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Monthly FX + Rates Strategy

Not Yet Time To Pivot Away From Higher Rates And Stronger USD

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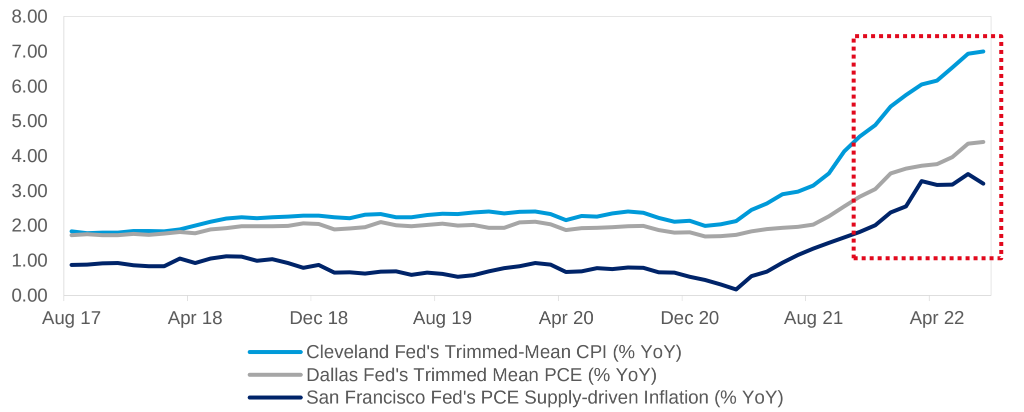
- This year's Jackson Hole monetary policy symposium was a decidedly hawkish affair as Fed Chair Jerome Powell used the opportunity to send a clear message that the Fed's inflation fight is far from over. As a result, the dovish pivot that many investors wished and hoped for did not materialize, leading to a renewed push higher in rates and USD.
- The runway is now clear for Fed Fund Rate to rise to 4% by 1Q23 with rate cut expectations in 2023 extinguished, leading to further upside for the USD. Overall, we maintain our core view that USD will stay strong against the Majors like the EUR and JPY. In addition, the expected recovery in GBP, AUD and NZD against the USD will now be delayed to next year as global risk sentiment may stay curtailed.
- Specifically, we now see more pain for both the EUR and GBP. EUR/USD is now expected to probe further downside below parity to 0.97 by 4Q22 before recovering to parity by 2Q23. Concurrently, GBP/USD may weaken to 1.14 by 4Q22, before rebounding to 1.18 by 2Q23.
- Our key concern in Asia FX is the intensifying weakness in the CNY as various negative drivers deteriorated further. Growth in China is slowing down even more and rate differentials moved further against the CNY as the People's Bank of China (PBoC) cut its benchmark interest rates further in the month of Aug. In addition, the path of least resistance is probably for the CFETS RMB index to continue to drift lower, lending to further upside to USD/CNY. Overall, we raise our USD/CNY point forecast to 7.05 by 4Q22 and 7.10 by 2Q23.
- As USD/CNY inevitably march towards the psychological 7.00 level, the negative spillover effect to Asia FX is likely to intensify. As such, we see further weakness in various Asia FX including KRW, TWD, PHP, INR, VND and MYR. Consequently, amidst broader CNY and Asia FX weakness, USD/SGD is now expected to trade above 1.40 to 1.42 by 4Q22.
- In the rates space, the post Jackson Hole shift by investors from "Fed Pivot" to "Fed Plateau" has reinforced our view that victory over inflation remains premature. There is scope for the front-end rates to probe higher, anchored by resilient Fed hike expectations and more persistent inflation scenario. By 4Q22 we see the 3M compounded SOFR and SORA at 3.28% and 2.65% respectively.
- As for the yield curve, it will likely remain flatter for longer with risk of deeper inversion. We revise our 10Y US Treasuries yield modestly lower from 3.60% to 3.40% for 4Q22 to reflect the discounting as economic growth concerns deepen going forward.
- Finally, we reiterate that the Fed's balance sheet shrinking will now hit its steady state of USD 95bn a month from Sep. We estimate that the Fed balance sheet will shrink to around USD 7.5tn by end 2023 and reach an "optimal" size of around USD 6.5tn by the middle of 2025.
- Overall, technical indicators for both EUR and CNH remain weak. Risk for EUR/USD is still on the downside even though downward momentum is beginning to slow, with major support at 0.9670. As for USD/CNH, spot could continue to advance at a rapid pace as there are hardly any resistance levels of note until 7.0000.

Jackson Hole Was Decidedly Hawkish

In his own words, the message by Fed Chair Jerome Powell out of Jackson Hole was indeed "shorter, narrower and more direct". In addition, Powell's message was decidedly and unmistakably hawkish. Just in case there was any residual doubt of a pivot towards an easier rate hiking path, the Fed Chair stressed that "Our responsibility to deliver price stability is unconditional" and that "restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy." Even persistent critics of the Fed, like former US Treasury Secretary Lawrence Summers found Powell's latest comments from Jackson Hole to be "adequate and satisfying". For more details, kindly refer to Macro Note: "US: Powell's "Painful" Message At Jackson Hole Symposium" dated 29 Aug 22.

Chart 1: Fed's More Conservative Inflation Measures Continue Their Climb Higher

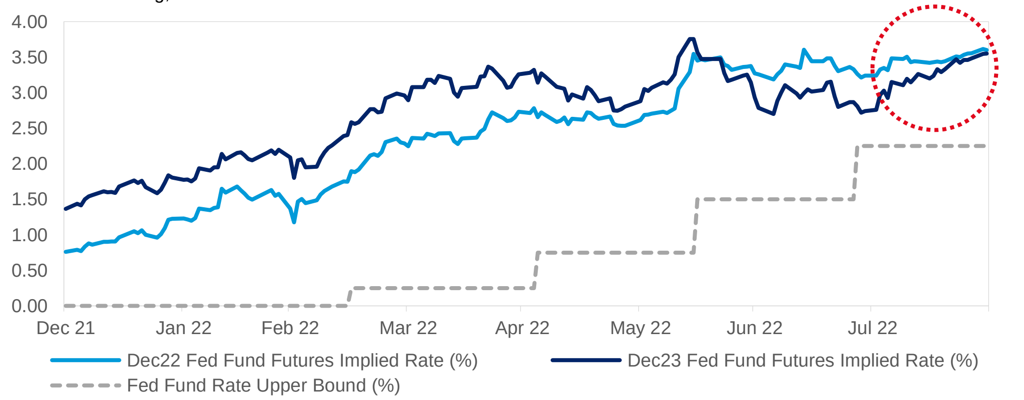
Source: Bloomberg, UOB Global Economics & Markets Research



One of the key underlying messages out of Jackson Hole is that it may be perilously premature to conclude that inflation has peaked. In fact, the Fed's various in-house conservative inflation measures, like the Cleveland Fed's Trimmed Mean CPI and the Dallas Fed's Trimmed Mean PCE all continued to push higher. The hawkish message out of Jackson Hole had the desired impact of making investors question their hopes for rate cuts in 2023. As a result, the implied rate for Fed Fund Futures (FFF) due Dec 23 has now closed the gap for FFF due Dec 22, implying that rate cuts across 2023 have now been priced out.

Chart 2: Fed Fund Futures Start To Price Out Rate Cuts In 2023

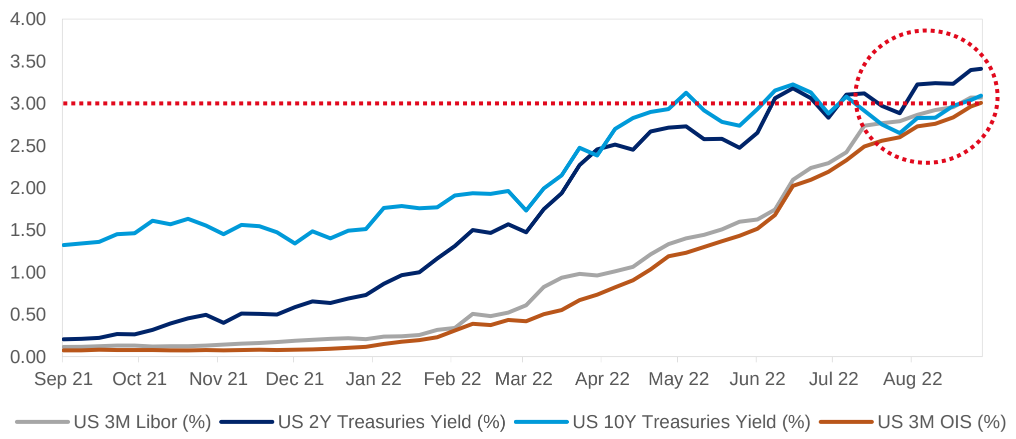
Source: Bloomberg, UOB Global Economics & Markets Research



The immediate aftermath of Jackson Hole was an intense sell-off in both equities and fixed income market, with the jump in rates fueling further USD strength. In other words, despite having risen and strengthened by a historically large amount since the start of the year, it is still not yet time to pivot away from higher rates and stronger USD. Specifically, the entire US yield curve has now pushed strongly above 3% as 3M Libor finally traded above that level as 10Y Treasuries yield climbed back up towards 3.1%.

Chart 3: Entire US Yield Curve Pushes Higher Above 3%

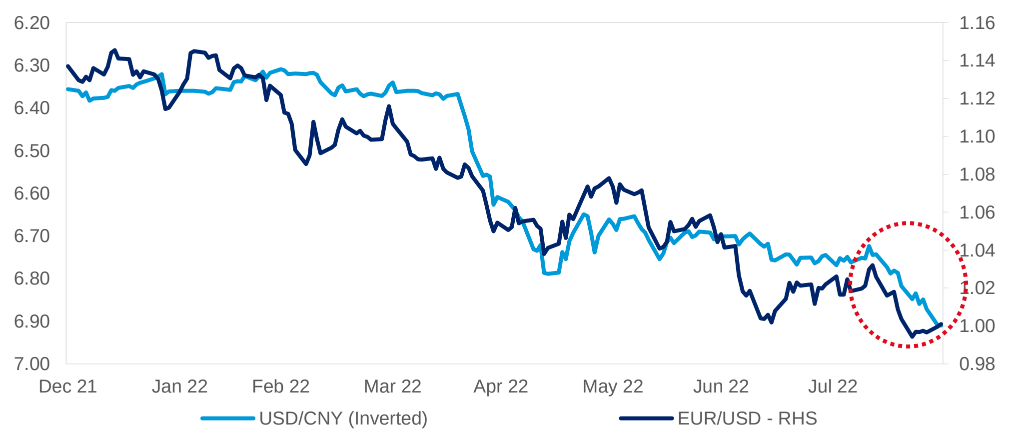
Source: Bloomberg, UOB Global Economics & Markets Research



Concurrently, both the EUR and CNY were unable to fight off the renewed hawkish tone from the Fed. As such, the EUR/USD fell back below parity as USD/CNY rallied above 6.90. Given their weak underlying fundamentals and persistently negative drivers, we lower our point forecasts for EUR and CNY further. We now see EUR/USD probing lower below parity to 0.97 in 4Q22. As for USD/CNY, with spot now at 6.92, further strength above 7.0 now looks inevitable. We raise our point forecast for USD/CNY to 7.05 by 4Q22.

Chart 4: Persistent EUR And CNY Weakness Reinforces USD Strength

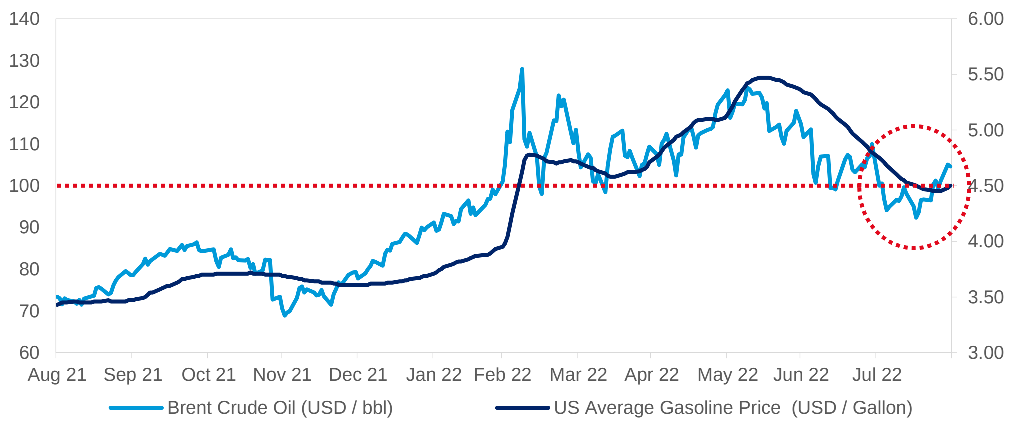
Source: Bloomberg, UOB Global Economics & Markets Research



Exacerbating this “painful” messaging from Powell is the renewed climb in crude oil prices amidst the wild parabolic spike in gas and electricity prices across Europe. At the moment of writing, Russian gas giant Gazprom signaled yet again that it will further cut gas supplies to Europe. At the same time, both Saudi Arabia and the newly appointed OPEC Secretary General signaled that in order to “reduce market volatility” OPEC may well be inclined to cut supply next. In the background, the much talked about nuclear deal that would allow Iran to export crude oil has once again hit some roadblocks in the negotiation. This has led to Brent crude oil rebounding strongly back above USD 100 / bbl to USD 105 / bbl. Particularly in the US, it is worth noting that the pullback in headline CPI for Aug was mainly due to lower transportation costs as a result of lower gasoline prices over the past quarter. This renewed climb in crude oil price now risks higher gasoline prices yet again as we head into the winter months. In other words, the inflation risk is very much alive. We reiterate our forecast for Brent crude oil to end the year at USD 120 / bbl.

Chart 5: Climb In Brent Crude Oil Back Above USD 100 / bbl Implies Higher US Gasoline Prices Ahead

Source: Bloomberg, UOB Global Economics & Markets Research



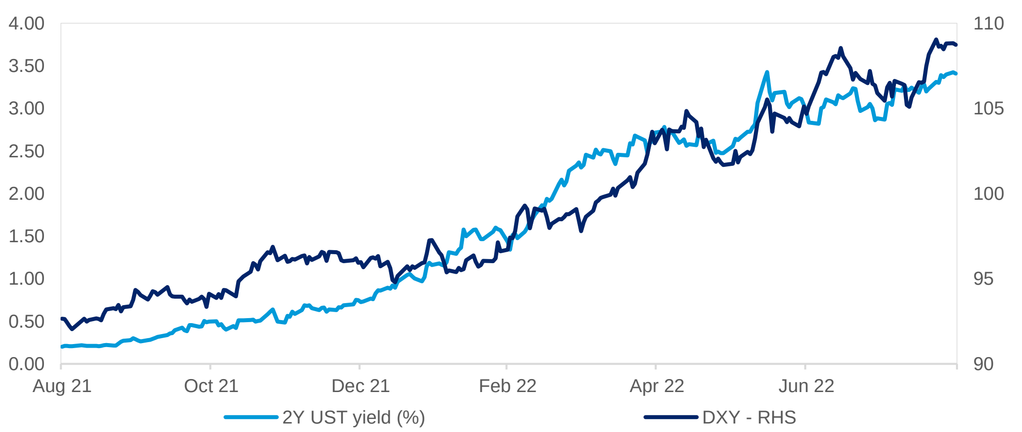
FX Strategy

Painful Rally In USD Continues

The US Dollar Index (DXY) made new cycle highs in Aug, boosted by the Fed's renewed commitment to continue its aggressive rate hikes in its "painful" fight against persistently high inflation. The move did not come as a big surprise for us as we had previously argued that the USD is not at inflexion point yet in last month's report. For more details, pls refer to Monthly FX + Rates Strategy: Recession Fears Weigh Down On Long Term Yield published on 29 Jul. The drivers underpinning this outsized DXY rally – relative to the past four tightening cycles – are still intact. They are the unique macro backdrop (COVID-19 pandemic and Russia-Ukraine conflict) that caused high inflation and in turn triggered a strong Fed response, elevated FX volatility which accentuated the prevailing USD uptrend, and heightened growth concerns which spurred safe haven USD flows. As long as these drivers remain in play, we are of the view that the DXY is unlikely to peak just yet.

Chart 6: The DXY Remains Anchored To Rising Yields
As The Fed Sticks To Its Painful Fight Against Inflation

Source: Bloomberg, UOB Global Economics & Markets Research



Like their Developed Market (DM) peers, Asia FX weakened further in Aug and the Asia Dollar Index (ADXY) fell to the lowest level since Mar 2020. The prospect of further portfolio outflows as the Fed continues its aggressive front-loading of rate hikes while Asia central banks normalize monetary policies on a more gradual basis keeps Asia FX on the defensive. Renewed weakness in the CNY just as the People's Bank of China (PBoC) cut its medium term lending rate (MLF) and guided loan prime rates (LPR) lower in Aug dented sentiments as well. At about 6.90, CNY has effectively given back all its gains against the USD since the start of the pandemic. The widening monetary policy divergence between the Fed and PBoC keeps the CNY vulnerable to further losses against the USD. As such, the well-watched 100 level in ADXY is unlikely to offer much support this time.

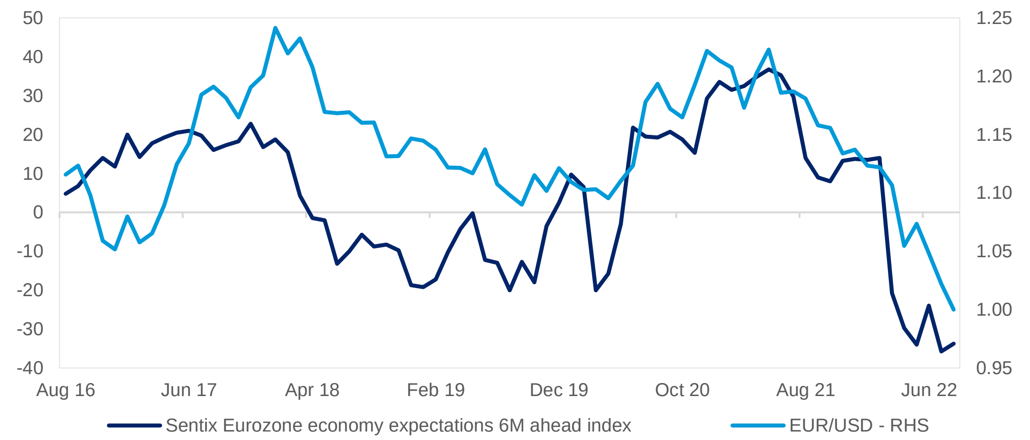
Major FX Strategy

EUR/USD Begins New Normal Below Parity

Recent Fed rhetoric in later half of Aug and the just concluded Jackson Hole Symposium delivered a clear message: the fight against inflation is far from over. Markets' optimism of a Fed pivot receded quickly just as Fed chair Powell reminded that restoring price stability will take some time and require the use of Fed's tools "forcefully" together with maintaining a restrictive policy stance for "some time". Hopes of Fed rate cuts in 2023 were dashed after Powell added that history "cautions strongly against prematurely loosening policy". The runway is now clear for the Fed Funds rate to rise to 4% by 1Q23 while the abating rate cut expectations (in 2023) lends further upside to the USD. Overall, we maintain the view that USD will stay strong against G-3 peers, EUR and JPY, and update the forecasts for EUR/USD and USD/JPY accordingly. Also, the expected recovery in GBP, AUD and NZD against the USD will now be delayed to next year as global risk sentiment may be curtailed by further monetary tightening.

Chart 7: EUR/USD Mirrors Eurozone's Dim Economic Outlook

Source: Bloomberg, UOB Global Economics & Markets Research



EUR/USD cracked below the psychological parity level and touched a 20-year low of 0.9901 in Aug. Across the month of Aug, the energy crisis in Europe worsened and peripheral spreads widened to levels last seen in Jun, adding pressure to the EUR/USD. These headwinds look set to complicate discussions within the European Central Bank (ECB) to normalize monetary policy to fight record inflation. This means that the recent recovery in rate differentials in favor of EUR/USD is likely to be short-lived. Overall, as Europe's macroeconomic risks are still biased to the downside and short positioning in EUR/USD are yet at extreme levels, we expect EUR/USD to begin a new normal below parity in the coming quarters. Our updated EUR/USD forecasts are 0.98 in 3Q22, 0.97 in 4Q22, 0.99 in 1Q23 and 1.00 in 2Q23.

Dark clouds continue to gather for the UK just as the Bank of England (BOE) warned in early Aug that the economy will slip into a year-long recession in 4Q22, the longest downturn since the Global Financial Crisis in 2008. GBP underperformed within the G-10 space and slumped over 4% in Aug to 1.17 against the USD, the lowest level since Mar 2020. While the BOE is expected to hike at the same tempo as the Fed till the end of the year, heightened UK growth concerns are likely to negate the interest rate support offered by BOE to the GBP. As such, we now see further weakness of GBP/USD towards the pandemic low of 1.14 before a subsequent recovery. Our updated GBP/USD forecasts are 1.15 in 3Q22, 1.14 in 4Q22, 1.16 in 1Q23 and 1.18 in 2Q23.

It is not going to be as straightforward for the USD/JPY going forward. While the wide monetary policy divergence between the Fed and BOJ may continue to underpin higher USD/JPY, the 9 big figures pullback in the pair from 139.39 in the latter half of Jul showed how fast recession fears can spur safe haven demand for the JPY. At the same time, we noted that the 10-year rate differential between the US Treasuries and Japan Government Bonds – a key driver of the relentless USD/JPY rally this year – have been consolidating at around 280 bps for the last couple of months. Also, JPY positioning appears to be improving as well. Lastly, a further lowering of our year-end 10-year US Treasuries yield target from 3.6% to 3.4% means that further upside to USD/JPY from here is likely limited. Overall, we flatten our USD/JPY forecast and expect the pair at 139 through 2Q23.

Commodity-linked currencies such as the AUD and NZD which are sensitive to global risk sentiments are likely to be on the backfoot as increasingly restrictive monetary policy setting raises the odds of a US recession. Another wave of China growth downgrade adds to the pressure on these currencies as demand for commodities slows. As near-term volatility remains elevated, we now think the expected recovery in commodity-linked currencies is delayed to next year instead. Our updated AUD/USD forecasts are 0.67 in 3Q22, 0.66 in 4Q22, 0.68 in 1Q23 and 0.69 in 2Q23 while that of the NZD/USD are revised to 0.61, 0.60, 0.62 and 0.63 respectively.

Asia FX Strategy
7.00 In USD/CNY Comes Into Focus

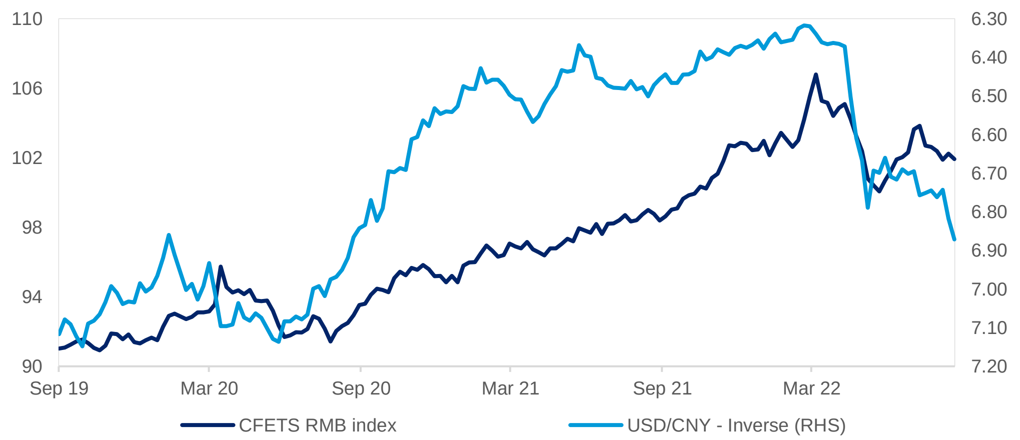
There is still no respite for Asia FX as the ADXY fell for a sixth straight month in Aug. Except for THB and HKD, all other Asia FX racked up losses against the USD in the month. Hawkish Fedspeak which grew louder in the second half of Aug coinciding with unexpected rates easing from the PBoC drove this latest wave of sell-off in Asia FX. With downside momentum accelerating, it appears Asia FX may be due for more pain in the coming months. As such, we raise some of our USD/Asia forecasts as their upside targets are met earlier than expected.

After spending the past three months consolidating, USD/CNY finally broke above its May's high of 6.81 as China's economic woes intensified. Latest Chinese data published in Aug suggests broad economic weakness has resurfaced as Jul's prints of industrial production, retail sales and fixed asset investment have all missed expectations. Together with a deepening and prolonged slump in the property sector, the PBoC has unexpectedly cut the 1Y MLF and guided LPR lower for the first time since Jan. For more info, pls refer to Macro Note – Weaker Jul Economic Data Prompted PBoC To Lower MLF Rate published on 15 Aug and LPRs Fixed Lower As PBoC Extends Support To The Property Market published on 22 Aug.

The easing bias of the PBoC now stands out in sharp contrast with the aggressive frontloading of rate hikes by the Fed. As such, it is no surprise that USD/CNY has repriced higher as the US-China yield differential is now at the widest against the CNY since 2008. The prospect of further portfolio outflow from China is likely to maintain a weakening bias in the CNY. Even at about 6.92, we noted that there are hardly any resistance levels of note for USD/CNH until 7.00. For more info, pls refer to Chart of the Day published 29 Aug. And while CNY has effectively given back all its gains against the USD since the start of the pandemic, the CFETS RMB index is still comfortably at 10% above its pandemic lows in Jul 2020. With China's outlook still subjected to further downside risks, the path of least resistance is probably for the CFETS RMB index to continue normalizing lower, lending further upside to USD/CNY. While we think it is inevitable that USD/CNY will test the psychological 7.00 handle soon, US-China trade conflict's 7.18 high for USD/CNY in 2018 is likely out of reach at this juncture. Overall, we update our USD/CNY forecasts to 7.00 in 3Q22, 7.05 in 4Q22, 7.08 in 1Q23 and 7.10 in 2Q23.

Chart 8: Scope For CFETS RMB Index To Catch Down To CNY Against USD?

Source: Bloomberg, UOB Global Economics & Markets Research



Most Asia FX fell against the USD in Aug. Except the KRW (-3.8%), losses in other Asia FX were modest compared to its developed peers and were capped at 1.6%, possibly a spillover effect from renewed weakness in the CNY. It is encouraging to note that portfolio flows were resilient in face of a hawkish Fed, with India, Indonesia, South Korea and Thailand posting bond inflows in Aug. Also, 2022 growth outlook for most Asian countries remains stable. We have also upgraded our Malaysia's 2022 GDP estimate to 6.5% (vs. 5.5% previously) given the strong GDP print of 6.9% in 1H22. For more info, pls refer to Macro Note - Malaysia: 2Q22 GDP Growth Extends Higher To 8.9% published on 12 Aug.

That said, as USD/CNY inevitably march towards the psychological 7.00 level, the negative spillover effect to other Asia FX is likely to intensify. As such, we update our point forecasts to factor in further weakness in most Asia FX against the USD. We lift our USD/MYR forecasts to 4.55 in 3Q22, 4.58 in 4Q22, 4.60 in 1Q23 and 4.60 in 2Q23. They were previously at 4.49, 4.52, 4.53 and 4.54 respectively. USD/SGD which is correlated to USD/CNY will now begin a new trading range above the well-watched 1.40 level although projected further tightening from the Monetary Authority of Singapore (MAS) in Oct is likely to maintain SGD outperformance over its Asian peers. We now expect USD/SGD at 1.41 in 3Q22 followed by 1.42 from 4Q22 onwards.

The THB outperformed in the Asia FX space, gaining about 1% against the USD to 36.45 in Aug with the USD gaining a modest 1% across Aug to 36.45. After being one of the worst performing currencies in Asia earlier this year, the THB rebounded in Aug on short covering as Bank of Thailand (BOT) lifted rates off its record low of 0.50% and hiked 25 bps to 0.75%. Expectations of another hike in Sep helped booster sentiments as well. As such, we are keeping our USD/THB forecasts unchanged this round, expecting the pair at 37.30 by end-2022.

On a similar note, USD/IDR was largely flat on the month at about 14,900 just as Bank Indonesia (BI) brought forward its rates liftoff to Aug. We keep our view for BI to continue hiking in months to come with three more 25bps hikes in 2H22, taking its benchmark rate to 4.5% by the end of 2022. For more info, pls refer to Macro Note - BI Hiked 25bps And May Continue On To 4.50% By Year-End published on 23 Aug. By keeping pace with the Fed and maintaining a positive yield premium of Indonesian Government Bonds over US Treasuries, portfolio outflow pressures could lessen and its disruptive effects on IDR could be mitigated. Overall, we maintain our expectations of a higher USD/IDR towards 15,200 by end-2022.

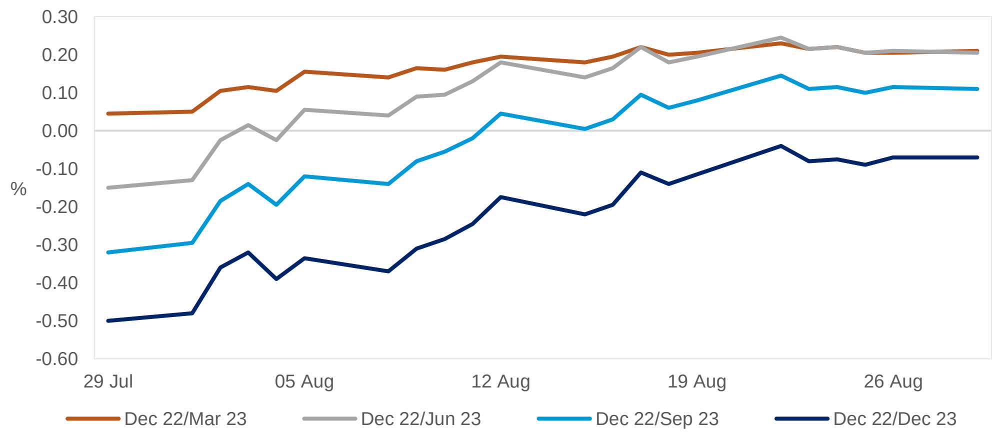
Rates Strategy
Bitter Inflation Medicine Is Still Required

Staying The Course Post Jackson Hole

US rates markets remained volatile in Aug as investors adjusted their expectations for the eventual Fed policy pivot. Sentiments began the month on the dovish end of the scale and steadily repriced back towards the more hawkish end which was ultimately validated by Jerome Powell's succinct speech at Jackson Hole. 2Y UST is on track for a monthly yield gain of above 50bps, and as of 29 Aug, is also the fourth largest monthly gain since 2000.

Chart 9: Steeper Fed Funds Futures Curve

Source: Bloomberg, UOB Global Economics & Markets Research



Changes to the Fed funds futures curve in Aug tells of a significant reassessment in the 2023 policy outlook by investors. The month started with an expectation that Fed funds will peak around March 2023 and is subsequently priced to decline for the rest of the year. However, as we close in on month end, investors have now shifted their expectations for a higher peak Fed funds rate as well as moved towards entertaining a scenario of “plateauing peak rates” rather than their previous “pivot from peak” profile. The convergence of the Jun 23 and Sep 23 Fed funds futures contracts towards Mar 23 shows that a peak rate plateau of between 6 to 9 months may be possible. The repriced Fed funds futures market is now closer to our forecast profile, but we remain slightly more hawkish based on our peak Fed funds forecast of 4% which is higher than the market pricing.

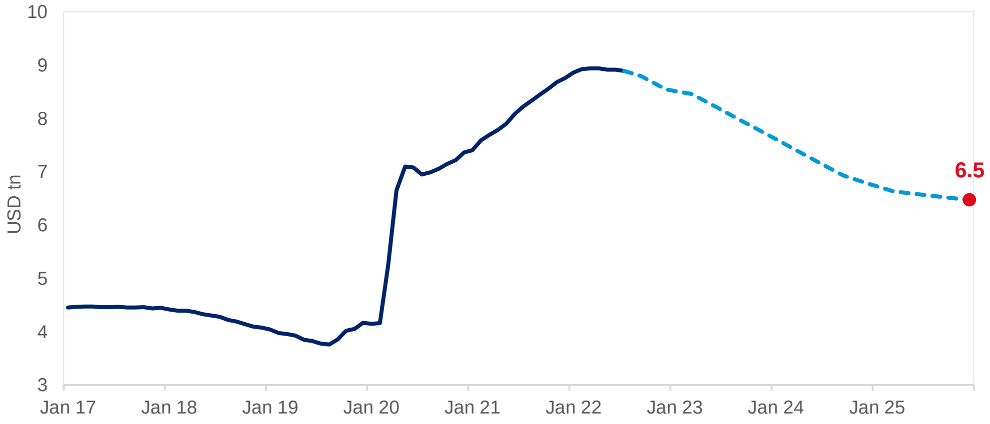
The main takeaway from Jackson Hole is that messaging from central bankers has been consistent and unambiguous; i.e. inflation remains their top concern. Translated to bond market talk, this means that the front end of the curve retains potential for yield upside and such repricing looks to be sticky until inflation shows a more meaningful and sustainable response to policy prescriptions.

No Sugar To Help The Medicine Go Down More Easily

Alongside the policy rate lever, balance sheet reduction or Quantitative Tightening (QT), is being deployed by policy makers to wrestle inflation into submission. The Fed balance sheet touched a high of around USD 9tn in April and has dipped towards USD8.9tn in Aug. Moving into Sep the run-off rate for the balance sheet will be hitting its steady state of USD 95bn per month, comprising USD 60bn in UST and the remainder in mortgage backed securities (MBS). Commentary from Jackson Hole left little doubt that QT will be proceeding as planned at an accelerated pace for the next few quarters.

Chart 10: Estimated QT Path

Source: Bloomberg, UOB Global Economics & Markets Research



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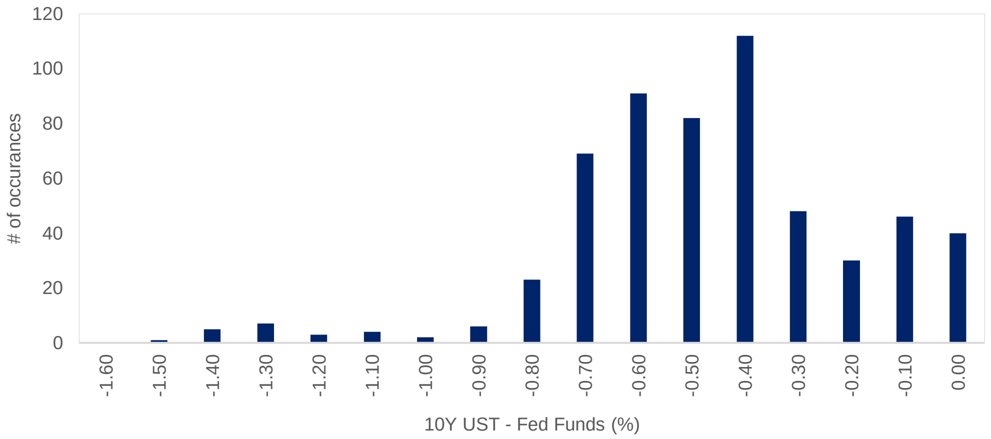
We estimate that the Fed balance sheet will shrink to around USD 7.5tn by end 2023 and reach an “optimal” size of around USD 6.5tn by the middle of 2025. Shrinking asset purchases by the Fed will inevitably compound the bitter medicine required to fight inflation. We are therefore likely to see the intensity of economic growth concerns build over time.

The Cure Is Not Without Its Side Effects

By design, tighter monetary policy will result in a drag on economic growth. Leaving aside a crisis of confidence in policy makers scenario, a slower growth outcome will be discounted at the longer end of the yield curve. This will manifest itself through flat/inverted yield curves, which we have consistently viewed as being a stable equilibrium for this stage of the monetary policy cycle.

Chart 11: Frequency of 10Y UST < Fed Funds During Rate Hike Cycle (2000 to date)

Source: Bloomberg, UOB Global Economics & Markets Research



Observations from Fed hike cycles since 2000 show that the 10Y UST yield has demonstrated discounts to the Fed funds rate before a turn in the policy cycle and the implementation of the first cut. This behavior speaks to the forward-looking nature of the longer end of the yield curve. Historically, the magnitude of discounting by 10Y UST spanned a wide range that stretched to as deep as -1.6% under prevailing Fed funds (deeper if we had included the 1970s/80s). In addition, instances of 10Y UST discounts below -1% tend to occur late in a rate hike cycle to coincide with a market that is transitioning towards greater confidence in pricing for rate cuts.

Our read through of policy makers reaction function together with various scenarios for growth outcomes suggest that from this point of the cycle, there is a greater probability of travelling down the left tail of the 10Y UST discount's frequency distribution. Therefore, we have realigned our assumptions in favour of more modest growth scenarios which leads to our downward revision in the 10Y UST yield forecast from 3.60% to 3.40% for end 2022.

Upside risk to the 10Y UST forecast will come via another upside shock or stickier than assumed inflation outcomes that necessitates a higher peak Fed funds rate. Downside risk to forecast stems mainly from financial contagion that triggers an earlier end to the expected tightening cycle.

Summary Of Our Rates Views

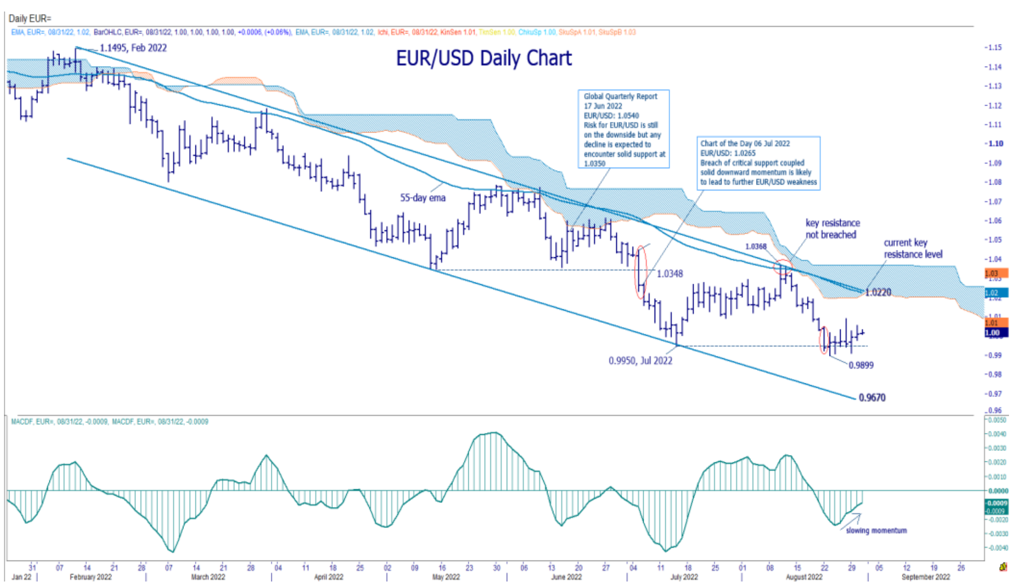
We are keeping our outlook for the Fed funds rate to hit a peak of 4% in 1Q23 and thereafter plateau at the peak for around three quarters. Signs of growth slowing has been broadening and are unlikely to dissipate in the face of more monetary policy tightening headwinds in the pipeline. As a result, yield curves will struggle to steepen significantly on a sustained basis when longer maturity bonds look ahead and see dark clouds gathered for weaker economic growth outcomes.

For end 2022, we see the 3M compounded SOFR and SORA at 3.28% and 2.65% respectively and have revised the 10Y UST and SGS yields to 3.40% and 3.10% respectively.

Summary of Our Rates Views	
Outright yield	Scope for the front end to probe higher, anchored on resilient Fed hike expectations and more persistent inflation scenario.
Curve	Flatter yield curves with risk of deeper inversion. Lower for longer scenario to last until a Fed pivot.
Spread	Deeper SG yield discount to US over monetary policy normalization cycle.

FX Technicals

EUR/USD: 1.0020
Risk for EUR/USD is still on the downside even though downward momentum is beginning to slow. The chance for EUR/USD to decline to the major support at 0.9670 is not high.

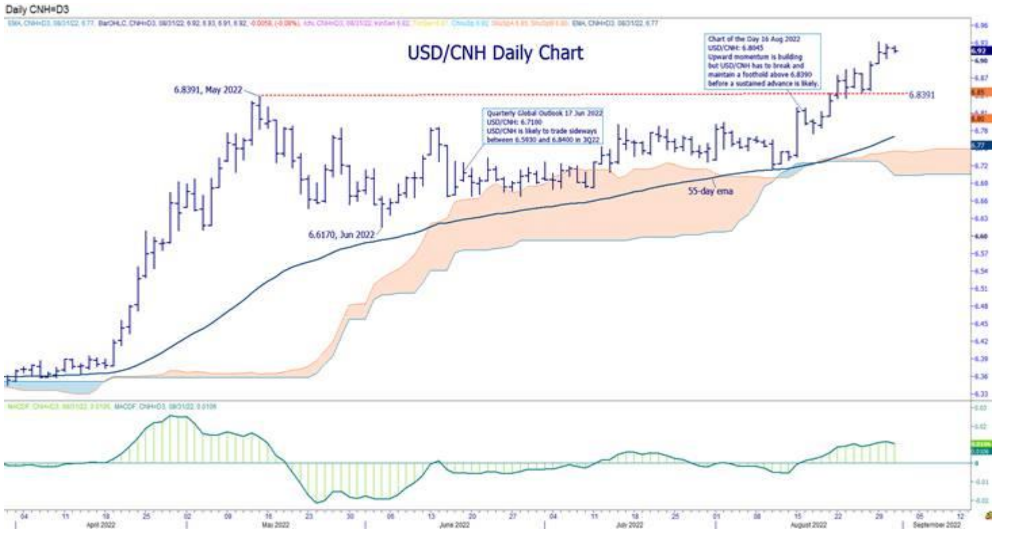


On 06 Jul 2022 (when EUR/USD was trading at 1.0265), we highlighted in our Chart of the Day update that "the breach of the critical support at 1.0350 coupled with solid downward momentum is likely to lead to further EUR/USD weakness". We added, "the next key level to monitor is at 1.0000" and "only a break of declining trend-line resistance and the 55-day exponential moving average would indicate that the downtrend in EUR/USD from earlier this year has stabilized".

Our view for EUR/USD to weaken turned out to be correct as it dropped to a low of 0.9950 in mid-Jul before rebounding. The rebound edged slightly above the 55-day exponential moving average but did not break the declining trend-line resistance (high of 1.0368 in mid-Aug). EUR/USD dropped quickly from 1.0368 and last week, it took out the 0.9950 low. Despite breaking the support level, EUR/USD has not been able to make much headway on the downside (low has been 0.9899).

That said, the risk for EUR/USD is still on the downside but downward momentum is beginning to slow. The next support level of note is at the bottom of what appears to be a descending channel formation. At this stage, the chance for EUR/USD to decline to the bottom of the channel (currently at 0.9670) is not high. On a shorter-term note, 0.9900 is already a strong support level. Resistance wise, the 55-day exponential moving average, top of the descending channel and the bottom of the daily Ichimoku cloud are all near 1.0220. A break of this key (and formidable) resistance level would greatly diminish the odds of further EUR/USD weakness within these couple of months.

USD/CNH: 6.9200
USD/CNH could continue to advance, likely at a rapid pace as there are hardly any resistance levels of note until 7.0000.



About two weeks ago (16 Aug, spot at 6.8045), in our Chart of the Day update, we highlighted that "upward momentum is building but USD/CNH has to break and maintain a foothold above 6.8390 before a sustained advance is likely". We indicated, "if USD/CNH can break and maintain a foothold above 6.8390, it could possibly trigger a move to 6.9000".

USD/CNH subsequently moved above 6.8390, traded above this level for several days before soaring last Friday (26 Aug). On Monday (29 Aug), USD/CNH jumped above 6.9000. The ease by which USD/CNH took out 6.9000 coupled with the surge in upward momentum suggests USD/CNH could continue to advance within these 1 to 2 months.

The pace of any advance in USD/CNH could be rapid as there are hardly any resistance levels of note until the next round-number resistance at 7.0000. On the downside, a breach the 'break-out' level at 6.8390 would indicate that USD/CNH could consolidate first before heading higher.

FX, INTEREST RATES & COMMODITIES
Forecasts

FX	30 Aug 22	3Q22F	4Q22F	1Q23F	2Q23F
USD/JPY*	139	139	139	139	139
EUR/USD*	1.00	0.98	0.97	0.99	1.00
GBP/USD*	1.17	1.15	1.14	1.16	1.18
AUD/USD*	0.69	0.67	0.66	0.68	0.69
NZD/USD*	0.61	0.61	0.60	0.62	0.63
DXY*	108.67	110.1	110.8	109.1	107.9
USD/CNY*	6.91	7.00	7.05	7.08	7.10
USD/HKD	7.85	7.85	7.85	7.85	7.85
USD/TWD*	30.50	30.8	31.2	31.4	31.5
USD/KRW*	1,350	1,360	1,380	1,400	1,400
USD/PHP*	56.20	56.6	57.0	57.3	57.5
USD/MYR*	4.48	4.55	4.58	4.60	4.60
USD/IDR	14,843	15,100	15,200	15,300	15,300
USD/THB	36.58	37.0	37.3	37.5	37.5
USD/VND*	23,421	23,500	23,550	23,600	23,650
USD/INR*	79.46	81.0	81.5	82.0	82.5
USD/SGD*	1.40	1.41	1.42	1.42	1.42
EUR/SGD*	1.40	1.38	1.38	1.41	1.42
GBP/SGD*	1.63	1.62	1.62	1.65	1.68
AUD/SGD*	0.96	0.94	0.94	0.97	0.98
SGD/MYR*	3.20	3.23	3.23	3.24	3.24
SGD/CNY*	4.94	4.96	4.96	4.99	5.00
JPY/SGDx100*	1.01	1.01	1.02	1.02	1.02

INTEREST RATES	30 Aug 22	3Q22F	4Q22F	1Q23F	2Q23F
US Fed Funds Rate	2.50	3.00	3.75	4.00	4.00
USD 3M SOFR (compounded)*	1.67	2.20	3.28	3.79	3.93
USD 3M LIBOR*	3.08	3.35	4.00	4.20	4.20
10Y US Treasuries Yield*	3.11	3.20	3.40	3.30	3.20
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.50	1.00	1.00	1.00	1.00
GBP Repo Rate	1.75	2.25	2.75	2.75	2.75
AUD Official Cash Rate	1.85	2.25	2.75	2.75	2.75
NZD Official Cash Rate	3.00	3.00	4.00	4.00	4.00
CNY 1Y Loan Prime Rate*	3.65	3.60	3.55	3.55	3.55
HKD Base Rate	2.75	3.25	4.00	4.25	4.25
TWD Official Discount Rate	1.50	1.63	1.75	1.88	1.88
KRW Base Rate	2.50	2.50	3.00	3.00	3.00
PHP O/N Reverse Repo	3.75	4.00	4.00	4.00	4.00
SGD 3M SORA (compounded)*	1.58	1.62	2.65	3.15	3.30
SGD 3M SIBOR*	2.67	2.80	3.15	3.40	3.40
SGD 3M SOR*	2.84	2.95	3.30	3.50	3.50
SGD 10Y SGS*	2.99	3.00	3.10	3.00	2.90
MYR O/N Policy Rate	2.25	2.50	2.50	2.75	3.00
IDR 7D Reverse Repo	3.75	4.00	4.50	4.75	5.00
THB 1D Repo	0.75	1.00	1.00	1.25	1.50
VND Refinancing Rate	4.00	4.00	4.00	4.00	4.25
INR Repo Rate	5.40	5.65	5.65	5.65	5.65

COMMODITIES	30 Aug 22	3Q22F	4Q22F	1Q23F	2Q23F
Gold (USD/oz)	1,721	1,800	1,900	2,000	2,000
Brent Crude Oil (USD/bbl)	100	120	120	110	110
Copper (USD/mt)	7,864	7,500	7,500	7,500	7,500

* Changes made to forecasts as compared to previous report dated 19 August 2022
Source for spot rates: Bloomberg

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