UOB HOUSE VIEW

4Q2017

GLOBAL MACRO

So far in 2017, we are surprised by the strength of global trade, mystified by the benign inflation environment and taken aback by is how dangerous geo-politics has become this year. And yet it is surprising how calm the financial markets' response has been to date. And while there are on-going known risk factors and potential new ones emerging, we do not expect any to blow up and things will remain good enough to carry on.

ASSET ALLOCATION

The current "Goldilocks" environment is strong enough to support growth but not too hot so as to trigger overheating and high inflation has been conducive for equities, fixed income and commodities. We are overweight equities as it carries higher expected returns than the other asset classes, but continue to think the outlook for broad investment including fixed income is stable.

EQUITIES

With risk events having blown over and with economic activity continuing to look healthy, global equities have recovered lost ground, even posting new highs in some markets. With little risk of a recession in the major economies on the horizon, we continue to hold a positive view on global equities into the end of the year.

FIXED INCOME

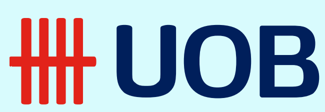
We continue to expect the US Fed to hike rates in December with several more hikes in 2018, but we still note that the rate hike path is the slowest in history and expect fixed income to fair better than other late cycle stages in the past. While fixed income does face the headwind of some rate hikes, we expect fixed income funds to continue to deliver positive single digit returns at low risk levels.

COMMODITIES

Rotational interests will likely shift from Metals to Energy Complex. Precious Metals were supported in 3Q by geopolitical risks but will find it difficult to sustain gains as a possible US rate hike comes into play in Dec. Industrial Metals are due for a healthy correction after the strong rally across 3Q. It may be Crude Oil's turn to shine next on increasing signs of recovering global energy demand. In 4Q, Brent Crude Oil will likely trade higher from USD 55 to USD 60 / bbl.

FX & INTEREST RATES

Fed starting Balance Sheet Reduction (BSR) in October together with expectations of another rate hike in December are likely to spur a modest rally in USD/Asia. Against the G-10 currencies, the dollar is expected to slip further as monetary policy convergence sets in.



GLOBAL MACRO

Not Perfect But Good Enough To Carry On

As we approach the last stretch of 2017, we are surprised by quite a few things: we are pleasantly surprised how strong the global trade growth has been in 2017, with many Asian economies benefitting from the improved trade flows despite their stronger currencies during the same period. We are also surprised by the positive growth picture globally but mystified by the absence of more pronounced inflation in many economies. What we are not so pleasantly surprised with is how dangerous geo-politics has become in 2017 and yet we are thankfully surprised how supremely calm the financial markets' response has been to date.

And yet the backdrop of moderate growth and fiscal uncertainty without (much) inflation has not deterred the Fed Reserve from its policy tightening path. But the Fed is no longer the only major central bank with tighter monetary policy in town; the Bank of Canada hiked twice so far this year, the Bank of England could be itching to hike in November and while the European Central Bank is not expected to hike rates anytime soon, a "calibration" of its QE program could be announced in October. And while Australia and New Zealand are in no hurry to shift monetary policy, their next move is more likely to hike rates than to cut. The clear exception is the Bank of Japan which is expected to hold easy for the foreseeable future.

A vexing task for 2017 has been forecasting the US dollar. Since starting the year at a high, the dollar index has been sliding lower for the first 3 quarters of 2017 as the Trump reflation trade never materialized, made worse by the various legislative setbacks suffered by the Trump administration. And even as the Fed persevered on the normalization path, the two Fed rate hikes (in Mar and Jun) did not help arrest the dollar weakness. Into 4Q, we envisage two differing paths for USD. The USD will likely continue to struggle against the G-10 currencies (except JPY) as the Fed is no longer the only major central bank with tighter monetary policies. In comparison, the USD will fare better against the Asian currencies on the back of greater monetary policy divergence as the Fed Reserves implements balance sheet reduction (BSR) and potentially one more rate hike in 4Q while most Asian central banks maintain status quo. Seasonal weakness & a potential easing of export growth in 4Q should also help the US dollar strengthen against the Asian FX (except MYR).

China will hold our attention in October as the Communist Party of China will hold its 19th National Congress beginning 18 October. Nothing can go wrong and nothing will go wrong in this event which will set the political leadership to meet the legion of challenges (for there are many) in the next five years and beyond.

In this report, we initiate coverage for gold, copper and Brent crude oil. After a strong rally in 3Q, gold may find it difficult to hang onto gains as we anticipate tighter monetary policy from the Fed Reserve. Similarly, industrial metals including copper enjoyed a strong rally across 3Q, and LME Copper could be due for a healthy correction. We are cautiously more bullish for crude oil as we believe Brent crude oil is now poised to trade higher from USD 55 to USD 60/bbl on increasing signs of recovery in global energy demand with the concurrent gradual inventory drawdown.

What risks lies ahead? The top answer will be the geopolitical risks in the Korean Peninsula (North Korean nuclear program/missile crisis) but markets seemed to be increasingly desensitized as the standoff persists and escalates. US President Trump's tweets and his foreign and trade policies will remain a top concern. Beyond the (almost) certain Merkel victory in the upcoming German Federal elections (24 Sep) and the highly uncertain New Zealand elections (23 Sep), we will watch for potential snap elections in Japan and Italy during 4Q. Brexit negotiations between UK and EU will continue to make headlines but it remains uncertain how much progress will be made in the next 3-6 months.

US domestic politics will take spotlight in December as US lawmakers will try to resolve the government funding and the debt ceiling limit issues. US President Trump on 6 Sep struck a deal with the Democrats & Republican Congressional leaders to combine emergency aid for Hurricane Harvey victims with a temporary increase the US debt ceiling limit and finance the government spending till 15 Dec. The stop gap measure did not address/resolve any of the underlying issues and it merely delayed the inevitable and sets up the prospect for a bigger and bloodier Congressional battle between Republican and Democrat parties at the end of the year 2017.

It's not a perfect world but it could've been worse. To borrow a phrase from the British (in preparation for WWII), keep calm and carry on. It could yet be a riveting end to 2017!.

ASSET ALLOCATION

Global Macro Trends Improving

While there were some hints in leading indicators at the end of 2Q17 that growth may be peaking, indicators over the past quarter have bounced back and continue to point to healthy growth over the coming year. The outlook for equities remains positive as good growth, solid momentum, good fund flows and strong earnings trends are all supportive of good returns from equities.

At the same time inflation trends have deteriorated across all the major regions which limits the headwind fixed income may face from rising rates. While we do think the US Fed will continue with its modest path of rate hikes, we think fixed income will continue to provide positive low risk returns.

The commodity outlook is supported by global growth but the outlook is partially less attractive than equities as the China property construction cycle appears to be slowing and commodity prices in areas such as metals have already had strong rebounds.

Synchronized Upticks In Leading Indicators

In the past several years, there has always been one major region, whether it be Europe, China or Latin America, that has been struggling and was a drag on global growth. Global growth is currently as broad based as the world has achieved in the past decade. Both the developed markets and the emerging markets are achieving better growth in 2017 than in 2016. And in recent months, the leading indicators of growth such as the manufacturing indices have been surging to highs not seen in the past 6-7 years with multiple regions achieving these highs at once. Employment and consumer confidence across many markets are achieving healthy readings. Importantly, this is translating into corporate earnings growth where we also see that all the major developed and emerging markets are seeing average corporate profit growth of over 10%. All of which is supportive of equity market performance.

Interest Rate Hikes And Fixed Income

While we overweight equities, we are still positive on the outlook for fixed income as well. Typically, as a cycle matures inflation pressures and rate hikes create weak performance for fixed income. This cycle is mature, and we expect the US Fed (which sets the backdrop for global interest rates) will continue to hike rates over the coming year. Nevertheless, we see that inflation pressures are benign and the rate increases are at the slowest pace seen in the past cycles since World War 2. Credit quality is good due to the healthy economies. So overall, while we recommend to overweight equities for higher returns we continue to think fixed income has its place for investors who need lower volatility and will continue to see positive returns in the asset class

Risks Of A Maturing Cycle

Typical concerns about investment markets include the maturity of the cycle (ie many think we must be due for another recession), and that valuations are above average.

While the global expansion is already mature at 8 years, we would note that the expansion this cycle has been weaker than normal and many regions have had inconsistent contribution to global growth. Like a light bulb that burns half as bright, it can burn twice as long. We track a number of indicators and models as a guide to assess when the next recession may occur, but for now our assessments are that we don't see evidence of a downturn in at least the next year.

While valuations are above average for most markets, most valuation metrics are within the range usually seen in the later stages of cycles and are not in themselves a trigger of corrections.

Multi-asset income strategies have filled a useful sweet spot between fixed income and equities. As we think the outlook for all asset classes is positive we think the multi-asset income strategies remain well placed to take advantage of the global investment environment.

Commodities usually benefit in a reflating cycle and we think economic trends are supportive of most commodity sectors but warn that there are still uncertain supply and demand situations in most commodities that make pricing more volatile.

Asset Class	Policy	UOBAM Weight (%)	Benchmark Weight (%)	Change from 17 June
Equities	Overweight	60.0	55.0	+
Bonds	Underweight	32.0	38.0	-
Commodities	Neutral	5.0	5.0	=
Cash	Underweight	1.0	2.0	-

EQUITIES

After recent late-summer wobbles, global equities have resumed their positive momentum. In addition to being historically poor months for equity performance, August and September this year saw risk sentiment affected by North Korean provocations, a US debt ceiling deadline and hurricanes hitting the US' southwest coast. As these events have blown over and economic activity continues to look healthy, global equities have recovered lost ground, even posting new highs in some markets. With little risk of a recession in the major economies on the horizon, we continue to hold a positive view on global equities into the end of the year.

We retain our neutral allocation to US equities. The strong rally in US equities at the start of the year was predicated on a better economic outlook and anticipation of US President Donald Trump's pro-growth policy agenda. While US growth has held up reasonably well and the labour market continues to be robust, this has already been priced in. At the same time, Trump's pro-growth policies have barely materialized. Consequently, there are few catalysts on the horizon to drive a similarly strong US equity rally into the end of the year. This neutral weight would be due for revision, should there be more concrete evidence of Trump's pro-growth policies materializing.

European equities retain their overweight allocation. Positive economic and investment sentiment earlier in the year has translated into stronger tangible economic activity. Following French President Emmanuel Macron's electoral victory, political risk in Europe has continued to lift, with incumbent German Chancellor Angela Merkel anticipated to win re-election and her party and coalition allies leading the polls. In addition, the UK's exit from the European Union appears to be evolving towards a 'soft Brexit', involving a protracted transitional arrangement following the official exit in March 2019.

We maintain an overweight position in Japanese equities. Japanese equities have underperformed recently due to their typically negative correlation to the JPY, which strengthened on the back of safe haven flows in reaction to North Korea's provocations. As geopolitical concerns have receded however, the JPY is anticipated to weaken over the rest of the year. Furthermore, there are signs of improvement in some segments of the economy, and foreign investors have begun to put money back into Japanese equities after being net sellers for the better part of the last two years.

Emerging market equities retain their overweight allocation. On a broad basis, emerging market equities have performed well this year as USD weakness has led to looser financial conditions in emerging economies where much debt continues to be denominated in USD. Many export-oriented economies have also benefited from the combination of synchronized global growth and benign inflation. Within emerging market equities, some of our preferred allocations include China, India and Korea.

COMMODITIES

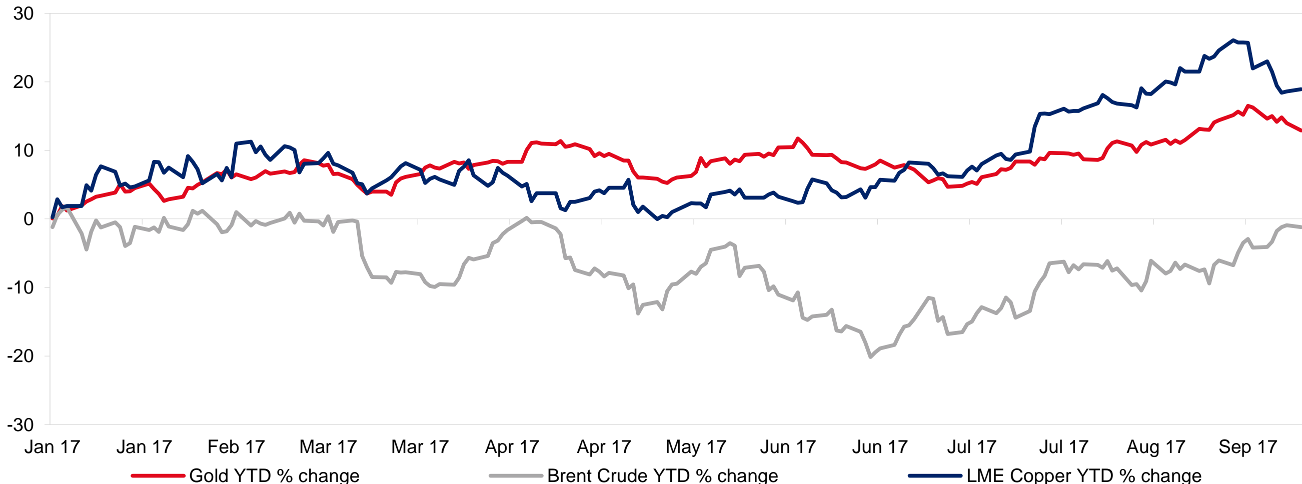
Overview - Rotational interests will likely shift from Metals to Energy Complex. Precious Metals were supported in 3Q by geopolitical risks but will find it difficult to sustain gains as a possible US rate hike comes into play in Dec. Industrial Metals are due for a healthy correction after the strong rally across 3Q. It may be Crude Oil's turn to shine next on increasing signs of recovering global energy demand coupled with concurrent slow but steady inventory drawdown. In 4Q, Brent Crude Oil will likely trade higher from USD 55 to USD 60 / bbl.

Precious Metals – Gold fails to make further headway above USD 1,300 / oz. After multiple attempts, aided by growing risk aversion from persistent geopolitical risk in the Korean peninsula, Gold finally led the Precious Metals complex higher across 3Q. However, the Precious Metals complex will find it difficult to hang onto gains in 4Q, as the US Federal Reserve is poised to start Balance Sheet Reduction (BSR) and possibly hike by another 25 bps in Dec. This will lift 3 month USD Libor from 1.30% to 1.65%, to the detriment of Precious Metals. As such, Gold will struggle around USD 1,300 / oz, Silver may pull back towards USD 16 / oz, while both Platinum and Palladium will be capped under USD 1,000 / oz.

Energy – Brent Crude Oil to rise towards the USD 60 / bbl level. Hurricane Harvey fired up the Energy Complex as refinery shutdowns led to a significant inventory drawdown in gasoline, heating oil, jet fuel and various distillates. It is not just refining capacity that is disrupted, but also various energy supply chains as the US is now a major exporter of energy products. With crack spreads at elevated levels, once refining activity comes back on line, we can expect increased demand for crude oil. Globally, both OPEC and International Energy Agency (IEA) forecast increasing demand for Crude Oil with slow and steady inventory drawdown. Extension of OPEC production cuts beyond Mar 2018 is needed for further supply rebalancing.

Industrial Metals – Temporary consolidation after strong 3Q rally. Industrial metals staged a strong price rally across Q3. The LME Metals Index (a volume weighted price index of 6 key LME Metals, i.e. Copper, Aluminum, Lead, Nickel, Zinc and Tin) jumped by more than 15% across 3Q. Improving global manufacturing activity, on-going supply shocks from longer than expected mine closures and increased speculative activity from China fueled the strong rally. In 4Q, some healthy consolidation is in order, before Industrial Metals can resume their rally next year. In the meantime, expect LME Copper to consolidate around USD 6,500 / mt in 4Q.

Gold Rose 13%, Copper Spiked 19%, While Brent Crude Oil Stays Flat (YTD % Change)



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Benign Inflation But Rate Hikes Continue

UOB's house view is in line with the US Fed Reserve's Dot-plot chart which is indicating one hike rate in 4Q 2017 and 3 more hikes in 2018. This path of rate hikes is more than the market expects but is actually a far more cautious rate hike path than the US FED has done in prior cycles.

Thus, our views on fixed income can simultaneously appear both cautious and positive. We do think fixed income funds will face some headwinds from rising rates. But we think these headwinds will be more modest than seen in prior cycles. We also think that the Fed Funds terminal rate is likely to be in line with the US Federal Reserve's forecast range of 2.5% to 3% which again is much lower than seen in prior cycle. Which further implies that the downside risks to fixed income markets are modest.

On a year to date basis fixed income market have performed well on a USD basis. Global bond indices such as the Barclay's Global Aggregate has gained 7.2% so far in 2017. The JPM Asia Credit Index has gained 6.2% in USD terms so far in 2017. But the currency which returns are measured in make a big difference in 2017. As the SGD has gained 6.5% in 2017, the fixed income returns are mostly flat when converted to SGD returns.

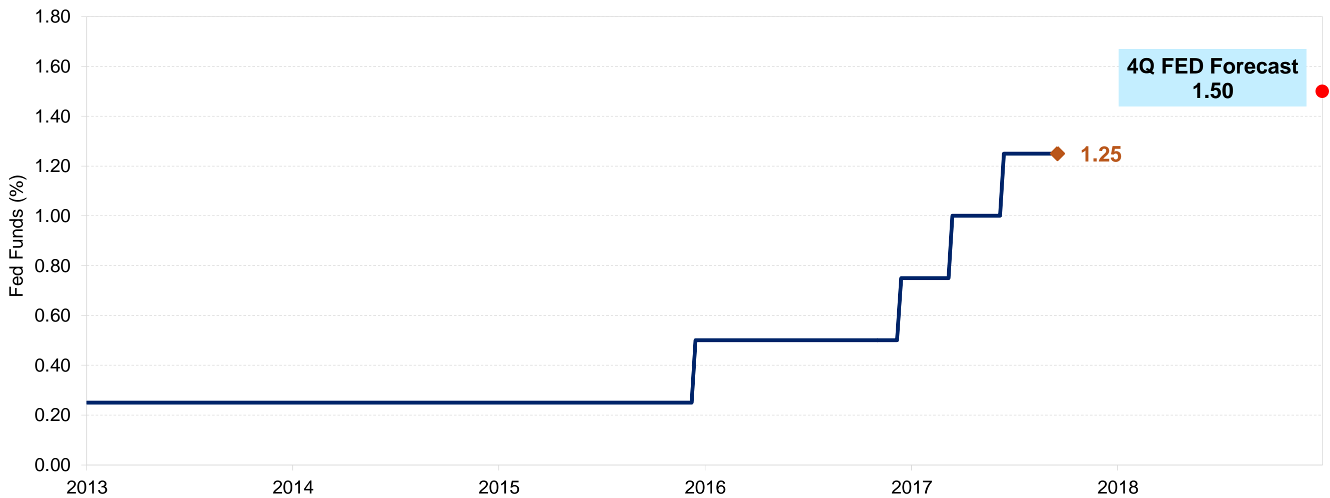
We continue to believe that many investors that do not have the risk tolerance for equity volatility would still benefit from being in fixed income markets over shifting to cash. Also the positive part of the fixed income outlook is that the multiyear outlook can improve as yields of fixed income funds rise.

We are now underweight fixed income relative to other asset classes. Within fixed income markets we underweight government bonds relative to corporate credits and are neutrally balanced.

FX & INTEREST RATES

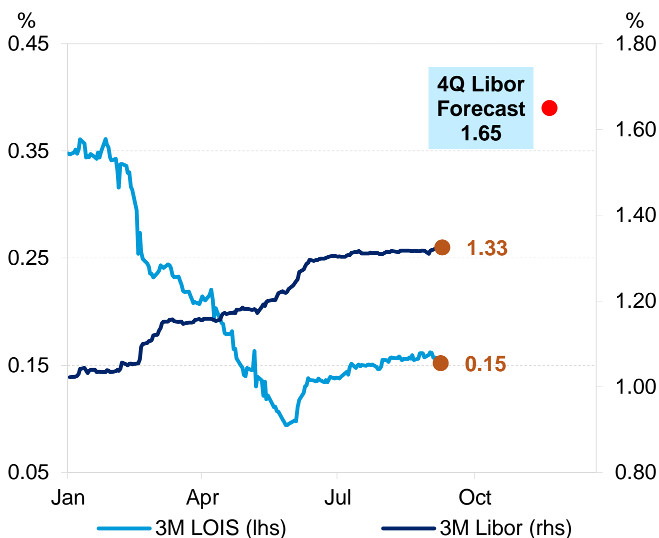
UNITED STATES

FED Funds Rate



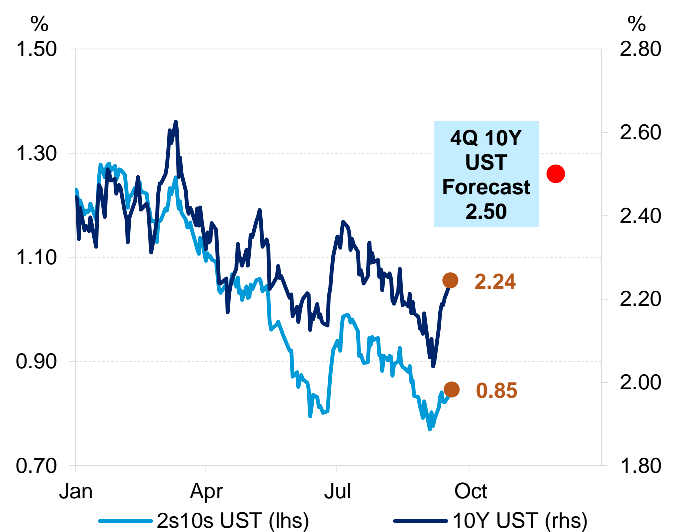
The Fed Reserve in its Sep FOMC announced it will begin its balance sheet reduction (BSR) program, to be implemented in October 2017. Trimming the Fed balance sheet is somewhat a 'substitute' for rate hikes, although the impact is likely more felt on the longer-end UST yields but difficult to quantify the magnitude at this juncture Markets viewed the Sep FOMC as hawkish because the Sep Dot-plot chart was left largely intact (from June) for 2017 and 2018, which is in line with our moderately hawkish outlook for the Fed rate trajectory in 2017/2018 as we maintain the forecast of 3 Fed rate hikes this year (including the March & the June hike) followed by 3 hikes in 2018. Thus, we expect one more 25bps rate hike in 12/13 Dec FOMC. A risk is the Fed may hike in Nov FOMC instead of waiting until Dec to avoid the "postponed Congressional battle" potentially in Dec.

3M US Libors



- We expect to see 3M Libor resume its upward trend towards 1.65% by the end of 4Q2017 on the basis of another 25bps FED rate hike in December.
- Libor volatility remains a possibility heading into yearend now that the FED has announced the start of BSR in October.
- LOIS has stabilized at lower levels. Prevailing spreads are consistent with benign USD funding conditions, investors are complacent on credit and liquidity risks.

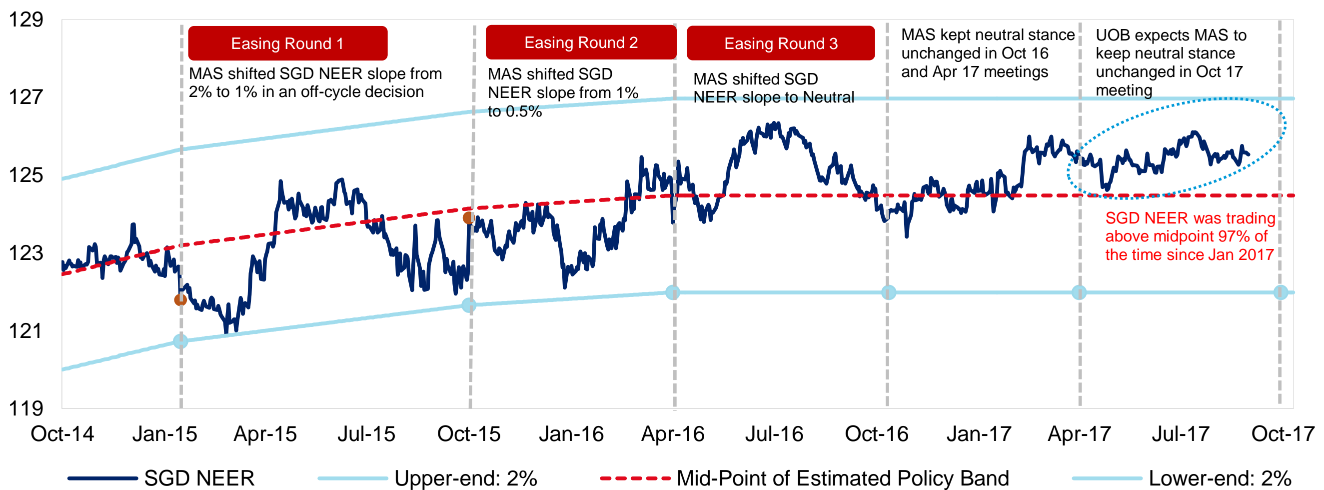
10Y US Treasuries



- We expect to see 10Y UST at 2.50% by the end of 4Q2017.
- Inflation expectations based on breakeven rates are expected to remain flat given tepid catalysts. Therefore the higher trajectory into yearend will mostly come via re-pricing in real rates.
- As BSR builds up to its steady state, we are expecting better mean reversion potential in 10Y UST term premiums away from year to date lows recorded in September.

SINGAPORE

SGD NEER

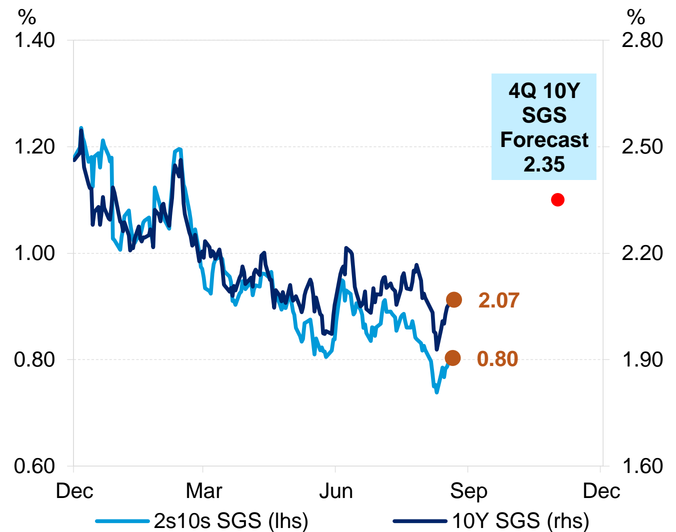


The Monetary Authority of Singapore (MAS) will announce monetary policy on the 2nd week of Oct and we expect the central bank to keep the current policy of a zero appreciation of the SGD NEER slope unchanged, while keeping the midpoint and bandwidth of the policy band unchanged too. During the last policy decision in Apr 2017, the MAS had specified that it will keep the neutral SGD NEER policy by an "extended" period of time and signaled that it was not too comfortable about the strength in the SGD NEER. Fast forward to today, the SGD NEER remains on the upper band. Recent growth and inflation indicators showed signs of pick up, prompting the market to bid up the SGD NEER, anticipating a tightening move from the MAS in Oct. However, we think that it is still too early to adopt such hawkish attitudes, as domestic consumption remains weak and investment has even contracted. The still weak labour market will cap any form of cost pass-through to consumer inflation, while the stronger SGD had limited imported inflation. These factors allow for the continuation of the neutral SGD NEER policy.

3M SOR and Sibor

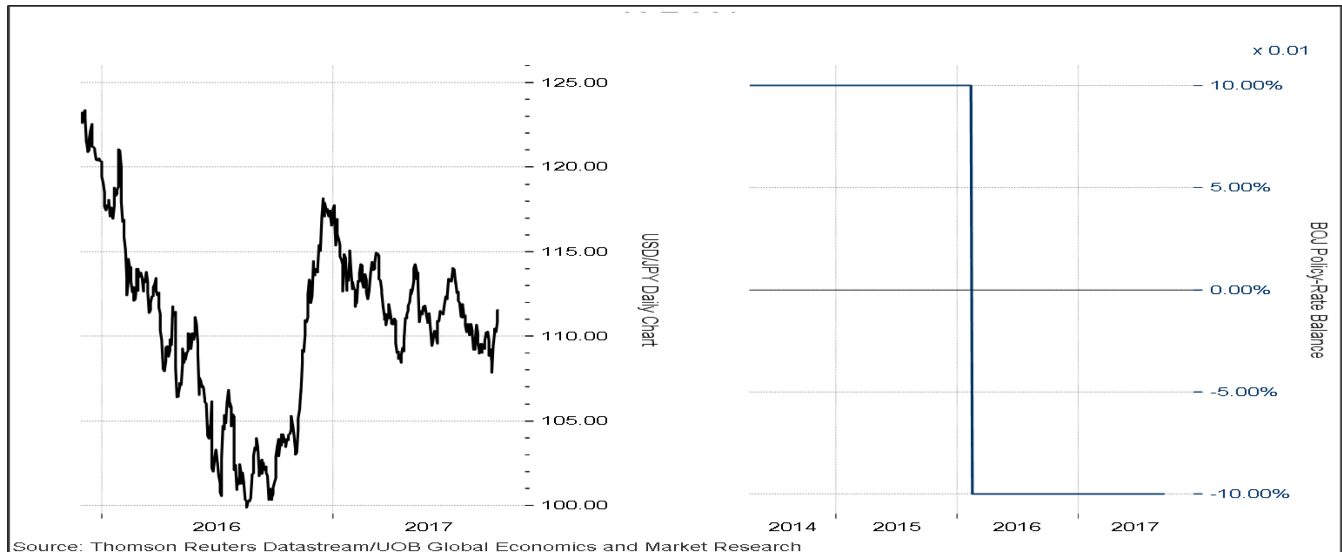
- We expect to see 3M SOR and SIBOR at 1.30% and 1.40% by the end of 4Q2017 respectively.
- Domestic liquidity tightening seen via increased MAS bills supply will help to keep SIBORs sticky on the downside. SORs are likely to maintain a discount to SIBORs on average due to domestic currency strength buoyed by an environment of low asset volatility.
- A deeper SOR discount is possible should MAS prepare the ground for monetary policy tightening. However, new lows in SORs are unlikely since the SGD NEER is already partially priced for such a scenario and the base US rate is expected to increase once more this year.

10Y SG Bonds



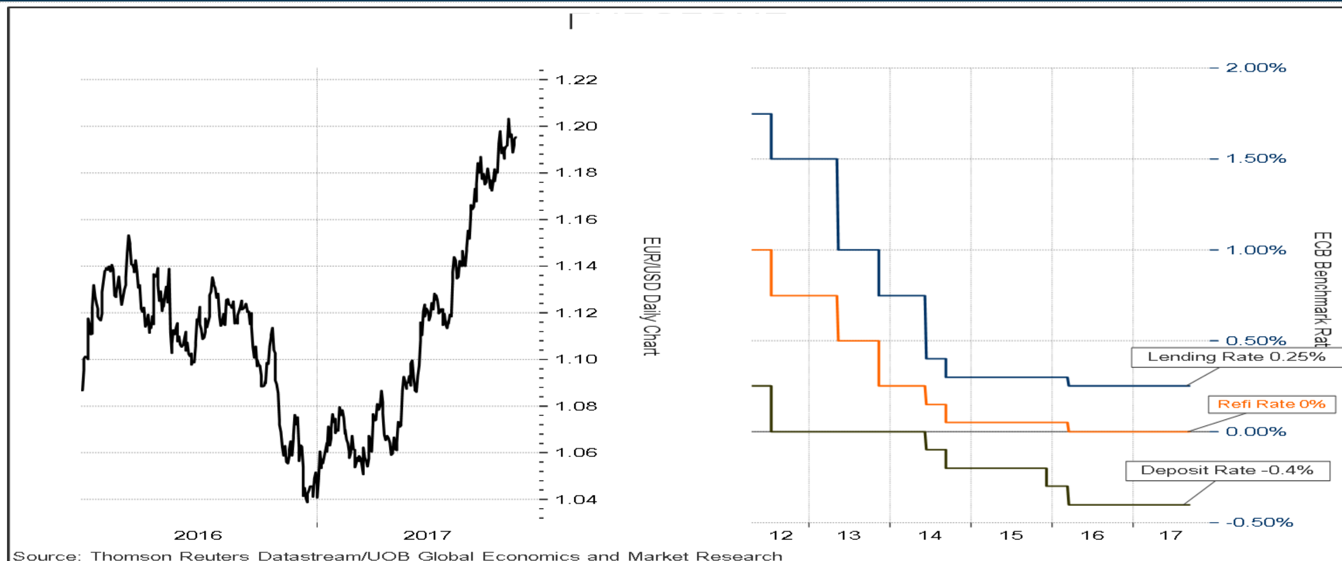
- We expect to see 10Y SGS at 2.35% by the end of 4Q2017.
- Valuations on the SGS asset swap curve remains cheap and we are expecting to see some seasonal richening dynamics take hold in the last quarter. The wildcard will be the pace of domestic liquidity tightening going forward. Any significant increase in MAS bills supply will be counterproductive to richening of ASW.
- Key domestic event will be the release of the SGS auction calendar for 2018, surprises here can have a durable impact on the yield curve.

JAPAN



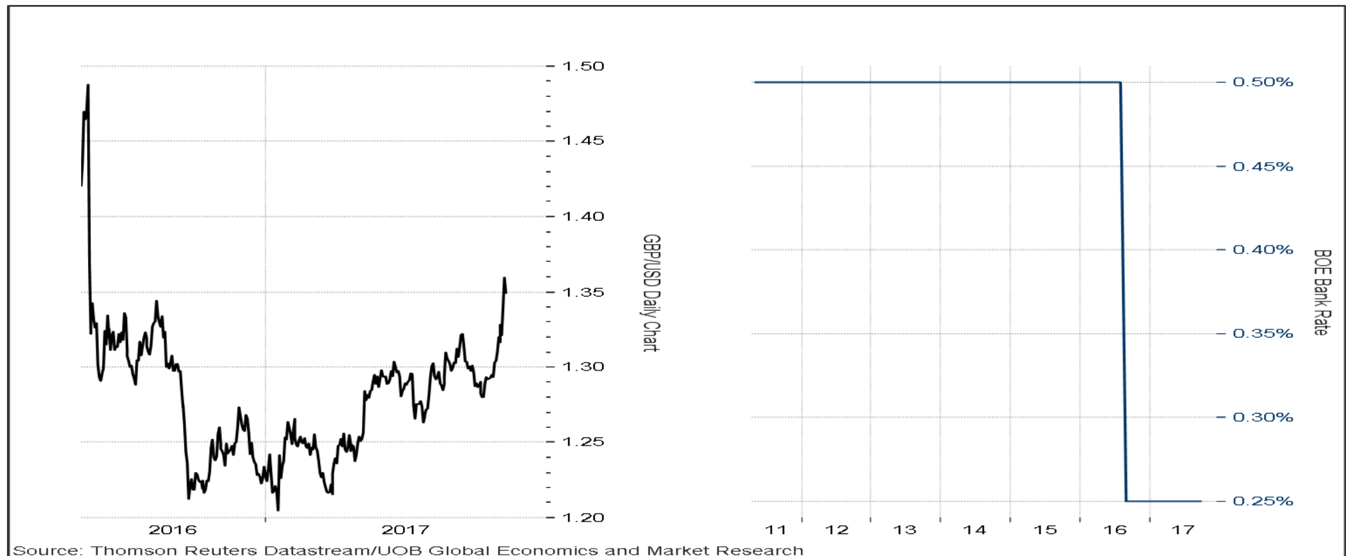
Even as monetary policy bias has turned hawkish for some G10 central banks, it remains premature to even expect the BOJ to talk about tapering its easing program anytime soon, because Japan is still far away from its 2% inflation target. Chances are it may be well below 2% even when BOJ Governor Kuroda's term expires in April 2018 (although it seems Kuroda is in contention to be re-appointed as BOJ Governor). After Sep's policy decision of no change, we expect status quo to be maintained in the next 3-6 months although we still factor in a small probability for more BOJ policy easing especially if there is significant deterioration to the inflation outlook. That said, we highly doubt what BOJ can achieve for inflation. Domestically, speculation is rife that PM Abe may call for snap election in 4Q 2017 and there are concerns he may pledge to push ahead with the sales tax hike to 10% in Oct 2019 (from 8%) but delay/drop the 2020 target to achieve the primary budget balance/surplus. And that may complicate BOJ decision making which is premised on the government's pledge to get its fiscal house in order.

EUROZONE



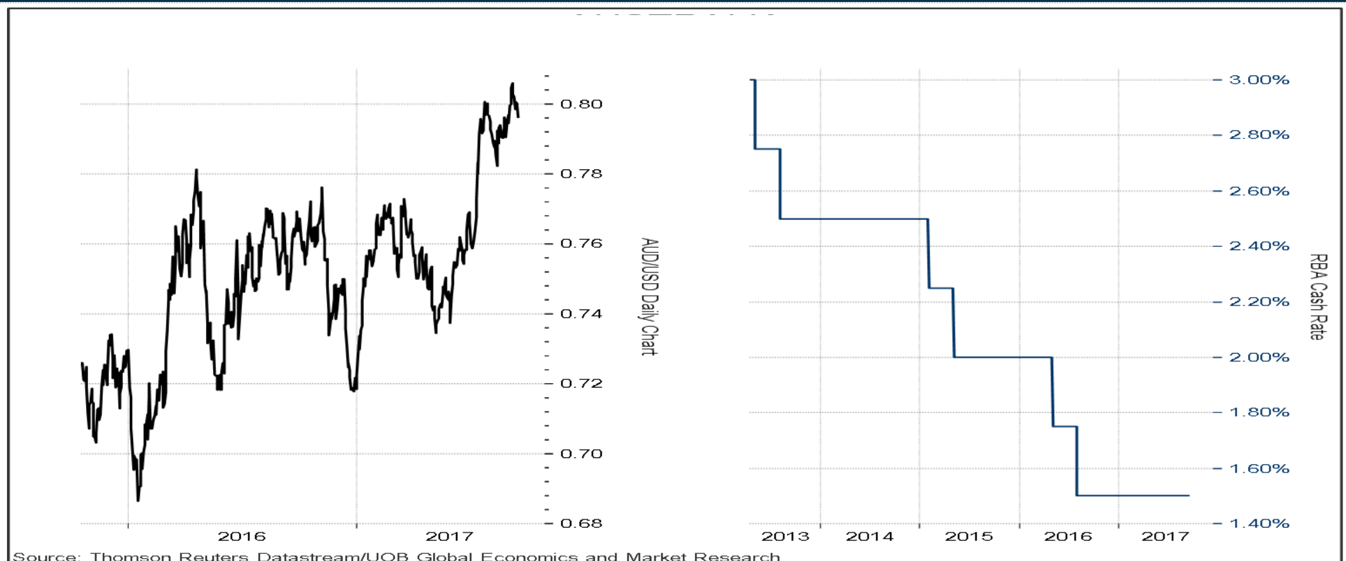
The strength of the EUR has been remarkable. The single currency has entered the seasonally bullish month of September just below its recent multi-year high above 1.20. Indeed, the language of the European Central Bank (ECB) has shifted subtly, and an announcement at the October ECB meeting that bond purchases will taper in 2018 seems likely, although ECB President Mario Draghi may seek to soften the language. Political risk in the Eurozone continues to fade – whilst Germany, and possibly Italy, will go to the polls, we do not expect any major market or economic consequences of these. European growth surprises positively, with better labor markets and a more stable banking system that is more willing to lend. We think EUR/USD could trade a little higher still, but we see excessive rallies capped. Our forecast for year-end is at 1.20 even as the consensus drags its forecasts higher.

UNITED KINGDOM



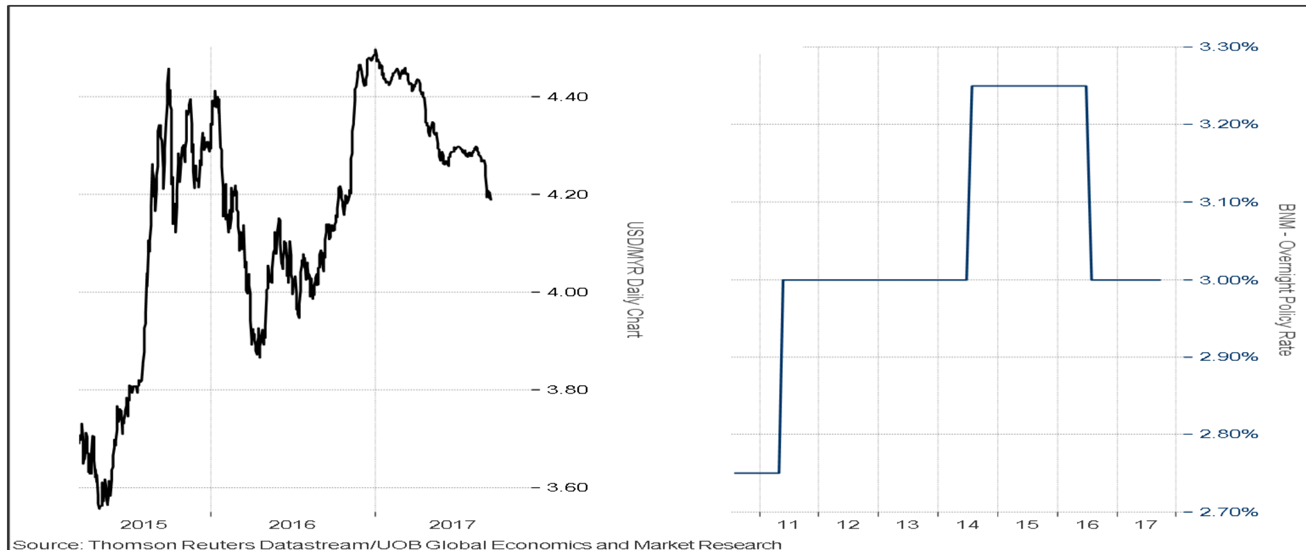
We had previously expected no change in rates by the Bank of England (BoE) this year or next, particularly in the face of Brexit uncertainties. However, given its clear signal at the recent September meeting, we now expect a 25bp rise at the upcoming 2 November meeting. The change in rhetoric comes amidst bullish inflation and unemployment data. We do not necessarily see the beginning of a new hiking cycle in the UK though, and thus we think this is merely BoE taking back its 'emergency cut' it delivered in August last year (after the Brexit vote). We continue to see a high degree of uncertainty surrounding the outlook for GBP, which will probably be in a tug-of-war between continued political concerns as well as the possibility of an earlier-than-expected BoE rate hike. On the first point, uncertainties on Brexit negotiations, as well as weaker government post-elections could add periods of pressure for the currency. However, on the other hand, the BoE's hawkish tilt as begun to surface and this would be supportive of the GBP. Our view of a slightly upward bias in the GBP/USD is based on our belief that the currency is now more sensitive to changing perceptions within the BoE.

AUSTRALIA



We have upgraded our AUD/USD forecasts. Underpinning our view is a change in expected settings of monetary policy in key advanced economies, including Australia. The Fed it is no longer alone in taking the foot off the monetary policy easing pedal. The ECB is expected to begin paring its asset purchases soon. In addition to the ECB, the BoE is moving closer to the prospect of a rate hike and the BoC has already taken that step in raising official interest rates. Whilst rate hikes in Australia may remain a way off, markets are expecting that at some point, the RBA will be ready to lift official interest rates. This will continue to provide upward pressure on the AUD. Another major driver behind the AUD is the outlook for commodity prices. On this front, prospects have become relatively more positive. A synchronized global upswing has continued, and stimulus from Chinese authorities has been supportive of economic growth in China. The improvement in global growth should help to prop up commodity prices.

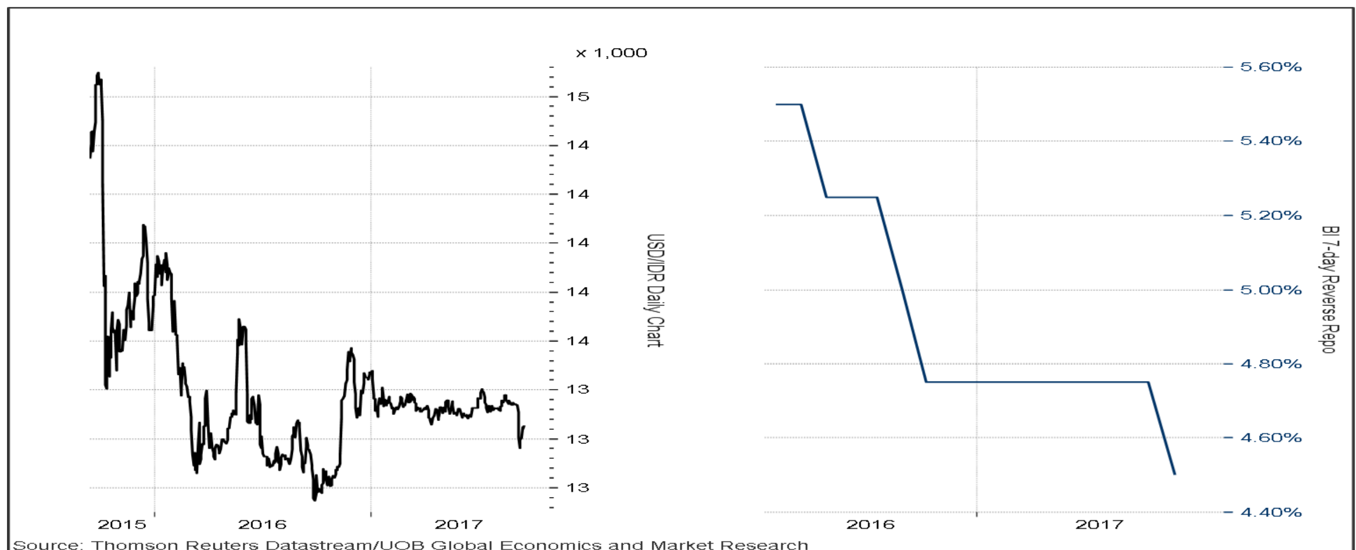
MALAYSIA



Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) has kept the Overnight Policy Rate (OPR) unchanged at 3.00% through seven consecutive meetings. Despite stronger growth expectations, BNM continues to signal a neutral tone on the direction of interest rates. Inflation has come off its peak in March and BNM underscored that demand-driven inflation pressures are contained. We think that BNM is unlikely to jump ahead to raise rates as downside risks prevail from political and policy developments in major economies and geopolitical risks. Noteworthy is that some of the stimulus effects from cuts in EPF contribution will expire end of this year. There are also ongoing structural changes in the labor market and the issue of skills mismatches. The unemployment rate has stabilised at 3.5% in July albeit higher compared to two years ago. As such we keep our view for status quo OPR until mid-2018. USD/MYR made further gains in September hitting a year-to-date low of 4.18, as foreign flows returned to the bond market. An undervalued Ringgit supported by positive fundamentals and higher Brent crude oil towards US$60/bbl underpins our view that the Ringgit is in a better place to strengthen assuming modest USD gains. We expect USD/MYR to trade at 4.15 by end-1Q18.

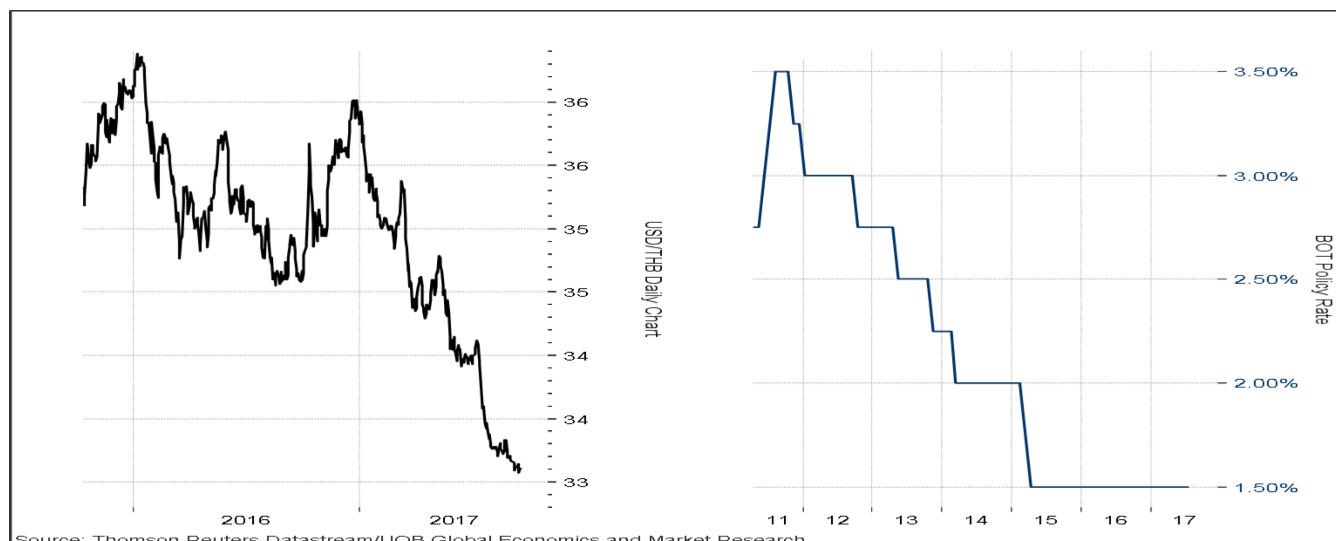
INDONESIA



Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

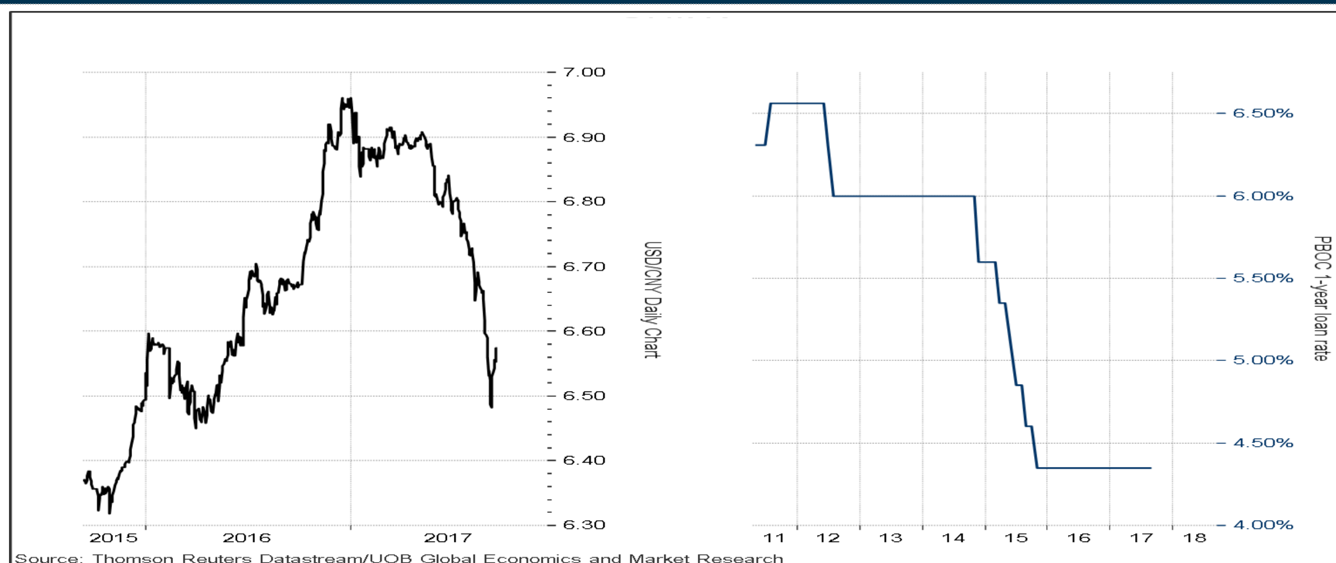
Bank Indonesia (BI) is one of the few central banks in Asia that had cut interest rate this year as its inflation eases. We see scope for at most one more 25 bps rate cut in Indonesia to bring the benchmark rate to 4.25% before year-end as central banks in developed economies such as the BOE, ECB and the US Fed unwind their loose monetary policies. IDR strengthened against the dollar following the August rate cut as market saw the move contributing to better growth outlook. Although growth had turned out below-expectation in the first half of the year, IDR found support from improvements in its external balances and more contained inflation. However, from here, we see more downside risk in IDR against the dollar as Fed tightens its monetary policy further, though having one of the highest real rates among the Asian countries will still provide a buffer. As such, we maintain our forecast of modestly higher USD/IDR. We expect USD/IDR to trade higher to 13,400 by end-4Q17 and 13,500 by 1Q-18.

THAILAND



Recent THB strength sprung from the reversal of the Trump Trade and on-going economic recovery in Thailand. However, as the Thai government continues to invest in the transport infrastructure projects and private investment recovers in the second half of 2017, Thailand's current account surplus will eventually shrink, reducing appreciation pressure on the THB. Looking ahead, we expect gradual weakness in the THB against the USD, from 33.1 now to 33.3 at end-4Q17. Moreover, we expect the BoT to keep the policy rate on hold at 1.50% through 2017 since accommodative monetary policy plays a crucial role in supporting domestic demand and sustaining inflationary pressures going forward.

CHINA



The current deleveraging process is likely to mean PBoC's "neutral and prudent" policy stance is less accommodative than would have been the case. Since the hikes in money market rates in 1Q17, costs of funding have stayed largely elevated with the 3-month SHIBOR rate hovering in the 4.2-4.6% range in 3Q17 months, compared to 3.3% early 2017. With no signs of easing, we maintain our view that PBoC is likely tilted towards raising its benchmark interest rates towards end 2017 or early 2018, after the 19th National Congress of the Communist Party of China in Oct this year. For the RMB the generally positive economic fundamentals, tight controls on capital outflows, the upcoming Communist Party of China's 19th National Congress (from 18 Oct) to elect leaders for the next 5 years, US' investigations on trade with China, US President Trump's visit to China in Nov, and US Treasury's semiannual FX report are among some of the main factors keeping the RMB exchange rate well supported. However, there is also a tendency for the Chinese to purchase foreign currencies, due to the need for foreign travel, education, emigration, and diversification of investment and this seasonal effect is more apparent towards the later part of the year could the keep the currency under some pressure. In view of the recent development, we are adjusting down our USD/CNY forecasts at end-2017 to 6.60 (prev: 6.82) and end-2Q18 at 6.67 (prev: 6.88).

FX, INTEREST RATE & COMMODITIES OUTLOOK

FX	22 Sep 17	4Q17F	1Q18F	2Q18F	3Q18F
USD/JPY	112	114	115	116	117
EUR/USD	1.20	1.20	1.22	1.23	1.24
GBP/USD	1.36	1.36	1.37	1.38	1.38
AUD/USD	0.80	0.81	0.82	0.83	0.85
NZD/USD	0.73	0.74	0.75	0.77	0.77
USD/CNY	6.59	6.60	6.63	6.68	6.70
USD/HKD	7.81	7.80	7.80	7.80	7.80
USD/TWD	30.2	30.3	30.5	30.7	30.9
USD/KRW	1,137	1,150	1,160	1,170	1,170
USD/PHP	50.7	51.5	51.8	52.0	52.0
USD/MYR	4.20	4.20	4.15	4.10	4.05
USD/IDR	13,313	13,400	13,500	13,600	13,700
USD/THB	33.1	33.3	33.5	33.7	33.9
USD/MMK	1,352	1,380	1,385	1,385	1,390
USD/VND	22,734	22,850	22,950	23,050	23,150
USD/INR	64.8	64.8	65.5	66.0	66.5
USD/SGD	1.35	1.38	1.39	1.40	1.40
EUR/SGD	1.62	1.66	1.70	1.72	1.74
GBP/SGD	1.83	1.88	1.90	1.93	1.93
AUD/SGD	1.07	1.12	1.14	1.16	1.19
SGD/MYR	3.12	3.04	2.99	2.93	2.89
SGD/CNY	4.89	4.78	4.77	4.77	4.79

RATES	22 Sep 17	4Q17F	1Q18F	2Q18F	3Q18F
US Fed Funds Rate	1.25	1.50	1.75	2.00	2.00
JPY Policy Rate	-0.10	-0.10	-0.10	-0.20	-0.20
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.25	0.50	0.50	0.50	0.50
AUD Official Cash Rate	1.50	1.50	1.50	1.50	1.50
NZD Official Cash Rate	1.75	1.75	1.75	1.75	2.00
CNY 1Y Benchmark Lending	4.35	4.35	4.60	4.85	4.85
HKD Base Rate	1.50	1.75	2.00	2.25	2.25
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.25	1.25	1.25	1.50	1.50
PHP O/N Reverse Repo	3.00	3.00	3.00	3.25	3.25
SGD 3M SIBOR	1.12	1.40	1.50	1.70	1.70
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	4.50	4.25	4.25	4.25	4.25
THB 1D Repo	1.50	1.50	1.50	1.50	1.75
VND Refinancing Rate	6.25	6.25	6.25	6.25	6.25
INR Repo Rate	6.00	5.75	5.75	5.75	6.00

COMMODITIES	22 Sep 17	4Q17F	1Q18F	2Q18F	3Q18F
Gold (USD/oz)	1,297	1,300 - 1,350	1,300 - 1,350	1,300 - 1,350	1,300 - 1,350
Brent Crude Oil (USD/bbl)	57	56	57	58	60
LME Copper (USD/mt)	6,480	6,500	6,600	6,700	6,800

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