

Good MornING Asia - 6 April 2018

The fear of a global trade war weighs on Asian central bank policy tightening. We expect Singapore and Korea to keep policies on hold next week, while markets glean through China's trade data for the impact of the conflict (Note to readers: We are traveling in the next week, so there will be no publication. The next report will be on April 16.)

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3.9%

Consensus 1Q18 GDP growth
year-on-year

➔ Singapore - MAS policy and 1Q18 GDP

The highlight of the week is the Monetary Authority of Singapore's (MAS) semi-annual statement, which will be accompanied by an advance estimate of GDP growth for 1Q18. The last MAS statement in October 2017, in which they referred to the phrase "a neutral policy stance is appropriate for an extended period" as the October 2016 guidance, triggered expectations of a

return to tightening.

The neutral MAS policy stance, or stable Singapore dollar nominal effective exchange rate (S\$-NEER) over the policy horizon, has been in place since April 2016. The consensus for the upcoming statement is tilted toward a return to the “modest and gradual” S\$-NEER appreciation path. However, we are sceptical because of the narrowly-driven growth, ultra-low inflation, and the threat of a global trade war.

The consensus for 1Q18 GDP growth is 3.9% year-on-year, up from 3.6% in 4Q17. So far the evidence of last year’s economic strength continuing this year has been mixed. The growth of non-oil domestic exports slowed sharply, whereas manufacturing bounced in 2018. Both NODX and manufacturing are narrowly driven by semiconductors, and similar contrast as the headline NODX and manufacturing growths is observed for semiconductor exports and manufacturing. The headline and core CPI inflation of 0.2% YoY and 1.5% respectively in the first two months was within the official forecast for 2018.

1.5% Policy rate
No change expected

→ Korea - central bank meeting

Korea's central bank will meet next Thursday (12 April) and release its quarterly Economic Outlook report. No one expects any change in policy, so the focus will be on the central bank’s assessment of the economy going forward.

Steady exports and reduced geopolitical risk may have supported GDP growth around 3% in 1Q18 (data due 26 April), but inflation continued to grind lower. The central bank is concerned about strong currency hurting exports, while an intensified global trade wars pose further risk. As things stand, the chances of a 25bp Bank of Korea rate hike in 3Q18 are reduced.

24% China export growth in Jan-Feb
year-on-year

→ China - data dump for March

China’s March data dump begins. The trade data matters more in the current environment of a heated trade conflict with the US. While it’s too early for data to reveal the impact of tariffs that are yet to be implemented, the hit to sentiment from the mere announcement of tariffs cannot be underestimated. Perhaps positively for now due to frontloading of shipments in anticipation of the actual implementation. China’s exports surged 24% YoY in the first two months of the year, led by strong growth in shipments to the US by 25%.

The hopes of this strength persisting rest on both sides coming to the table to resolve the tariff

issue.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 6 April					
Malaysia	0800	Mar 30 Forex reserves- Month end (US\$bn)	-	-	103.9
Philippines	-	Mar Forex reserves (US\$bn)	-	-	80431.6
Singapore	-	1Q A GDP (Q) (YoY%)	3.9	-	3.6
	-	1Q A GDP (QoQ Annualised %)	-0.3	-	2.1
Saturday 7 April					
China	-	Mar Forex Reserves (US\$bn)	3147	3148.5	3134.48
Sunday 8 April					
China	-	Boao Forum for Asia in Hainan, China (until 11/04)			
Monday 9 April					
Singapore	-	Singapore's MAS monetary policy decision (until 13/04)			
Taiwan	0900	Mar Exports (YoY%)	6.5	-	-1.2
	0900	Mar Imports (YoY%)	21.5	-	0.9
	0900	Trade balance (US\$m)	3900	-	2920
Tuesday 10 April					
China	-	Mar Money supply (M2) (YoY%)	8.9	8.9	8.8
Philippines	0200	Feb Trade balance (US\$mn)	-2280	-	-3317
	0200	Feb Imports (YoY%)	6.7	-	11.4
	0200	Feb Exports (YoY%)	12.7	-	0.5
Taiwan	0900	Mar CPI (YoY%)	2	-	2.19
	0900	Mar WPI (YoY%)	0	-	-0.27
Wednesday 11 April					
China	0230	Mar PPI (YoY%)	3.9	3.2	3.7
	0230	Mar CPI (YoY%)	3	2.6	2.9
Malaysia	0500	Feb Industrial production (YoY%)	3.6	-	3
Philippines	-	Feb Budget balance (PHP bn)	-	-	10.2
South Korea	0000	Mar Unemployment rate (% SA)	3.6	-	3.6
Thursday 12 April					
India	1300	Mar CPI (YoY%)	4.4	-	4.44
	1300	Feb Industrial production (YoY%)	5.7	-	7.5
	-	Mar Trade deficit (US\$bn)	-13200	-	-11979.2
	-	Mar Exports (YoY%)	-3.5	-	4.48
	-	Mar Imports (YoY%)	4.5	-	10.41
Singapore	0600	Feb Retail sales value (MoM/YoY%)	-/-	-/-	-5.4/-8.4
South Korea	-	7-Day Repo Rate	1.5	-	1.5
Friday 13 April					
China	-	Mar Trade Balance (US\$bn)	28.5	25	33.752
	-	Mar Exports (YoY%)	13	11.8	44.5
	-	Mar Imports (YoY%)	10.4	12.4	6.3

Source: ING, Bloomberg

Author

Alissa Lefebre

Economist

alissa.lefebvre@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 Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@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.schroeder@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

Philippines: Inflation rises but watch the peso's weakness

Inflation rose to 4.3% in March but a weaker peso could eventually nudge the central bank to turn hawkish



Source: Shutterstock

4.3%

March headline inflation

Within the central bank's forecast range

Higher than expected

Tax reform, higher oil prices, supply issues and a weak peso push inflation higher

March inflation posted a five-year high at 4.3%, up from 3.8% in February and slightly above the consensus forecast of 4.2%. But this was within Bangko Sentral ng Pilipinas (BSP's) forecast range of 3.8% to 4.6%.

Price pressures were broad-based with seven of the 11 categories posting year-on-year increases. The BSP expects inflation to moderate in between the 2% to 4% target range over the policy horizon which argues for steady policy rates. Base effects and government action would allow for this price moderation. Rice supply constraints continue to increase food inflation higher while

higher oil prices and excise taxes sustain the pressure on transport, “sin” product prices.

The weak peso (PHP) also contributed to the uptick in inflation.

The government's plan to import rice and tapering impact of tax-related price pressures would moderate inflation over the policy horizon. Saudi Arabia plans to cut its oil price for Asia next month as US oil makes inroads into Asia, but the sustained weakness of the peso is likely to increase its impact on overall inflation. The peso is 4.4% YoY weaker in April which would likely lead to a 0.25ppt impact on inflation.

We cannot brush aside the possibility of a significantly weaker peso. The PHP weakened by 7% to 9% in 2013, 2015 and 2016 due to the shifting US monetary policy and heightened local and global risks. A weak peso may eventually spur the central bank to turn hawkish.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@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 Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@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.schroeder@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

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