UOB

Monthly FX & Rates Strategy

US Dollar Retreats As Global Slowdown Intensifies

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- As we start 2023, the sharp ramp up in global interest rates over the past year has begun to bite. There are now more signs of global slowdown as both manufacturing PMIs of key economies as well as key Asian export growth start to contract.

- The normalization in USD lower against the FX Majors has started as the Fed pivots to a slower pace of rate hikes. In 2023, our view is that the USD will broadly decline against FX Majors as the longstanding driver of strong USD gains in 2022 – rising US rates - fizzle off. By 4Q23, we see EUR/USD and AUD/USD recovering to 1.12 and 0.72 respectively. Similarly, the BOJ has started to step back from its indefensible easy monetary policy and that will trigger further USD/JPY downside to 122 by 4Q23.

- The CNY and Asian FX are expected to be key beneficiaries of China's sudden removal of Covid-19 measures and subsequent reopening of its economy and borders. However, the process is not without risk. After near term uncertainty in 1H23, we expect both USD/CNY and broad USD/Asia to head convincingly lower in 2H23. Once China successfully overcomes the latest surge in Covid-19, we see a more meaningful recovery in 2H23, leading to a softer USD/CNY at 6.80 by 4Q23.

- In the rates front, there is scope for the front-end money market rates to probe higher, anchored on the expectations that Fed Funds Rate will rise further towards the 5.25% plateau by Mar 23. As such, we see the 3M compounded SOFR and SORA rising further towards 4.68% and 3.42% by end 1Q23 respectively.

- The longer dated yield outlook is more nuanced. We expect to see bond yields drift lower across 2023, based on our expectation that Fed funds will peak in 1Q23 as well as accounting for our view that the balance of risk will increasingly tilt in favour of slowing economic growth and richer safe haven premiums going forward. While the risk of a near term return of 10-year US Treasuries yield back above 4.0% could not be discounted, the benchmark yield is likely to end the year lower at 3.7%.

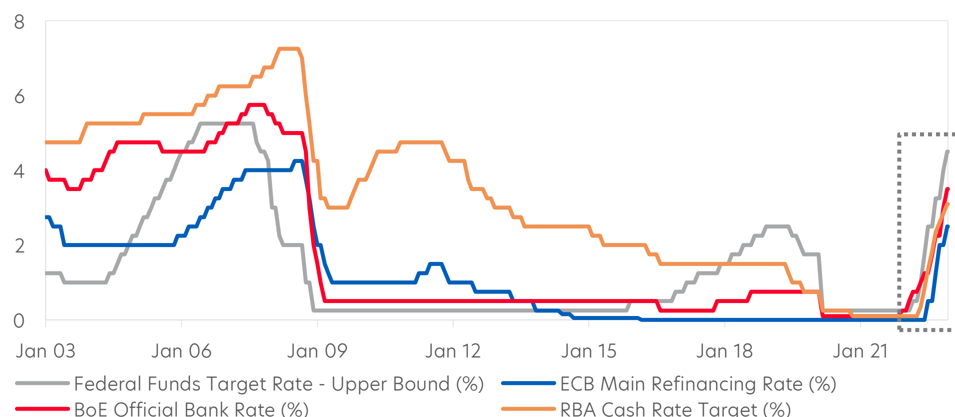
- Gold is shaping out to be interesting, in a positive way. Key drivers are now in place for a further recovery in gold price. These range from a turn lower in USD, to easier interest rate outlook as well as increasing sovereign as well as retail demand for physical gold amidst geopolitical and growth slowdown fears. We see gold rising to USD 2,000 / oz by 2H23.

- Overall, 2023 promises to be a year of gradual recovery. The anticipated topping out of the USD and slowing of aggressive rate hikes will ease off on the downward pressure on the global economy. China will likely return as a stabilizing force for the global economy once it fully reopens by 2H23. And we may well be able to achieve a soft landing.

As we start 2023, the global economy will now need to come to terms with the sharp ramp up of interest rates by major central banks across the world. The US Federal Reserve (Fed) has led this charge by lifting Federal Funds Rate from 0.25% to 4.50% in double quick time. The European Central Bank (ECB) has played catch up by rapidly lifting its refinancing rate in the second half of 2022 from 0% to 2.5%. Similarly, both Bank of England (BoE) and Reserve Bank of Australia (RBA) have also lifted their respective benchmark rates above 3%. And even the Bank of Japan (BOJ) could not enforce its indefensible easy monetary policy any further and had to adjust its Yield Curve Control (YCC), lifting the 10-year Japanese Government Bond (JGB) yield target policy band from +/-0.25% to +/-0.50%.

Chart 1: FED has led global central banks in round of aggressive rate hikes

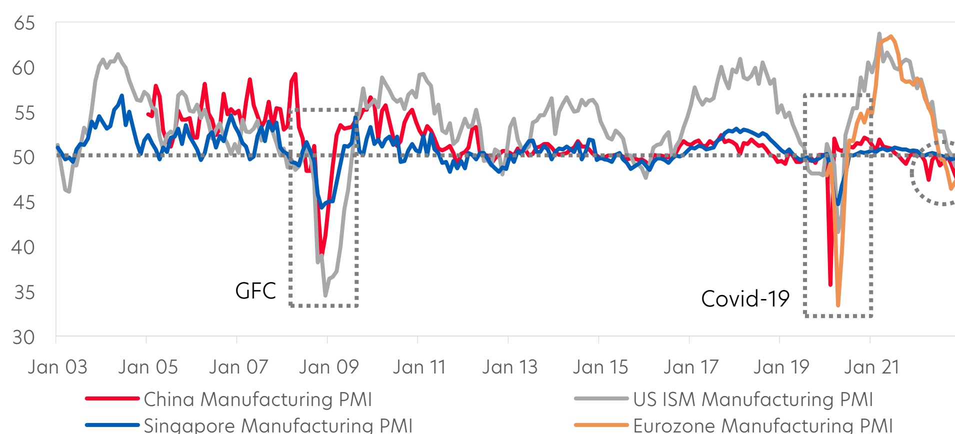
Source: Bloomberg, UOB Global Economics & Markets Research



As a result of the series of synchronized rate hikes, clear signs have emerged of a global growth slowdown, raising investor worries of a more protracted recessionary downdraft. Global manufacturing PMIs across China, US and Eurozone have all started to contract. Similarly, Asian export growth have also started to contract. Although it is worth mentioning that the contraction is still relatively modest and far from the intense and sharp retrenchment in activity that was witnessed during the Global Financial Crisis (GFC) in 2008 and the start of Covid-19 in 1Q20. For its New Year message, the IMF has issued a sobering message, warning that about 1/3 of the global economy will be in recession in 2023, with US, European Union and China "all slowing down simultaneously".

Chart 2: Growth slowdown intensifies as global manufacturing PMI contracts yet again

Source: Bloomberg, UOB Global Economics & Markets Research



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Amidst this backdrop, the US Dollar (USD) has started to make a noticeable retreat in the final month of 2022. This pullback in the USD towards the end of 2022 was triggered by two main drivers. First was the growing expectation that we are in the final innings of this round of Fed rate hike cycle. Indeed, our forecast is for two more rate hikes, lifting Federal Funds Rate to the anticipated plateau of 5.25% by Mar 23. Second was the rapid and surprising reopening of China's economy, with the complete dismantling of the zero-Covid strategy and upcoming reopening of borders. This triggered a sharp rise in the CNY and lifted the entire boat for Asian FX as well.

Chart 3: Has the US Dollar finally peaked for this cycle?

Source: Bloomberg, UOB Global Economics & Markets Research

Going forward, the abovementioned intensifying global growth slowdown will likely reinforce the turn in the USD lower. However, the process of topping out in the USD may be volatile and is rather nuanced with various opposing drivers. In the Major FX space, this normalization in the USD lower is now in full swing as the other Major central banks, particularly the European Central Bank (ECB) now play catch up with the Fed rate hikes. This will narrow the interest rate differential advantage for the USD. Needless to say, Asia FX and the CNY are both key beneficiaries of the sudden reopening of China's economy and borders. However, near term uncertainties remain, particular in 1Q23 as to how well China will be able to cope with the jump in Covid-19 cases before the population is able to achieve a steady state herd immunity.

Similarly, for rates outlook, key questions are being asked as to how the end game of this sharp rise in interest rates will play out. Will the Fed be forced to cut rates towards the end of 2023 because of intensifying growth slowdown worries? Will the 10-year US Treasuries yield head back up above 4% yet again? Have we seen the peak in overnight SORA?

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Chart 4: Positive drivers in place for Gold to recover to USD 2,000 / oz by 2H23

Source: Bloomberg, UOB Global Economics & Markets Research

Worth noting amidst this backdrop of global growth slowdown, easier rates outlook and softer USD trajectory, key positive drivers are in place for a further recovery in gold price. In addition, the global central banks, particularly emerging market central banks have continued to increase their reserve allocation into gold amidst on-going geopolitical tension. Furthermore, because of the widespread domestic currency depreciation against the USD over the past year, there has been a return of retail demand for physical gold jewellery. As such, we forecast gold returning to USD 2,000 / oz by 2H23.

Overall, 2023 promises to be a year of gradual recovery. The anticipated topping out of the USD and slowing of aggressive rate hikes will ease off on the downward pressure on the global economy. China may well return as a stabilizing force for the global economy as it fully reopens by 2H23. And we may be able to achieve a soft landing.

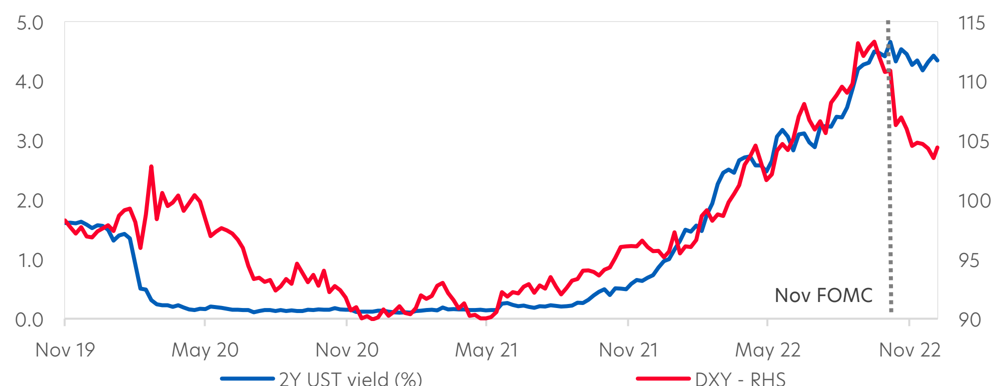
FX Strategy

Asia FX To Be Beneficiaries Of China's Surprise Covid-19 Pivot

The pullback in the USD extended across Dec as the Fed expectedly slowed its rate hikes to 50bps in the month from four straight 75bps increments prior to that. While the US Dollar Index (DXY) has given up more than half of its gains since peaking (at 114.77) late Sep, it still ended 2022 with a respectable 8.2% gain at 103.52, the biggest yearly gain since 2015. We noted that since the Fed has started to signal for slower rate increments in Nov FOMC, the correlation between USD and US rates has been weakening. Particularly, while 2-year UST yield is still elevated at 4.4%, the DXY has been sliding in the last couple of months.

Chart 5: The correlation between USD and US rates has weakened after Nov FOMC

Source: Bloomberg, UOB Global Economics & Markets Research



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In 2023, we reiterate the view that USD will broadly decline against Major FX across the year as the longstanding driver of strong USD gains in 2022 – rising US rates - fizzle off. Another reason for a softer USD outlook is that major central banks is poised to be more hawkish relative to the Fed. We except the European Central Bank (ECB), Bank of England (BOE), Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) to hike more and stay longer in the tightening mode compared to the Fed this year. That said, the normalization trajectory of USD may not be straightforward. In 1Q23, the final lap of Fed rate hikes (75bps in the quarter) together with concerns of US recession may still spur USD demand across the quarter before resuming its decline in the subsequent quarters. The DXY may also benefit from seasonal trends which saw it post the strongest quarter of the year in Q1 over the past 25 years.

The sudden pivot of China's Covid-19 strategy from zero-Covid to endemicity in Dec and the eventual reopening of borders across Jan is a gamechanger for Asia FX. Baring near term uncertainties, Asia FX are beneficiaries of the pent-up demand from China when the economy rides past the initial waves of infections. We now expect Asia FX led by the CNY to recover sooner than expected, in 2H23 compared to early 2024 previously.

Major FX Strategy

Normalization of USD Lower Against Major FX In Progress

Our base case of a normalization of USD lower against Major FX across 2023 is premised on a sustained drop in US inflation which gives Fed the conviction to pause its rate hike cycle starting 2Q23 and a shallow US recession (GDP: -0.5% in 2023) in which the Fed can delay rate cuts till next year. Outside of the base case, if US inflation proved to be more sticky, renewed pricing for a higher Fed terminal rate beyond 5.25% may keep the USD supported awhile longer. On the flipside, should US economic fundamentals deteriorate faster than expected, calls for a sooner start to Fed's rate cut cycle could intensify pressures on the USD.

Chart 6: The outsized rally in USD/JPY last year lends scope for a deep correction in 2023

Source: Bloomberg, UOB Global Economics & Markets Research

Speculation of an eventual BOJ's tightening intensified in Dec after the central bank surprised markets by tweaking its yield curve control (YCC) policy by allowing Japan's 10-year bond yields to rise to around +/-0.5%, up from the previous limit of +/-0.25%. BOJ Governor Kuroda has defended the move to be one to improve market functioning rather than a change of policy stance. We think that the BOJ would stay away from making further YCC tweaks in the near term at least till after Kuroda's term ends in Apr. In that scenario, the 12% pullback in USD/JPY from 149 to 130 over the last two months appears excessive given that the Fed is still projected to be hiking in 1Q23, offering USD

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some form of rate support. Overall, we expect a technical rebound for USD/JPY in 1Q23 before further normalization lower in the ensuing quarters. Our updated USD/JPY forecasts are 134 in 1Q23, 130 in 2Q23, 125 in 3Q23 and 122 in 4Q23.

The recovery in EUR/USD continued in Dec, with the pair gaining 2.9% to 1.07. Underpinning the move is probably position recalibration to a slower Fed rather than fundamentals. The euro area is still mired in a growth downgrade cycle, with business and investor sentiment remained close to the lowest levels since the onset of the pandemic. As such there is scope for a pullback in EUR/USD in 1Q23 before a sustained move higher for the rest of 2023 as the EU-US rate differential recovers further. Our updated EUR/USD forecasts are at 1.03 in 1Q23, 1.06 in 2Q23, 1.09 in 3Q23 and 1.12 in 4Q23.

The V-shaped recovery in GBP/USD appeared to have hit a roadblock, with the pair rising over 3% in Dec to 1.2446 before giving back gains to close little changed at 1.2083. According to the Bank of England (BOE), the UK has entered a recession in 4Q22 and is expected to worsen in 2023 as the cost of living crisis – brought about by runaway inflation and rising rates – bites. We also expect UK growth to underperform within G-10 in 2023. The intensifying economic headwinds are likely to weigh on the GBP in the near term. Overall, we reiterate our GBP/USD forecasts which are at 1.16 in 1Q23, 1.20 in 2Q23, 1.23 in 3Q23 and 1.25 in 4Q23, unchanged from 1Q23 quarterly report published in early Dec.

For most part of 2022, AUD/USD was highly correlated to global risk sentiment and had rebounded from 2-year lows of 0.6170 in late 2022 alongside equities. This came after global central banks led by the Fed started to shift away from jumbo rate hikes. We note that the AUD/USD pair has also been supported by China's reopening bets in Dec which is likely to emerge as a key tailwind for the currency pair this year. After a shaky start to 2023 due to global recession worries and a sharp but temporary virus-inflicted growth slowdown in China, AUD/USD is likely to resume its gradual recovery across the year. A re-warming of trade ties between China and Australia is also seen as an upcoming key positive driver for the AUD/USD. Overall, our updated AUD/USD forecasts are 0.65 in 1Q23, 0.68 in 2Q23, 0.70 in 3Q23 and 0.72 in 4Q23.

Asia FX Strategy

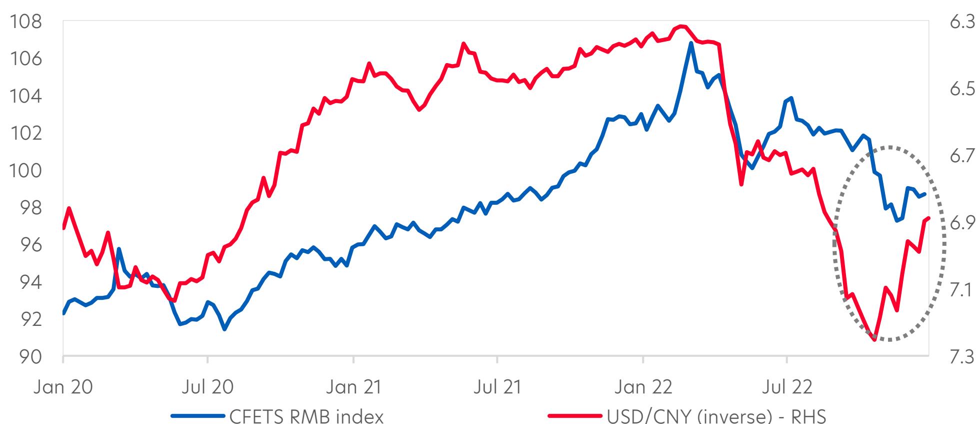
A Tale of Two Halves

It is a tale of two halves for Asia FX in 2023. A cautious tone will likely dominate in the first half of the year as recurring waves of Covid infections curtailed activity and growth in China and dent sentiment for the region. After a torrid year of outflows, investors may not plough back into the region so soon as the prospect of a global recession remains a key worry at the start of the year. Other material risks include the prolonged Russia-Ukraine military conflict and potential global funding markets dysfunction as flagged by the Monetary Authority of Singapore (MAS) in late 2022.

In the second half of 2023, as the China rides past the initial waves of infections and reopens its borders fully for the first time in three years, Asia FX will reap benefits from a firmer China growth recovery and a release of China's pent-up demand. Our macroeconomic team has recently upgraded FY 2023 GDP growth to 5.2% from 4.8% due to a sharper economic rebound this year when herd immunity is achieved. Overall, we expect Asia FX to weaken modestly against the USD from current levels in 1H23 before recovering in 2H23. Most USD/Asia pairs are expected to end 2023 lower than where they started the year.

Chart 7: The CNY may have bottomed in 4Q22 as China pivoted to "living with the virus"

Source: Bloomberg, UOB Global Economics & Markets Research



China's pivot towards a more business friendly "living with the virus" strategy from zero-Covid probably signal the end of the regime where USD/CNY stayed above 7.0 due to pessimism and uncertainty about the Chinese economy. That said, near term crippling of the economy due to the waves of infections working their way through China's population will likely keep CNY on the defensive in the 1H23. A jumpstart of the economy in 2H23 will then trigger a subsequent rebound in the CNY. Overall, we update our USD/CNY forecasts to 6.95 in 1Q23, 7.00 in 2Q23, 6.90 in 3Q23 and 6.80 in 4Q23. This is to be compared to our previous forecast made in early Dec of 7.30, 7.35, 7.40 and 7.45 respectively.

The SGD is the only Asia FX to have appreciated against the USD in 2022, roundtripping a drop to almost 1.45 /USD to finish the year 0.7% higher at about 1.34. The resilience was underpinned by five rounds of tightening by MAS since Oct 2021. While the MAS is likely to keep its tightening bias across 2023, it is unlikely to be as aggressive as before given the weakening growth concerns. Our macroeconomic team maintains a modest GDP growth forecast of 0.7% this year, closer to the lower end of the official forecast range of 0.5-2.5%. This means that the SGD's outperformance relative to its peers may start to wane. Mirroring USD/CNY trajectory, our updated USD/SGD forecasts are 1.36 in 1Q23, 1.37 in 2Q23, 1.35 in 3Q23 and 1.33 in 4Q23.

As for the MYR, the biggest post-election gain dating to the last five elections appears to have found a ceiling at around 4.37 /USD in early Dec. As domestic factors fade, USD/MYR may start to be tethered by the trajectory of USD/CNY again. As such, our updated USD/MYR forecasts at 4.45 in 1Q23, 4.50 in 2Q23, 4.40 in 3Q23 and 4.35 in 4Q23.

After being lacklustre in the past two years, the THB looks set to outperform in Asia FX in 2023 as it receives a further bump in tourist arrivals due to reopening of China's borders. The expected return to a current account surplus of 2.8% (of GDP) this year is another added boost to the THB. Taken together, we see a limited pullback in THB to 35 /USD in 1H23 despite a challenging global macro backdrop before a stronger recovery to 34 /USD in 3Q23 and 33 /USD in 4Q23.

The muted recovery in IDR in Dec relative to its regional peers and its domestic bond market signalled a cautious tone in the IDR which will likely extend to 1H23 given global growth concerns. Furthermore, Indonesia's return to a deficit in its current account this year may limit IDR's expected recovery in 2H23. Our updated USD/IDR forecasts are at 15,800 in 1Q23, 15,900 in 2Q23, 15,700 in 3Q23 and 15,500 in 4Q23.

VND maintained its high correlation to the CNY in the last couple of months. The currency traced a recovery in the CNY due to China's easing of Covid-19 curbs and jumped 4.3% to 23,633 /USD in Dec, the biggest monthly gain on record dating back to 1993. From here, VND may find it hard to sustain its strong momentum as China's near-term growth uncertainties weigh due to its crippling Covid-19 infection rates. This is on top of the expected moderation of Vietnam's growth this year. For more info, pls refer to Macro + FX Strategy report: Vietnam: Growth Pace Normalized In 4Q22 published 29 Dec 2022. Overall, the VND will continue to mirror moves in the CNY, weakening towards 24,000 /USD by mid-2023 before a recovery to 23,400 /USD by end of the year.

Rates Strategy

5 Key Questions For US and SG Rates

1. Will the Fed cut rates in 2023?

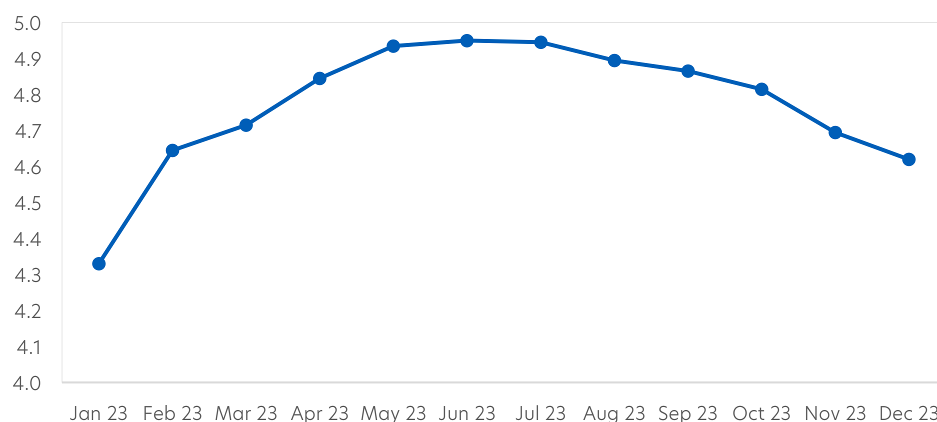
No. We expect the US Fed to take the Fed funds target rate to 5.25% by Mar 2023, through a 50bps hike in Feb and a 25bps hike in Mar. In our view, Fed funds will be kept at 5.25% for the rest of 2023. This extended period of peak Fed funds has also baked in the assumptions that economic growth will be challenging and that the unemployment rate will increase.

Policy makers have been clear and consistent in their willingness to keep monetary policy restrictive until they are satisfied that the scourge of inflation has been resolved. The latest FOMC minutes reaffirmed this expectation. We see no reason to challenge this based on our US macroeconomic team's "soft but not severe" projections.

Fed funds futures pricing on the other hand starts out the year with the market entertaining Fed rate cuts to take place sometime in 3Q and that between 25bps to 50bps of reduction could be delivered by the end of 2023. This divergence in policy rate expectations will be a contributor to interest rate volatility, especially if Fed chair Powell decides that a reprise of last year's Jackson Hole "reality check" was warranted.

Chart 8: Fed Fund Futures implied yield (as of 3 Jan 2023)

Source: Bloomberg, UOB Global Economics & Markets Research



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2. Have we seen the peak in overnight SORA?

Probably not. Across late December last year, the overnight SORA has collapsed by almost half, dropping from the 4% handle to the 2% handle. Based on the daily volatility in overnight SORA experienced in the current cycle as well as the volatility of overnight SG interest rate recorded during previous Fed rate hike cycles, it is well within the character of our market to encounter periods of domestic liquidity driven peaks and troughs in the overnight interest rate. Furthermore, we are expecting another 75bps uplift in the Fed baseline by Mar. This will make proclamations that overnight SORA has seen its peak 1-day print on 30 Sep 2022 at 4.3916%, a bold one.

More importantly, we actively discourage developing an obsession with day to day changes in the overnight SORA. The question that we are more concerned with is whether Dec marked a regime shift towards a more "normal" discount to US rates going forward. For most of the current monetary policy tightening cycle, the SG discount to US rates has been unusually narrow. A convergence towards the previous cycles may mean that SG discounts to US rates of between 1% to 2% become normalized.

The possibility of a shift in the SG discount to US rates going forward is plausible assuming peak inflation and monetary policy tightening combined with slower growth and a relatively steep appreciation profile for the SG NEER remaining in place for 2023.

Chart 9: SORA - SOFR (current) %

Source: Bloomberg, UOB Global Economics & Markets Research

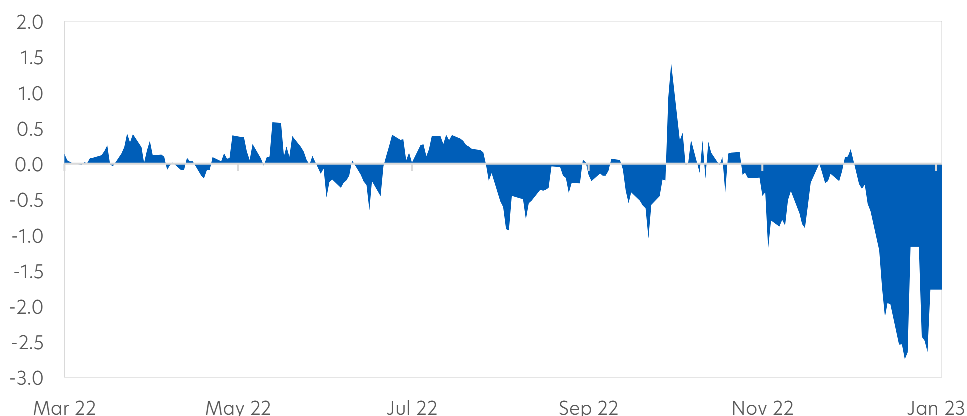


Chart 10: Overnight SG - US (2015 hike cycle) %

Source: Bloomberg, UOB Global Economics & Markets Research

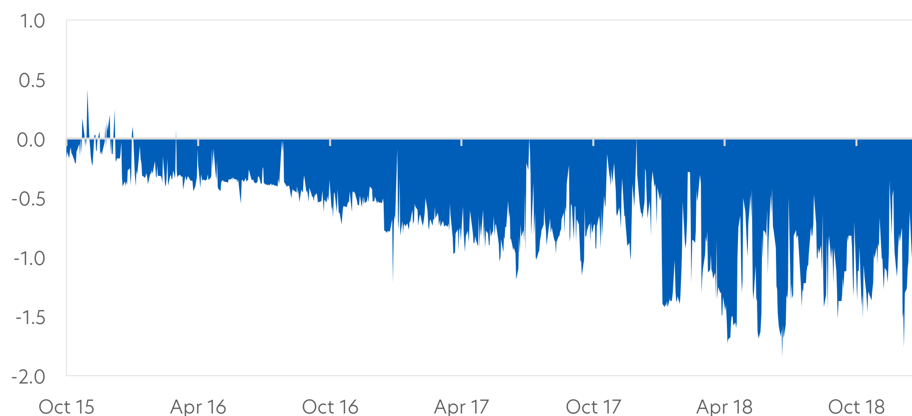
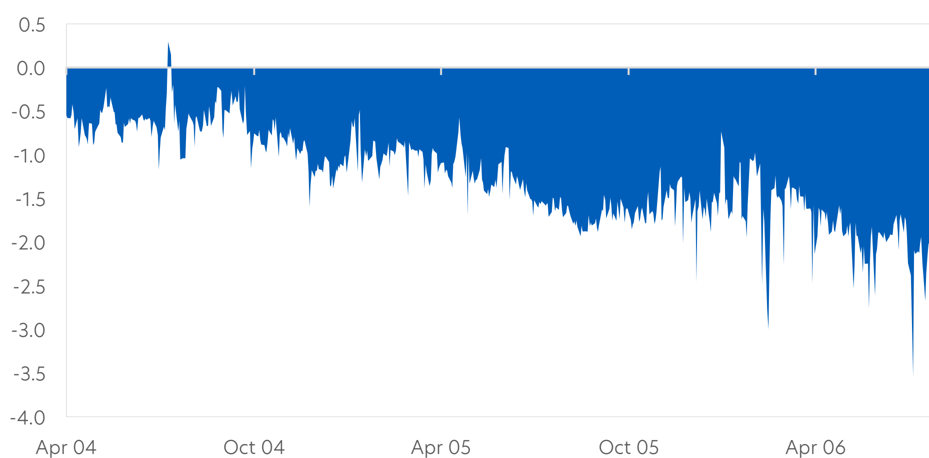


Chart 11: Overnight SG - US (2004 hike cycle) %

Source: Bloomberg, UOB Global Economics & Markets Research



3. Can 10Y UST yield go above 4%?

Yes. But the window of opportunity will close over time as the Fed monetary policy cycle inevitably moves into an easing phase. As it is with the SORA market, inherent UST volatility and poor liquidity conditions means that it may not take much to trigger large yield changes in the 10Y UST in either direction.

Beyond this, there are also other factors which could prompt the market to retest the high for 10Y UST yield of 4.2424% set on 24 Oct 2022. This includes, pushing out Fed cut expectations beyond 2023, either as a result of policy makers' guidance or upside beats in data prints. We also see spill over risk from the Bank of Japan's (BOJ) Christmas surprise. A BOJ pivot narrative has gained traction and we could see domestic fund flows becoming less supportive of UST, especially if the JPY were to appreciate significantly over a short span of time. Bearing in mind too that quantitative tightening of the Fed balance sheet continues to operate in a liquidity challenged environment. The UK gilts have already shown us how damaging an event driven forced selling can be. Fortunately, we do expect that US policy makers will be equally quick in their response to acute elevation of systemic risks.

Stepping back onto a longer time frame, economic growth is clearly slowing by design. In addition, a "higher for longer" policy setting also means that the drag on risk sentiments will probably continue to be felt for most the year. Market appetite for risk free assets at recent high yield levels have been encouraging and the motivation to lock in 10Y UST yields before the next Fed easing cycle will probably grow as the year progress. We do think that there is a decent chance that the 10Y UST yield will end 2023 lower than where it begins.

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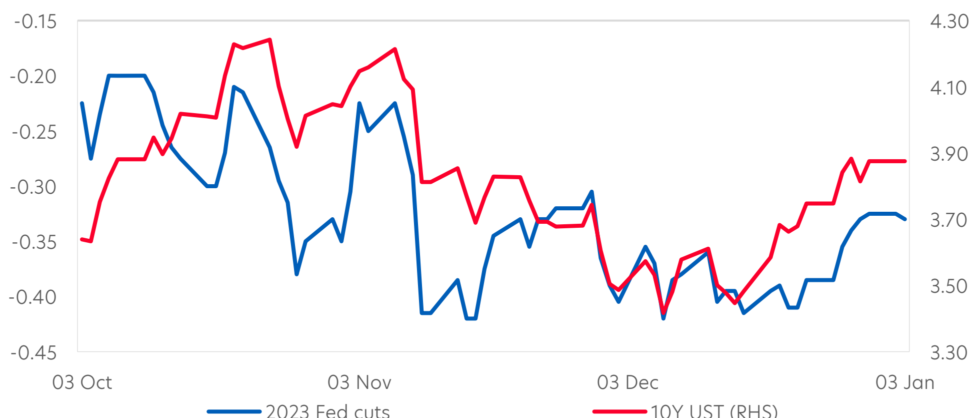
Chart 12: 10Y UST sensitive to 2023 Fed cut expectations

Source: Bloomberg, UOB Global Economics & Markets Research



4. Will 10Y SGS continue to outperform UST?

No. To be clear, we do give allowance that 10Y SGS could continue to outperform UST in the next few months as Fed funds moves towards its cycle peak.

However, this trending move is approaching its final stage as we transition from a rate hike to a rate plateau phase. Over the past three Fed funds rate plateaus, the cumulative change in 10Y SGS – UST spread after the last rate hike has generally been positive (i.e. reduction in 10Y SGS yield discount) during the initial months of a plateau. That said, we think that the degree of 10Y SGS underperformance during this upcoming Fed plateau phase may be mild given that we are expecting a smaller increase in net duration from SGS auctions in 2023.

Chart 13: 10Y SGS – UST (%)

Source: Bloomberg, UOB Global Economics & Markets Research

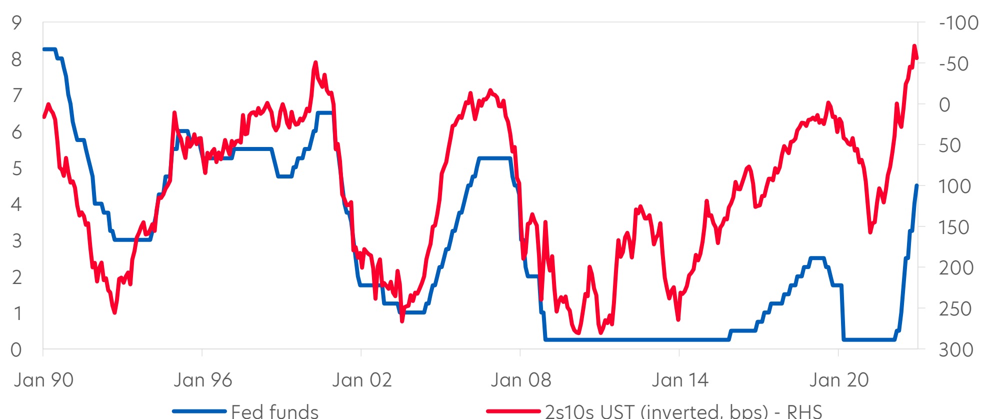
5. Will the 2s10s US yield curve become upward sloping?

No. We will need to have a) Fed rate cuts as a near term base case scenario, and b) an optimistic growth outlook, in order for the 2s10s UST to return to an upward sloping regime. Both conditions are unlikely to be satisfied in 2023, based on our macro team's projections. Historically, the magnitude of curve steepening correlates to the magnitude of cuts in the Fed funds target rate. Since our framework is for rates on hold in 2023, 2s10s UST which starts the year at around -55bps will have a high hurdle to cross just to get to parity, let alone sustain any significantly positive slope.

On the flip side, we are hopeful that the worst of the 2s10s UST curve inversion is behind us. In particular, comparisons to the late 1970s and early 1980s curvature are not very relevant in our opinion given the differences we face.

Chart 14: Yield curve hinges on Fed policy shift (%)

Source: Bloomberg, UOB Global Economics & Markets Research



Summary of Our Key Rates Views

For the front end, upside potential for yields remain in effect into the end of the year and 1Q23. That said, the magnitude of future increase ought to be lesser than what we have experienced thus far in 2022.

From a medium-term holding period perspective; we prefer an opportunistic and positive stance on duration. We expect to see bond yields drift lower across 2023, based on our expectation that Fed funds will peak in 1Q23 as well as accounting for our view that the balance of risk will increasingly tilt in favour of slowing economic growth and richer safe haven premiums going forward.

For 1Q23 we see the 3M compounded in arrears SOFR and SORA at 4.68% and 3.42% respectively. At the same time, we have the 10Y UST and SGS yields at 4.20% and 3.55% respectively.

Summary of Our Rates Views	
Outright yield	Scope for the front end to probe higher, anchored on 5.25% peak Fed funds expectation.
Curve	Flatter yield curves with risk of deeper inversion. Lower for longer curvature to last until we get closer to a Fed easing cycle.
SG - US Spread	SG yield discount to US stay largely intact until conviction builds for a turn in monetary policy cycle.

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Rates	02 Jan 23	_	1Q23F	2Q23F	3Q23F	4Q23F
US Fed Funds Target	4.50	Current	5.25	5.25	5.25	5.25
		Previous Month	5.25	5.25	5.25	5.25
3M compounded SOFR	3.62	Current	4.68	5.05	5.05	5.05
		Previous Month	4.43	5.05	5.05	5.05
3M USD LIBOR	4.77	Current	5.35	5.35		
		Previous Month	5.35	5.35		
10y UST	3.87	Current	4.20	4.00	3.90	3.70
		Previous Month	4.20	4.00	3.90	3.70
3M compounded SORA	3.03	Current	3.42	4.31	4.32	4.33
		Previous Month	3.03	4.40	4.40	4.40
3M SGD SOR	4.21	Current	4.85	4.85		
		Previous Month	4.95	4.95		
10Y SGS	3.07	Current	3.55	3.50	3.40	3.20
		Previous Month	3.55	3.50	3.40	3.20

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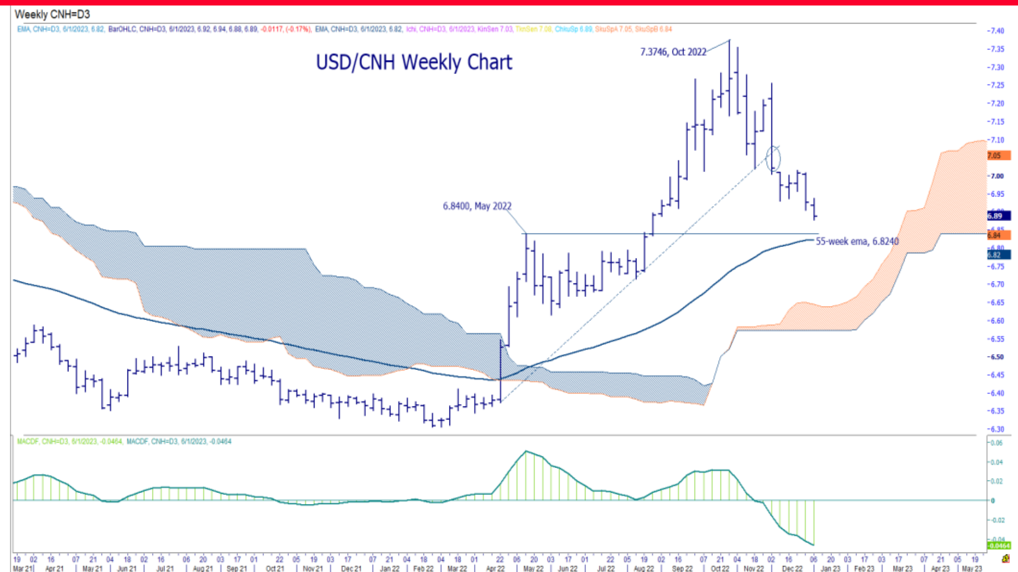
FX Technicals

USD/CNH: 6.8900

Rapid pace of drop suggest USD/CNH could break both 6.8400 and the 55-week exponential moving average (currently at 6.8240).



Source: Eikon, UOB Global Economics & Markets Research

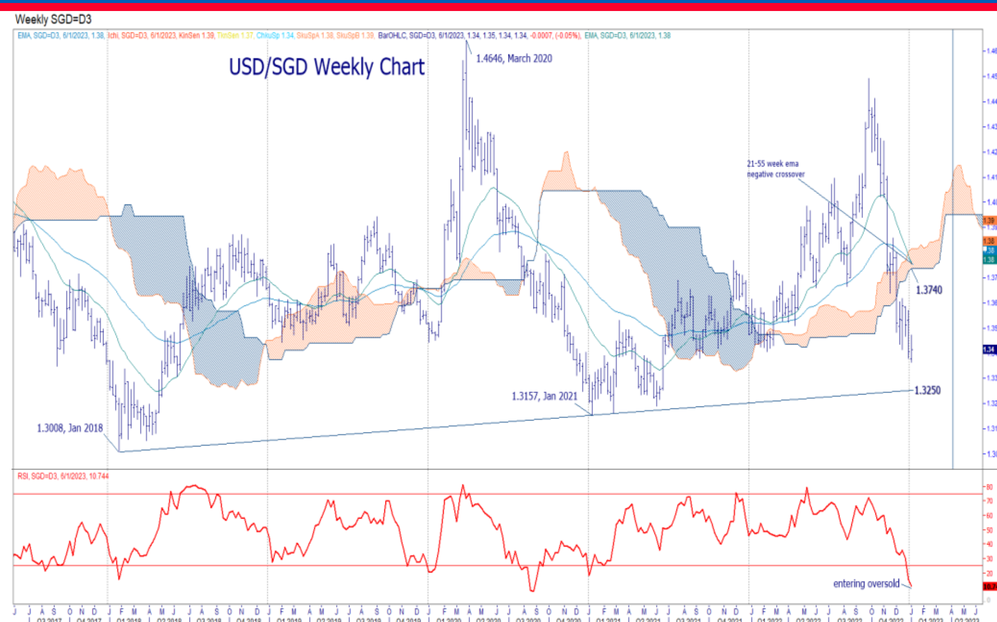
About a month ago on 02 Dec 2022 ((when USD/CNH was trading at 7.0550), in the [FX Technical](#) section of our 1Q23 Global Quarterly Outlook, we highlighted that "USD/CNH has taken out the 6-month rising trend line from Apr's low". We added, "The breach of the trend line support combined with negative weekly MACD suggests further downside in USD/CNH" and we were of the view that "A break of 7.0000 would not be surprising but the next support at 6.8400 may not come into view in 1Q23".

Our view for USD/CNH to decline turned out to be correct as it dropped to a low of 6.8793 earlier this week. The pace of the drop has been faster than expected, and not only has the risk of a break of the May 2022 high of 6.8400 increased, USD/CNH could also drop below the 55-week exponential moving average, which is currently at 6.8240. Resistance is at 6.9500, followed by a rather strong level at 7.0200.

Right By You

USD/SGD: 1.3415

Further USD/SGD weakness is likely but the chance of a sustained decline below the 5-year trend-line near 1.3250 is not high.



Source: Eikon, UOB Global Economics & Markets Research

In our FX Technical section of our 1Q23 Global Quarterly Outlook published on 02 Dec 2022, when USD/SGD was trading at 1.3600, we highlighted that "Breach of critical support levels suggests USD/SGD is likely to weaken to 1.3510, as low as 1.3410". Our view for USD/SGD to weaken was correct, even though the anticipated decline exceeded our expectations as it cracked both 1.3510 and 1.3410 (USD/SGD dropped to a low of 1.3360 earlier this week).

The rapid decline is entering oversold territory but this does not preclude further declines especially when there is a negative crossover in the 21- and 55-week exponential moving averages. That said, downward momentum appears to have slowed somewhat and this suggests that the chance of sustained drop below the rising trend-line connecting the lows of Jan 2018 and Jan 2021 is not high. At the time of writing, the 5-year trend-line is at 1.3250.

On the upside, both the bottom of the weekly Ichimoku cloud and the exponential moving averages are near 1.3740. This solid resistance level is unlikely to come into view, at least for the next 1 to 2 months.

FX, INTEREST RATES & COMMODITIES

Forecasts

FX	04 Jan	1Q23F	2Q23F	3Q23F	4Q23F
USD/JPY*	132	134	130	125	122
EUR/USD*	1.06	1.03	1.06	1.09	1.12
GBP/USD	1.20	1.16	1.20	1.23	1.25
AUD/USD*	0.68	0.65	0.68	0.70	0.72
NZD/USD*	0.63	0.61	0.63	0.65	0.67
DXY*	104.13	106.9	103.9	101.3	98.9
USD/CNY*	6.89	6.95	7.00	6.90	6.80
USD/HKD	7.82	7.80	7.80	7.80	7.80
USD/TWD*	30.72	31.0	31.3	30.8	30.5
USD/KRW*	1,271	1,300	1,330	1,280	1,250
USD/PHP*	55.89	56.5	57.0	56.0	55.5
USD/MYR*	4.40	4.45	4.50	4.40	4.35
USD/IDR*	15,606	15,800	15,900	15,700	15,500
USD/THB*	33.83	35.0	35.0	34.0	33.0
USD/VND*	23,510	23,700	24,000	23,700	23,400
USD/INR*	82.81	83.5	84.0	83.0	82.0
USD/SGD*	1.34	1.36	1.37	1.35	1.33
EUR/SGD*	1.42	1.40	1.45	1.47	1.49
GBP/SGD*	1.62	1.58	1.64	1.66	1.66
AUD/SGD*	0.91	0.88	0.93	0.95	0.96
SGD/MYR*	3.28	3.27	3.28	3.26	3.27
SGD/CNY*	5.13	5.11	5.11	5.11	5.11
JPY/SGDx100*	1.02	1.01	1.05	1.08	1.09

POLICY RATES	04 Jan	1Q23F	2Q23F	3Q23F	4Q23F
US Fed Funds Rate	4.50	5.25	5.25	5.25	5.25
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate*	2.50	3.50	3.50	3.50	3.50
GBP Repo Rate*	3.50	4.25	4.50	4.50	4.50
AUD Official Cash Rate*	3.10	3.60	3.85	3.85	3.85
NZD Official Cash Rate*	4.25	4.75	5.25	5.50	5.50
CNY 1Y Loan Prime Rate	3.65	3.55	3.55	3.55	3.60
HKD Base Rate	4.75	5.50	5.50	5.50	5.50
TWD Official Discount Rate	1.75	1.88	1.88	1.88	1.88
KRW Base Rate	3.25	3.50	3.50	3.50	3.50
PHP O/N Reverse Repo	5.50	6.00	6.00	6.00	6.00
MYR O/N Policy Rate	2.75	3.25	3.25	3.25	3.25
IDR 7D Reverse Repo	5.50	6.00	6.00	6.00	6.00
THB 1D Repo	1.25	1.75	1.75	1.75	1.75
VND Refinancing Rate	6.00	7.00	7.00	7.00	7.00
INR Repo Rate	6.25	6.50	6.50	6.50	6.50

INTEREST RATES	04 Jan	1Q23F	2Q23F	3Q23F	4Q23F
USD 3M SOFR (compounded)*	3.69	4.68	5.05	5.05	5.05
SGD 3M SORA (compounded)*	3.00	3.42	4.31	4.32	4.33
USD 3M LIBOR	4.78	5.35	5.35		
SGD 3M SIBOR*	4.25	4.80	4.80	4.80	4.80
SGD 3M SOR*	4.24	4.85	4.85		
10Y US Treasuries Yield	3.71	4.20	4.00	3.90	3.70
SGD 10Y SGS	3.03	3.55	3.50	3.40	3.20

COMMODITIES	04 Jan	1Q23F	2Q23F	3Q23F	4Q23F
Gold (USD/oz)	1,855	1,800	1,900	2,000	2,000
Brent Crude Oil (USD/bbl)	79	90	90	100	100
Copper (USD/mt)	8,252	7,000	7,000	7,000	7,000

USD 3M LIBOR and SGD 3M SOR will be ceased by end-June 2023

* Changes made to forecasts as compared to previous report dated 15 December 2022

Source for spot rates: Bloomberg

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