Monthly FX & Rates Strategy

Sell! Dollar! Sell!

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Global Economics & Markets Research
GlobalEcoMktResearch@uobgroup.com
www.uob.com.sg/research

Heng Koon How, CAIA
Head of Markets Strategy
Heng.KoonHow@uobgroup.com

Peter Chia
Senior FX Strategist
Peter.ChiaCS@uobgroup.com

Victor Yong
Rates Strategist
VictorYongTC@uobgroup.com

Quek Ser Leang
Senior Technical Strategist
Quek.SerLeang@uobgroup.com

- The Dollar (USD) has had a very difficult month across April with an entire barrage of emotive de-dollarization rumors. Chief of these de-dollarization theories revolve around the mechanizations of the supposed Mar-a-Lago Accord which included trade tariffs and a weaker USD. We postulate that a more objective reason behind the USD's sell-off post Liberation Day with its intensifying plunge against TWD, was more likely due to the concentrated unwinding of large amounts of USD from exporters who had previously held onto their USD trade proceeds.

- Objectively, we maintain our view that the USD will continue to weaken against the Majors. This will result in the USD Index (DXY) entering a new trading range below 100 and falling further towards 96.9 by 1Q26. Concurrently, our updated forecast sees EUR/USD and GBP/USD, rising further to 1.17, 1.39 by 1Q26. As for the AUD, its "v-shaped" rebound may have been overextended and we see a more limited gain to 0.66 by 1Q26. The Bank of Japan (BOJ)'s milder rate hiking path will see a more modest appreciation trajectory of the JPY to 140 against the USD by 1Q26.

- As for Asia FX, while the acute phase of Asia FX weakness and volatility in early Apr may have passed, key risks remain that may temper with the Asia FX rally. These include considerable uncertainty as to how the trade talks between the US and China will work out as well as the abrupt Asian FX strength being at odds with weakening economic growth and trade outlook across the region.

- Overall, while we think the current abrupt Asia FX rally may be overdone, compared to the previous monthly forecast, we nonetheless mark the previous anticipated peaks in USD/Asia in 3Q25 lower to denote the most intense phase of the trade war may have passed. As such, our updated forecasts see USD/CNY at 7.32 in 3Q25, with USD/SGD, USD/MYR, USD/THB, USD/IDR and USD/VND at 1.32, 4.38, 33.5, 16,800 and 26,300 respectively by 3Q25 as well.

- As for rates outlook, we reiterate our view of further easing from both Fed and MAS. While we have pushed back the timeline of Fed rate cuts, we continue to see 3 x 25 bps rate cuts this year. Updated timing of the rate cuts will be 25 bps each at the Sep, Oct and Dec FOMCs. This will bring Fed Fund Rate down from 4.50% to 3.75% by end of this year. As for the MAS, the thresholds for a neutral appreciation path have been met and we see a complete flattening of the S$NEER at the Jul MPS.

- Fears over deteriorating foreign demand for US Treasuries may be valid but consequences will need multiple years to play out and the process will be gradual. We acknowledge that the US possesses considerable domestic capacity to absorb a reduction in foreign Treasury demand starting with the Federal Reserve of course.

- Recent strong Asian currency performance paves the way for rate cuts which are much needed to stabilize the deteriorating growth outlook. At the moment of writing, China has embarked on a new round of easing with its latest 50 bps RRR cut and 10 bps cut to benchmark money market rates.

- Overall, we forecast the 3M compounded in arrears Sofr and Sora at around 3.73% and 2.19% by 4Q25. In the back end, we forecast 10Y UST yield at 4.10% and 10Y SGS yield at 2.50% by 4Q25.

- Finally for gold, in view of on-going safe haven demand, consistent strong allocation by central banks, supportive tailwind of anticipated weak USD going forward and possible renewed gold ETF demand in the US, we maintain our positive gold view and raise our forecast further to USD 3,600 / oz by 1Q26.

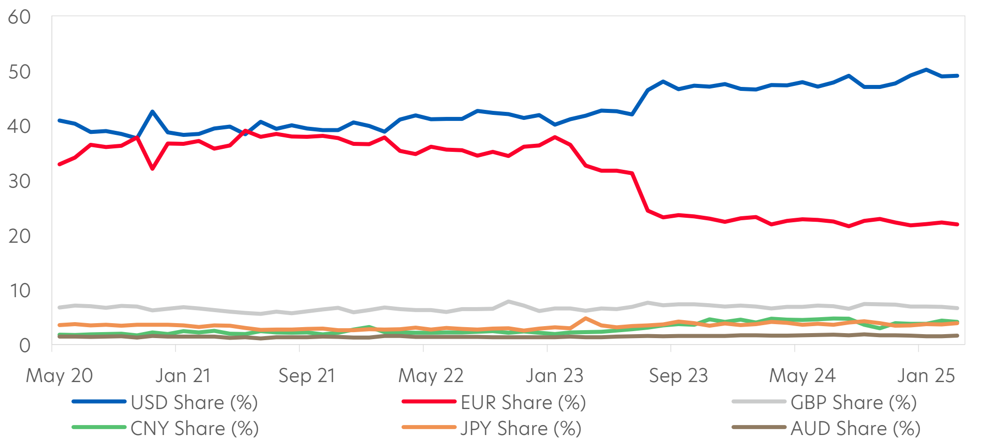
Taking a leaf from President Trump's mantra for the US oil industry to "Drill! Baby! Drill!", the rallying call lately for many FX proprietary traders and market commentators is now "Sell! Dollar! Sell". Since Liberation Day, it has been very fashionable to bash the Dollar (USD). This de-dollarization narrative seems to be the easy, emotive way to describe what is happening in financial markets right now. There have been so many unsubstantiated rumors making their rounds over the past month that even Fox Mulder would have had difficulty discerning which is the truth.

Initially, there were a series of unsubstantiated commentary that China is determined to "dethrone" the USD because of the escalating trade tensions with the US. To that end, China supposedly has agreed to launch an expanded version of CIPS with ASEAN and Middle East nations, using Digital Yuan for more efficient cross border transfer, to circumnavigate the current USD based SWIFT payment system. However, there is no such initiative nor official confirmation amongst ASEAN nations nor from People's Bank of China (PBOC) of this rumored initiative. Since Covid, the PBOC has indeed conducted extensive trials of the use of Digital Yuan in various cities across China and in Hong Kong and Macau. Various collaborative sandbox trails for the Digital Yuan were also conducted with key central banks across the world and across ASEAN. But these were mostly focused on retail payment rails and that has yet to expand to any region wide initiative for a wholesale or cross border basis.

The fact remains that most of global trade and commerce is conducted in USD. In the latest quarterly update as of end Mar by SWIFT, the USD continues to command the lion's share of 49% of global payments growing from 42% in 2022. While payments using the CNY is still a far distant 4.1% of global payments, it has now exceeded the 3.8% global share for JPY and 1.6% global share for AUD. It is interesting to note that it is the EUR that has been losing ground over the past few years, where its global payment share has been gradually eroded from 36% in 2022 to current share of 22%.

Chart 1: Currency share of global payment via SWIFT (%)

Source: Bloomberg, UOB Global Economics & Markets Research



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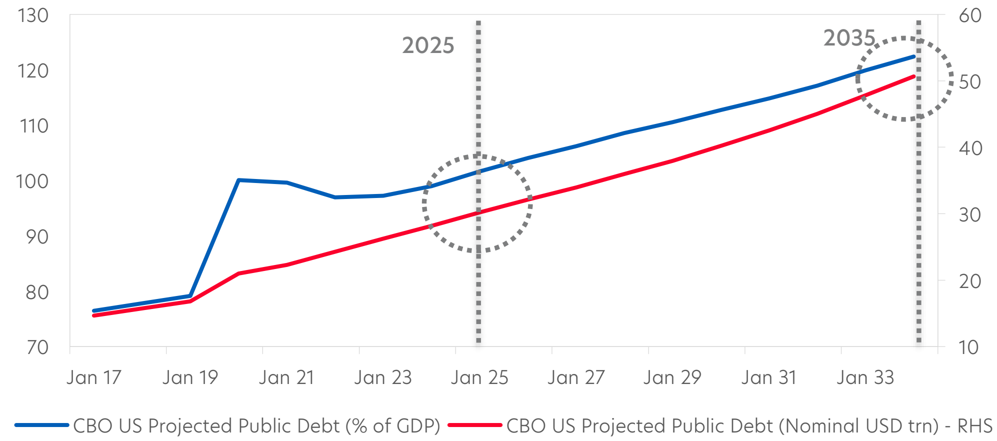
Thereafter, the second set of unsubstantiated commentary revolve around the upcoming US debt ceiling in mid Jul, which is supposed to coincide with the expiration of President Trump's self-imposed 3-month reprieve for reciprocal tariffs on 9th Jul. Supposedly, the US Treasury will have to conduct a flood of refinancing across Jul as the US debt ceiling is up for extension yet again. The rumor goes that investors should sell the USD ahead of a potential Treasury default by the US. Objectively, the US fiscal issues are well acknowledged for years by financial markets. In their quarterly updates, the bi-partisan Congressional Budget Office (CBO) had warned repeatedly that from current levels of below USD 30 trn, US outstanding debt will balloon to above USD 50 trn in the coming decade. US Federal Reserve Chair Jerome Powell has repeatedly warned as well that the current US debt trajectory is not sustainable. And US Treasury Secretary Scott Bessent is acutely aware of this market worry and has so far exhibited much sensitivity in his comments and handling of the US Treasury market.

Chart 2: CBO projects a further ballooning of US public debt

Source: Bloomberg, UOB Global Economics & Markets Research



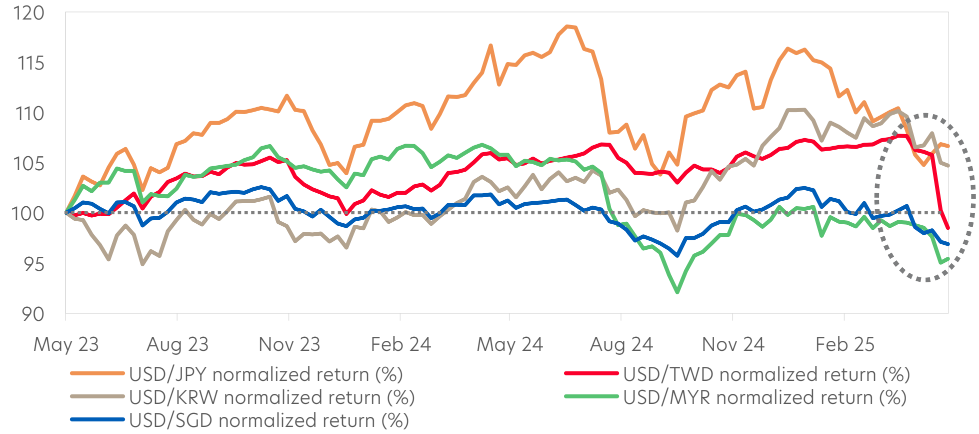
Finally, the latest commentary supporting de-dollarization centers around the rumored Mar-a-Lago Accord. Supposedly President Trump has decided previously at Mar-a-Lago to adopt a series of measures to lower US interest rates and to weaken the USD. The basis for the Mar-a-Lago Accord centers around the thesis written by Stephen Miran in Nov 2024, when he was then a Strategist at Hudson Bay Capital prior to his current appointment as Chair of Council of Economic Advisors for the White House. There are three key parts to Miran's thesis that is titled "A User's Guide to Restructuring the Global Trading System". In essence, Miran's thesis aims to correct "the root of the economic imbalances that lies in persistent Dollar devaluation that prevents the balancing of international trade and this overvaluation is driven by inelastic demand for reserve assets".

Broadly, the first part calls for the imposition of higher trade tariffs against countries which ran trade surpluses against the US, the second part plans for channeling these trade tariff proceeds back to fund purchases of US assets and the third, most controversial part is to "encourage" nations who hold US Treasuries to swap them for longer term hundred-year debt with near zero coupon. Strictly speaking, President Trump has yet to comment directly on Miran's thesis. But to the casual market observer, it does look like the first part, i.e. imposition of trade tariffs, has been put in action. The concluding paragraph of Miran's thesis notes succinctly that "There is a path by which the Trump administration can reconfigure the global trading and financial systems to America's benefit, but it is narrow, and will require careful planning, precise execution and attention to steps to minimize adverse consequences".

Various commentaries of late repeated Miran's assertion that the USD is overstretched and overvalued. Esteemed US economist Kenneth Rogoff has joined the de-dollarization chorus warning that the USD is overstretched and that recent Trump administration initiatives will merely accelerate the USD's sell-off. So what really happened over the past month? Why did the USD encounter such an intense sell-off against Asian currencies. In particular, what led to the largest weekly collapse in USD/TWD on record, from 32.50 to 30.00 in double quick time? We postulate one key possible driver related to exporter flow.

Chart 3: USD/TWD encounters heavy selling in latest round of USD liquidation

Source: Bloomberg, UOB Global Economics & Markets Research



Various anecdotal evidence suggests that many exporters and investors across Asia have been "hoarding" the USD. This was due to the expectation that higher trade tariffs would cause a round of competitive devaluation amongst Asian and Emerging Market (EM) currencies. However, sentiment has improved dramatically since late April. The trade tariff risk from the US is not as negative as initially feared. Afterall President Trump has delayed reciprocal tariffs till early Jul. And he seems keen on making trade deals with various nations. On 8 May, the Trump Administration announced their first trade deal with the UK. In addition, to the credit of the People's Bank of China (PBOC), it has kept the CNY relatively stable over the past month, locking the USD/CNY fixing rate closely around the 7.20 level and successfully pushing back devaluation pressure on the CNY. This has helped to limit the upside of USD/CNY and prevented a region wide round of competitive devaluation of domestic currencies.

Previously most Asian exporters' hedge ratio has been kept deliberately low for them to "hoard" USD. Now that the risk of further trade escalation has passed and we are now in the de-escalation phase, many Asian exporters were said to have started to offload their USD proceeds and holdings. This led to the sell-off in USD/Asia over the past two weeks. Just how much was this amount of USD "hoarding" by Asian exporters? There are no precise figures and we could only hazard a guesstimate. According to the World Bank, as of 2022, global exports topped USD 24 trn, out of which East Asia and Pacific (including China) accounted for about USD 8 trn. A back of the envelope calculation suggests that if in line with SWIFT data that about half of global payment is conducted in USD, then across East Asia and Pacific, export proceeds in USD may total USD 4 trn. Assuming a less disciplined hedge ratio of 50% by exporters on average, this would imply that potential repatriation of USD proceeds by exporters may total as much as USD 2 trn.

Beyond the above short-term driver, it is important to note that in general, currencies are still driven over the medium to longer term by interest rate differentials arising from anticipated differences in central bank monetary policy action. What's next for the USD? Will it continue to fall against the Majors? Is the extreme fall in USD/Asia overdone? What's next for short rates and longer-term yield outlook now that Chair Powell has reiterated at the latest May FOMC a "wait and see" approach that while economic uncertainty has increased, the Fed is "not in a hurry to adjust rates" as of yet? We update hereafter our various FX and Rates forecasts in this latest monthly report.

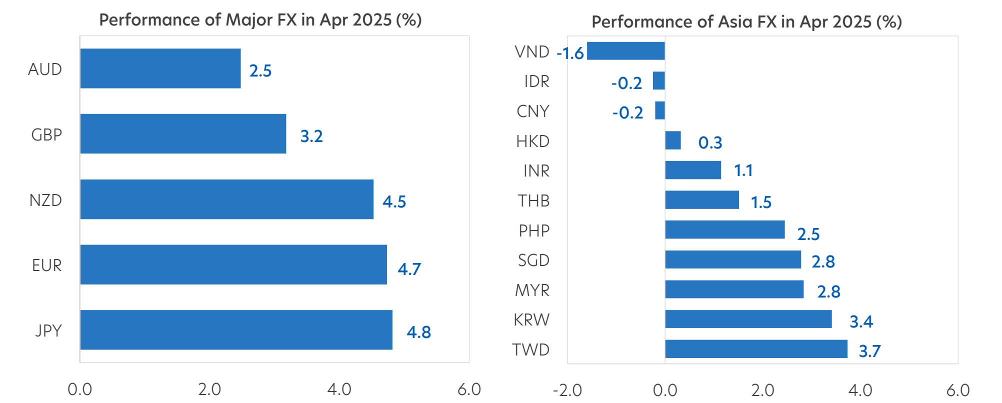
FX Strategy

Will the broad-based decline in the USD continue?

The USD selloff intensified in the past month alongside an escalation of the global trade war. The US Dollar Index (DXY) clocked its worst month (Apr: -4.6%) since Nov 2022 and slumped to a 3-year low of 98 just as the Trump administration unleashed a barrage of "Liberation Day" tariffs against almost all its trading partners and raised tariffs on Chinese goods to a prohibitive 145%. Subsequently, while President Trump granted a 90-day pause of the "Liberation Day" tariffs, US economic concerns stayed. In Apr, the interest rate swap markets priced in between 3 to 4 Fed rate cuts for the rest of the year, up from 3 rate cuts in the prior month. President Trump's occasional comments about firing Fed Chair Powell also undermined the USD's traditional haven status and led investors to allocate away from USD as the credibility of the Fed was called to question. While we have factored in USD weakness against the Major FX peers in our last FX & Rates Monthly published 4 Apr 2025, some of our forecasts were met earlier than expected and we take this opportunity to review and adjust accordingly.

Chart 4: Most Major and Asia FX rose strongly against the USD in Apr

Source: Bloomberg, UOB Global Economics & Markets Research



A gauge of Asia FX soared to six-month high in early May as markets assessed that the tariff standoff between the US and China may have peaked. Trump signaled that he would lower tariffs on China "at some point" while both US and China are set to begin its first trade talks on 10-11 May. Signs of progress in trade talks between US and its Asian counterparts also accentuated the positive shift in market sentiment. With some Asia FX appreciating to pre-Trump 2.0 levels against the USD, has the markets gone too far to remove most of the risk premium associated with the Trump's tariffs? Is the current relief rally in Asia FX sustainable given the economic realities? Or has the renewed de-dollarization theme unleashed by Trump's volatile trade policies taken dominance in the Asia FX space as well?

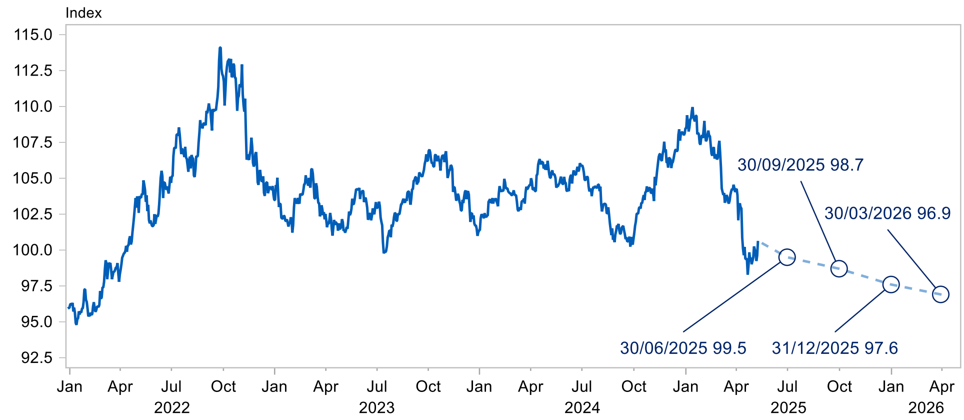
Major FX Strategy

DXY begins a new trading range below 100

A narrowing of US rate differentials relative to its G-10 peers over the medium term continued to underpin our outlook of a weaker USD in the Major FX space, as we argued in previous publications. We reiterate the view of 3 x 25 bps Fed rate cuts in the second half of the year as Trump's aggressive trade policy is expected to slow the US economy to just 1.0% growth in 2025 from a strong 2.8% in 2024. The modest pace of Fed's anticipated easing is now on par with that of its peers where we project 75 bps of rate reductions each for European Central Bank (ECB), Bank of England (BOE), Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) for the rest of 2025.

Chart 5: DXY is likely to trade below 100 in the coming quarters

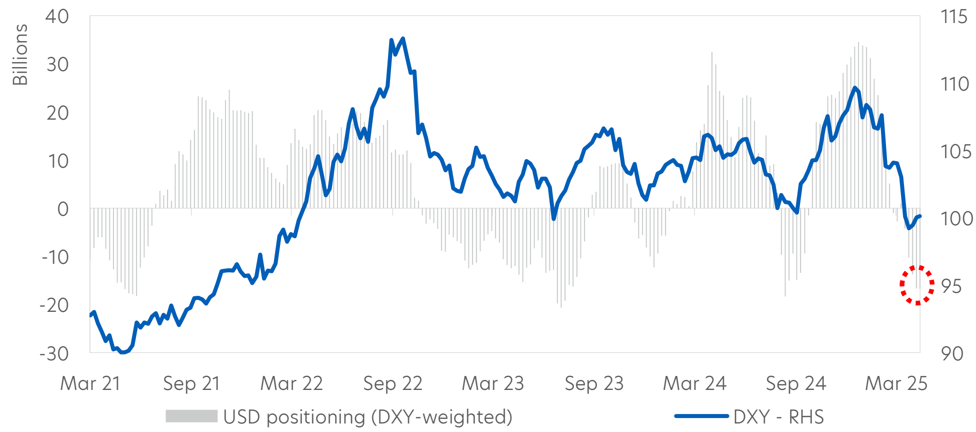
Source: Macrobond, UOB Global Economics & Markets Research



In Apr, the US Dollar Index (DXY) clocked its worst month (Apr: -4.6%) since Nov 2022 and slumped to a 3-year low of 98. Speculative traders had also increased their bets against the USD to about $17 bn in the week of 29 Apr, the most bearish position since last Sep. Apart from expectations on the Fed to step up monetary easing, the de-dollarization theme in the face of Trump's volatile trade policies has also weighed on the USD, though the dominance of the latter may eventually fade as trade tensions ease and investors refocused back to monetary policy deliberations. Overall, we maintain a downward trajectory in the DXY, with updated implied forecasts of 96.9 by end-1Q26. That said, there is still upside risks to our USD forecasts which stem from tariff-induced inflation staying sticky which may trigger a hawkish Fed response, hence keeping USD bid.In addition, volatility is likely to persist as markets digest potential tariffs in other sectors or trade talks which may set off contrasting reactions in the currency markets.

Chart 6: Net-short USD positioning has risen to the largest since Sep 2024

Source: Bloomberg, UOB Global Economics & Markets Research

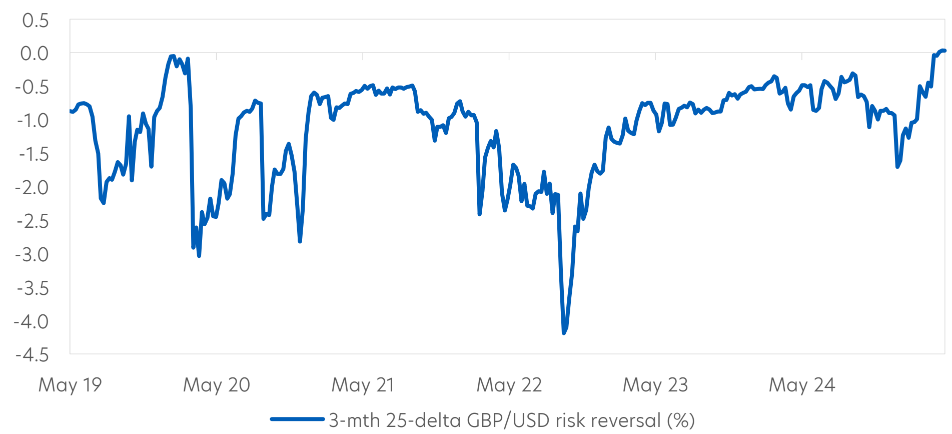


EUR was the direct beneficiary when de-dollarization talks gained traction in Apr and recorded a second month (Apr: 4.7%, Mar: 4.3%) of strong gains against the USD, riding on the coattails of Germany's aggressive fiscal stimulus a month earlier which invoked animal spirits in investing in Europe again. Europe's 90-day suspension of retaliatory 25% tariffs on US goods also prevented a spillover of trade tensions into the EUR. In the near-term, a brief uptick in US rates relative to EU rates – a consequence of the "Sell America" trade – may stall but not derail the expected upward trajectory in EUR/USD. Overall, our updated forecasts EUR/USD are 1.14 in 2Q25, 1.15 in 3Q25, 1.16 in 4Q25 and 1.17 in 1Q26.

Underpinned by Apr's positive seasonality, GBP/USD continued its steady climb from Jan's 1.21 lows and completed a round trip back to 1.3444, highs seen last Sep. We reiterate the view that GBP may turn out to be one of the most clear-cut beneficiaries in this new phase of USD weakness. While there is skepticism about the robustness of the content of the trade agreement, UK being the first to reach a trade agreement with the US may boost sentiment and reduce tariff-induced downside risks for the GBP. Worth noting, the options markets is currently indicating the largest premium of GBP calls over puts in over five years, which may help to underpin GBP/USD further. Overall, we keep to our bullish outlook in GBP/USD with updated forecasts at 1.34 in 2Q25, 1.36 in 3Q25, 1.38 in 4Q25 and 1.39 in 1Q26.

Chart 7: GBP/USD is underpinned by the largest premium of GBP calls over puts in over five years

Source: Bloomberg, UOB Global Economics & Markets Research



The JPY strengthened for a fourth month, rising 4.6% in Apr to 143 /USD as escalating global trade tensions spurred safe haven demand for the currency. While signs of thawing of US-China relations may somewhat reduce JPY's safe haven appeal, we still think monetary policy divergence between Fed (easing bias) and Bank of Japan (BOJ, tightening bias) keeps USD/JPY biased to the downside. That said, the dovish pause in the BOJ's policy meeting in May, coupled with BOJ Governor Ueda's "uncertainty" focused press conference, the weaker growth projections and a delay in the 2% inflation objective till FY 2027, have all set the stage for another re-think about the timing of BOJ's rate hikes. We now expect BOJ rate hikes (25bps increments) to be pushed back to between Sep 2025 (from 2Q 2025 previously) and 1Q 2026 (from 4Q 2025) respectively. For more details, pls refer to Macro Note published 2 May 2025 here. Overall, delayed BOJ rate hikes are likely to translate to more measured JPY strength going forth and the JPY may not outperform within the G-10 FX space as what we previously thought. Near term (in 2Q25), de-dollarization talks may still underpin US rates awhile longer, keeping USD/JPY sticky to current levels. Our updated USD/JPY forecasts are at 144 in 2Q25, 143 in 3Q25, 141 in 4Q25 and 140 in 1Q26.

Being a risk-sensitive currency, the AUD staged a v-shaped recovery in Apr after the Trump administration paused "Liberation Day" tariffs for 90 days to facilitate trade negotiations, spurring a recovery in risk assets. The AUD also benefited from the stabilization of the CNY as both US and China appear to be walking back from the brink of the tariff standoff. However, we think it remains far from a "all-clear" scenario for AUD yet. A substantive US-China trade deal remains far from certain, and the risk of a global recession increases the longer elevated global tariffs stay in place. As such, we stay cautiously positive on the AUD and make only modest revisions to our forecasts. Overall, our updated AUD/USD forecasts are 0.64 in 2Q25, 0.65 in 3Q25, 0.66 in 4Q25 and 1Q26.

Asia FX Strategy

Worst may be over but key downside risks remain

What a big difference a month makes! At our last monthly update on 4 Apr, we opined that the "Liberation Day" tariffs announced on 2 Apr could be the trigger for renewed Asia FX weakness. Little did we (and the rest of the market) think the trade war de-escalated as quickly as it escalated, all within a month. Markets piled back into both Asia risky assets as well as Asia FX on increasing signs of trade deals being struck between US and some of its trade partners, and of preliminary talks between US and China to begin soon. Asia FX gains were compounded by the broader de-dollarization rhetoric, sparking spectacular moves in some USD/Asia pairs. For example, USD/TWD staged the largest 2-day drop (of as much as 8%) since 1980s.

While we agree that the worst for Asia FX may have passed, key risks or considerations remain that may temper with the nascent Asia FX rally include:

- Firstly, there are still considerable uncertainties how trade talks or deals will pan out and whether reciprocal tariffs against various Asian countries will be reinstated after the 90-day pause expires on 9 Jul. From recent Asia FX price action and level, it appears markets may have been too optimistic in pricing in a swift resolution of the tariff war.

- Secondly, it remains to be seen whether the de-dollarization theme will continue to dominate in the near term. Observations in recent years suggest a Minsky moment against the USD's dominant position in central bank reserves and settlement currency of choice is not in the offering.

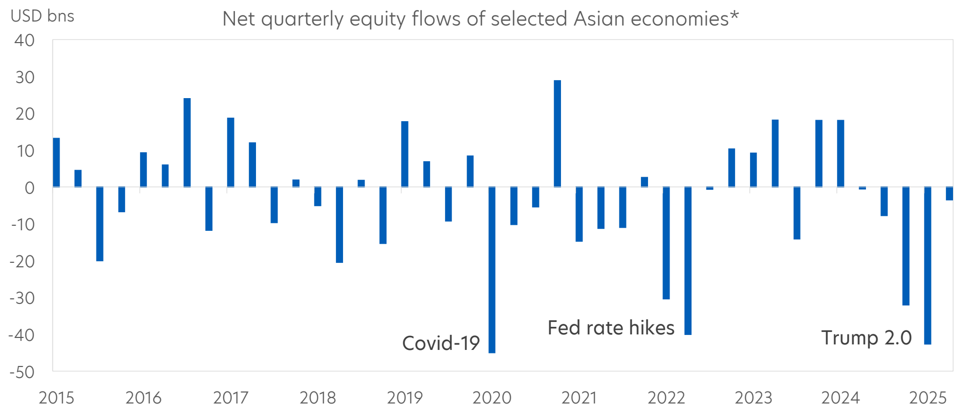
- Thirdly, the abrupt Asia FX strength is increasingly at odds with economic fundamentals. In the past month, we have downgraded trade and GDP outlook for several Asian economies. Regional central banks may also lean on recent domestic currency strength to cut interest rates to support the economy, which will of course weigh on Asia FX.

- Lastly, there are limits as to how much further some Asia FX can appreciate from here. For example, the HKD is already trading at the strong end of its convertibility limit (at 7.75 /USD) and authorities have stepped in to sell record amounts of HKD and buy USD to defend the peg. In addition, the S$NEER trades at about 1.7% above its policy midpoint (as of 7 May), near to its 2.0% limit.

Overall, we think the current abrupt Asia FX rally may be overdone. Taking into account the potential downside risks, we mark our USD/Asia forecasts slightly higher from current spot in the coming two quarters (2Q & 3Q25) before turning lower from 4Q25 onwards. The previous peaks (3Q25) of most USD/Asia pairs have also been marked lower compared to the last review to denote that the most intense phase of the trade war may have passed.

Chart 8: Equity flows still pointing to net outflows in 2Q-till-date despite improvement in risk sentiment

Source: Bloomberg, UOB Global Economics & Markets Research

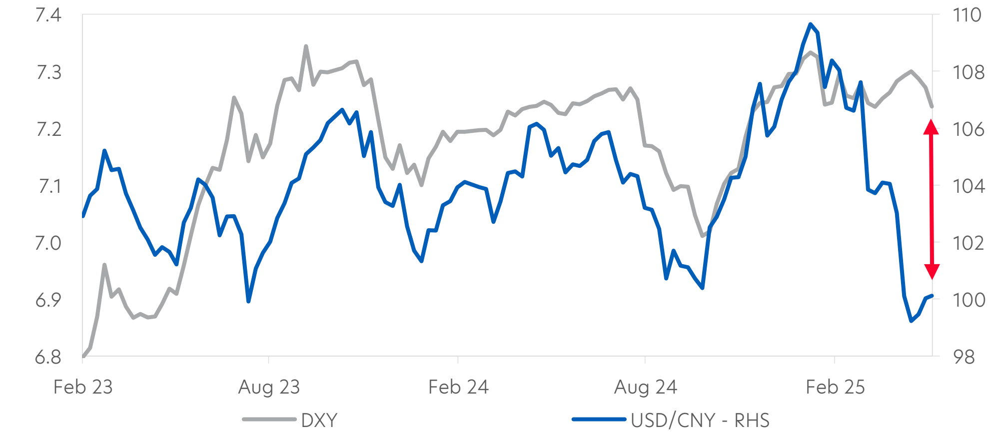


* denotes Taiwan, India, South Korea, Philippines, Malaysia, Indonesia & Thailand

In the past month, USD/CNY pulled back from its psychological 7.35 level to 7.23 (as of 8 May) on increasing signs that US-China relations are not worsening further. Trump signaled that he would lower tariffs on China "at some point" while both US and China are set to begin its first trade talks on 10-11 May. Ironically, the CNY appreciation in the past month trailed regional peers as the People's Bank of China (PBOC) kept the daily fixing stable at around 7.20, keeping to its pledge to keep the CNY exchange rate relatively stable at reasonable, balanced level. It is unlikely the PBOC would fix the CNY materially stronger than 7.20 /USD unless there is substantial progress in reaching a trade deal whereby tariffs on Chinese goods are dialed back significantly. This likely translates to limited downside of USD/CNY from current levels in the near term. On the flip side, the latest cut to the China's 7-day reverse repo rate and reserve requirement ratio and the current "moderately loose" policy stance may lend some upside to USD/CNY, though we acknowledge it is no longer realistic to project a 7.80 peak anymore given that the tariff standoff may have peaked and we may gradually move into a de-escalation phase. Overall, our updated USD/CNY forecasts are at 7.25 in 2Q25, 7.32 in 3Q25, 7.25 in 4Q25 and 7.18 in 1Q26.

Chart 9: USD/CNY has not "caught down" with the broad USD weakness due to stable daily fixing by the PBOC

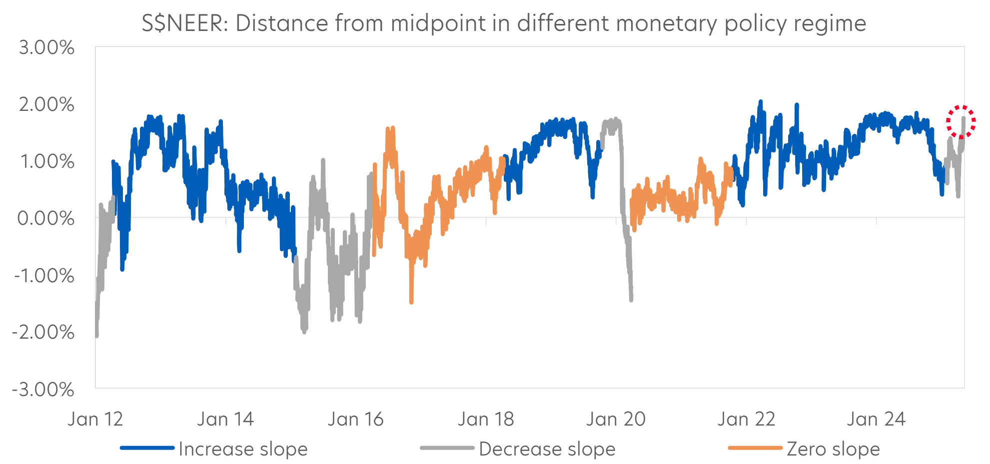
Source: Bloomberg, UOB Global Economics & Markets Research



Amidst a broad-based rebound in Asia FX, USD/SGD dipped below the psychological 1.30 level and touched a 7-month low of 1.2860 in early May. Year-to-date, the SGD has gained close to 6% against the USD, ranking as one of the outperformers within the Asia FX space, boosted by its safe haven status and resilient fundamentals. Consequently, the S$NEER is now trading about 1.7% above the policy midpoint (as of 7 May), near to its 2.0% limit. This denotes decreasing headroom for the SGD to appreciate both against the USD and other peers in the S$NEER trading basket. Coupled with our expectation for the Monetary Authority of Singapore (MAS) to ease further by flattening the policy slope in Jul, it is likely that the S$NEER may start to normalise lower, as it did in previous easing periods. Overall, our updated USD/SGD forecasts are 1.31 in 2Q25, 1.32 in 3Q25, 1.31 in 4Q25 and 1.30 in 1Q26.

Chart 10: S$NEER appears "rich" given we are in monetary policy easing period

Source: Bloomberg, UOB Global Economics & Markets Research



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Closely linked to the developments in the CNY, the MYR rebounded strongly, pacing gains in the region after the US-China trade tensions showed signs of easing off. The MYR was further underpinned by its relative resilient economic and financial fundamentals and the steady hand of Bank Negara Malaysia (BNM) in keeping rates unchanged at 3.00% despite the external headwinds. That said, the strong turnaround in MYR appears to be overdone given that the currency has since returned to pre-Trump 2.0 levels of about 4.26 /USD. The markets may have gone too far in removing most of the risk premium associated with the Trump's tariffs when it remains highly uncertain how the trade war would pan out from here. As such, we stay prudent and expect some consolidation of recent MYR gains in the coming months as markets wait out for more clarity on the global tariff developments. Furthermore, we have updated our rates view to factor in 2x25 bps BNM rate cuts in 2H25 which may weigh on the MYR. Overall, our updated USD/MYR forecasts are 4.35 in 2Q25, 4.38 in 3Q25, 4.33 in 4Q25 and 4.28 in 1Q26.

Similar to some of its South-East Asian peers, the THB also rebounded strongly in the past month after the global trade war showed tentative signs of improvement. That said, we think the THB is still facing a multitude of headwinds despite the abrupt turnabout in currency sentiment. These include the highly uncertain global tariff situation and its spillover to Thailand's economy, uncertain economic cost of the 28 Mar earthquake and persistent outflows from the local stock market. Another 25-bps rate cut in Jun may also weigh on the THB. Overall, our updated USD/THB forecasts are 33.3 in 2Q25, 33.5 in 3Q25, 33.1 in 4Q25 and 32.9 in 1Q26.

It was a rollercoaster ride for the IDR in Apr, initially plummeting to a record low of 17,224 /USD in the wake of Liberation Day tariff announcement before a quick stabilization of global risk sentiment and Bank Indonesia's (BI) sustained intervention to keep the currency stable helped fuel a recovery of the IDR to about 16,500 /USD. Our expectation of 2x25bps rate cuts by the BI, one each in 2Q25 and 3Q25 and persistent outflow from the local stock markets are likely to keep the pressure on the IDR in the near term, anchoring its underperformance relative to regional peers. Another potential uncertainty for the IDR is the reimposition of the 32% reciprocal tariff on Indonesian goods into US if Indonesia fails to get a trade deal with the US before the 90-day tariff pause expires on 9 Jul. Overall, our updated USD/IDR forecasts are 16,600 in 2Q25, 16,800 in 3Q25, 16,600 in 4Q25 and 16,400 in 1Q26.

The VND is the outlier to the strong regional FX recovery in Apr, with the currency falling 1.6% on the month to 25,990 /USD. Markets probably weighed the economic fallout on Vietnam due to the prohibitive 46% tariff – second highest after China globally – that the US slapped on Vietnamese goods from Jul. Manufacturing PMI has also plummeted to a 2-year low of 45.6 in Apr, reflecting the caution amongst factories as they grappled with the prospect that Vietnamese products lose its price competitiveness in the US, its largest export market. Absent a trade deal with the US, we think the VND will likely be tethered at the weaker end of its trading band against the USD. Overall, our updated USD/VND forecasts are 26,100 in 2Q25, 26,300 in 3Q25, 26,000 in 4Q25 and 25,800 in 1Q26.

Rates Strategy

Waiting for the next shoe to drop

Question of the month: Will we get a buyers strike for US Treasuries?
Of late, we have fielded many questions as US political pronouncements unfolded over the past month. It soon became clear that bond market concerns had picked up, once again, and is converged around the possibility of the US Treasuries market encountering a buyers' strike.

This prospect represents a meaningful risk that has grown more acute in the context of President Trump's unpredictable policy approach, particularly regarding international trade. Indeed, the bond market volatility was severe enough that it appears to have influenced presidential policy decisions, with Trump himself acknowledging that bond markets had become "a little bit yippy".

A buyers' strike involving multiple major state actors jointly announcing and executing a plan to divest substantial portions of their US Treasury holdings remains a low-probability, high-impact event. Such an action would likely be interpreted as an act of financial warfare, as well as inflicting significant capital losses for the selling nations themselves on their remaining, devalued Treasury portfolios. At this juncture, a complete withdrawal of foreign buyers remains unlikely given the structural importance of US Treasuries in the global financial system, as a key chunk of global central bank reserve assets and as their continued yield advantage over other developed market alternatives.

A more probable scenario is one of gradually declining foreign participation, probably requiring higher yields to attract alternative buyers and potentially creating periodic episodes of market volatility. An optimist might look to Japan where most of its debt is held by domestic buyers and yields have remained low, thanks in no small part to persistent current account surpluses and low inflation. The US enjoys neither condition currently, but this could change in the post reformation era.

Nonetheless, we should acknowledge that the US possesses considerable domestic capacity to absorb a reduction in foreign Treasury demand, with the Federal Reserve, commercial banks, institutional investors, and households all having the potential to increase their holdings.

Table 1: Potential Domestic Absorption Capacity for US Treasuries

Domestic Buyer Category	Estimated Holdings (Q1 2024)	Estimated Additional Capacity (Qualitative/Quantitative)
Federal Reserve	USD 4tn	Very High (theoretically unlimited)
US Commercial Banks	USD 1.6tn	Moderate; Potentially High if Supplementary Leverage Ratio eased
US Pension Funds	USD 1tn	Significant, especially for long-duration
US Insurance Companies	USD 0.5tn	Moderate to Significant, particularly for long-duration
US Mutual Funds / ETFs	USD 4tn (MFs) USD 0.5tn (ETFs)	High, but highly price-sensitive
US Households (incl. Hedge Funds)	USD 2.4tn	Significant, but price-sensitive;

Source: UOB Global Economics & Markets Research

The consequences of a significant and sustained reduction in foreign demand for US Treasuries, would carry several material risks for the global economy and financial markets. At a broader economic level, higher borrowing costs would constrain government spending flexibility. Consumer spending would likely decline, and business investment could slow as borrowing cost rises. The combination of these factors could significantly increase the risk of economic recession, particularly if the transition to higher interest rates occurs rapidly rather than gradually.

For financial markets, the most immediate impact would be a significant rise in bond yields as the US would need to offer higher interest rates to attract sufficient buyers. Equity markets would likely face downward pressure as higher borrowing costs would reduce corporate profitability and pressure stock valuations. The USD might initially strengthen as higher Treasury yields attract some yield-seeking investors. However, if concerns about structural fiscal issues or political instability dominate, the USD could ultimately weaken, especially if foreign central banks begin to diversify their reserves away from US assets.

Ultimately, the trajectory of foreign demand for US Treasuries will be significantly shaped by US policy choices. The "exorbitant privilege" enjoyed by the US is not an immutable right; it is a conditional advantage that rests on a foundation of global trust in US economic and political stability.

Our existing FOMC view: slight delay in anticipated timing of rate cuts this year

We have pushed the timing of the next rate cut back but have kept to our base case for the Fed to cut by another 75bps going forward this year, this will take Fed funds rate down to 3.75% by the end of the year. Beyond this year, we continue to pencil in 2 cuts in 2026, thus our easing cycle bottom for Fed funds rests at 3.25% in 2H 2026. Our view is in line with the Apr survey of analysts' consensus.

Chart 11: US rate outlook

Source: Bloomberg, UOB Global Economics & Markets Research

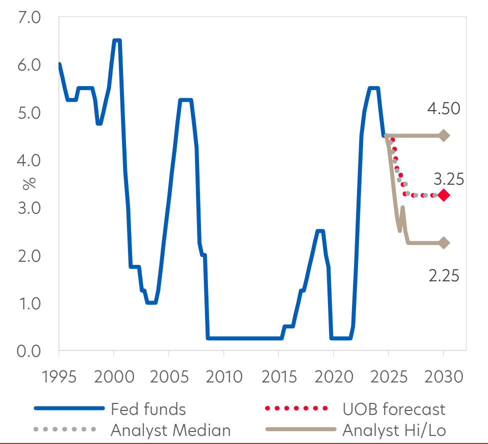
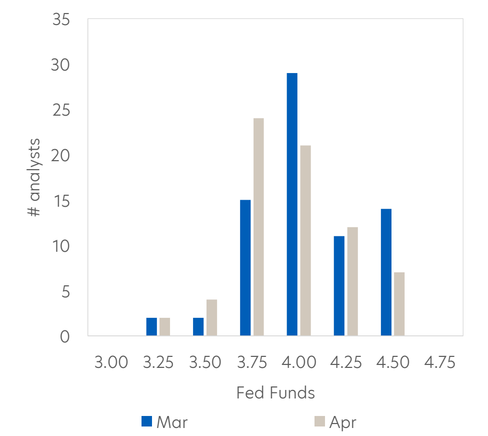


Chart 12: Distribution of end 2025 analysts Fed Funds forecasts

Source: Bloomberg, UOB Global Economics & Markets Research



The Fed is facing a complex challenge in formulating its policy response to the tariffs, given the conflicting pressures of potentially higher inflation and slower economic growth. Depending on how these economic forces unfold, the Fed might find itself in a position where it needs to delay previously anticipated interest rate cuts if inflation remains stubbornly elevated (or accelerates) due to the tariffs. Conversely, if the tariffs lead to a significant weakening of economic growth, the Fed might be compelled to cut interest rates to provide support to the economy, even if inflation remains above its target.

Right By You

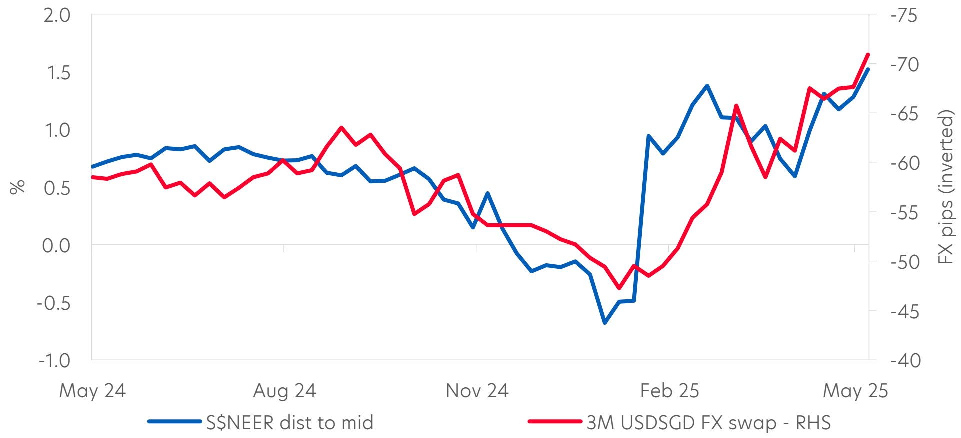
For our base case, we forecast the 3M compounded in arrears Sofr at around 3.73% by end 2025. Further Sofr downside is expected into 2026 given that we see the Fed easing cycle ending in the middle of the year.

Our existing MAS view: complete flattening of S$NEER slope at the upcoming Jul MPS
In our view, thresholds for an adjustment to a zero percent appreciation stance have likely already been met, and our base case calls for MAS to ease policy further in the upcoming Jul 2025 MPS via a complete flattening of the S$NEER slope. Furthermore, a downward re-centering move this year is possible should growth prospects turn even more negative.

Incorporating our MAS expectation, we anticipate that short term SG yields will track lower alongside an expected decline in the US Fed funds rate. However, the eventual pass through into SG yields may be even smaller when we account for the S$NEER path.

Chart 13: Strong FX deeper fwd discount

Source: Bloomberg, UOB Global Economics & Markets Research



Whilst we look for a smaller SG sensitivity to US yield changes on a structural basis, cyclical liquidity factors have been very supportive of domestic liquidity and thereby keeping SG yields low. Relatedly, the domestic currency has been buoyant as seen through the S$NEER basket's outperformance.

Looking ahead, there is a possibility that safe haven related inflows may diminish at the margin on account of (1) limited headroom within the current policy bandwidth for SGD to outperform against the S$NEER basket, and (2) our forecast for a zero percent appreciation stance in Jul further dims the FX gains calculus for safe haven inflows. Without prospective FX gains, will the prevailing SG yields at a widening discount to US yields be enough to attract an even greater influx of safe haven flows? This remains to be seen.

For our base case, we forecast the 3M compounded in arrears Sora at 2.19% by end 2025. We have assumed ongoing uncertainty to favour domestic liquidity conditions with Singapore acting as a relative safe haven for the next few months.

Our wider monetary policy views: continued measured rate cuts across 2025
Our monetary policy views on major developed markets (DM) and selected Asian economies sees central bankers there positioned to continue cutting their own policy rates in 2025. Broadly speaking, we see reductions at a more measured pace of 25bps clips going forward.

Right By You

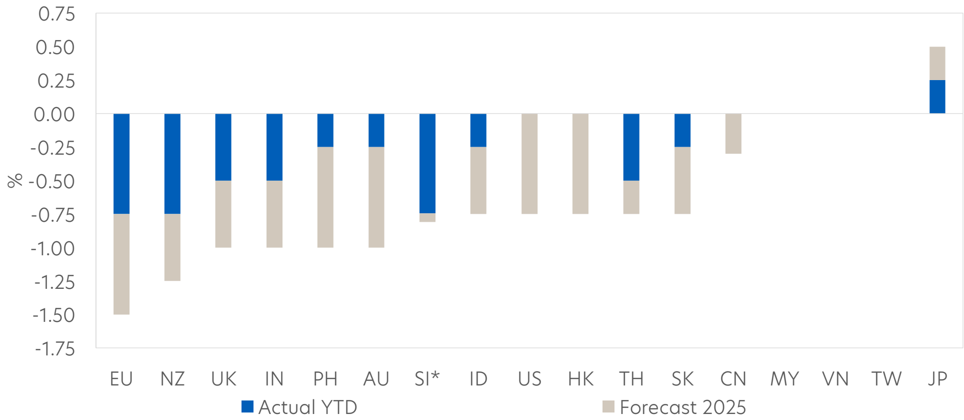
The ECB lowered interest rates for the seventh time since Jun 2024 in Apr. We are assuming weaker US demand for European exports to impact on economic growth. The disinflationary consequences of weaker demand and cheaper imports looking for new destinations will strengthen the case for further monetary easing by the ECB. We now expect three more 25 bps interest rate reductions by the ECB this year, taking the refi rate to 1.65%.

The dovish pause in the May Monetary Policy Meeting (MPM), coupled with uncertainties over US tariff policies, means that the BOJ will be more cautious in its tightening cycle going forward. We still expect the BOJ to hike rates, although we now see an extended glide path, lifting the terminal rate to 1.00% by 1Q 2026.

The RBNZ delivered its fifth straight rate cut in Apr, and its first under the new interim governor Christian Hawkesby. Inflation remains near the mid-point of the Monetary Policy Committee's 1 to 3 percent target band, while latest jobs numbers showed a weak employment market. We think that more rate cuts are needed, and our base case scenario is for two more 25 bps cuts in 2025.

Chart 14: Forecasted change in policy rates 2025

Source: Bloomberg, UOB Global Economics & Markets Research
* Represented by the change in 3M OIS rate



In the Asian region, further easing from selected Asian central banks in 2025 remains our base case. Inflation by and large has been contained which allows for the focus to be on getting ahead of negative growth shocks. Given that Asian currencies have performed well, this removes the constraint of rate cuts compounding domestic currency weakness. However, a new constraint has emerged because of the US administration's conflation of trade negotiation and currency manipulation. This means that while trade negotiations remain ongoing, countries will be weary of any actions, including monetary policy decisions, that could be perceived by the US as attempts to weaken their domestic currency.

The BOT cut its policy rate in Apr and adopted a more dovish tone and signaled its readiness to adjust the policy rate should the growth or inflation outlook weaken materially. We anticipate another 25bps rate cut in Jun to support growth. However, additional rate cuts in the remainder of 2025 cannot be ruled out if downside risks to the outlook.

BI kept its benchmark rate unchanged in Apr, while maintaining its presence in the DNDF and bond markets. We think that the window for rate cuts this year remains open and have pencilled reductions in 2Q and 3Q 2025 to bring the benchmark rate down to 5.25%.

Right By You

As widely expected (and in line with our forecast as well), BNM maintained the Overnight Policy Rate (OPR) at 3.00% on 8 May. However, BNM cut the Statutory Reserve Requirement (SRR) ratio by 100bps to 1.00%, effective 16 May. This SRR reduction will release approximately MYR19bn worth of liquidity into the banking system. We had earlier lowered our Malaysia GDP outlook to 4.0% in 2025, taking into account the potential tariff impact. Acknowledging the dovishness in May's MPS and the SRR cut, we are penciling in two 25bps rate cuts in 2H25 (one each in 3Q25 and 4Q25) from status quo previously. This will take the OPR to 2.50% by end-2025.

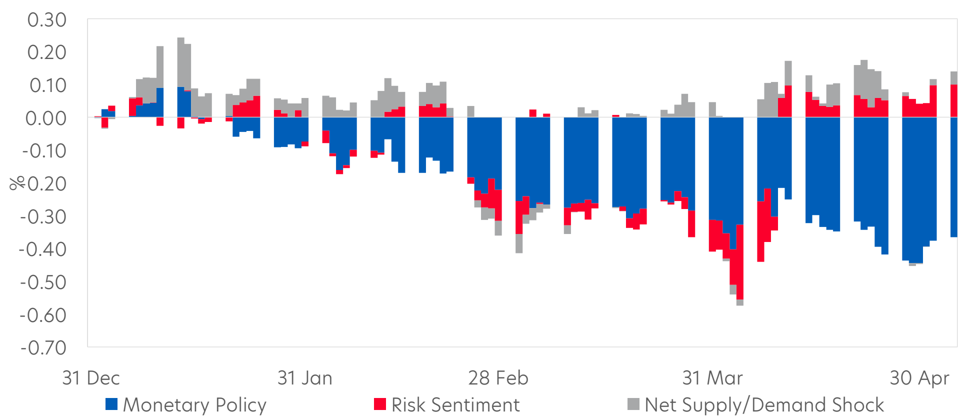
BOK has highlighted significant downside growth risks, suggesting that the bank is likely to further lower its 2025 GDP growth forecast at the May review. We think that May's MPC will be a live one for a rate cut, and we see an increasing prospect of a further 25-bps cut in 2H25 which will bring the terminal rate to 2.25% by year end.

Our 10Y UST view: retaining a higher end state term premium estimate

Our base case forecasts for 10Y UST retains a higher end state term premium estimate as well as incorporates a more front-loaded adjustment path to this end state. That said, monetary policy expectations remain the primary driver of our level forecast for bond yields. Attribution of changes in 10Y UST yield since the start of the year shows monetary policy exerting a negative drag while risk sentiment and net supply factors account for a slight upward pull. Going forward, we think that net supply impact on 10Y UST yield changes could remain sticky. Risk sentiment strikes us as being priced for perfection and our pick as the likely contributor to future downshifts in 10Y UST yield.

Chart 15: Drivers of 10Y UST (Cumulative change year to date)

Source: Bloomberg, UOB Global Economics & Markets Research



While the level of external uncertainties suggests risk aversion could see a return in the near term, which would be supportive of 10Y UST testing the 4% boundary. A deeper collapse in 10Y UST yield to the low 3% region will probably coincide with recession expectations becoming "fait accompli" resulting in Fed rate cut pricing doubling from prevailing levels at a minimum.

On the flipside, certain scenarios could disrupt this near-term dynamic and propel 10Y UST yield back up to challenge the 5% mark. Analysts' consensus paints a likelihood that tariff related price pressures could show up from 2H 2025. In addition, we could also see the US administration devoting more attention to its tax reduction promises which will provide some counterbalance to negative growth sentiments. Finally, the US deficit situation is also not going away anytime soon and can add fuel to an upside yield shock episode.

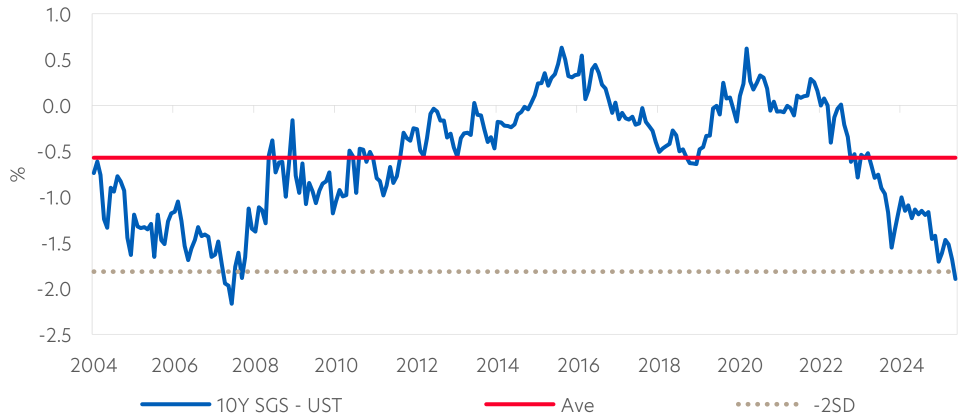
Right By You

For our base case, we forecast the 10Y UST yield at 4.10% for end 2025. We see some downside in bond yields in the near term, but this will remain shallow. Overall, we lean towards the bond market operating in a rangebound regime as investors wrestle between growth and inflation concerns.

Our 10Y SGS view: yield upside for domestic bond yields to be relatively limited
As UST goes so goes the SGS. But we expect that the yield upside for domestic bond yields will be more limited for two reasons. First, part of the uplift in 10Y UST is due to cyclical fiscal deficit fears. This feature does not apply to the SGS market which is supported by excellent fiscal outlook. Second, demand for SGS overall has been healthy even after accounting for an easing MAS policy bias. Third, we expect the Fed rate cut cycle to extend into 2026 thus demand for SGS should remain supportive which will help keep a lid on domestic yields.

Chart 16: 10Y SGS discount at -2SD zone

Source: Bloomberg, UOB Global Economics & Markets Research



Post Liberation Day to date, the 10Y SGS yield discount to UST has deepened by more than 30bps. This is consistent with SGS taking on the role of relative safe harbour in times of heightened uncertainty. On a longer-term lookback, the prevailing 10Y spread is around -2 standard deviation below its mean. Although this spread appears stretched, we are not looking for an abrupt snap back given that the drivers in play could linger for a while.

We see the 10Y SGS in a rangebound environment, and our base case forecast is for the bond yield to end 2025 at around 2.50%.

Summary table of rates forecasts

Rates	09 Apr 25	_	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Funds Target	4.50	Current	4.50	4.25	3.75	3.75
		Previous	4.25	4.25	4.25	4.25
3M compounded SOFR	4.36	Current	4.33	4.16	3.73	3.61
		Previous	4.28	4.02	3.77	3.64
10Y UST	4.37	Current	4.40	4.30	4.10	4.00
		Previous	4.00	4.00	3.90	3.90
3M compounded SORA	2.33	Current	2.31	2.25	2.19	2.11
		Previous	2.37	2.26	2.17	2.10
10Y SGS	2.44	Current	2.60	2.55	2.50	2.45
		Previous	2.50	2.50	2.50	2.50

Source: UOB Global Economics & Markets Research

Commodity Strategy

Raising our gold forecast further to USD 3,600 /oz by 1Q26

In our previous Commodities Strategy report titled "Physical Bullion short squeeze to drive gold above USD 3,000/oz" dated 10 Mar 25, we reiterated our positive outlook for gold and raised our gold forecast to USD 3,200 / oz by 1Q26. Liberation Day that added "jet fuel" to gold's rally, resulting in a strong rally in gold from USD 3,000 / oz in early Apr to almost USD 3,500 / oz by around 22 Apr, resulting in our 1Q26 forecast being reached in just less than one month. This massive run-up towards USD 3,500 / oz is mainly triggered by the global short squeeze in gold as a result of the large flow of gold bullion into COMEX.

Some short-term consolidation around current levels is in order after strong rally past month

Thereafter, gold appears to have entered a short-term consolidation phase of around USD 3,300 / oz to USD 3,500 / oz. Given the massive run-up across April alone, some short-term consolidation around current level of USD 3,300 / oz is par for the course. From USD 2,600 / oz at the start of the year, gold has now rallied almost 25% and will need some time to digest its gains over the near term.

Consistent central bank buying amidst on-going safe haven demand

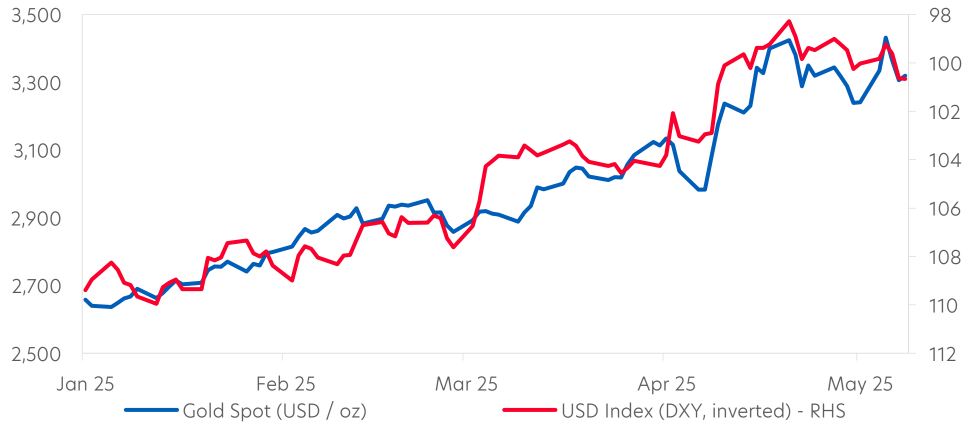
However, over the medium to longer term, the key positive drivers that we had highlighted in the abovementioned Commodities Strategy report remain intact and very relevant. These included, on-going safe haven demand for gold remains strong amidst increasing global trade and geopolitical uncertainties and on-going strong allocation into gold by global central banks, particularly from Emerging Market and Asian central banks. Specifically supporting this point of strong central bank allocation, latest flow data confirmed that the People's Bank of China (PBOC) continued to allocate into gold, adding a further 70,000 oz to gold across April. Various industry estimates suggest that the People's Bank of China could have bought as much as 1 mio oz of gold over the past 6 months.

Further anticipated USD Index (DXY) weakness below 100 to be positive tailwind

Going forward, it would be unrealistic to continue to expect further strong stockpiling of bullion at such an intense pace that we had witnessed since the start of the year. However, consistent strong central bank allocation into gold and the anticipated USD weakness amidst the on-going de-dollarization rumors will likely be the positive tailwinds supporting further gold strength. Specifically, our updated view of the USD Index (DXY) sees it entering a lower trading range below 100, anticipating further weakness towards 96.9 by 1Q26.

Chart 17: The weak DXY has been a positive tailwind for Gold

Source: Bloomberg, UOB Global Economics & Markets Research

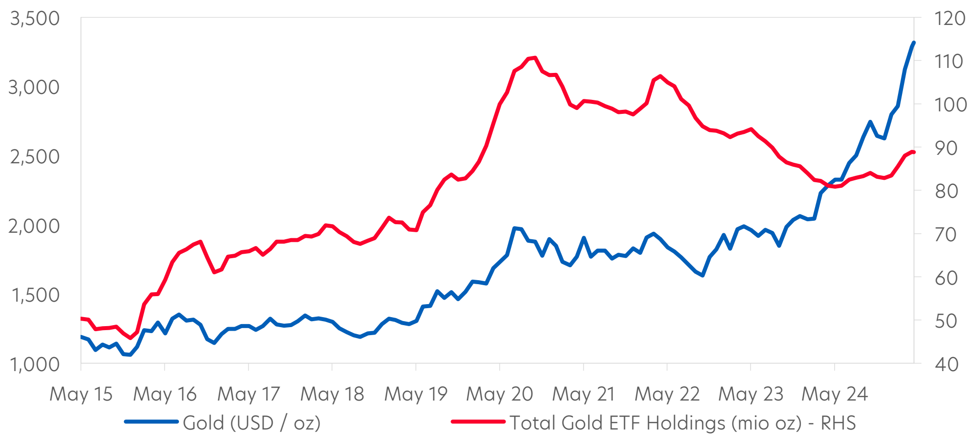


Demand for gold ETF remains the wild card

One key wild card going forward for gold remains that of investor demand for gold ETFs. These remain uneven across different countries. While demand for gold ETFs have jumped in various Asian countries like China and South Korea, demand for gold ETFs in the US appears to be just taking off. The anticipated resumption of the Fed easing cycle in the later months of this year may be the necessary trigger needed for investors in the US to embrace gold ETFs.

Chart 18: Demand for Gold ETFs remain the wild card

Source: Bloomberg, UOB Global Economics & Markets Research



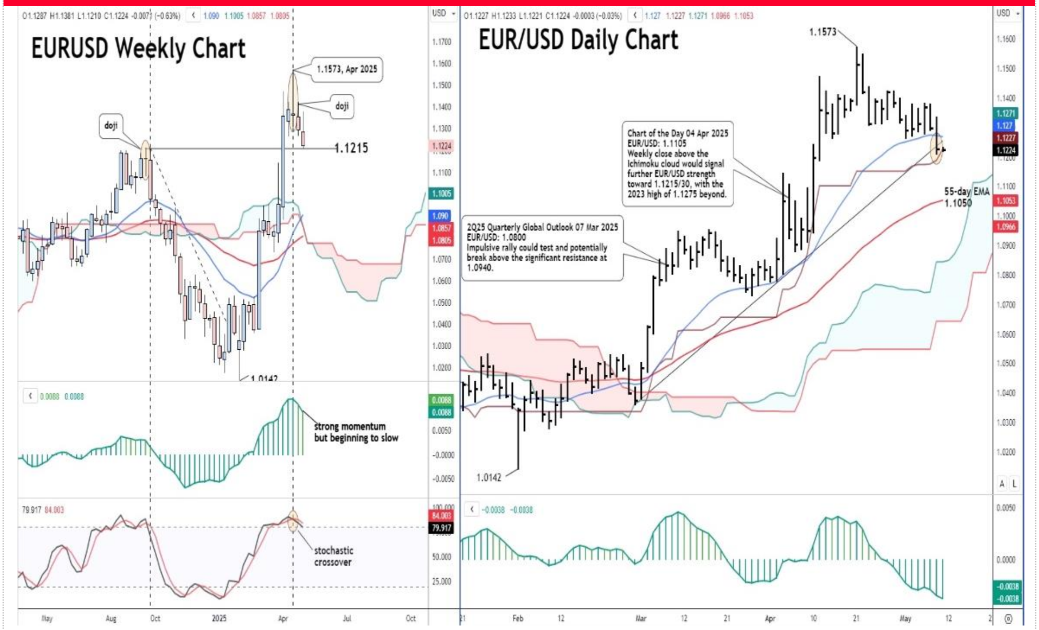
Maintain positive outlook

Overall, in view of on-going safe haven demand, consistent strong allocation by central banks, supportive tailwind of anticipated weak USD going forward and possible renewed gold ETF demand in the US, we maintain our positive gold view and raise our forecast to USD 3,300 / oz for 2Q25, USD 3,400 / oz for 3Q25, USD 3,500 / oz for 4Q25 and USD 3,600 / oz for 1Q26. Prevailing spot rate is USD 3,315 / oz as of 08 May 25. Previous forecast made on 01 Mar 25 was USD 2,800 / oz for 2Q25, USD 2,900 / oz for 3Q25 and USD 3,000 / oz for 4Q25 when spot was USD 2,905 / oz.

FX Technical

EUR/USD: 1.1225

Breach of key support zone could open the way for a deeper corrective pullback toward the 55-day EMA, currently at 1.1050.



Source: LSEG Workspace, UOB Global Economics & Markets Research

We have viewed EUR/USD in a positive manner since early March. In our previous Chart of the Day on 04 April 2025, when EUR/USD was at 1.1105, we reiterated our view, indicating that "A weekly close above the Ichimoku cloud would signal further EUR/USD strength toward 1.1215/30, with the 2023 high of 1.1275 beyond."

EUR/USD then surged past 1.1215/30, soaring to a high of 1.1573 two weeks ago before pulling back quickly. The subsequent weekly Doji on the candlestick chart and stochastic crossover signal potential exhaustion, though the weekly MACD, while slowing, remains firmly positive, indicating that any pullback may be corrective rather than the start of a major reversal.

On the daily chart, EUR/USD fell slightly below the 1.1215/1.1225 support zone yesterday (baseline of Ichimoku cloud, last September's high and a rising trendline), suggesting that 1.1573 could be an interim top. The breach of the key daily support zone could open the way for a deeper corrective pullback toward the 55-day EMA, currently at 1.1050. On the upside, 1.1400 is a strong near-term resistance level, ahead of 1.1573.

FX, INTEREST RATES & COMMODITIES

Forecasts

FX	09 May	2Q25F	3Q25F	4Q25F	1Q26F
USD/JPY*	146	144	143	141	140
EUR/USD*	1.12	1.14	1.15	1.16	1.17
GBP/USD*	1.32	1.34	1.36	1.38	1.39
AUD/USD*	0.64	0.64	0.65	0.66	0.66
NZD/USD*	0.59	0.59	0.60	0.61	0.61
DXY*	100.7	99.5	98.7	97.6	96.9
USD/CNY*	7.25	7.25	7.32	7.25	7.18
USD/HKD*	7.77	7.77	7.78	7.78	7.78
USD/TWD*	30.34	30.8	31.4	31.0	30.5
USD/KRW*	1,413	1,420	1,430	1,400	1,380
USD/PHP*	55.75	56.0	56.5	55.8	55.3
USD/MYR*	4.32	4.35	4.38	4.33	4.28
USD/IDR*	16,495	16,600	16,800	16,600	16,400
USD/THB*	33.16	33.3	33.5	33.1	32.9
USD/VND*	25,976	26,100	26,300	26,000	25,800
USD/INR	85.72	87.0	88.0	87.5	87.0
USD/SGD*	1.30	1.31	1.32	1.31	1.30
EUR/SGD*	1.46	1.49	1.52	1.52	1.52
GBP/SGD*	1.72	1.76	1.80	1.81	1.81
AUD/SGD*	0.83	0.84	0.86	0.86	0.86
SGD/MYR*	3.32	3.32	3.32	3.31	3.29
SGD/CNY*	5.57	5.53	5.55	5.53	5.52
JPY/SGDx100*	0.89	0.91	0.92	0.93	0.93

POLICY RATES	09 May	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Funds Rate*	4.50	4.50	4.25	3.75	3.75
JPY Policy Rate	0.50	0.50	0.75	0.75	1.00
EUR Refinancing Rate*	2.40	2.15	1.90	1.65	1.65
GBP Repo Rate	4.25	4.25	4.00	3.75	3.50
AUD Official Cash Rate	4.10	3.85	3.60	3.35	3.35
NZD Official Cash Rate	3.50	3.25	3.00	3.00	3.00
CNY 1Y Loan Prime Rate*	3.10	3.00	2.80	2.80	2.80
HKD Base Rate	4.75	4.50	4.25	4.00	4.00
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	2.75	2.50	2.25	2.25	2.25
PHP O/N Reverse Repo*	5.50	5.25	5.00	4.75	4.75
MYR O/N Policy Rate*	3.00	3.00	2.75	2.50	2.50
IDR 7D Reverse Repo	5.75	5.50	5.25	5.25	5.25
THB 1D Repo	1.75	1.50	1.50	1.50	1.50
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.00	5.75	5.50	5.50	5.50

INTEREST RATES	09 May	2Q25F	3Q25F	4Q25F	1Q26F
USD 3M SOFR (compounded)*	4.36	4.33	4.16	3.73	3.61
SGD 3M SORA (compounded)*	2.33	2.31	2.25	2.19	2.11
10Y US Treasuries Yield*	4.37	4.40	4.30	4.10	4.00
SGD 10Y SGS*	2.44	2.60	2.55	2.50	2.45

COMMODITIES	09 May	2Q25F	3Q25F	4Q25F	1Q26F
Gold (USD/oz)*	3,290	3,300	3,400	3,500	3,600
Brent Crude Oil (USD/bbl)	63	65	65	60	60
Copper (USD/mt)	9,432	9,000	9,000	8,500	8,500

Updated as of 09 May 2025
* Forecasts updated as compared to previous report dated 04 April 2025
Source for spot rates: Bloomberg

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