chinese economy in lockdown mode, the more concerns around the negative implications for highly-exposed economies such as New Zealand will mount, thereby putting a lid on any decisive NZD rally. As we have more than once highlighted, predicting the duration/spread/death toll of the virus is not our expertise, but for now, we simply highlight the complacency in equity markets, which suggests investors are perhaps too sanguine about the matter and we may see another leg lower in risk-related currencies. In other words, from a short-term point of view, the RBNZ's upbeat message may have only provided help which is time-limited amid a still unsupportive environment.

Looking at longer horizons, the reluctance signalled by the RBNZ around easing prospects likely puts a floor under New Zealand rates for the foreseeable future. The chart below outlines the different 3m implied yields currently priced by the markets along with our in-house forecasts for 3m interest rates in 2020. The NZD presents a quite respectable 1% yield – considering the average low rate environment – thereby preserving some carry appeal, which is set to fade for its closest peer, the Aussie dollar (we expect a Reserve Bank of Australia cut). This suggests that, once market sentiment stabilises, and barring a much harder than expected impact on the New Zealand economy (which could warrant an RBNZ cut) the NZD will likely see a more sustained recovery.

NZD to retain some carry attractiveness



Source: ING, Bloomberg

We continue to be cautious on the New Zealand dollar in the short-term on the back of the coronavirus, but we also stick to our view that AUD/NZD looks set for another leg lower (possibly breaking below 1.03) due to monetary policy divergence and Australia facing more downside risks (i.e. bushfires, higher impact of Chinese slowdown). For NZD to consistently outperform the US dollar, we'll need to wait for a significant stabilisation in global sentiment, after which the rate environment, economic resilience and medium-term undervaluation could drive NZD/USD to the 0.69 area at the end of 2020.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Malaysia: Supply shock dents GDP growth in 4Q19, though demand wasn't a problem

It's not going to be too long before demand takes a hit from the rapid spread of Covid-19. We cut our 2020 growth forecast to 3.5% from 4.5%. We now see an additional 50 basis points of central bank rate cuts by mid-year. The data should also expedite rollout of the fiscal stimulus



Source: Pexels

3.6%

4Q19 GDP growth

Year-on-year

Worse than expected

Dismal 4Q19 economic performance

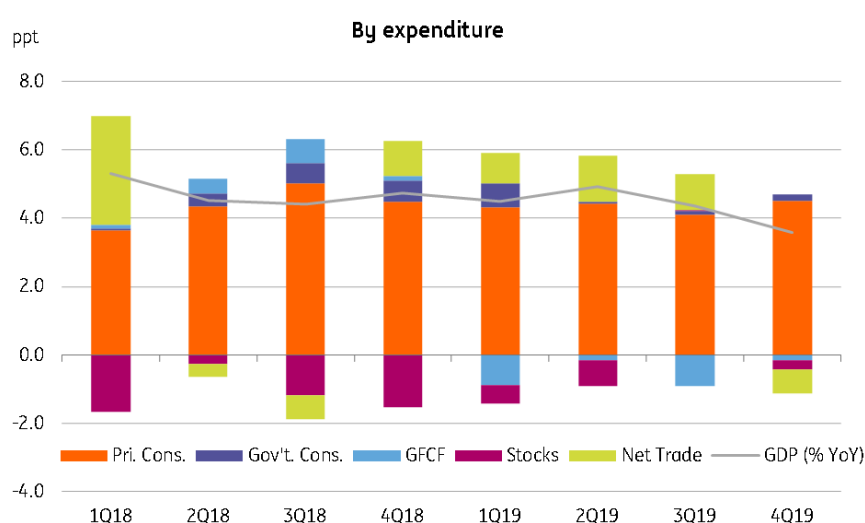
In a significant downside miss, Malaysia's GDP growth slumped to 3.6% year-on-year in the final

quarter of 2019, its worst performance in almost two decades (since 2Q02). The consensus median estimate was only a modest dip to 4.1% from 4.4.% in 3Q19. We were slightly optimistic with our 4.2% estimate.

The headline, however, understates the domestic economic strength which has supported the economy over the last year in the face of global trade tensions. Growth of all three expenditure-side GDP components – private consumption, government consumption and fixed capital formation - firmed up in the last quarter. Private consumption continued to lead, with a 4.5 percentage point contribution to the headline GDP growth.

Strong domestic demand coupled with accelerated export declines made net trade the main drag on GDP growth, shaving off 0.7ppt.

Sources of GDP growth - expenditure



Source: Bloomberg, CEIC, ING

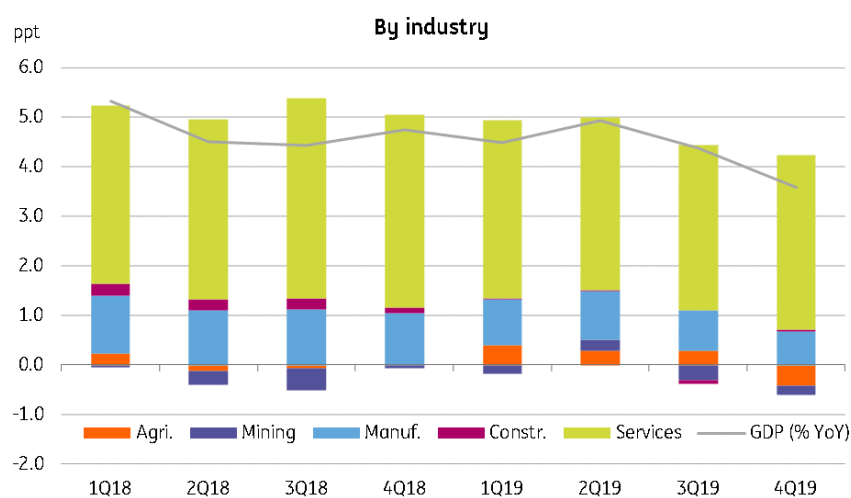
It's rather a supply shock

Bank Negara Malaysia (BNM), the central bank, attributed the sharp fourth-quarter slowdown to supply disruption to the commodity sector. This was reflected in agriculture and mining being the main industry-side sources of GDP slowdown.

GDP growth for 2019 would have been higher at 4.7 per cent without the supply disruptions in the commodity sector. - BNM Governor Shamsiah Mohd Yunus

This brings full-year growth to 4.3% in 2019, shy of our 4.5% forecast for the year and down from 4.7% in 2018.

Sources of GDP growth - industry



Source: Bloomberg, CEIC, ING

Downgrade of 2020 growth outlook

It's not going to be too long before demand takes a hit from the rapid spread of Covid-19, the virus currently causing havoc worldwide. The impact will be felt in the tourism sector, while a sharp fall in global crude prices this year also bodes ill for Malaysia's commodity-driven export sector.

The way things are going, at least a couple more quarters of GDP slowdown looks more likely than not, possibly pushing growth below 3% by the second quarter of this year. Beyond that, and assuming that the virus threat ends, we are hopeful on proactive macroeconomic policies helping the recovery to above 4% GDP growth by the end of the year.

Accelerating stimulus

We believe today's bad report card on the economy will move the authorities to speed up economic stimulus measures.

Recognising the risk ahead of time, the BNM resumed its monetary easing cycle with a 25 basis point cut to the overnight policy rate to 2.75% at its most recent meeting on 22 January. Right then we added one more 25bp cut to our BNM policy forecast for this year. However, judging from the extent of the slowdown ahead, we don't think the BNM will stop at that. We now see the BNM cutting twice, by 25bp at each of its March and May meetings. This would take the OPR down to 2.25%, just shy of the 2% low reached during the global financial crisis a decade ago.

Local banks have already started offering relief for borrowers suffering from the economic impact of the epidemic. The government is also mulling a fiscal stimulus package for tourism, and now probably for the broader economy.

Author

Alissa Lefebre

Economist

alissa.lefebre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havlant

Chief Economist, Czech Republic

420 770 321 486

david.havlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

What will it take for Indonesia to start growing again?

In Indonesia, growth has been hovering around 5% since 2012 and household spending has shown signs of moderating. President Jokowi has pledged reforms to attract foreign investors while also unveiling a \$178 billion budget for 2020, focusing on infrastructure and human capital development. But will these measures succeed in lifting growth?



Indonesian President Joko 'Jokowi' Widodo

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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