UOB HOUSE VIEW

1Q2020

GLOBAL MACRO

As we usher in a new decade & a new cycle of the Lunar calendar, the central theme for 2020 looks to be an extension of the key risks in 2019: the global growth slowdown amidst ongoing US-China trade developments. Geopolitics will likely be in the spotlight in 2020, including Taiwan's Presidential elections, various elections in Asia-Pacific and most importantly, the Trump Impeachment proceeding and the US Presidential elections.

ASSET ALLOCATION

Global growth was weak in 2019 and leading indicators had been deteriorating all year. But in recent months there have been a number of signs that the deterioration could be stabilizing. While 2020 still looks like a low growth year, the risks of a full recession have declined and thus the case to neutralize the underweights in equities has improved. We recommend being neutral in equities, overweight in fixed income, neutral in commodities and underweight in cash.

EQUITIES

As markets move into a seasonally favorable part of the year (November-April), we have revised our asset allocation by raising the allocation to Equities to Neutral, from Underweight previously. Given that valuations of equities are moderately above average, a neutral view is probably appropriate. Regionally, we see more value in Asia, Europe and Japan over the US, which has outperformed for quite some time.

FIXED INCOME

Looking into 2020, the global growth slowdown may start to trough, and is poised to rise modestly. Coupled with easy monetary conditions (anchoring short-end rates, and translating into stable credit risk premium) this points to a supportive backdrop for credit markets and a modestly supportive backdrop for sovereign bond yields. At this juncture, we continue to advocate for high-quality credit exposure.

COMMODITIES

Gold's strong rally takes a breather as the US Federal Reserve signaled that it is now on hold after 3 rate cuts. We stay positive on gold, but now see a more modest climb to USD 1,550 / oz. While Copper is likely to stabilize around USD 6,000 / MT as supply disruptions offset softness in global demand. As for Brent crude oil, on-going supply discipline from OPEC+ helps establish support above USD 60 / bbl. Slowdown in growth of shale oil supply is also a positive.

FX & INTEREST RATES

The USD is likely to start to peak against the Majors, particularly EUR, GBP and AUD. And USD strength against Asian FX will be more muted with CNY weakness confined to 7.20 instead of 7.30. Asian FX will also be more desensitized to CNY weakness. Confronted with an extended growth cycle, global monetary policies are expected to stay accommodative. Central banks will remain pro-active in responding to downside risks hence interest rates are likely to remain lower for longer with 3M USD Libor drifting lower to 1.65% by 2Q20.

GLOBAL MACRO

Macro Stabilisation Vs. Trade Tirades In 2020

As we usher in a new decade & a new cycle of the Lunar calendar, the central theme for 2020 looks to be an extension of the key risks in 2019: the global growth slowdown amidst ongoing US-China trade developments. The health of the global economy continued to deteriorate in line with the escalation of US-China trade tensions. From 2018's 3.6% global growth rate, the IMF has downgraded 2019's growth rate further to 3.0% in its October WEO (from 3.2% made in Jul), making it the worst year since 2008/2009. It was also accompanied by stark warnings about global manufacturing downturn and rising trade barriers, and the need for inclusive growth.

Even as most major economies have downgraded their growth forecasts for 2020, macro developments could see some stabilization on the horizon. And we emphasize it is stabilization, not the decisive growth recovery just yet. While IMF's global growth estimate for 2020 was also lowered, it is nonetheless expected to be higher at 3.4%, an improvement from 2019. Among the developed economies, the US continues to fare better than the rest, even amidst conflicting signals from its economic data, although US growth is still seen slowing from 2.5% in 2019 to 1.5% in 2020. A similar outlook faces the Eurozone as growth momentum falters but the bloc is still expected to etch out positive growth, albeit lower at 1.0% in 2020 (from a projected 1.1% in 2019). One exception in our view is Japan which we see as having a strong risk of slumping into recession in 2020, and that would be a good enough reason for Japan's government to roll out a substantial stimulus package and the BOJ to renew easing monetary policy in 2020.

In Asia, the unequivocal attention continues to be on China, the epicenter of global growth slowdown but we kept our growth forecast unchanged at 5.9% in 2020 (from the expected 6.1% in 2019) assuming no major escalation in US-China tensions. And as China is slowing, so will the rest of Asia. That said, there are pockets of growth recovery and some economies are benefitting from the shift in supply chain as a result of the on-going US-China tensions, such as Taiwan in North Asia and Vietnam in South East Asia.

And yet crucially, a lot still depends on the outcome of the US-China negotiations and 15 Dec (2019) could be a key date. Our base case (at 65%) is still for US and China to sign the Phase 1 trade deal by end-2019 or early 2020 with the US delaying or cancelling additional tariffs scheduled on 15 Dec. The next phase is likely to be even more difficult as it covers areas where both US and China have little common ground while the negotiations will take place in a year when the US will be distracted by domestic issues (Trump impeachment proceedings, US Presidential elections) for most of 2020. If the US-China Phase 1 trade agreement does not materialize and the additional tariffs are imposed on 15 Dec, then that will be a risk-off catalyst for financial markets and the worsening of trade tensions will threaten to extinguish the nascent macro stabilization. That is our worst case scenario at a sizeable 35% probability. Trump's signing of the Hong Kong Human Rights and Democracy Act into law (27 Nov) and the US House passing the Xinjiang Bill (3 Dec) deflated trade optimism while Trump's comment (3 Dec) that he may prefer waiting until after the US elections to sign a deal with China further clouds the timing of Phase 1.

At the end of the day, the reality remains: this is an ideological confrontation between the two most important economies in the world, and it is not just about trade. Trade is the starting point but it is also about technology (and who controls it), military leadership, being the top economy and these issues are not going to be resolved anytime soon (lasting for years if not decades), and it will become increasingly difficult for other countries "not to take sides".

Monetary Policy Stays Easy But Further Easing Limited

Major economies as well as Asian central banks have responded to the weaker growth & uncertain trade environment by easing monetary policies in 2019. And they are expected to either keep their easy monetary stance or ease policy further to support growth in 2020. After cutting rates trice consecutively in Jun, Sep and Oct, the Federal Reserve (FED) is expected to stay on pause in Dec 2019 but potentially another bout of US-China trade uncertainty post-15 Dec could trigger another 25 bps "insurance" rate cut from the FED in early 2020. The European Central Bank (ECB) may not have to change policy for some time as the latest stimulus package (a parting gift from the former ECB President Draghi) remains in play butthe new ECB President Lagarde may find it difficult to get everyone in ECB governing council to agree to more easing. Meanwhile, it is clear that China's easing cycle has started, although the pace of declines seen in the MLF, 7D reverse repo rate and the LPR fixings has been milder than anticipated, suggesting a measured and cautious approach by People's Bank of China (PBoC) to guide interest rates lower. Across Asia, we expect low policy rate environment to continue in 2020 with moderate rate cuts from Malaysia, Philippines and Indonesia.

What To Watch In 2020?

Besides the on-going US-China trade tensions, US President Trump continues to burnish his "Tariff Man" credentials on other fronts: slapping steel and aluminum tariffs back on Brazil and Argentina for currency manipulation, threatening to impose tariffs on French goods in response to the proposed French Digital Tax on US companies, and potentially pursuing auto tariffs under Section 301 of the 1974 Trade Act (the same mechanism used to impose tariffs on China). When will Tariff Man rest?

Perhaps he will take a break from tariffs in 2020 as he deals with impeachment proceedings against him while stepping up his campaign for the Presidential election (03 Nov 2020). The Democrat-controlled House will certainly vote to pass the articles of impeachment against Trump. But the biggest stumbling block is in the Republican-controlled Senate which may or may not take up the impeachment proceeding. Even if the Senate takes it up, chances of Trump's impeachment is LOW unless Trump loses significant Republican support. If we use the Clinton impeachment proceedings as a gauge for the possible timeline (initiated on 8 October 1998, the trial in the Senate began in January 1999, and he was acquitted on 12 February 1999), we believe that the impeachment saga could be over by 1Q 2020. Trump will be the first president running for re-election under impeachment proceeding. There will be much political fireworks in the US for 2020.

Even before 2020 is upon us, the key election to watch will be the UK general election on 12 Dec 2019 where a decisive victory for Boris Johnson and the Conservative party could finally put the "hard exit" Brexit issue to rest, while a Labour victory would prolong the Brexit drama (which feels like an eternity by now). Besides the US and UK elections, there are several other elections that will matter in 2020 including Taiwan (presidential and legislative, 11 Jan), South Korea (legislative, 15 Apr), Iran (legislative, 20 Feb), Myanmar (tentatively in Nov) and New Zealand (21 Nov). Singapore is also expected to call for a general election in 2020 although it is not due until 15 Apr 2021.

ASSET ALLOCATION

We Neutralize equity underweights on tentative signs of growth stabilization. Global growth was weak in 2019 and leading indicators had been deteriorating all year. But in recent months there have been a number of signs that the deterioration could be stabilizing. Leading manufacturing indices that had previously been pointing to a slowdown have seen modest improvements lately. Underlying drivers in sectors such as global autos and global tech appear to be stabilizing. Additionally, risk issues such as trade conflicts and Brexit appear to be de-escalating. While 2020 still looks like a low growth year, the risks of a full recession have declined and thus the case to neutralize the underweights in equities has improved. We recommend being neutral in equities, overweight in fixed income, neutral in commodities and underweight in cash.

The global consumer proved resilient in 2019 despite the slowdown. Global industrial production, global manufacturing, global exports weakened to contractionary levels across most regions. In early 2019, the rising interest rates from 2018 appeared to cause some of the weakness but by the end of 2019 it was clear that global trade conflicts were driving most of the economic weakness. The main concern throughout 2019 was that the weakness in industrial production and businesses would result in employment cuts that would hurt the consumers around the world and thus raise the risks for a full recession. But as we end 2019, it is increasingly clear that employment around the world and the global consumer have held up. The combination of the resilient consumer and stabilizing manufacturing trends improves the odds of a "muddle through" environment in 2020 and as such we switch our investment positioning to assume a continued expansion in which positive, albeit modest returns should be expected from most asset classes in 2020.

Modest return outlook across most asset classes. While the growing evidence of a continued muddle through expansion is positive for most asset classes, we think clients should be warned that the return outlook appears set to be fairly muted in 2020. Fixed income returns will be low as interest rates have already been cut to low levels in most regions of the world and the resulting bond yields are in the 2-3% range. Further interest rate cuts could help boost fixed income returns in 2020 but if the global economy is stabilizing in 2020 then the likelihood of many more rate cuts goes down significantly. Equity returns are also likely to be muted as a "muddle through" expansion implies an environment of muted earnings growth for corporates. Equity market valuations are already fairly "full" and earnings growth will be needed to push equity markets higher. As we start 2020, we would recommend advising client that we do see positive growth but it appears likely to be in the single digit range. Overall, assuming a muddle through environment, the outlook for fixed income appears to be in a range of 2-4%, while equities should yield 5-7% returns.

Trade tensions remain a key risk. In recent months the risks of further escalation of trade tensions between the US and China appears to be declining. It appears increasingly likely that a "Phase 1" deal can be reached which may not address all issues but at least signals progress to further agreements rather than further escalation. The trade negotiations remain fluid with positive and negative news flow being reported daily. A complete breakdown in trade negotiations and a new round of escalation is a key risk that could destabilize our "muddle through" outlook.

We favor balance, and income strategies. We recommend being neutral equities but slightly cautious in positioning with a dividend/income focus. We are overweight on fixed income with a focus on investment grade credits over government bonds. We are neutral on commodities but within commodities, we prefer gold. We are underweight on cash as short term rates have been cut and we expect positive albeit low returns form most asset classes".

Global Asset Allocation

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight
Equities			•		
Fixed Income				•	
Commodities			•		
Alternatives (hedged strategies)			•		
Cash		•			

EQUITIES

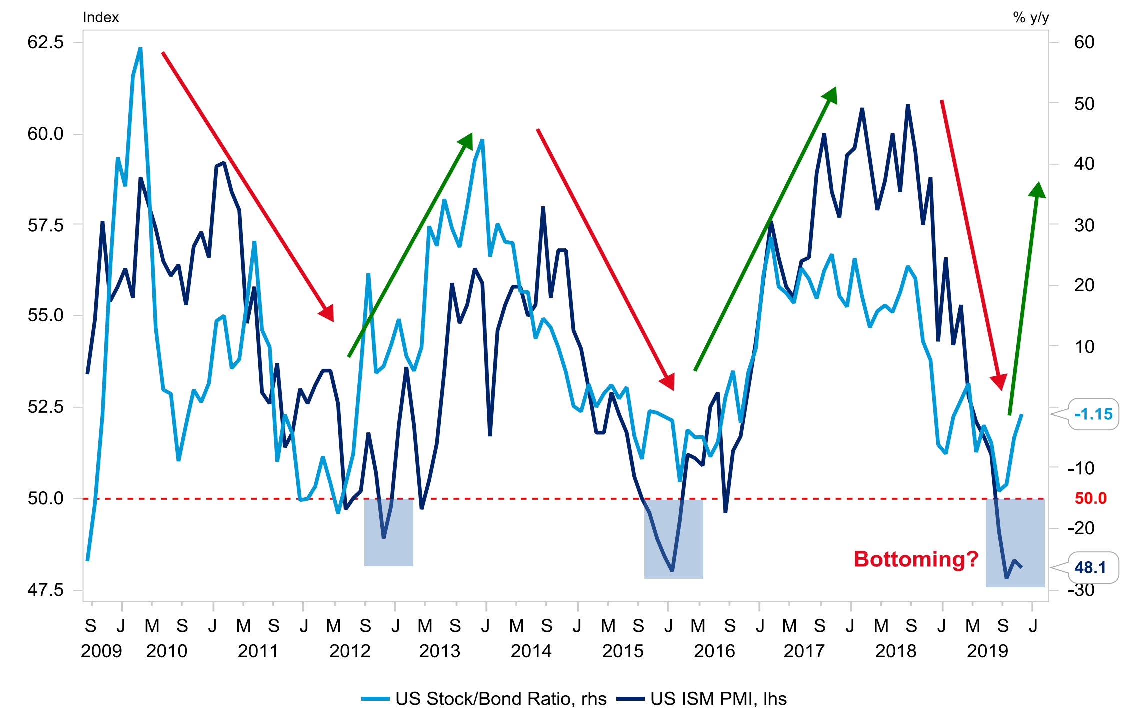
Global equity markets traded firmer in 4Q 2019 on positive sentiment surrounding the “Phase 1” trade deal between the US and China as well as the lower prospect of a “disorderly” Brexit. While these developments are unlikely to reverse the cyclical weakness in economic fundamentals, they have reduced the tail risk of political miscalculations. Year-to-date, the MSCI World Index has achieved an impressive price return of 23.8% (as of 4 Dec).

While manufacturing activity remains subdued, the JP Morgan Global Manufacturing Purchasing Manager’s Index (PMI) appears to have bottomed, having risen modestly for two months to 49.7. We note that the stock/bond ratio and PMI exhibit relatively strong co-movements in the past, and the bottoming of PMIs will provide some uplift to stock prices relatively to bonds. Moreover, semiconductor firms have delivered upbeat guidance on the back of the coming 5G deployment, a catalyst for the technology sector in the coming year. This will benefit the important technology supply-chain in Asia, especially if US-China trade relations eventually thaw and a technological cold war is averted.

As markets move into a seasonally favorable part of the year (November- April), **we have revised our asset allocation by raising the allocation to Equities to Neutral**, from Underweight previously.

Given that valuations of equities are moderately above average, a neutral view is probably appropriate. Regionally, we see more value in Asia, Europe and Japan over the US, which has outperformed for quite some time. The re-allocation is done to reflect that upon the removal of key geopolitical uncertainties, Equities could present more compelling risk-reward in the coming months.

Stronger Stock-Bond Ratio Bodes Well For Macro Environment In 2020



Source: Macrobond, UOB Global Economics & Markets Research

COMMODITIES

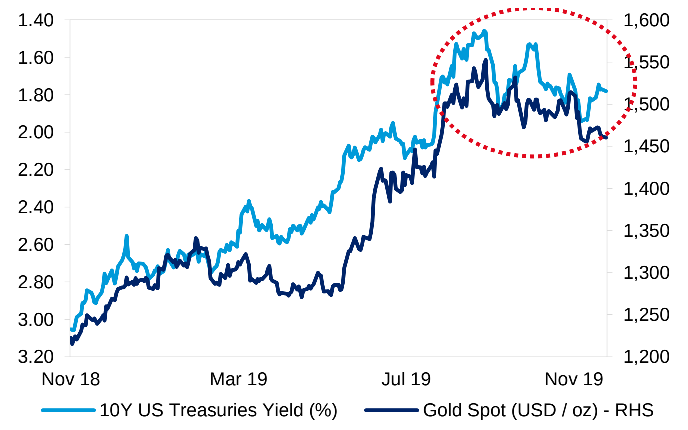
Gold cools down as Brent Crude Oil and LME Copper outlook improve

1 ½ years into the US-China trade conflict, global yield curves appear to have stabilized after their steep correction in 2019 and there are also some tantalizing signs of possible stabilization in growth and production activity in certain key economies. Risk sentiment has certainly improved towards the end of 2019, pushing key US equities indices to new all-time highs. This change in underlying drivers and sentiment has affected the outlook for gold, Brent crude oil and LME Copper.

Gold: Strong Rally Takes A Breather

After its strong rally from USD 1,280 / oz in Jun, gold appears to have topped out just above USD 1,550 / oz in Sep. Since then gold has pulled back to USD 1,450 / oz. Needless to say, the recovery in risk sentiment, and stabilization has reduced safe haven demand for gold and capped its near term strength. However, we believe that rates will still stay soft overall and the FED is still seen cutting one more time in 1Q20. As such, while we stay positive on gold, we lower our expectations to a more modest pick-up to just USD 1,550 / oz by end 2020.

Gold: Rebound In US Treasuries Yield Caps Near Term Strength In Gold

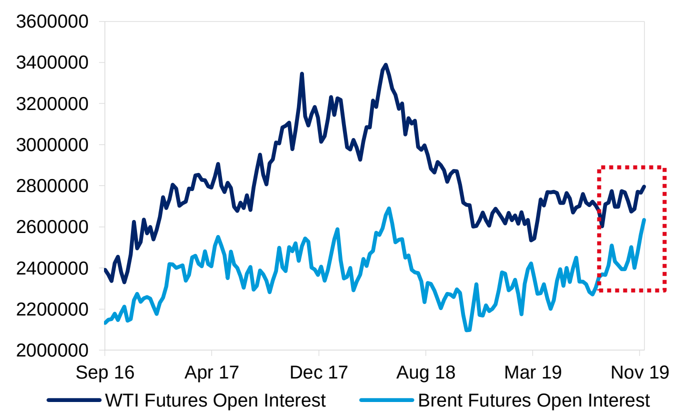


Source: Bloomberg, UOB Global Economics & Markets Research

Brent: Supply And Demand Outlook Start To Improve

For Brent crude oil, on-going OPEC+ production cuts and various supply outages have kept supply in check. Other initial signs of improvement in crude oil outlook ranged from lower rig counts, firm backwardation in the futures curve and increased open interest. The retreat in futures positioning is also a positive factor. As such, after consolidating around USD 60 / bbl over the past half a year, we believe that Brent crude oil may be ready to trade modestly higher towards USD 70 / bbl.

Brent: Open Interests In Both Brent And WTI Futures Have Stabilized

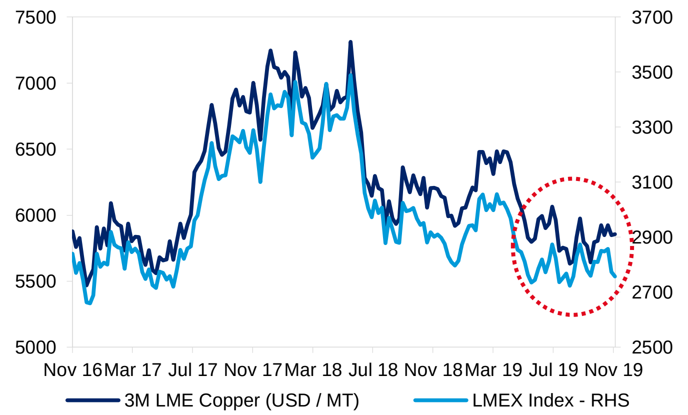


Source: Bloomberg, UOB Global Economics & Markets Research

Copper: Mining Stoppage And Supply Disruption Offsets Soft Global Demand

The demand-supply balance for copper has taken a decisive swing into deficit. While global copper consumption growth remains weak, a significant amount of mining stoppage and smelter production disruptions have led to an even larger amount of loss in production of refined copper. As such, the International Copper Study Group (ICSG) has widened its forecast of a copper supply deficit. The on-going unwinding of substantial net short positioning amidst improving risk sentiment is also a key positive. Hence, we upgrade our copper view to neutral from negative, and now expect LME Copper to continue its consolidation at USD 6,000 / MT, rather than weaken towards USD 5,000 / MT.

Copper: Over The Past 6 Months, LME Copper Has Been Consolidating Under USD 6,000 / MT



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on fixed income markets were broadly flat over Q4 2019, as accommodative monetary policy from major global central banks led to a steepening of the US yield curve (which concurrently signals lower odds of a recession) and as tail risks on the US-China trade front receded. The US Federal Reserve (FED) continued to slash interest rates for the third time in Q4 2019 to bolster flagging growth, and macro data from both US and China have begun to show some signs of stabilization. Prospects of improving global growth and an outline of a trade truce, lifted sovereign bond yields higher. Still, domestic uncertainties remained in the US over moves to impeach US President Trump.

Looking ahead to 2020, the global growth slowdown that began in early 2019 may start to trough and global growth is poised to rise modestly. US growth should gradually pick up from current levels, as easier financial conditions boost economic growth, and as the impulse from the US-China trade tension turn less negative. So long as the US employment situation remains stable and consumers are still employed, it is possible for the expansion to continue at a sub-par level even without manufacturing growth. Other developed economies such Europe, UK and Japan are likely to experience more gradual growth improvements. In emerging markets, growth is expected to accelerate in India and Brazil while China would grow at a slower pace given policymakers' emphasis on quality growth, and in line with gradually decelerating potential growth.

Given this improving but uneven growth backdrop, central banks' policy reaction would likely be mixed with a slight bias to stay accommodative. After delivering the pre-emptive series of 75bps of cuts this year, the need for further rate cuts from the FED will likely recede if growth stabilizes. While fiscal debt rules and effective lower bound constraints limit both European Central Bank (ECB) and Bank of Japan's (BoJ) policy options, we note that ECB and BoJ's balance sheets continue to expand and policy rates remain in negative territory. As for the Bank of England (BoE), policy rates have been in stasis but could come into play now that the Brexit story looked to have turned for the better, with the Conservative Party coming round to the UK Prime Minister's revised EU withdrawal agreement. In Asia, China has stepped up its monetary easing but in a more selective way than in the past, alongside the use of fiscal stimulus.

Such a moderately positive expansion in most major economies, coupled with easy monetary conditions (i.e. anchoring in short-end rates, as well as translating into stable credit risk premium) paints a supportive backdrop for credit markets and a modestly supportive backdrop for sovereign bond yields. At this juncture, we continue to advocate for high-quality credit exposure.

We maintain our overweight call on investment-grade credit. Most indicators suggest some stabilisation in global corporate conditions while cash flows and earnings growth should gradually pick-up alongside the improvement in global growth prospects. We continue to advocate investment-grade credit over high-yield, as investment grade credit tends to outperform (i.e. deliver above-average returns) in a sub-par growth environment.

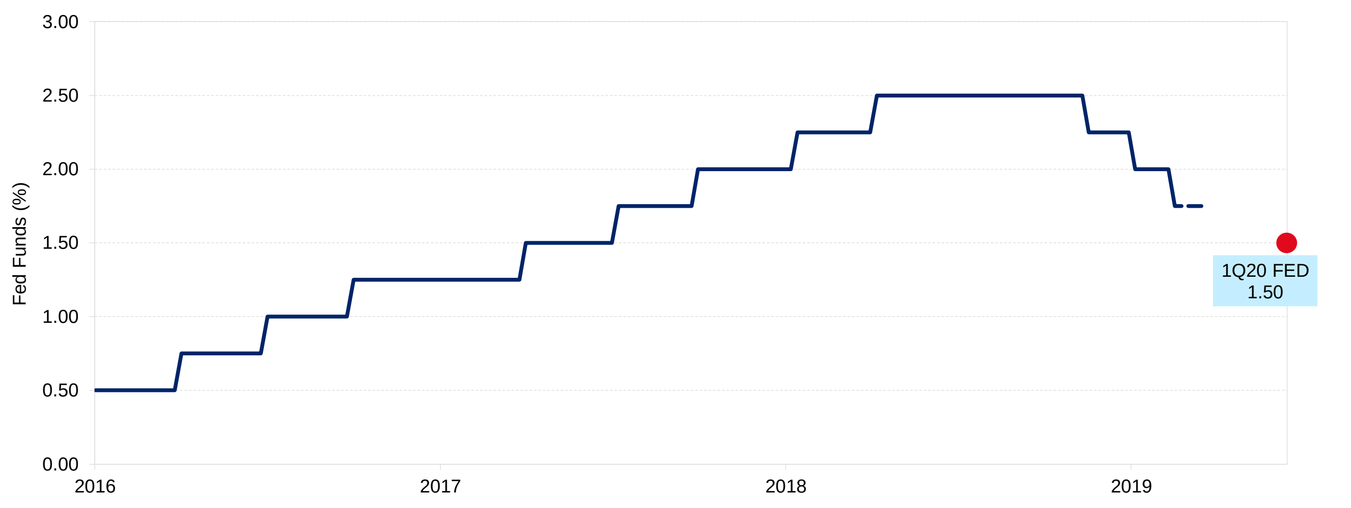
We turn neutral on duration risk, as the US yield curve has re-steepened and the US Fed is expected to be on hold. Alongside the de-escalation in global tail risks (i.e. US-China trade truce) and expectations of improved global growth prospects, bond yields have moved higher and we turn neutral on our duration risk exposure.

We favor USD Asian investment-grade credits. Fundamentals for Asian investment-grade corporates continue to stay resilient, with a stable leverage profile (more specifically, Net Debt-to-EBITDA has continued to fall). More broadly, Asian investment-grade credit provides a favourable risk-adjusted play in the current macro environment (as a fairly small portion of the JP Morgan Asia credit universe is exposed to the US-China trade tensions).

FX & INTEREST RATES

UNITED STATES

FED Funds Rate



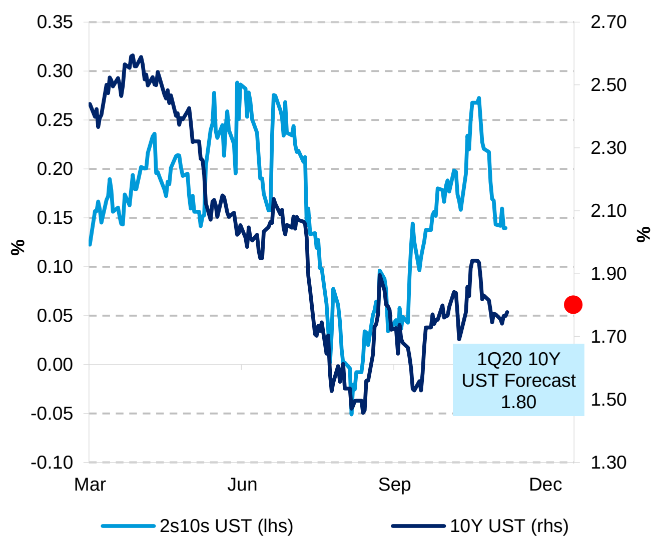
After three consecutive 25bps rate cuts (in Jul, Sep & Oct) to provide insurance against ongoing risks, the Federal Reserve (FED) signaled that the current policy stance (1.50-1.75% FED funds) is appropriate and its intention to put policy on pause, and as noted by Powell [US] monetary policy is in a good place, and the current stance of monetary policy would only change if there was a "material" change in the US economic outlook. We too subscribe to the view of a Fed pause in Dec but we still project one more 25bps rate cut in 1Q 2020, and thereafter to stay on pause again for the rest of 2020

The boogie man for Fed policy outlook is still the international trade developments and the caveat for us is that another bout of US-China trade tensions post-Dec FOMC could trigger another 25 bps "insurance" rate cut from Powell in early 2020. Conversely, if the trade negotiation progresses smoothly into 2020, then the "insurance" cut will be unnecessary.

3M US Libors

- We expect to see 3M Libor at around 1.65% by the end of 1Q2020.
- This is based on an expectation for a 25bps FED cut in the same quarter.
- 3M Libor vs. OIS has fluctuated around the higher levels (mid 30bps) in 4Q2019. Potential for the spread to narrow significantly is limited as funding pressures are likely to persist.

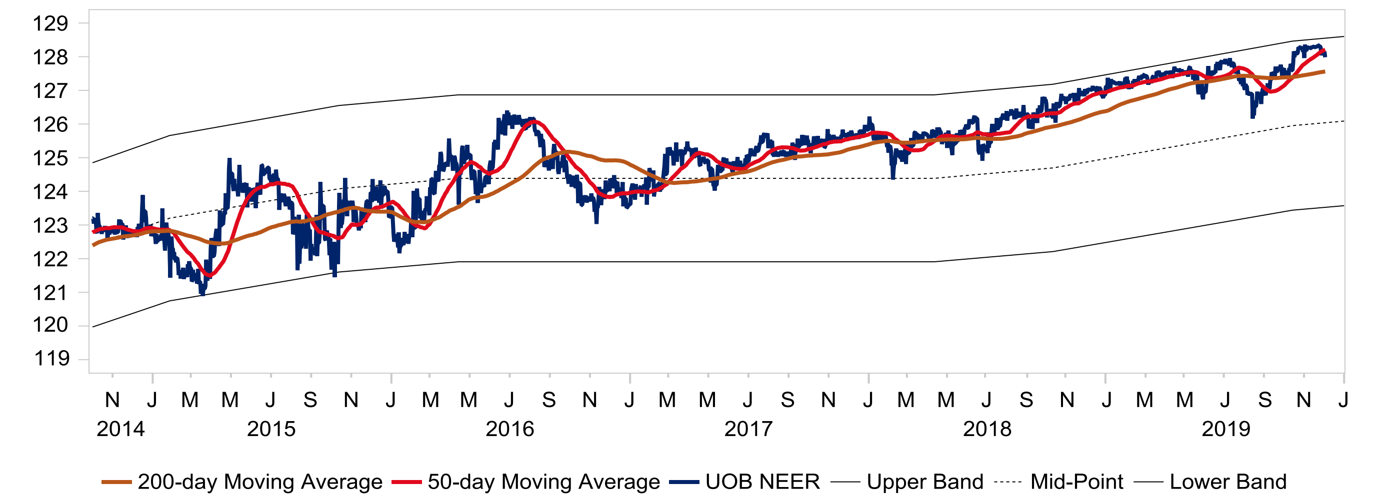
10Y US Treasuries



- We expect to see 10Y UST at 1.80% by the end of 1Q2020.
- Term premiums will stay depressed while the FED stays proactive in managing risks to an already extended growth cycle.
- We continue to favour the 2s10s curve grinding its way steeper over the course of 2020 as investors navigate what is still a lower for longer rate environment.

SINGAPORE

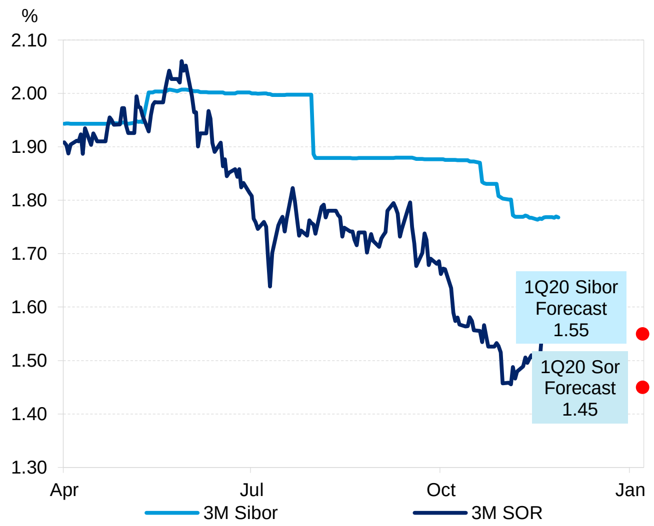
S$NEER



Incoming data of late reinforces the view that Singapore has seen signs of stabilization in early 2H19. GDP surprised market estimates with a 0.5% y/y print in 3Q19. On a q/q sa basis, growth expanded 2.1%, thus confirming that Singapore avoided the dreaded technical recession scenario. Barring further exacerbation in the uncertainties and risks, we keep our full-year growth outlook for 2019 and 2020 at 0.5% and 1.5%, respectively. MTI pencils Singapore's growth outlook at 0.5 – 2.5% in 2020, up from the revised growth range of 0.5 – 1.0% in 2019. Consumer prices are expected to stay benign for the rest of 2019 accompanied by weak demand conditions and soft external sources of inflation. Upside risks to inflation for 2020 to 1.2% (up from an estimated 2019 average of 0.6%) can be expected however, as economic conditions are expected to improve.

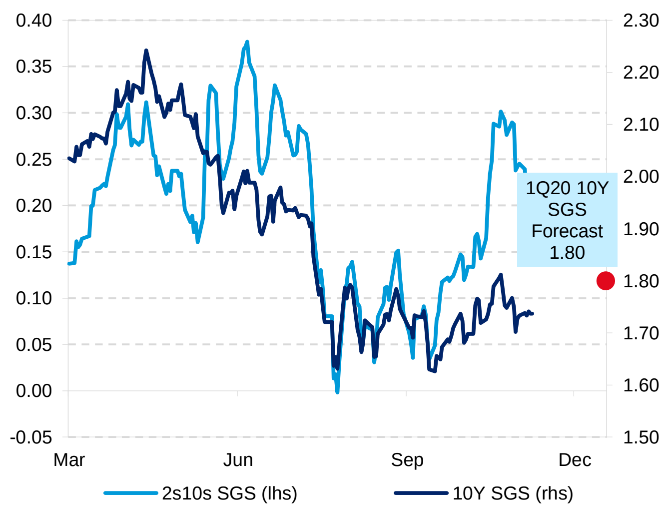
Given the potential recovery in Singapore's growth into 2020, we continue to expect MAS to keep its monetary policy parameters unchanged at its April 2020 MPS meeting. This means keep the slope, band and centring unchanged. Note that in October 2019, MAS reduced the appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) slope "slightly", which we estimate at 0.5% currently. We maintain our modestly upward trajectory in USD/SGD but SGD weakness this time round would be limited to 1.39/ USD as the trough of the trade-induced slowdown may be behind us for now. Going forward, our point forecasts are 1.37 for 1Q20, 1.38 for 2Q20 and 1.39 for both 3Q and 4Q20.

3M SOR and Sibor



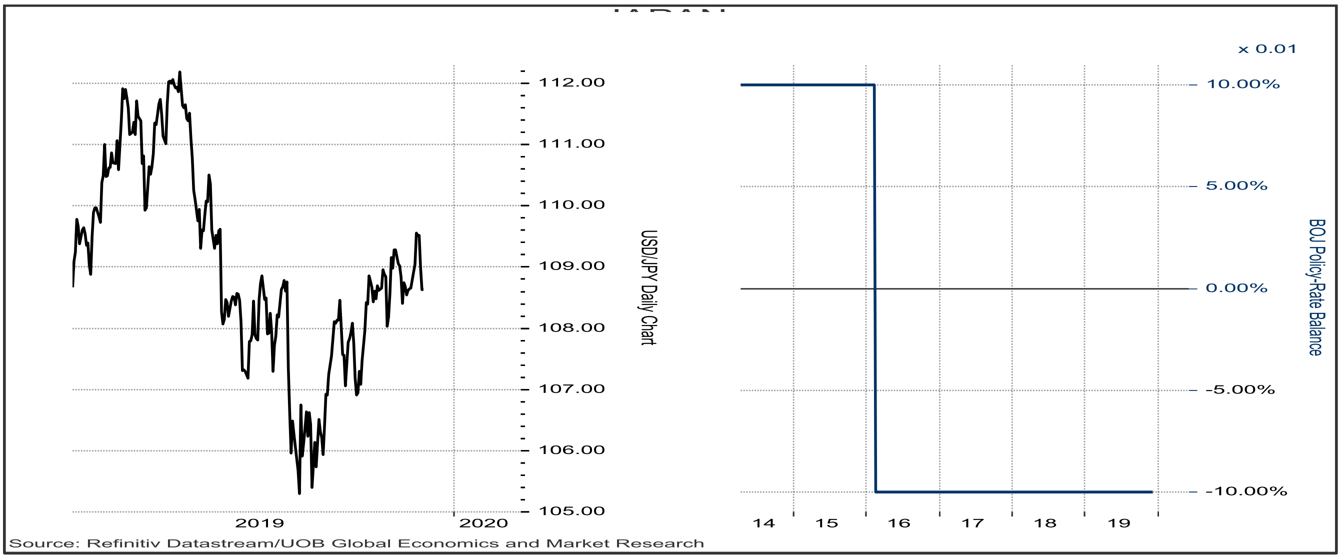
- We expect to see 3M SOR at 1.45% and SIBOR at 1.55% by the end of 1Q2020.
- With diminished threat from US-China trade conflict and a hard Brexit scenario, we have moderated our view on the richness of the SGD NEER.
- Downside potential is thus driven by 1Q FED cut as well as a "richer for longer" SGD NEER outlook.

10Y SG Bonds



- We expect to see 10Y SGS at 1.80% by the end of 1Q2020.
- 2020 kicks off with hefty duration supply which will help to underpin the longer end of the SGS curve.
- Catalyst are still lacking for a regime shift in the SGS bondswap spreads curve. SGS on this basis is likely to stay relatively cheap.

JAPAN

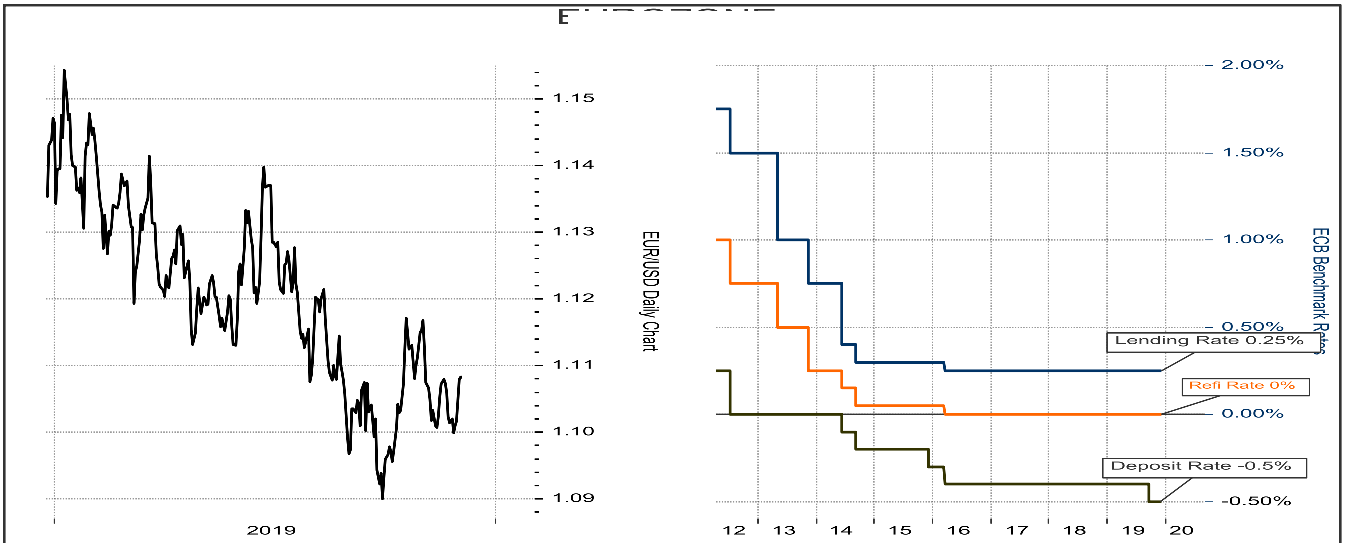


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The BOJ kept its monetary policy stance and policy rate unchanged at the Oct 2019 Monetary Policy Meeting but it "dovishly" enhanced its forward guidance to re-emphasize the BOJ's commitment to achieving the 2% target and a signal that more easing measures could be coming (without actually doing easing in the immediate period). However, we believe continued forward guidance without action will not be sufficient, and with the economic data turning south, the BOJ will eventually need to act. The likelihood of substantial government fiscal stimulus package reinforces expectations that the BOJ will be on hold in Dec (2019) but the BOJ will likely renew easing monetary policy via deepening its negative policy call rate to -0.2% possibly in 1Q 2020 (from -0.1% presently). Potentially, other measures will follow if the domestic economic situation worsens in 2020.

A 180-degree reversal of market sentiment from risk-off in 3Q19 to risk-on in 4Q19 spurred a strong recovery in USD/JPY from 3-year lows of 104.46/USD in late August to 109.50, as at 29-Nov. Assuming that trade escalation risks stay low, together with global central banks leaning on their accommodative stance, it is likely the current bout of risk-taking hence JPY weakness can still persist. Our USD/JPY point forecasts are 110 in 1Q20, 112 in 2Q20 and 113 in 3Q and 4Q20.

EUROZONE

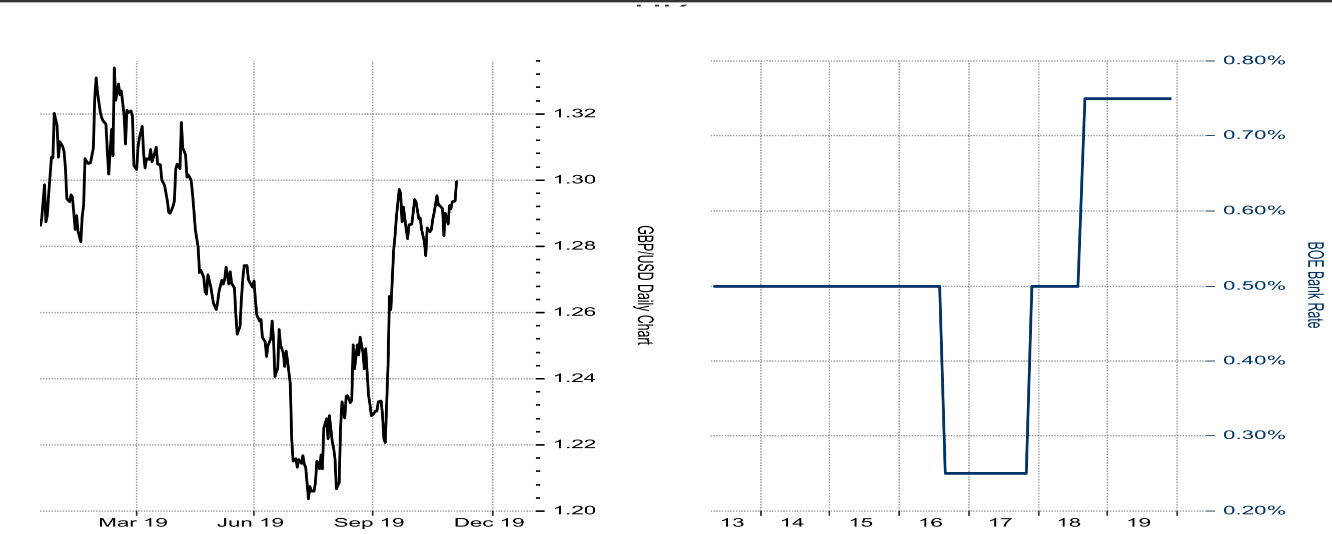


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The service sector slowdown is in turn impacting price growth, implying little upside in the coming months as far as the inflation outlook is concerned. Thus, we continue to anticipate rates to remain unchanged until end-2021. Lagarde may not have to change policy for some time as the latest stimulus package remains in play; but providing more stimulus further out could be complicated because so much of the ECB's balance sheet has already been deployed.

Markets have looked beyond a dim Eurozone outlook and EUR/USD has shown tentative signs that an interim bottom has been in place at 1.09. Likewise, options markets are also warming up to prospects of a higher EUR, with risk reversals briefly topping at the highest levels since March 2018 in favor of EUR over the USD. Together with a broad topping out of USD against most Majors, we maintain our forecasts of EUR/USD stabilizing around 1.11 in 1H20 followed by a mild rebound to 1.13 in 3Q20 then 1.15 in 4Q20.

UNITED KINGDOM

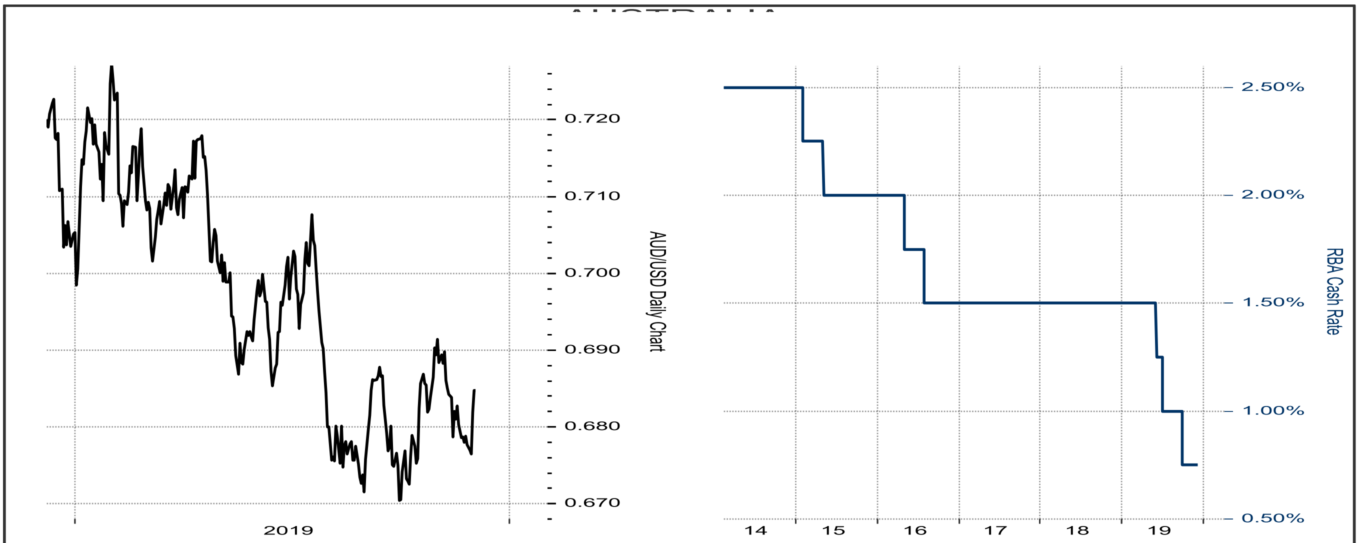


Source: Refinitiv Datastream/UOB Global Economics and Market Research

Despite the dovish tilt at the 7 November meeting, we see the BoE on a wait-and-see stance. We believe that the two dissenters against a large majority is still somewhat premature in tipping the balance for a rate cut, especially with a no-deal Brexit scenario off the immediate agenda. With offsetting factors currently, we would prefer to wait for the outcome of the impending election and the subsequent impact on how Brexit may proceed, before making changes to our policy rate forecasts.

We caution against unrealistic expectations of further strong rebound in GBP/USD above 1.30. Even if the “fog of Brexit” lifts with a Brexit deal, markets still have to face the economic consequences from 3 years of political limbo since the referendum in 2016. UK growth was at an anemic 1.0% in 3Q19, the lowest in nine years and the BoE may have to catch up with the global monetary policy easing campaign. Overall we see limited upside in GBP/USD above 1.30 in 2020, with our point forecasts at 1.31 in 1H, followed by 1.32 in 2H.

AUSTRALIA

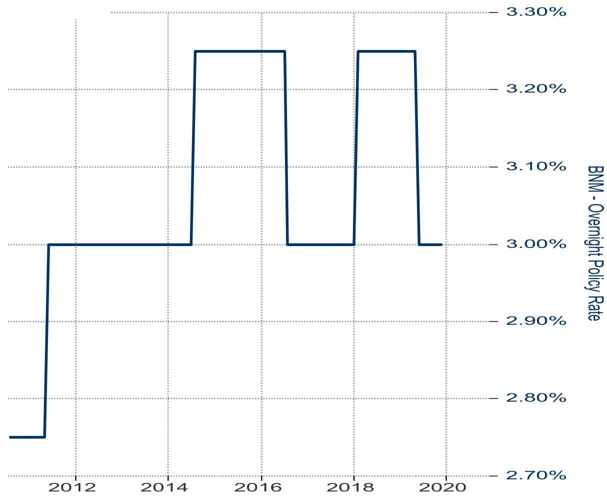


Source: Refinitiv Datastream/UOB Global Economics and Market Research

It is indeed clear that the RBA appears to be in a holding pattern as it waits to gauge the effects of the rate cuts so far this year. We are thus maintaining our OCR call of 0.75%, for now. We are, however, not ruling out further easing ahead. In fact, the case for a rate cut at the next RBA meeting on 4 February 2020, will depend on housing, construction and economic data released over the next two months.

The AUD is on firmer ground to stage a rebound next year if both domestic and external headwinds moderate further. Domestically, there are some initial signs that the aggressive 75bps of rate cuts from the RBA has started to work its way through the economy. House prices registered its first monthly gain in two years in July and continued to rise sharply through October (by 1.4%). Consumption which has been the Achilles’ heel of the Australian economy could get a lift from a sustained recovery in the housing market. This may allow the RBA to preserve its remaining monetary policy ammunition. Underpinned by a modest recovery in growth and inflation next year, a less aggressive RBA together with an improved tone in US-China trade may keep the AUD/USD supported at 0.69 in 1H20 before a modest recovery towards 0.70 in 2H20.

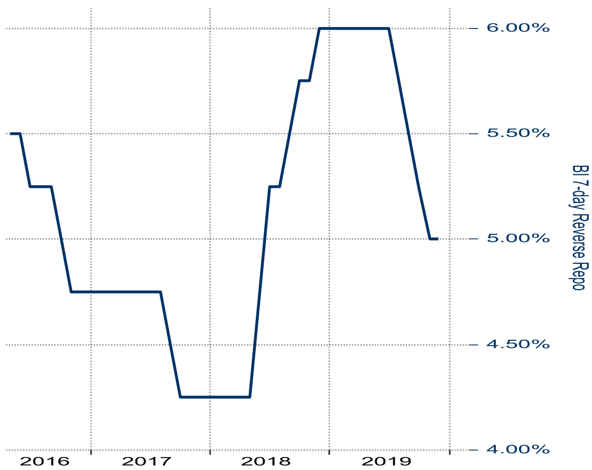
MALAYSIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Given the slower trend growth below Malaysia's potential output of 4.8% - 5.0%, we have pencilled in a 25bps cut in the Overnight Policy Rate to 2.75% in 1Q20. This is to safeguard domestic growth amid lingering trade uncertainties and muted investments. Bank Negara Malaysia cut the OPR by 25bps to 3.00% in May 2019. This was followed by a reduction in the Statutory Reserve Requirement (SRR) ratio by 50bps to 3.00% effective 16 Nov. This marks the first SRR reduction since Feb 2016. We believe the SRR cut comes amid a moderation in domestic liquidity as broad money supply slows and outflows in foreign portfolio funds persist. Year-to-date, inflation averaged 0.6% in Jan-Oct 2019 (Jan-Oct 2018: 1.1%). The floating of fuel pump prices on a gradual basis starting in Jan 2020, a planned upward adjustment in water tariffs nationwide, and base effects would be key factors lifting inflation in 2020. We expect average full-year inflation at 0.8% in 2019 and 2.5% for 2020. Despite expectations of higher inflation, price pressures should be contained amid moderate demand. We keep to the view of a modestly higher trajectory for USD/MYR, to 4.19 by 1Q20 then 4.22 by 2Q20 before plateauing at 4.25 in 3Q20 and 4Q20.

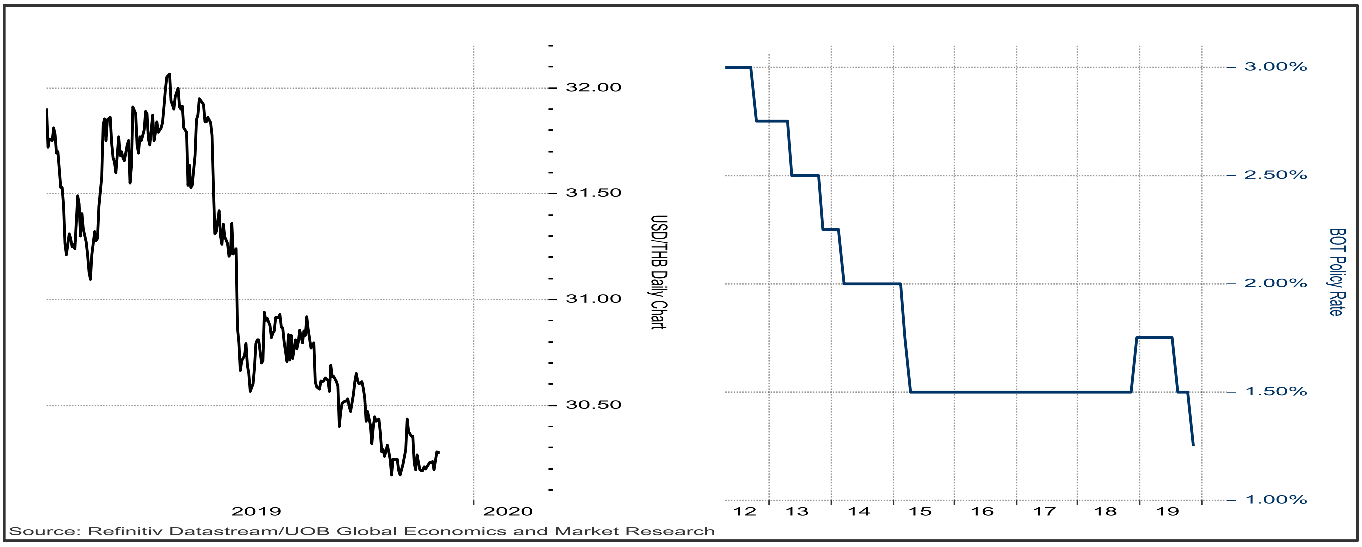
INDONESIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Indonesia (BI) has been promoting its pre-emptive, front-loaded, and ahead of the curve policy strategy since 2018. For 2019, BI has shifted more focus in supporting growth while continuing to maintain economic and financial stability. This is reflected by the reduction of 100bps in its benchmark interest rate to 5.00%, which partially unwound its tightening cycle in 2018; and in line with low inflation and still-attractive returns on domestic financial investment assets. BI has also complemented its interest rate policy with other macro-prudential measures in 2019 such as the lowering of the reserve requirements and easier loan-to-value ratios to support the property and automotive market. Therefore, we are cautiously optimistic that with policy measures already in place to support growth, BI will hold its benchmark rate to remain unchanged at 5.00% at its last 19 Dec meeting. Nevertheless, given our expectations for the FED to possibly reduce its Fed Fund Rate once more in 1Q 2020, we keep our forecast of one more cut by BI to 4.75% in Q1 2020. Overall, we maintain a higher trajectory in USD/IDR, towards 14,200 in 1Q20, 14,300 in 2Q20, 14,400 in 3Q20 and 14,500 in 4Q20.

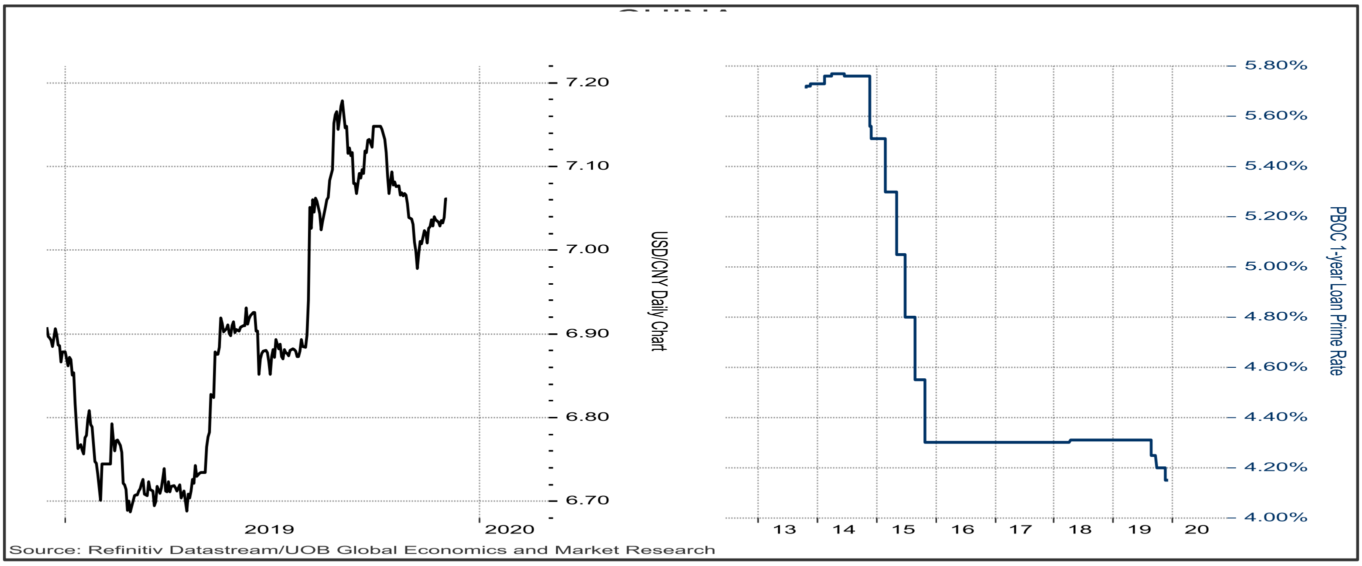
THAILAND



For the next monetary policy meeting on 18 Dec 2019, the BOT will likely maintain the policy rate at 1.25% to gauge the transmission mechanism of monetary policy and the easing of rules on capital outflows first before considering their next move. Barring further unexpected negative shocks, we also expect BOT to keep its benchmark rate unchanged into 2020.

The THB is on track for a second year of outperformance relative to its Asian peers, benefiting from safe haven flows and bucking the Asian FX weakening trend since the onset of the trade conflict in mid-2018. Now with the pick-up in risk appetite, safe haven demand for the THB could plateau. As such, we see USD/THB in a stable range between 30.0 and 30.8 next year.

CHINA



Elevated headline inflation and slowing momentum in global central banks' easing will likely keep PBoC on a measured and cautious stance as focus remains on improving monetary policy transmission through reforms and push for greater adoption of the Loan Prime Rate (LPR). Nevertheless, as China's easing cycle is at an early stage, we still see room for the LPR to move lower and gravitate towards the Medium-term Lending Facility (MLF), as intended by the policymaker when the reform was engineered back in August. Given the mild pace of interest rate adjustments so far, we now expect future LPR fixings to be moved by 5bps each month on average into mid-2020, with no further cuts to MLF. This will see 1Y LPR at 3.80% by mid-2020. As for the banks' reserve requirement ratio (RRR), we expect the next move to be in 1Q20. The RRR for large financial institutions had already been cut by 150bps to 13.0% YTD in 2019 with the last broad-based reduction in September.

We have dialed back our bearish CNY expectations (previous peak in USD/CNY forecast of 7.30 in 3Q20) in recognition of the progress in trade talks so far and the reduced risks of further trade escalation. Our updated forecasts for USD/CNY are 7.08 in 1Q20, 7.10 in 2Q20, 7.20 in 3Q20 and 7.20 in 4Q20. Overall, we still see value for investors to hedge their USD risks given the forward curve is still below our forecasts for tenures after 1Q20.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	05 Dec 19	1Q20F	2Q20F	3Q20F	4Q20F
USD/JPY	109	110	112	113	113
EUR/USD	1.11	1.11	1.11	1.13	1.15
GBP/USD	1.31	1.31	1.31	1.32	1.32
AUD/USD	0.68	0.69	0.69	0.70	0.70
NZD/USD	0.65	0.65	0.65	0.66	0.66
DXY	97.6	97.7	97.8	96.7	95.6
USD/CNY	7.05	7.08	7.10	7.20	7.20
USD/HKD	7.83	7.85	7.85	7.80	7.80
USD/TWD	30.49	30.50	30.80	31.00	31.00
USD/KRW	1,189	1,200	1,210	1,220	1,220
USD/PHP	50.89	51.50	51.80	52.00	52.00
USD/MYR	4.17	4.19	4.22	4.25	4.25
USD/IDR	14,094	14,200	14,300	14,400	14,500
USD/THB	30.29	30.00	30.50	30.80	30.80
USD/MMK	1,503	1,510	1,530	1,540	1,540
USD/VND	23,170	23,300	23,400	23,500	23,500
USD/INR	71.53	72.50	73.00	73.60	73.60
USD/SGD	1.36	1.37	1.38	1.39	1.39
EUR/SGD	1.51	1.52	1.53	1.57	1.60
GBP/SGD	1.79	1.79	1.81	1.83	1.83
AUD/SGD	0.93	0.95	0.95	0.97	0.97
SGD/MYR	3.06	3.06	3.06	3.06	3.06
SGD/CNY	5.17	5.17	5.15	5.18	5.18
JPY/SGDx100	1.25	1.25	1.23	1.23	1.23

RATES	05 Dec 19	1Q20F	2Q20F	3Q20F	4Q20F
US Fed Funds Rate	1.75	1.50	1.50	1.50	1.50
USD 3M LIBOR	1.89	1.65	1.65	1.65	1.65
US 10Y Treasuries Yield	1.77	1.80	1.80	1.90	1.90
JPY Policy Rate	-0.10	-0.20	-0.20	-0.20	-0.20
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.75	0.75	0.75	0.75	0.75
AUD Official Cash Rate	0.75	0.75	0.75	0.75	0.75
NZD Official Cash Rate	1.00	1.00	1.00	1.00	1.00
CNY 1Y Loan Prime Rate	4.15	3.95	3.80	3.80	3.80
HKD Base Rate	2.00	1.75	1.75	1.75	1.75
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.25	1.25	1.25	1.25	1.25
PHP O/N Reverse Repo	4.00	3.75	3.50	3.50	3.50
SGD 3M SIBOR	1.77	1.55	1.55	1.55	1.55
SGD 3M SOR	1.52	1.45	1.45	1.45	1.45
SGD 10Y SGS	1.75	1.80	1.80	1.80	1.80
MYR O/N Policy Rate	3.00	2.75	2.75	2.75	2.75
IDR 7D Reverse Repo	5.00	4.75	4.75	4.75	4.75
THB 1D Repo	1.25	1.25	1.25	1.25	1.25
VND Refinancing Rate	6.00	6.00	6.00	6.00	6.00
INR Repo Rate	5.15	4.90	4.90	4.90	4.90

COMMODITIES	05 Dec 19	1Q20F	2Q20F	3Q20F	4Q20F
Gold (USD/oz)	1,476	1,480	1,500	1,550	1,550
Brent Crude Oil (USD/bbl)	63	63	65	68	70
LME Copper (USD/mt)	5,885	6,000	6,000	6,000	6,000

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

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