UOB HOUSE VIEW

1Q2019

GLOBAL MACRO

Global growth is likely to slow in 2019 and there is plenty of good reasons for that; from moderating trade flows, to continued slowdown in manufacturing activity to re-emerging global trade tensions. But to be clear, slower growth does not equate to a recession year in 2019. We still expect 3 Fed rate hikes in 2019 but a shift from “gradual rate trajectory” to more emphasis on data dependency will make the policy path more uncertain. The risk could be from 3 hikes, to just 2 but not zero.

ASSET ALLOCATION

Volatility increased sharply in 4Q18 and is likely to remain elevated in the 1st quarter of 2019. While we continue to highlight that global fundamentals remain healthy, the risk issues plaguing markets have increased. Overall, our tactical recommendation for any client’s risk tolerance would be to stay within the **Neutral weightings for Equities, Neutral fixed income and Neutral commodities**. We recommend staying balanced, cautious and nimble, amidst significant room for relief rallies.

EQUITIES

We maintain a neutral stance on US and European equities but keep our positive view on Japanese equities. The risk factors that had plagued emerging markets in 2018 remain. These include the U.S.-China trade tensions, the rising interest rate environment, and the slowdown in Chinese GDP. However, these had largely been priced in and EM valuations are looking very attractive.

FIXED INCOME

The fixed income outlook should improve in 2019. Pace of hikes may slow in 2019 and we think the current wide spreads in credit imply the valuations of corporate bonds are quite attractive. We think it is safe to seek out the higher yields of investment grade credit and that they should outperform government bonds. We are overweight investment grade credits over high yield due to uncertainties in the environment.

COMMODITIES

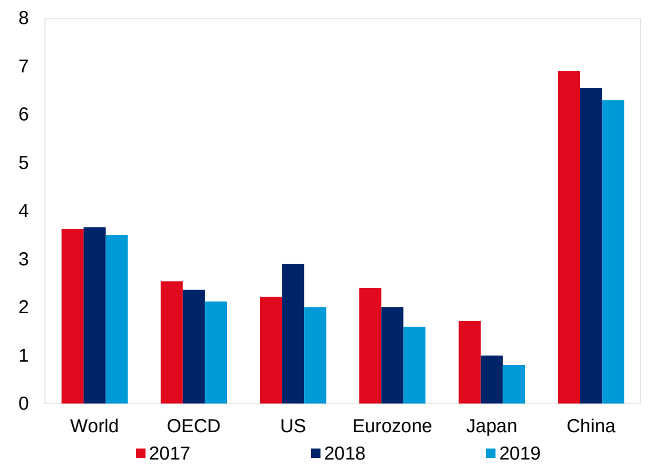
2018 has been a very challenging year for the entire commodities space. Gold was weighed down by rising interest rates while copper was burdened by easing global growth and the US-China trade conflict. US and global crude oil suffered an intense bout of sell-off, as prices plunged by more than 1/3 across 4Q. Given lingering oversupply issues, Brent crude oil is likely to be depressed and volatile at its current USD 55 / bbl to USD 65 / bbl trading range

FX & INTEREST RATES

The outlook for US Dollar for 2019 is clearly less strong than 2018. Various drivers are now in place to chip away at the US Dollar’s strength. The CNY is still seen weakening past 7.0 to the USD to 7.10 by 3Q19. But the EUR may well recover to 1.20 against USD. Risks have increased for an even gradual tightening path from the FED but we think it is premature to call a pause. We expect 3M US Libor to head above 3% in 2Q19 while both 3M Sibor, 3M SOR to be above 2% in 1Q19, to 2.5% by 4Q19.

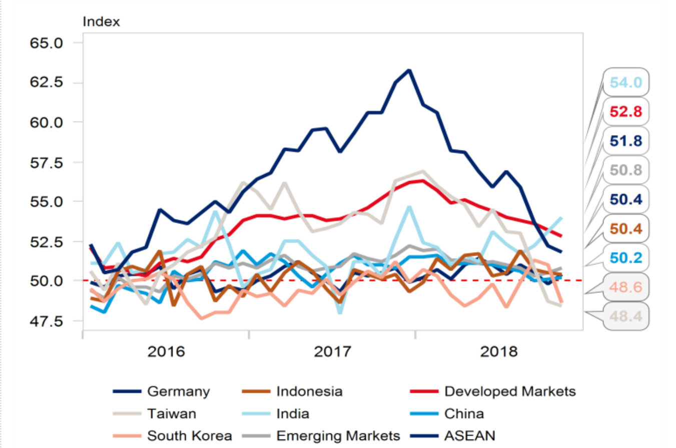
GLOBAL MACRO

Synchronized Slowdown In 2019



Source: OECD, UOB Global Economics & Markets Research

Emerging Markets Markit Manufacturing PMI, SA



Source: Macrobond, UOB Global Economics & Markets Research

Synchronized Slowdown, But Far From Recession In 2019

Global growth in 2018 turned out to be better than expected, and this was despite the simmering trade tensions between US and China. Heading into the New Year, we expect global growth pace to slow in 2019 and there is plenty of good reasons for that: moderating trade flows, continued slowdown in manufacturing activity as reflected by the PMIs and global electronic cycle downturn, and global trade tensions can flare up again which may hurt manufacturers both in terms of a slowdown in export orders and weaker business sentiments. China's GDP growth is expected to ease further to 6.3% in 2019, the slowest pace since 1990, and that will weigh on activities in the rest of Asia while European growth is also likely to ease to 1.6%. Japan's outlook in 2019 could be particularly challenging, likely to be dampened to sub-1% given the headwinds of trade issues (i.e. potential auto tariffs) and a looming sales tax hike in Oct.

2018 has been a robust year for US, and the economy is still on track to expand in 2019 and bag a new record for uninterrupted expansion. Underpinning US growth will be the sustained job creation and wage gains but the pace is likely to ease from around 3% in 2018 to 2% in 2019 due to fading effects of fiscal stimulus, softer business spending while US housing market may be another source of weakness.

But to be clear, slower growth does not equate to a recession year. Recent concerns about the US growth outlook was sparked by the first UST yield curve inversion (on 3 Dec) since 2007 as the yield spread by the 5- and 2-year UST turned negative. Meanwhile, the spread between the 10- and 2-year UST – traditionally seen as a good predictor of recession 4 to 6 quarters ahead– has been narrowing (to about 10-11 bps as of 6 Dec) but it is still positive. While it is not inconceivable that the 10s-2s spread may turn negative at some point in 2019, putting a forecast timeframe of 4 to 6 quarters, that implies a recession in 2020/21, not 2019. Like all good things, we believe that US growth will come to an end at some point (i.e. business cycle), but that end is not in 2019, in our view.

As such, the US Federal Reserve is almost certain to hike once more in Dec to end 2018 with 4 hikes. We expect the Fed rate trajectory to remain at three more 25bps hikes in 2019 on the back of continued positive growth outlook and US wages. But Fed's likely shift from the well communicated "gradual rate trajectory" to more emphasis on data dependency, will make the policy path more uncertain. If there is a significant weakening of US economic data or re-escalation of trade tensions, then that could warrant a more cautious Fed and the risk could be lesser hikes, from 3 to probably just 2, but certainly not zero.

Meanwhile, across the Atlantic, the European Central Bank is finally on the path of normalization, firstly with the end of QE in Dec 2018 followed by the long-awaited rate hike which we project in 4Q 2019. Bank of Japan is still the least likely to normalize its easy monetary policy anytime soon, especially with its challenges in growth and downside price pressures in 2019. Among Asian central banks, some (like BI and BSP) will follow the Fed but the majority may stay on pause, as growth retreats and inflation ebbs while trade uncertainty still looms. China may cut RRR once by early 2019.

ASEAN Winners In Trade Dispute

We believe the US-China trade negotiation is likely to be a long-drawn process well into 2019 (extend beyond the 90-day ceasefire), and there is significant risk that both parties would fail to overcome their differences, leading to re-escalation in trade tensions. Overall, the trade dispute is bad for export-oriented Asian economies and we have downgraded their growth outlook in 2019.

But even before the US-China trade relations took a turn for the worse, foreign and Chinese companies alike were already looking to the ASEAN countries for investment opportunities due to factors like lower wage and production costs, tax incentives and better access to the regional markets. In our ASEAN focus piece, we noted that further worsening in US-China trade relations may accelerate investment flows to the region and the manufacturing sector in ASEAN could be the biggest beneficiary. Initial signs of investment pickup in Thailand, Taiwan and Vietnam for 3Q 2018 could be a prelude to a shift in supply chains. As part of the CPTPP which will come into effect end-2018, ASEAN countries including Malaysia, Vietnam.

ASSET ALLOCATION

Cautious but not bearish
Volatility increased sharply in 4Q18 and is likely to remain elevated relative to the year before in the 1st quarter of 2019. While we continue to highlight that global fundamentals such as global GDP growth and global earnings remain healthy, the number of risk issues plaguing markets has increased. These risks include the US/China trade conflict, an overly aggressive US FED, tight USD liquidity, China growth, Brexit and the aging cycle. While our base case view on all the issues is not very negative, the fact that there are so many risks increases the chances that something goes wrong with one of the risk issues. We believe caution in risk taking is warranted but we do not recommend outright risk-off positioning. While the macro environment is volatile, we remind investors that global macro fundamentals are quite solid and equity valuations and credit spreads have turned attractive after a weak year. We recommend staying neutral between the major asset classes. As the US FED is likely getting closer to its peak of interest rate hikes, both fixed income and equities have room for positive returns. We continue to recommend investors to stay diversified, average into markets and be vigilant to monitor the potential for risks which may escalate further.

Global expansion remains positive but is aging. The global expansion is entering its 11th year and is becoming one of the longest expansions ever. Most indicators still point to another year of above trend global growth in 2019. But we are concerned that the risks of a new recession may start to rise in 2020. US stimulus winds down by 2020, US rates would have been elevated for a few years by then and the yield curve would have gone a significant time being inverted. While the US yield curve inverted before all the global recession in the post war era, the timing of the onset of the recession has varied significantly and in some cases has taken 3 years before the recession started. Additionally, risk assets such as equities have performed well in the last years of a cycle. In the cycle that ended in 2007, global equities gained 40% in the last two years of the cycle (and after the yield curve had inverted), and in the cycle that ended in 2000 equities gained 35% in the last 2 years of the cycle. Thus, we need to advise caution in a maturing cycle but are also cognizant that risk assets can perform in the final years of an expansion.

Global risks are rising but there is significant room for relief rallies. US Trade policies and the US Fed policy are among the top risks we are concerned about at the end of 2018. The most significant headwind to investment performance in 2018 was the steady tightening of US monetary policy by the US FED. While 4 rate hikes in a year (we are assuming a Dec rate hike) is not aggressive by historical standards, the combination of quantitative tightening, a strong USD environment, rising oil prices through the year and low loan growth across the developed market all add up to a fairly aggressive environment of monetary tightening. The evidence is growing that the monetary tightening is affecting global markets and the US interest sensitive economic sectors such as housing, autos and capex. While we still expect more rate hikes in 2019, we think the case is growing for the US FED to be less aggressive in 2019 on some level of their tightening. If there is any easing of their tightening path, both credit and equity markets should respond positively. The next key risk continues to revolve around trade. There is increasing evidence the Trump administration is worried about signs of growth and market weakness and may accept trade deals in order to give relief to global economies, but the recent arrest of Huawei's CFO could undermine any progress. We assume that a major escalation will be avoided but the process will remain long and drawn out. Additionally, the risks of European politics are likely to become more troublesome in Italy and with Brexit.

We are cautious but not bearish. At the start of 2019 the outlook for most asset classes is mixed. For fixed income markets the potential for US Fed moderation could help return fixed income markets to positive returns in 2019. Bond portfolios average yield has risen significantly in 2019 due to the rate hikes and spread widening. If the pace of rate increase slows in 2019, fixed income could perform much better. Equity market valuations have turned attractive and are oversold in most markets. Global growth and earnings remain fundamentally supportive, but risk taking is likely to remain subdued until key global risk issues are mitigated. Commodities frequently outperform in late cycle stages, but mixed signals in oil trends and moderating China demand for base metals make the commodity outlook mixed as well. Overall, **our tactical recommendation for any client's risk tolerance would be to stay within the Neutral weightings for Equities, Neutral fixed income and Neutral commodities.** We recommend staying balanced, cautious and constantly monitoring the outlook for 2019 that has the potential to turn both positive and negative.

EQUITIES

Memories of the Oct/Nov 2018 market sell-down are still fresh in the minds of many investors as we bravely cross into the New Year. The most astute investors among us who were smiling on the investment gains from 2017 have been left with battle scars in 2018, and are hoping that life will not treat them so badly in 2019.

2018 was another good year of growth for many economies and corporates. However, the growth will slow down in 2019, but we are not expecting an outright recession. In the later part of the business cycle, volatility will usually increase as the market gets jittery in its anticipation to the end of the cycle. That said, pockets of opportunities still can be found and rotation of sectors within equities will be an important strategy.

We maintain a neutral stance on US equities. With the sell-down in late-2018, 12MF P/E in the US is below 1 standard deviation (s.d.). versus the 5-year average and in line with the 20-year average, and supported by 2-year EPS CAGR of 10%. EPS momentum looks to have peaked, but remains broadly stable for now with only mild downgrades. That said, on a relative valuation basis, MSCI US is trading at elevated levels versus MSCI AC World. The strong outperformance of MSCI USA versus MSCI AC World turned firmly negative in November, and we see scope for the US to continue to see muted relative performance as the market watches for the peak of the USD and a rolling over of the economic cycle. Cyclicals have driven much of the rally in US equities in 2018, but the trend looks to have firmly reversed in October. We see scope for continued rotation out from cyclicals into defensives as the market continues to price in the maturing of the economic cycle. Expectations of an eventual pause in the pace of Fed rate hikes could set the stage for renewed focus on yield stocks, which the maturing economic cycle should see companies with resilient and stable earnings be supported by a flight to quality. We recommend investors focus on stocks with defensive qualities and principle-protected structures to protect the downside.

We maintain a neutral stance on European equities. The lower-than-expected economic numbers from the Eurozone (particularly, Germany) has been weighing down equities. Corporate profits are squeezed due to rising labour costs, as well as slower exports growth. As such, companies that are too exposed to external sales (particularly to China and the U.S.) could suffer from more trade-related headwinds. Not all are lost. We like defensive sectors such as utilities and energy companies due to healthy balance sheets and strong cash flows.

We maintain a positive view on Japanese equities. Slowing economic growth evident in the latest quarter as well as potential headwinds from trade tensions between U.S. and China and the upcoming sales tax hikes in October 2019 may dip sentiments into the negative zone. Because of this and the benign inflationary conditions, the BOJ will not likely normalize monetary policy and will continue to be accommodative. This will be supportive of Japanese equities. Moreover, the current cheap valuations and evidence of Abenomics attracting fresh funds flows from domestic and foreign investors will see Japanese equities enjoying a substantial re-rating in 2019.

Emerging Market equities look a whole lot more attractive. The risk factors that had plagued emerging markets in 2018 remain. These include the U.S.-China trade tensions, the rising interest rate environment, and the slowdown in Chinese GDP. However, these had largely been priced in and valuations are looking very attractive. In fact, the MSCI MSCI EM Value Index has underperformed its growth counterpart by 22%. The index's PB ratio of 1x represents a 59% discount to the growth counterpart, even lower than the 10-year average of 49%. So, value stocks could be well-placed to perform.

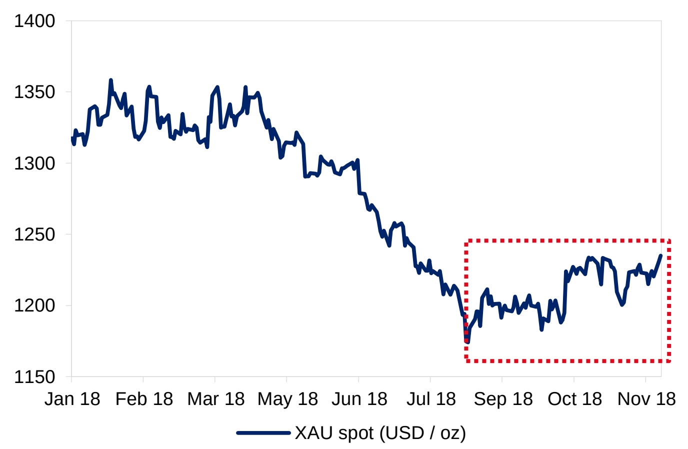
Moreover, with a potentially more dovish sounding Fed, further upside to the USD looks more limited in 2019. This could bode well for emerging economies. We maintain our positive view on China. In 2018, although earnings gained 11%, prices fell sharply and the MSCI China index is now trading below its long-term PE of 12x. Any positive turn in sentiments will see equity prices bouncing back up strongly.

COMMODITIES

Crude Oil Takes Over The Volatility Baton From Copper And Gold

Gold: Building a base above USD 1,200 / oz. 2019 has been a very challenging year for the entire commodities space. Across 2018, gold has felt the weight of ever rising interest rates. Amidst this sell-off, net long position in gold has been completely unwound, something not seen since about two decades ago. However, with the FED likely to reach the tail end of its tightening cycle across 2019, we see gradual support emerging for gold. In addition, given renewed support from the abovementioned oversold position, we now upgrade our gold outlook from negative to neutral and see gold consolidating from USD 1,200 / oz to USD 1,300 / oz across 2019.

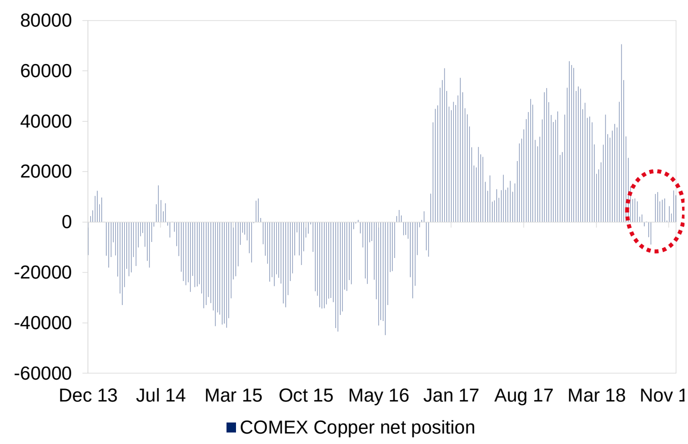
In Recent Weeks, Gold Has Been Consolidating Around USD 1,200 / oz



Source: Bloomberg, UOB Global Economics & Markets Research

Copper: Holding firm above USD 6,000 / MT amidst on-going global trade tensions. Copper also had a challenging year as global growth moderated and trade weighed down by US-China trade conflict. Similarly, net long positioning in Copper was mostly liquidated and global inventory in Copper across LME, COMEX and SHFE has also halved since peaking in April. As such, 3M LME Copper will likely be capped within the USD 6,000 / mt to USD 7,000 / mt trading range across 2019. While strength will be capped by on-going global trade tensions, weakness will be tempered by oversold positioning and inventories.

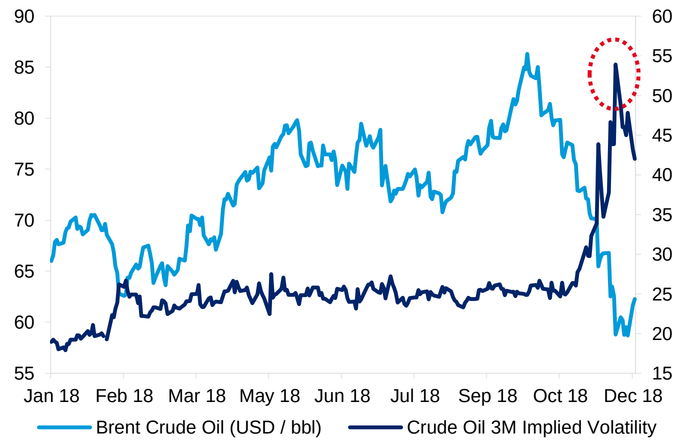
Net Long Copper Positioning Mostly Liquidated Due To Global Trade Concerns



Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude: Volatility to stay elevated amidst renewed oversupply concern. Brent crude oil suffered an intense bout of sell-off across 4Q, plunging by more than 1/3 each across the quarter. Further jump in crude oil supply from US, Russia and Saudi Arabia, coupled with the surprised "leniency" from the Trump administration to grant temporary waivers for the import of Iranian crude oil triggered the sell-off. As such, crude oil's 3M implied volatility jumped to as high as 50%, shooting way above copper's implied volatility at around 20% and gold's implied volatility at around 10%. Overall, given lingering oversupply issues, Brent crude oil is likely to be depressed and volatile at its current USD 55 / bbl to USD 65 / bbl trading range. Most recently, OPEC has agreed to 1.2 million bpd production cut with Russia and other producers. But market participants remained worried that this production cut is not large enough to offset rising global supply.

Brent Crude Oil Implied Volatility Spiked As Price Collapse By More Than 1/3 In Barely 6 Weeks



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

In 2018, most fixed income benchmarks have struggled to deliver positive returns as global rates rose and credit spreads widened. Geographically, fixed income markets have been challenged. Developed markets, emerging markets and Asian markets have all struggled in the rising rate environment. Global government bonds performed poorly but corporate credits did worse. Both investment grade and high yield have struggled. While shortening duration helped somewhat, it was only the very short 1 year to cash like fixed income funds that stayed positive in 2018.

The fixed income outlook should improve in 2019. We expect FED hikes to slow in 2019 and we think the current wide spreads in credit imply the valuations of corporate bonds are quite attractive. Fixed income yields have already risen significantly in 2018 and if the Fed starts to slow policy in 2019 the chances of negative returns in 2019 should be much less likely. Rising rates can still be a headwind, but not to the level seen in 2018.

Our cycle views still support credit over government bonds. We think the chances of a recession in 2019 are low but the risks start to rise in 2020. In the past 5 economic cycles, credit spreads remained tight until the last 6-12 months before the end of the cycle and until it became clearer that the growth cycle was turning down. While we think the risks of a recession rises in 2020 we still don't have many indicators that are pointing to a recession yet and we would argue that it is too early for credit markets to discount and deterioration of corporate health. Current trends point to healthy global corporate conditions with strong cash flows and earnings growth. The credit spread widening in 2018 makes valuations unusually attractive for this stage in the cycle. We thus think it is safe to seek out the higher yields of investment grade credit and that they should outperform government bonds.

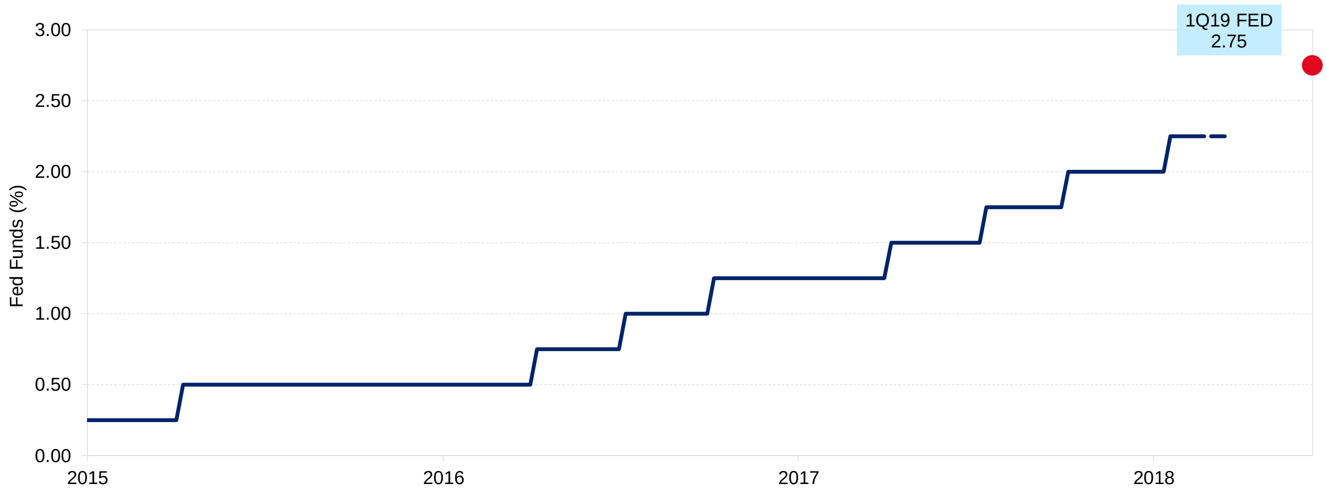
Neutralizing duration. In 2018, longer maturities tended to suffer in the period of rising yields. While the UST 10 year yield increased form a yield of 2.4% at the start of the year to range around 3% by early December, the short term yields also shifted significantly as the UST 2 year yield increased from under 1.8% to 2.8%. Thus, the shorter durations have less interest rate sensitivity but also suffered a greater increase in overall yields. As we enter 2019, most yields have increased significantly, and the yield curve has flattened. As we expect 2019 to be less aggressive in terms of monetary tightening, we would expect the need to be short duration will decline. Thus, we modify our duration advice from being very short to more neutral in duration.

We favor hard currency credits and remain neutral on emerging markets relative to developed markets. Global currencies have remained weak vs the USD and in light of the volatility we would prefer USD credits over local currency bonds. While we continue to seek a yield pickup in Asia and EM credits, we are cautious to not overweight aggressively due to the rising volatility. We overweight investment grade credits over high yield due to the uncertainties in the environment.

FX & INTEREST RATES

UNITED STATES

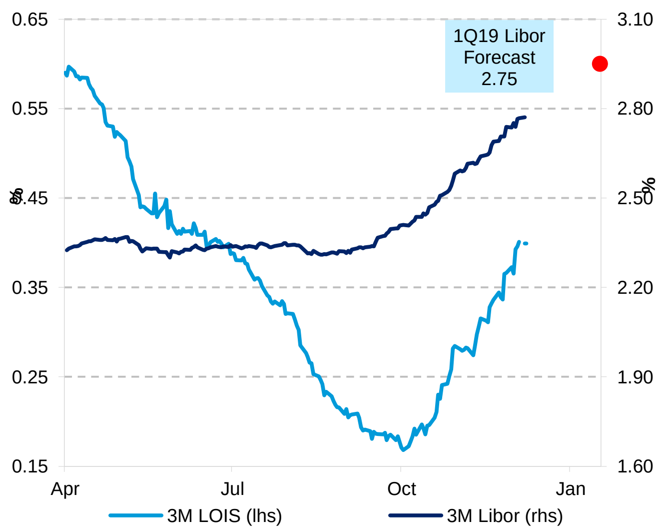
FED Funds Rate



We still expect another rate hike from the Fed at the 18/19 Dec 2018 FOMC to bring the FFTR range to 2.25%-2.50% by end-2018. We also maintain our 2019 rate hike expectation at three 25bps hikes which now implies that we expect the Fed to exceed their long run FFTR at 3.0% by mid-2019. That said, Fed's likely shift from the well communicated "gradual rate trajectory" to more emphasis on data dependency, will make the policy path more uncertain. If there is a significant weakening of US economic data or a significant escalation of trade tensions in 2019, then that could warrant a more cautious Fed and the risk could be lesser hikes, from 3 to probably just 2, but not zero.

In the meantime, the Fed's balance sheet reduction (BSR) program will continue as scheduled and that implies the FOMC will not add more rate hikes (beyond what is implied in the dot-plot chart) unless we get a sharp inflation surprise.

3M US Libors



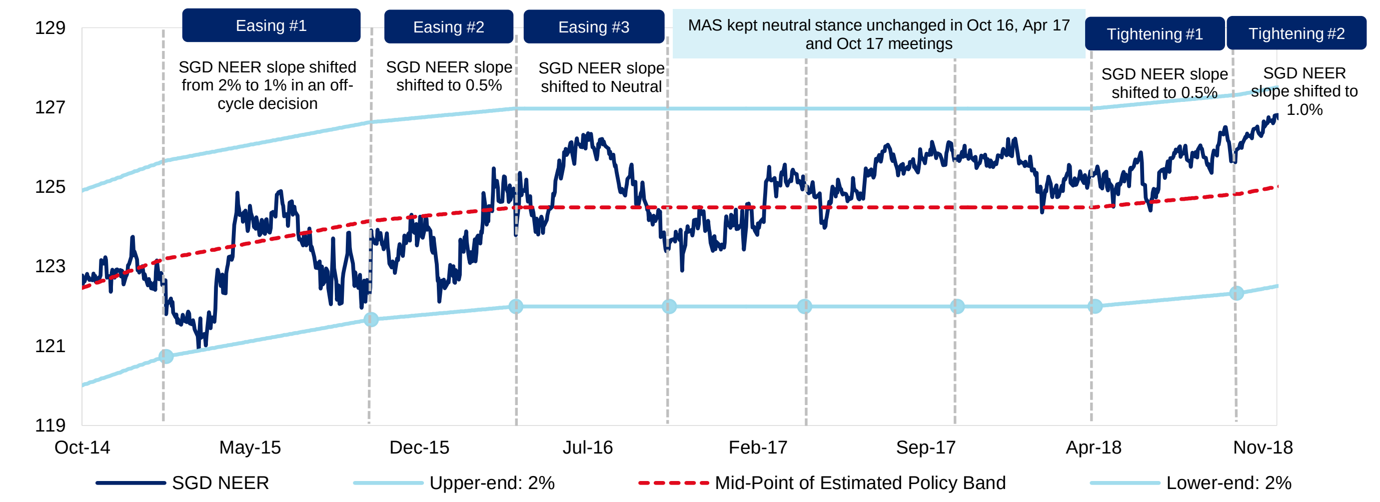
- We expect to see 3M Libor at around 2.95% at the end of 1Q2019.
- Libor vs. OIS spread is expected to remain wider than normal due to tighter liquidity.
- An upward trajectory in Libor is justified by further US monetary policy tightening in 2019 via rate hikes as well as balance sheet reduction.

10Y US Treasuries

- We expect to see 10Y UST at 3.25% by the end of 1Q2019.
- Flat yield curve is consistent with FED cycle. Curve inversion scenario remains a possibility.
- Deficit and FED balance sheet outlook weighs negatively on UST (i.e. higher yield).

SINGAPORE

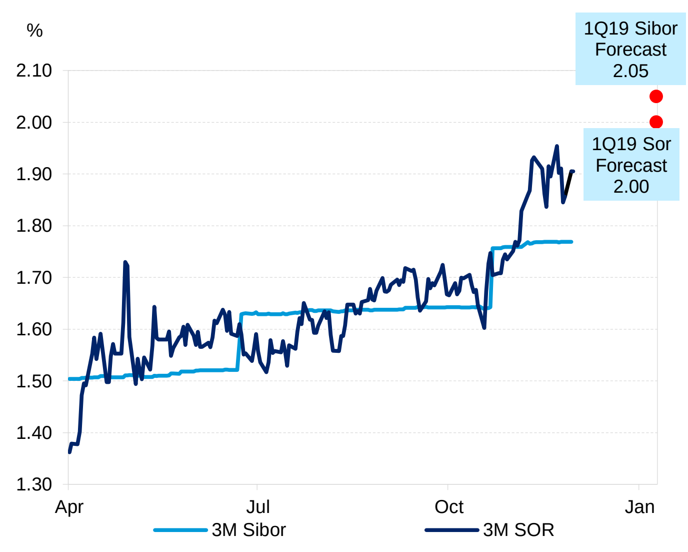
SGD NEER



Following the "measured adjustment" increase in Oct 2018 MPS and barring "a significant setback in global growth", we believe the MAS could further tighten the current stance at their April 2019 meeting (via another slight increase in the policy slope), due to the growth staying above potential (even as it is projected to moderate in 2019) while average core inflation is likely to creep higher to 1.5-2.5% in 2019.The latest GDP growth projection and MAS inflation outlook do not change our view of further tightening in 2019. The biggest uncertainty for this view is still resting on how US-China trade tensions will evolve in the months leading up to April 2019.

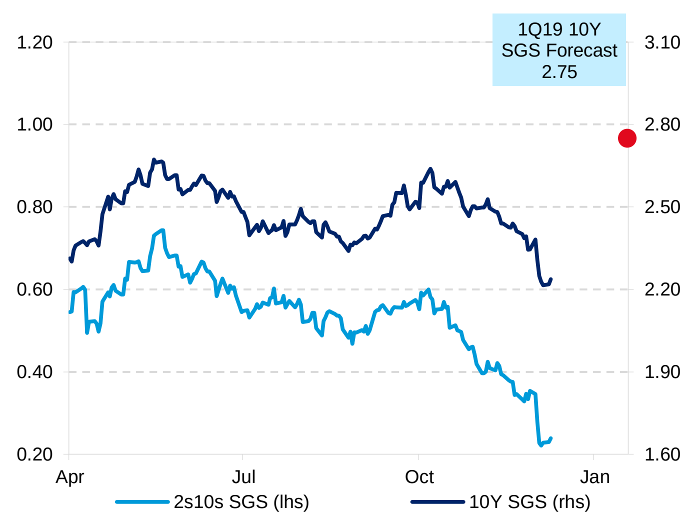
Indeed, a protracted stand-off between Washington and Beijing on trade is a clear negative driver for the SGD. Also, with the CNY poised to weaken past 7.00 against the USD in 2019, SGD is likely to be followed with a move beyond 1.40/USD, weakest levels since May 2017. Perhaps the dominant factor limiting excessive SGD weakness is the possible increase in policy slope by the MAS in its next biannual meeting in April 2019. Overall, we maintain our view of a gradual rise in the USD/SGD to test above the key 1.40 resistance. Our forecasts for USD/SGD are 1.39 in 1Q19, 1.40 in 2Q19 and 1.41 in 3Q and 4Q19.

3M SOR and Sibor



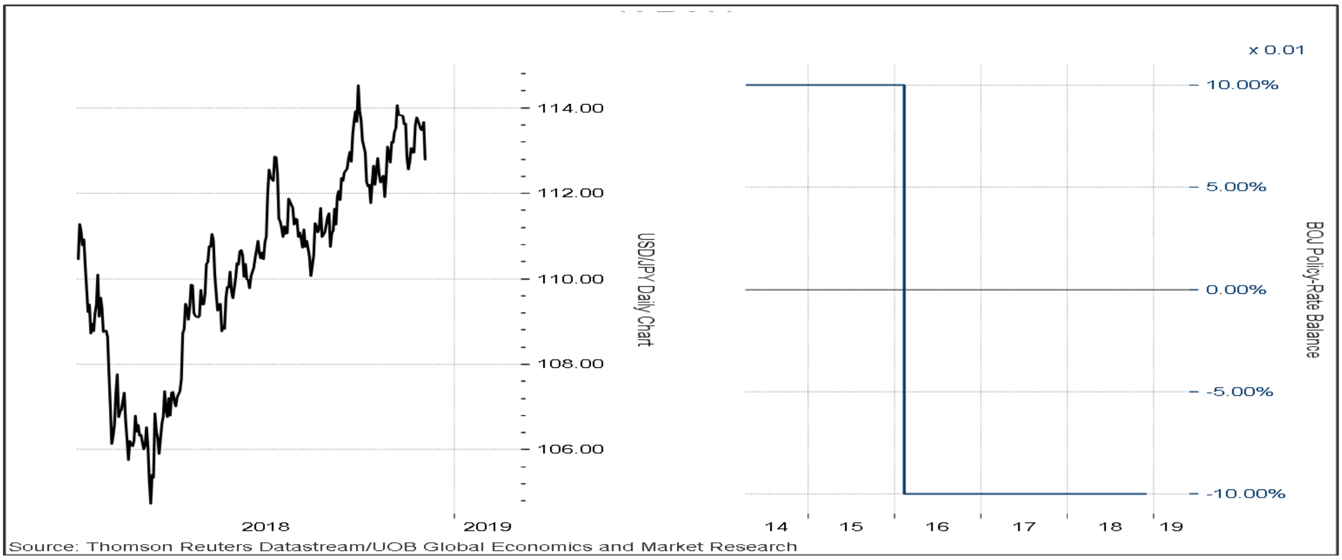
- We expect to see 3M SOR and SIBOR at 2.00% and 2.05% by the end of 1Q2019 respectively.
- Persistently strong SG NEER suggests market is entertaining possibility of MAS tightening in April 2019.
- Domestic liquidity could come under pressure over the turn of the year.

10Y SG Bonds



- We expect to see 10Y SGS at 2.75% by the end of 1Q2019.
- SGS supply calendar has two 5Y and one 30Y auction on tap for 1Q 2019. Focus will be on 30Y issue which will be supportive of longer maturity yields.
- Expect stable SGS yield discount to UST in the absence of domestic credit stress or safe haven scenarios.

JAPAN

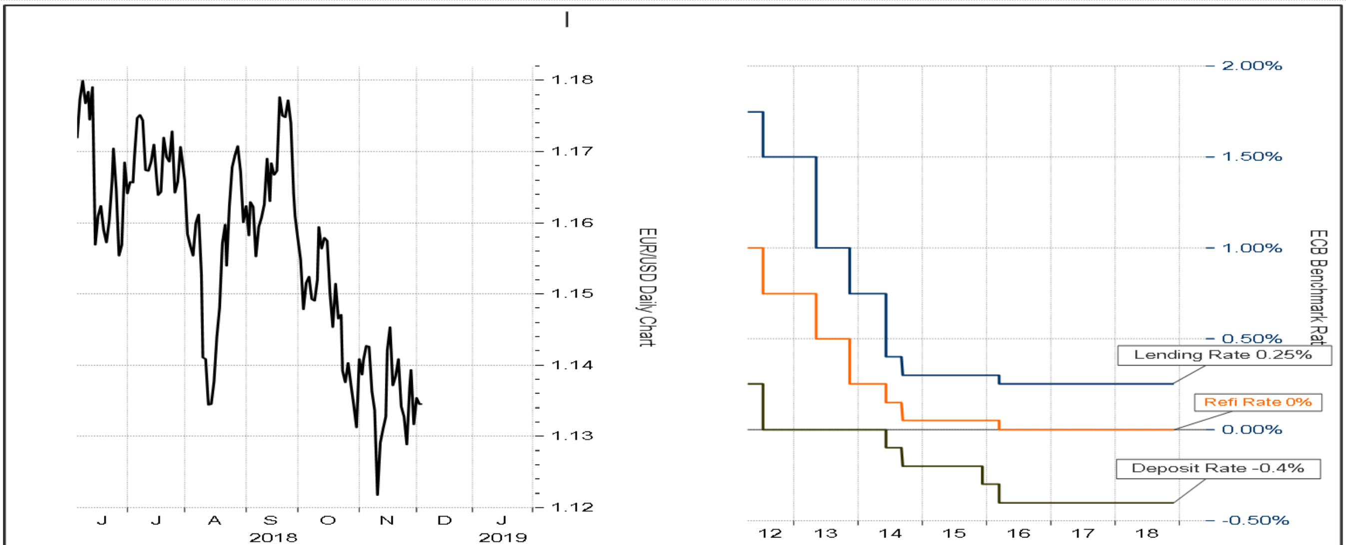


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

Among the G10 central banks, BOJ continues to be the least likely to normalize its easy monetary policy anytime soon, and it remains premature for the BOJ to talk about normalizing/tapering its easing program too, because Japan is still some distance away from its 2% inflation target. The projected weaker growth environment and likelihood of downside price pressures in 2019 adds further challenges to BOJ's monetary policy next year. We think that the BOJ may still need to do more "tweaks" to monetary policy to reassert its easy monetary policy position, just like what it did in the July 2018 MPM. This may happen again, possibly in early 2019 although we cannot rule out that the "tweaks" may be brought forward to the last meeting of 2018 on 19/20 Dec.

With the BOJ likely to stick to its dovish tone in 2019 due to dimming growth, trade-related uncertainties and inflation still far from its 2% target, we maintain the view that the path of least resistance is for gradual weakness of the JPY. As such, we reiterate our USD/JPY point forecasts at 113 in 1Q19, 114 in 2Q19 and 115 in 3Q and 4Q19. Key risk to our view is a deeper rout in equities which would eventually trigger safe haven funds back into the JPY.

EUROZONE

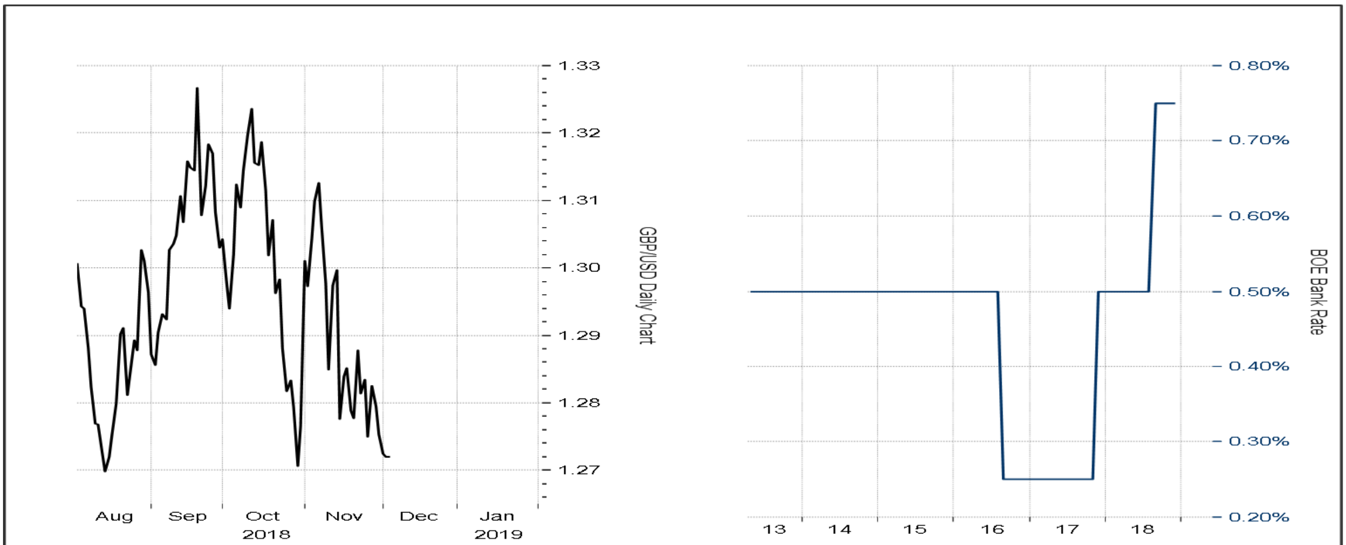


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

For the ECB, we still expect net asset purchases to end in December 2018. As for policy rates, we are not anticipating any rate increases until much later in 2019 – which will lift the deposit rate to 0% (from -0.4% currently) and the refi rate to 0.25% (from 0% currently) by the end of 2019.

Overall, with easing headwinds against the EUR and the gradual pricing of monetary tightening in Europe, a sustained recovery in EUR is our conviction view within G10 currencies. Overall, we see EUR/USD bottoming and rising gradually across next year from 1.15 in 1Q19 to 1.20 in 4Q19.

UNITED KINGDOM

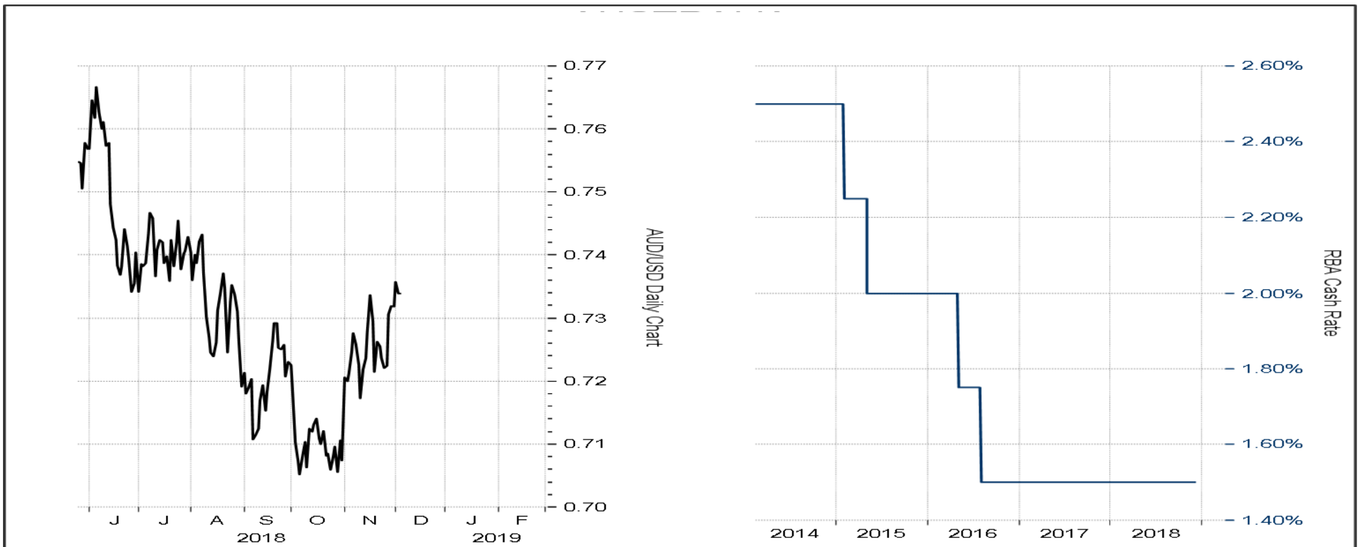


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

The BoE kept rates at 0.75% again when it met in early November. The quarterly Inflation Report, which accompanied the rate decision, stated: “The economic outlook will depend significantly on the nature of EU withdrawal, in particular the form of new trading arrangements, the smoothness of the transition to them and the responses of households, businesses and financial markets”. We see the BoE sitting on the sidelines for now as it waits for greater clarity given the wide and complicated range of Brexit outcomes. We have penciled in a rate rise around mid- 2019, but nonetheless, remain very mindful that rates could go in either direction.

As Brexit Day looms, implied volatility in the GBP/USD options has risen to the highest levels since July 2016, reflecting the overhang of uncertainties heading into the crucial vote (TBC), and this is likely to persist. Positioning in both spot and options have also gradually deteriorated against the GBP in the recent few months. We are maintaining our negative view on GBP/USD, forecasting the pair at 1.25 across 1Q and 2Q19 before a slight recovery to 1.26 at 3Q19 and 1.27 at 4Q19.

AUSTRALIA

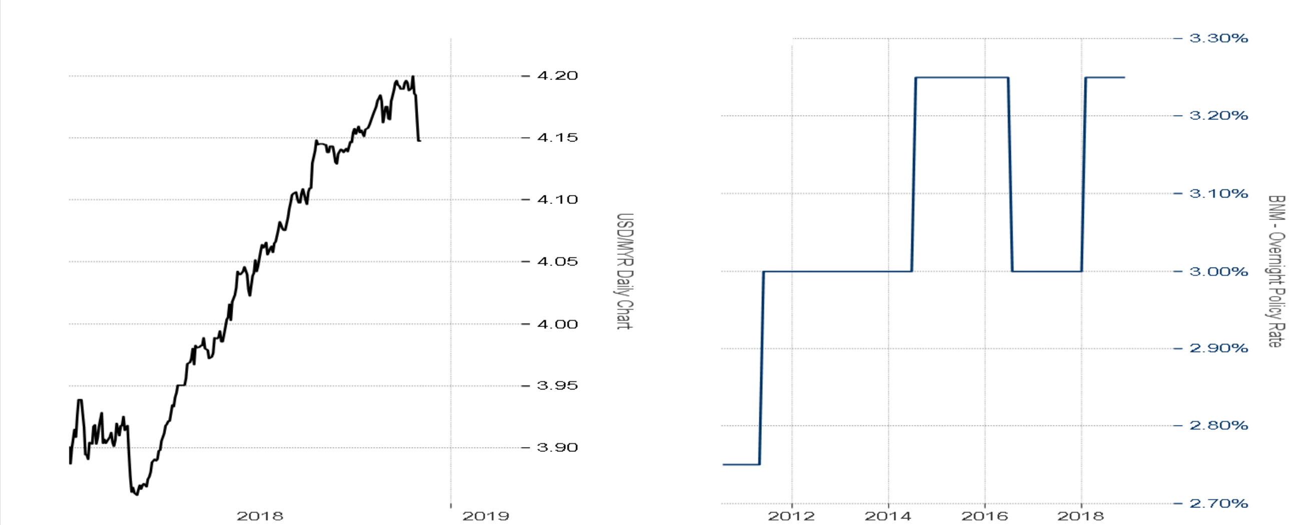


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

The latest GDP print is certainly a big miss relative to RBA expectations. Whilst the bigger picture of a gradually tightening labour market and a slow lift in wages growth remains intact, we see no change in policy until at least end-2019.

Although the macro backdrop both domestic and external remains challenging, it appears that the bulk of the AUD weakness may be behind us. The negative positioning (as per CFTC) against the AUD is already showing signs of reversing from the most extreme levels in over 3 years, setting the stage for a more sustainable recovery in AUD. Going forward, we expect AUD to draw support across 2019 from improved pricing for an eventual rate hike by RBA. Our updated forecasts for AUD/USD are 0.74 in 1Q19, 0.75 in 2Q19, 0.76 in 3Q19 and 0.77 in 4Q19.

MALAYSIA

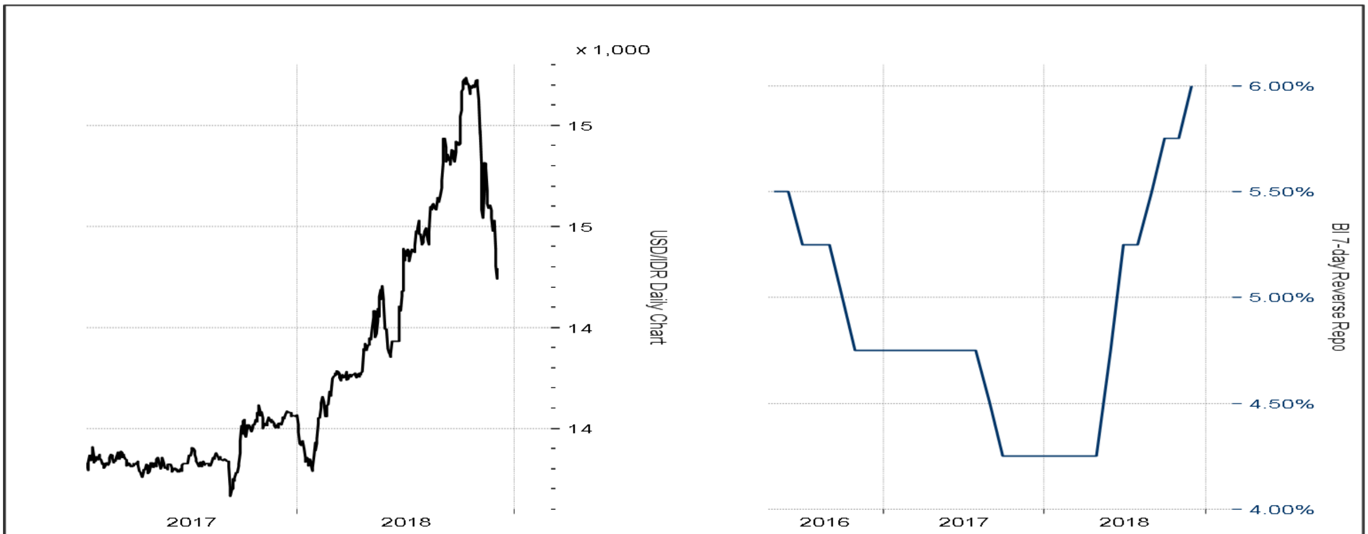


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) steady at 3.25% and statutory reserve requirement ratio (SRR) at 3.50% at its final monetary policy meeting this year. The policy rate has been kept on hold since a hike in January. Since then, both growth and inflation has moderated while MYR weakness persists. The floating of domestic fuel prices (which could be implemented by 2H 2019) and the consumption tax policy is expected to lift next year's inflation albeit at a manageable level. Although growth risks are tilted to the downside, we think BNM is unlikely to reset the path of policy rates for now. Key to watch is BNM's tone at the next monetary policy meeting (on 24 Jan 2019) and 4Q 2018 GDP (release on 14 Feb 2019).

There is risk of further MYR weakness beyond 4.20 against the USD, particularly if the weakening trend in RMB and other regional currencies resumes. Despite the sudden plunge in Brent oil from a high of $86.74 / bbl in Oct to current levels of about $60, there had been little pass-through to the MYR. The government reiterated there will not be any recalibrations to the budget at this juncture in response to falling oil prices. The current account surplus continues to be supported by healthy goods trade surplus. Our revised USD/MYR point forecasts are 4.23 by mid-2019 and 4.25 by end-2019 (up from 4.22 and 4.20 previously).

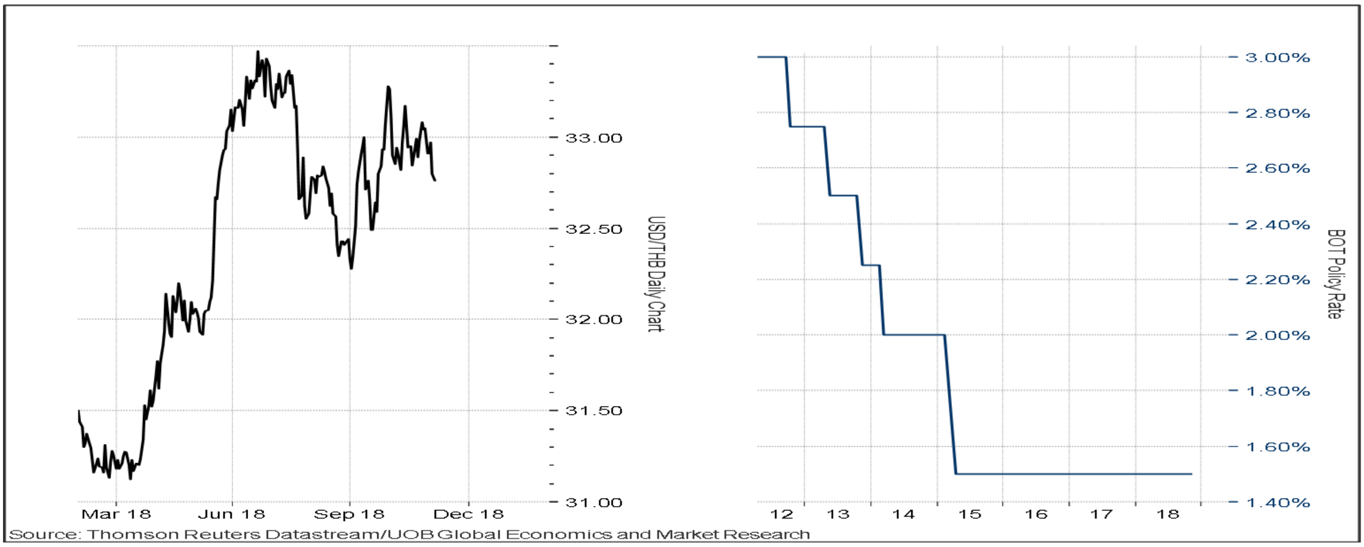
INDONESIA



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

Bank Indonesia (BI) has thus far raised the BI 7-day Reverse Repo Rate by a cumulative 175bps to reach the current level of 6.00% since May 2018. The series of rate hikes decision remain consistent with BI's pre-emptive, front-loading, and ahead-of-the-curve strategy to anchor the stability of the domestic financial market against increased uncertainty in the global financial markets. The macro backdrop behind IDR remains challenging next year. Domestically, Indonesia's current account and fiscal account are expected to remain in deficit albeit some improvements, at -2.5% and -2.0% respectively. This makes the IDR vulnerable alongside other Emerging Market currencies as the Fed continues its gradual rate hikes. Externally, Indonesia is also not spared from trade headwinds due to the protracted trade dispute between US and China. That said, BI matching of the pace of Fed's tightening in 2019 may alleviate pressure on the IDR. For now, we keep our 25bps/quarter rate hike forecast, each in Q1, Q2, and Q3 consecutively to reach 6.75% by end 2019. Overall, we expect the IDR to continue to weaken alongside other Asian currencies. We forecast USD/IDR at 14,600 in 1Q19, 14,700 in 2Q19 and 14,800 in 3Q and 4Q19.

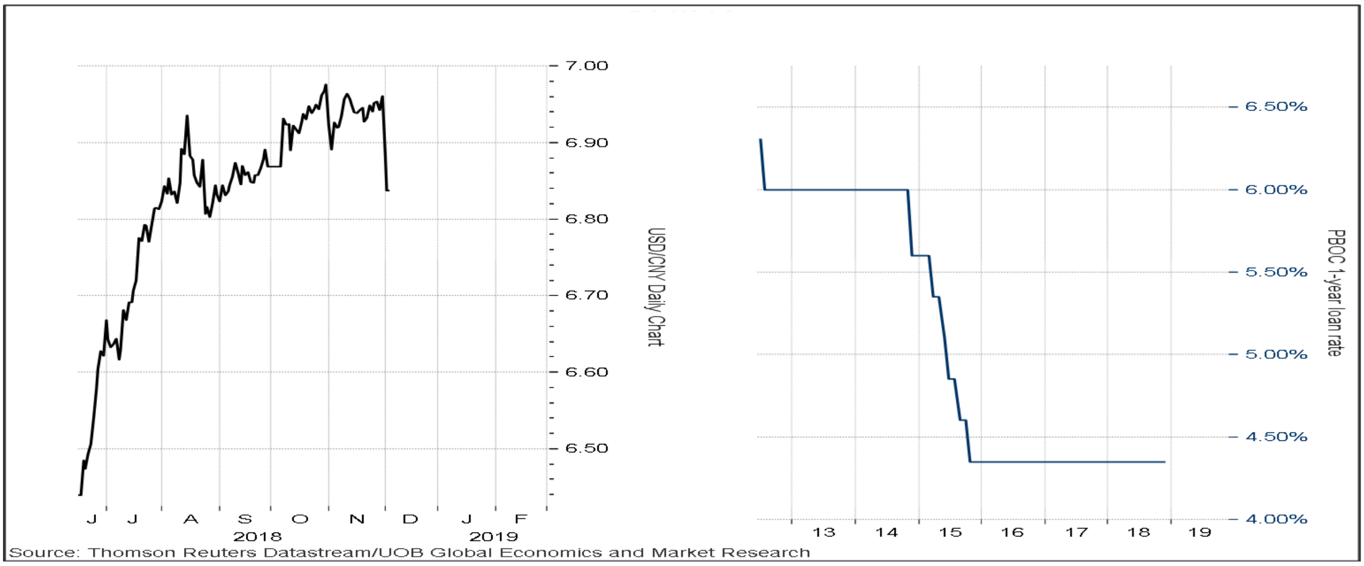
THAILAND



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

The BoT is expected to hike the policy rate from 1.5% to 1.75% in Dec 2018. For 2019, we expect the BoT to slowly raise the benchmark rate from 1.75% to 2%, possibly in 2H19. Gradually reducing monetary policy accommodation will continue to support economic growth and help cap financial stability risks in the future. As the Fed continues its gradual rate hikes in 2019, the THB is likely to remain defensive against the USD but downside risks remain limited due to strong factors in favor of THB. Overall, we reiterate mild weakness of THB against the USD, at 33.3 in 1Q19, 33.5 in 2Q, 34.0 in 3Q and 4Q19. Prevailing spot reference rate is 33.0.

CHINA



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

We continue to expect another reserve requirement ratio (RRR) cut from the PBoC in late 2018-early 2019, after having made its fourth RRR reduction in 2018 alone. This should continue to keep domestic liquidity ample as indicated by relatively low funding costs in the interbank market. Thus, we do not anticipate any policy interest rate (1Y lending and 1Y deposit rates) cut from PBoC over the next 3-6 months, given that the US Fed is still on the rate hike path and the European Central Bank is moving towards policy normalization. Domestically, consumer price inflation is expected to rise slightly in 2019 even though producer price inflation could come under downward pressure from the trade conflicts. As such, any aggressive cuts in RRR or even policy interest rate cuts would be a signal that the US-China negotiations may not be turning out well. It is probably premature to anticipate sustained weakness in USD/CNY after the recent truce on trade tariffs, especially when details are still lacking and challenges for an eventual resolution remain. There is still clear and wide divergence in economic data and monetary policy between China and US which may continue to underpin a higher USD/CNY. Overall, we maintain our measured trajectory of USD/CNY above 7.00 next year, with point forecasts at 6.95 at 1Q19, 7.00 at 2Q19, 7.10 at 3Q and 4Q19.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	07 Dec 18	1Q19F	2Q19F	3Q19F	4Q19F
USD/JPY	113	113	114	115	115
EUR/USD	1.14	1.15	1.16	1.18	1.20
GBP/USD	1.28	1.25	1.25	1.26	1.27
AUD/USD	0.72	0.74	0.75	0.76	0.77
NZD/USD	0.69	0.69	0.70	0.71	0.72
DXY	96.8	96.1	95.6	94.5	93.3
USD/CNY	6.89	6.95	7.00	7.10	7.10
USD/HKD	7.81	7.80	7.80	7.80	7.80
USD/TWD	30.84	31.20	31.60	32.00	32.00
USD/KRW	1,118	1,130	1,150	1,160	1,160
USD/PHP	52.68	53.00	54.00	55.00	55.00
USD/MYR	4.16	4.19	4.23	4.25	4.25
USD/IDR	14,522	14,600	14,700	14,800	14,800
USD/THB	32.83	33.00	33.30	33.50	33.50
USD/MMK	1,545	1,560	1,580	1,600	1,600
USD/VND	23,310	23,500	23,800	24,000	24,000
USD/INR	70.90	71.00	72.00	73.00	73.00
USD/SGD	1.37	1.39	1.40	1.41	1.41
EUR/SGD	1.56	1.60	1.62	1.66	1.69
GBP/SGD	1.75	1.74	1.75	1.78	1.79
AUD/SGD	0.99	1.03	1.05	1.07	1.09
SGD/MYR	3.04	3.01	3.02	3.01	3.01
SGD/CNY	5.03	5.00	5.00	5.04	5.04
JPY/SGDx100	1.22	1.23	1.23	1.23	1.23

RATES	07 Dec 18	1Q19F	2Q19F	3Q19F	4Q19F
US Fed Funds Rate	2.25	2.75	3.00	3.25	3.25
USD 3M LIBOR	2.77	2.95	3.20	3.45	3.45
US 10Y Treasuries Yield	2.89	3.25	3.35	3.40	3.50
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.25
GBP Repo Rate	0.75	0.75	0.75	1.00	1.00
AUD Official Cash Rate	1.50	1.50	1.50	1.50	1.75
NZD Official Cash Rate	1.75	1.75	1.75	1.75	1.75
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35	4.35
HKD Base Rate	2.50	3.00	3.25	3.50	3.50
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.50
KRW Base Rate	1.75	1.75	1.75	1.75	1.75
PHP O/N Reverse Repo	4.75	5.00	5.25	5.25	5.25
SGD 3M SIBOR	1.77	2.05	2.30	2.50	2.50
SGD 3M SOR	1.91	2.00	2.25	2.45	2.45
SGD 10Y SGS	2.26	2.75	2.80	2.80	2.90
MYR O/N Policy Rate	3.25	3.25	3.25	3.25	3.25
IDR 7D Reverse Repo	6.00	6.25	6.50	6.75	6.75
THB 1D Repo	1.50	1.75	1.75	2.00	2.00
VND Refinancing Rate	6.25	6.25	6.25	6.50	6.50
INR Repo Rate	6.50	6.75	6.75	7.00	7.00

COMMODITIES	07 Dec 18	1Q19F	2Q19F	3Q19F	4Q19F
Gold (USD/oz)	1,239	1,200-1,300	1,200-1,300	1,200-1,300	1,200-1,300
Brent Crude Oil (USD/bbl)	60	55-65	55-65	55-65	55-65
LME Copper (USD/mt)	6,070	6,000-7,000	6,000-7,000	6,000-7,000	6,000-7,000

THE TEAM

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