UOB HOUSE VIEW

1Q2018

GLOBAL MACRO

The global goldilocks recovery is set to extend further into 2018, with rising growth in US, Eurozone and Asia. Global central banks will join the US to normalize rates. We see 3 more hikes in the US in 2018 as BSR ramps up to steady state. In Europe, the ECB will taper its asset purchases to zero. In Asia, rates are seen rising in Malaysia, Thailand, South Korea and China. In Singapore, the MAS will likely tighten monetary policy in April.

ASSET ALLOCATION

Macro-economic trends in growth and inflation have been supportive of a healthy investment outlook in the major asset classes while fixed income markets have only had to face modest rate rises. Thus, the "Goldilocks" environment has been conducive for equities, fixed income and commodities. We are overweight equities as it carries higher expected returns, but the outlook for broad investment including fixed income is stable.

EQUITIES

Most equity markets enjoyed a good year in 2017, thanks to synchronized acceleration of growth, benign inflation while a softer US dollar has contributed to easier global financial conditions. We expect macro conditions to remain supportive of global equity performance and while we are neutral on US equities, we favor European and Japanese equites in 2018. We believe emerging market equities could outperform developed market equities.

FIXED INCOME

The current rate hike path is the slowest in history and we expect fixed income to fare better than other previous late cycles. While fixed income does face headwinds, we expect fixed income funds to continue to deliver positive single digit returns at low risk levels. We note that even hawkish Fed views are pricing a low terminal rate of 2.5-3%, which implies the headwind will have limited impact.

COMMODITIES

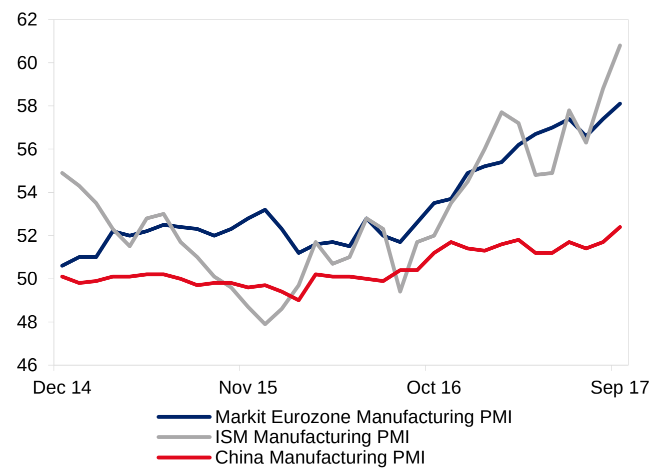
After the strong price rally, investors need to be mindful of volatility from extended long positioning. Gold is now vulnerable to higher interest rates. The rally in copper remains underpinned by strong global growth, but China related industry factors will inject volatility. Brent crude oil will likely trend higher towards USD 70 / bbl, supported by on-going supply disciple from OPEC and Russia.

FX & INTEREST RATES

As central banks normalizing monetary policies, we can expect interest rates to climb higher across 2018 (at a less leisurely pace). Interest rates in US and Singapore are expected to climb above 2%. The USD had a bad year in 2017 and outlook remains uncertain in 2018. Yield curve flattening continues to pressure the USD and benefits from tax reform are unclear. Various idiosyncratic factors will drive currencies instead.

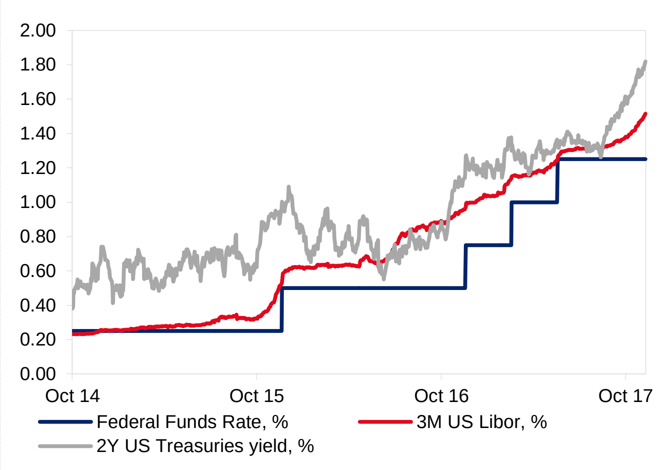
UOB

Global Synchronised Uptrend In Activity Continues Into 2018



Source: Bloomberg, UOB Global Economics & Markets Research

Front End US Rates Are Heading Above 2.0% In 2018



Source: Bloomberg, UOB Global Economics & Markets Research

Global Economic Heat Map Turns More Positive

In the final months of 2017, it became apparent that the nascent export and activity recovery has broadened across key economies around the globe and has strengthened further. We expect this synchronized growth recovery to broaden further into 2018. For the US, we see GDP growth sustaining at 2.5% in 2018, with potential upside from the successful passage of US tax reform. Japan's growth outlook is expected to strengthen further from 1.3% this year to potentially 1.7% in 2018. The Eurozone economy is also set to extend its positive run as overall GDP rises towards 2.0%.

As for the various export oriented Asian economies like Singapore, Thailand, South Korea and Malaysia, we have upgraded their respective 2018 GDP outlook with anticipated follow-through from the strong recovery in 2H 2017. Finally, China's growth outlook is seen comfortably within the 6.5% to 7.0% range, a stable growth backdrop. Overall, the global macroeconomic heat map has turned even more positive heading into 2018 as the Goldilocks recovery extends further.

Global And Asian Central Banks Join The US Federal Reserve To Normalize Monetary Policy

By 2018, the US Federal Reserve would have entered the third year in its normalizing cycle. Four rate hikes after the very first 25 bps hike in Dec 2015, the upper bound Federal Funds Rate has been lifted up to 1.50%. After the upcoming widely expected Dec (2017) rate hike, we see potentially three more rate hikes in 2018. Concurrently, Balance Sheet Reduction (BSR) will be ramped up progressively, reaching its steady state of USD 50 bn a month by 4Q18, dropping the US Federal Reserve's balance sheet from USD 4.5 trn to potentially USD 4.0 trn. In other words, the US Federal Reserve can be expected to lead the charge further in terms of normalizing monetary policy in 2018.

Concurrently, the European Central Bank (ECB) has already halved its monthly asset purchases to EUR 30 bn and is expected to signal a full stop to QE by Sep 2018. In Asia, the Bank of Korea (BoK) was the first central bank off the block with a 25 bps rate hike. Across 1H2018, we see Peoples' Bank of China (PBoC), Bank Negara Malaysia (BNM), Bank of Thailand (BoT) and Monetary Authority of Singapore (MAS) potentially joining the normalizing cycle.

Key Risks To Our Constructive Goldilocks View

Needless to say, there are three key risks to our on-going constructive Goldilocks world view of on-going growth recovery and gradual uptick in rates. First, a stronger than expected surge in inflation that forces the US Federal Reserve to accelerate its pace of tightening and forcing rates to adjust higher at a faster pace, injecting unwelcomed volatility to global capital markets. Second, is a US tax reform with clear specifics that provide a strong motivation for US corporates to repatriate their retained profits. This may drown the various idiosyncratic currency drivers and trigger instead a strong recovery in the USD. Third, is any destabilizing geopolitical or financial market risk that puts paid to the on-going Goldilocks recovery and forces global central banks to hold back on their monetary policy normalization.

The UOB House View team wishes our readers a very successful and productive 2018!

ASSET ALLOCATION

Late Cycle Investing Strategies

Global growth continued to surprise to the upside in the fourth quarter of 2017. Growth is strong enough and broad based enough that we maintain our recommendation to be positive on global equities. We continue to highlight that our positive view on equities is does not imply a negative outlook on fixed income, but rather just that we expect equities to provide higher returns. Fixed income faces headwinds from rising rates in the US, but as we have highlighted all year, we would expect fixed income returns to remain positive and investors with lower risk appetite should still do well in fixed income funds. For example even in 2017, a year of a strong equity bull market, fixed income returns of broad indices like global bonds still achieved returns of over 6% in USD terms.

For the start of 2018 we remain overweight equities, overweight commodities and underweight fixed income and underweight cash.

We advise that the cycle is mature enough that investors should carefully develop late cycle investing strategies. The average economic expansion since World War 2 has lasted 5 years. The longest expansion ever is 10 years (during the 1990's).

There are a number ways of analyzing how the cycle is progressing and we maintain a checklist of danger signs that the cycle may be coming close to an end. So far, our watch list is not showing any signs of danger. Historically, risk assets like equities and credit perform well all the way up to the start of the next recession. Thus, while we think there are reasons to expect more modest returns in 2018 than was achieved in 2017, our bias is to expect further expansion and further healthy performance of risk assets and equities in particular.

Our checklist of danger signs for the approaching end of a cycle include 1) trends in the shape of the yield curve, 2) trends in the momentum of leading indicators, 3) recession probability models, 4) signs of excessive credit expansion, 5) financial stress indicators such as bank liquidity spreads, 6) market indicators such as asset correlations, and 7) high yield vs investment grade spreads. Through all the previous cycles there were clear trends in how these signals behaved. We monitor all of them for signs of any one showing danger signals. Currently we would argue that none of them are showing the patterns we would expect if a recession was looming in the next six to twelve months. In addition to monitoring our checklist, we carefully monitor global macro trends for some sign of a new and unexpected trigger. While there are various global macro and geopolitical risks to monitor, we currently find the threats of starting a new global recession unpersuasive.

If we are right about the economic cycle then the investment recommendation is clearer. Risk assets like equities, credit and commodities perform well in the final stages of an expansion. For example, we would equate the recession signals as looking closer to the patterns in early 2006 than in late 2007. If investors got out of equities in 2006, they would have missed half the bull market and 2 strong years of performance.

At the same time, after a strong year of investment performance such as we have seen in 2017, it would be reasonable to moderate expectations for 2018. We would warn that market returns are strongest not only when growth is positive but that when the trends in positive growth consistently surprise on the upside. The year of 2017, was defined by strong positive trends and upward economic surprises. We would argue that global economic growth is likely to repeat the same strong growth levels achieved in 2017. But even though growth is just as good, it is not surprising investors with better than expected improvements. In such an environment, equities tend to be able to perform as global earnings improvement but markets are not as vibrant and exciting as the strong gains made in years like 2017.

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

Most equity markets have had a good year, owing to a combination of drivers. Growth has been accelerating in a synchronized fashion while inflation remains benign. As the same time, a softer US dollar has contributed to easier global financial conditions, which have benefited equities and other risk assets. Looking forward to 2018, we see macro conditions remaining supportive of global equity performance in aggregate. Here, we discuss our regional equity views.

We take a neutral stance on US equities. The economic outlook for the US is a positive one, with scope for growth to accelerate in view of the slow pace of expansion thus far in this cycle. Should the tax reforms being debated in Congress materialize in the near-term, they could be the catalyst for growth to accelerate. While US equities can be expected to deliver positive returns against this backdrop, we do not expect these returns to be large as both corporate profit margins and valuations are already high relative to history, limiting room for returns from earnings growth or re-rating.

We favour European equities. Economic activity has been accelerating and the positive momentum looks set to continue. On the monetary policy front, the European Central Bank appears to be committed to ensuring that monetary policy remains supportive of the economic recovery, which suggests that it will taper its quantitative easing programme and eventually normalize monetary policy at a non-disruptive pace. Furthermore, profit margins have room to expand outside of Germany and France. Therefore, while Italian general elections pose an event risk in the first half of the year (the elections are due no later than 20 May), we see potential for European equities to outperform.

We have a positive view on Japanese equities. After a brief period of underperformance on geopolitical concerns, Japanese equities have rallied recently on the back of signs of economic improvement. An important source of support for the market has been foreign investor buying, which has been positive since the middle of 2017 and looks set to continue.

In broad terms, we believe emerging market equities have the potential to outperform their developed market counterparts. That said, a more differentiated perspective is warranted amongst emerging market equities. US yields and the US dollar may rise moderately next year, which would remove a tailwind for emerging market equities as a bloc. We therefore favour markets with their own positive drivers, rather than those dependent on easy financial conditions. Our regional picks within emerging market equities include China (earnings recovery), India (structural reforms), Russia (higher oil prices) and Brazil (economic recovery).

COMMODITIES

Overview - Be Mindful Of Extended Long Positioning After The Strong Price Rally

As 2017 draws to a close, expectations run high that commodities strength will continue into 2018. The on-going synchronized recovery in growth and activity across the world bodes well to ensure that global demand remains strong for both industrial metals and crude oil. However, as a result of the strong price rally, investors need to be mindful that net long positioning is starting to appear stretched in several commodities and may limit further extensive gains.

Gold – Vulnerable As Short Term Rates Rise Further

In the case of gold, it is now desensitized to repeated geopolitical risk and the elevated net long positioning may be the tipping point as downside pressure builds from rising short term rates. 3M US Libor has climbed from 1.0% to 1.5% across 2017 and is expected to rise further above 2.0% in 2018. Total ETF tonnage for gold has now risen to the highest for the year as net long gold futures positioning on COMEX also remained near the high for the year. Hence, further rise in short term rates may trigger liquidation of long positioning. We see gold pulling back to USD 1,200 in 2H18.

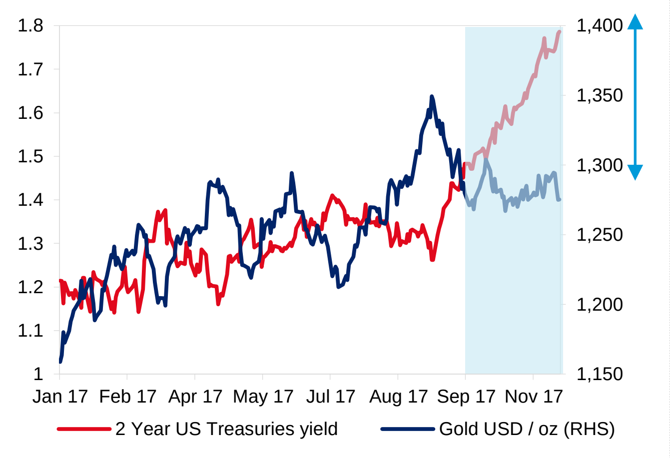
Crude Oil – Brent Premium Over WTI To Increase

OPEC has agreed with Russia to extend their production cuts into end 2018. In addition, synchronized global recovery and on-going gradual drawdown of global oil inventory will lift Brent crude oil up to the USD 68 / bbl handle by the end of 2018. But in the US, there is no supply discipline. After recovering from temporary disruption from the hurricane season, US crude oil production has jumped back near all-time high. This has renewed concerns of the volatile nature of US crude oil supply, particularly from US shale fields. As such, we expect WTI crude oil to face further headwinds as it heads towards USD 60 / bbl.

**Copper - Uptrend Remains Intact,
But Volatility To Increase**

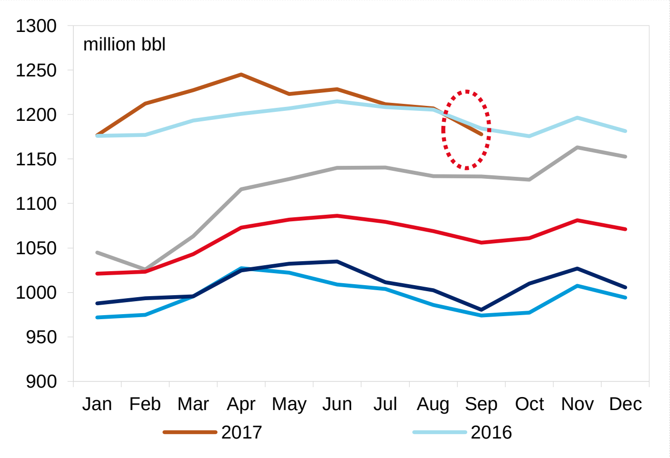
As 2017 draws to a close, investors started to question the sustainability of the strong metals rally. And it should not surprise investors that most of the near term selling pressure seem to emanate from China related factors. Over the near term, Copper appears to have peaked just under USD 7,000 / MT. Extended net long positioning is at risk as China's deleveraging drive limits construction demand. Over the long run, copper is still in supply deficit while the strong growth in electric vehicles is a key positive. To stay invested in industrial metals, investors may reallocate into the LME Metals Index (LMEX) for better diversification.

Decisive Rise In Short Term Yield Starting To Have Dampening Effect On Gold



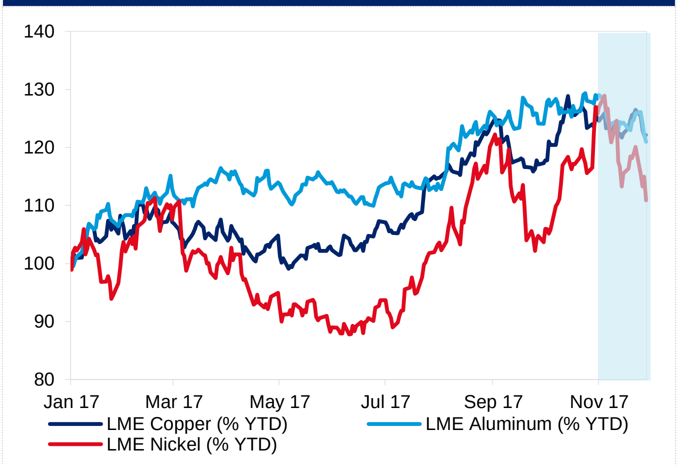
Source: Bloomberg, UOB Global Economics & Markets Research

OECD Total Industry Crude Oil Stocks Has Fallen Back Below Last Year's Seasonal Level



Source: Bloomberg, UOB Global Economics & Markets Research

After Strong Rally, Copper, Aluminum And Nickel Encounter Near Term Volatility



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Benign Inflation But Rate Hikes Continue
UOB's house view that the US FED will continue to hike rates through 2018 and put pressure on long term USD rates to drift toward 3% will be a modest headwind for fixed income markets. However, like last year, we take pains to explain that this headwind does not require investors to be overly anxious about fixed income returns. We highlight that most fixed income funds with a credit focus should continue to be able to deliver positive, low risk returns of 2-4%. We also note that by historical standards the US FED fund rate hiking path is very slow and the peak in the FED funds is probably not much higher than 3% and that would only be achieved if the global economic expansion lasts 2-3 more years.

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 Index has gained 6.7% through early December 2017 so far in 2017. The JPM Asia Credit Index has gained 6.8% in USD terms so far in 2017. We would note that at the start of 2017 many investors were similarly anxious about rising rates and were concerned fixed income markets could lose money. As we have noted all year long, the more anxious view does not reconcile well with the very low inflation world which is the back drop for fixed income markets.

Fixed income gains have slowed in the second half of the year of 2017. Since 30 June 2017, Global bond indices have gained 2.3% and Asia bond indices have gained 2.1%.

We continue to overweight corporate credits over government bonds as we expect short term and long term rates to rise at a modest pace in 2018. Despite the US Fed rising rates steadily over the past year, the moves in the 10yr bond yield has been modest so far. The US 10 year treasury bond yield started the year at 2.4%, fell to 2.05% in September and is currently almost back up to 2.4% again. Another year of growth in 2018 and some pickup in inflation should put pressure on long term rates, but we think the upside risks to rates are constrained by the slow path of the FED Funds rate and the maturity of the cycle.

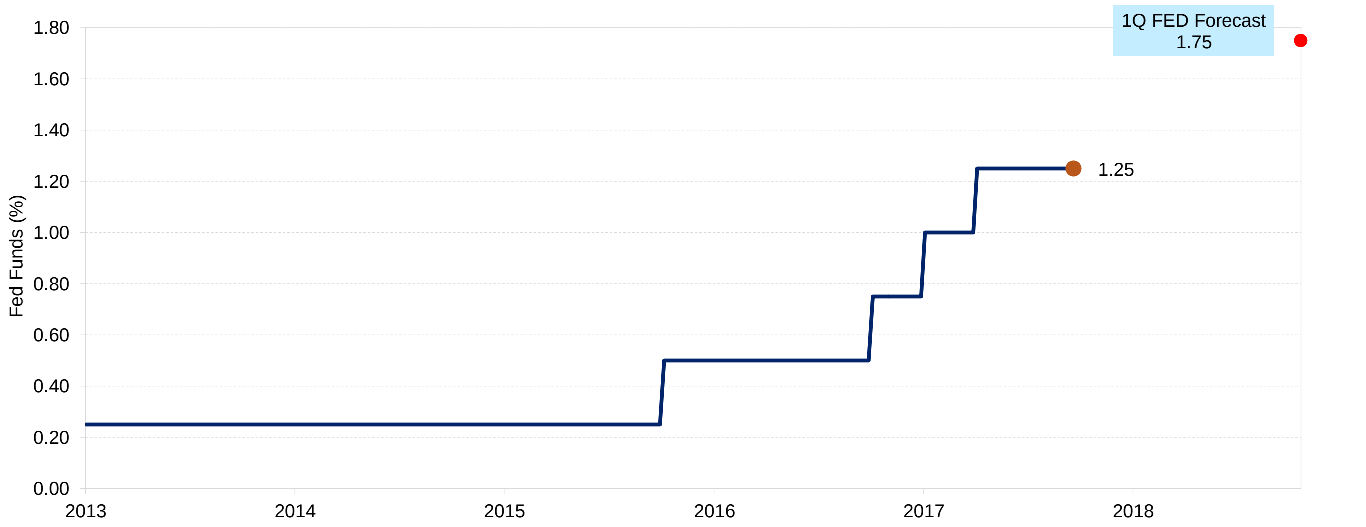
We continue to believe that many investors that do not have the risk tolerance for equity volatility would still benefit from being in fixed income markets over shifting to cash. Also the positive part of the fixed income outlook is that the multiyear outlook can improve as yields of fixed income funds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

We remain 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

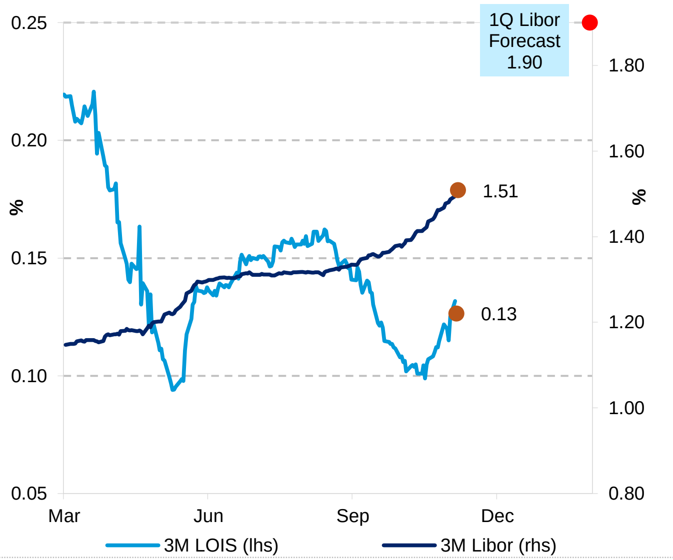
UNITED STATES

FED Funds Rate



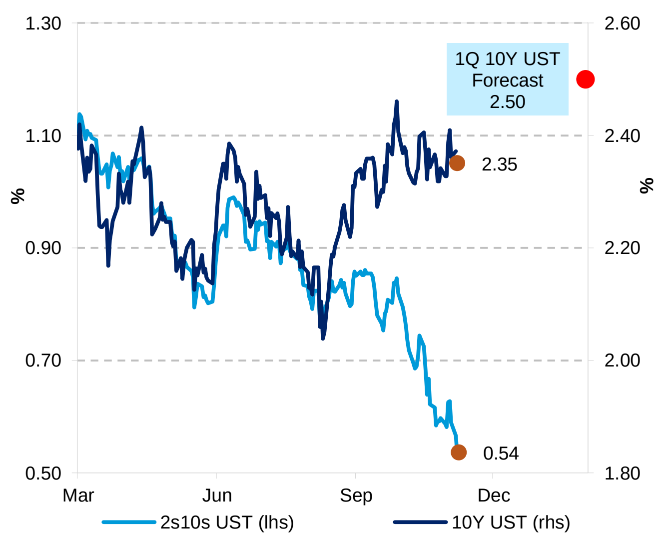
Our moderately hawkish outlook for the Fed rate trajectory in 2018 remains intact after Powell succeeds Yellen and our base case remains for a 12/13 Dec FOMC rate hike and thereafter, we expect three more 25bps hikes in 2018, bringing the FFTR to 2.25% by end-2018. We also expect continuity in Fed Reserve's balance sheet reduction (BSR) program. Since BSR was implemented in Oct 2017, the effect was hardly visible but it will likely gain further traction in 2018, as cuts to reinvestment expand so the aggregate annual cuts will increase from US$30bn in 4Q 2017 to US$420bn in 2018 and reach steady state of US$600bn in 2019. We expect BSR to continue until the Fed balance sheet is reduced to US$2.5trillion by mid-2021. Trimming the Fed balance sheet is somewhat a 'substitute' for rate hikes, so we believe the continuation of BSR is one key factor the 2018 FOMC will take into consideration and not add more rate hikes beyond the 3 hikes.

3M US Libors



- We expect to see 3M Libor continue in its upward trend towards 1.90% by the end of 1Q2018 on the basis of another 25bps FED rate hike in the quarter.
- For 2018 we can expect gradually higher Libors as we are penciling in another 3 more FED hikes in total.
- LOIS has stabilized at lower levels. Prevailing spreads are consistent with benign USD funding conditions despite BSR; investors are complacent on liquidity risks.

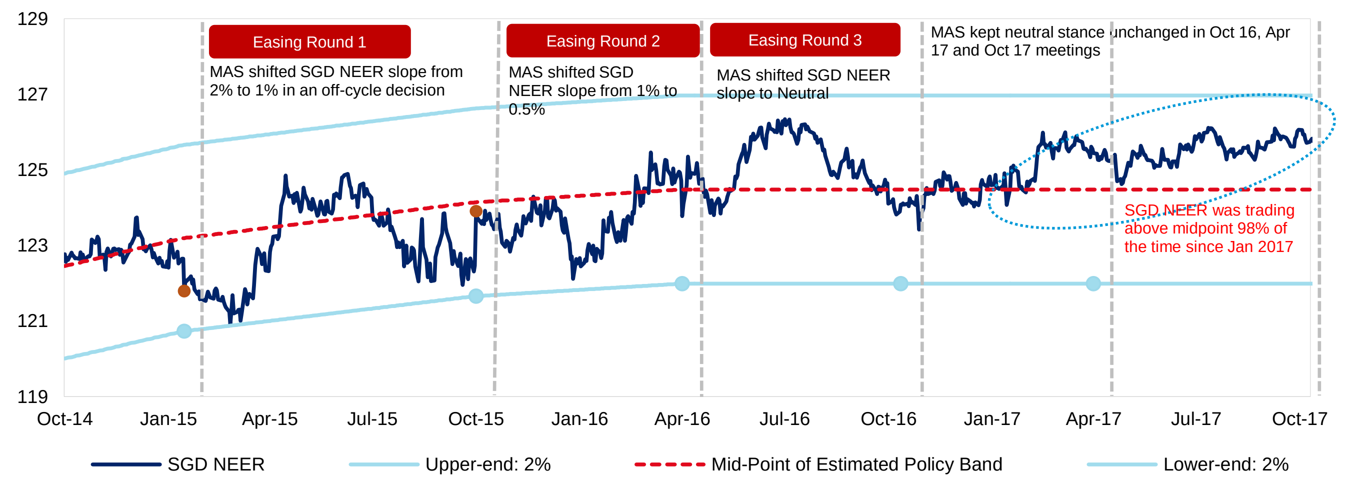
10Y US Treasuries



- We expect to see 10Y UST at 2.55% by the end of 1Q2018.
- Benign inflation expectations and cautious guidance by the FED caps the upside repricing potential in 10Y UST despite robust growth and employment outcomes.
- Curve flattening will continue to be a feature in 2018 as the FED advances their tightening cycle.
- BSR risks are under appreciated and could exacerbate repricing if fiscal stimulus triggers supply side concerns.

SINGAPORE

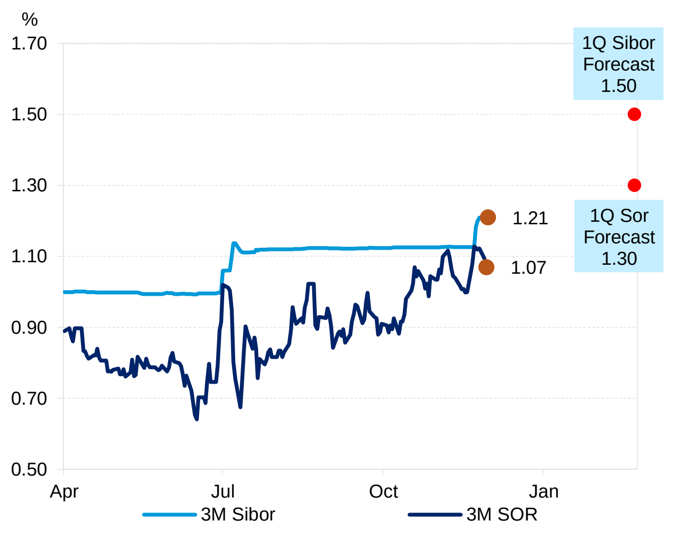
SGD NEER



After clear evidence of strong rebound in growth and activity in 2H18, the Monetary Authority of Singapore (MAS) is widely expected to revert the S$ NEER policy band back to its historical mild appreciation path during the next monetary policy meeting in Apr 2018. Currently, the MAS maintains a neutral S$ NEER appreciation path. However, it is noted that throughout nearly all of 2017, S$ NEER has stayed firmly in the stronger half of the S$ NEER band and is currently trading at more than 1% strength above the estimated mid-point of the policy band. Therefore, is possible that at current strong levels, the S$ NEER has already priced in to a large extent of the anticipated MAS policy normalization.

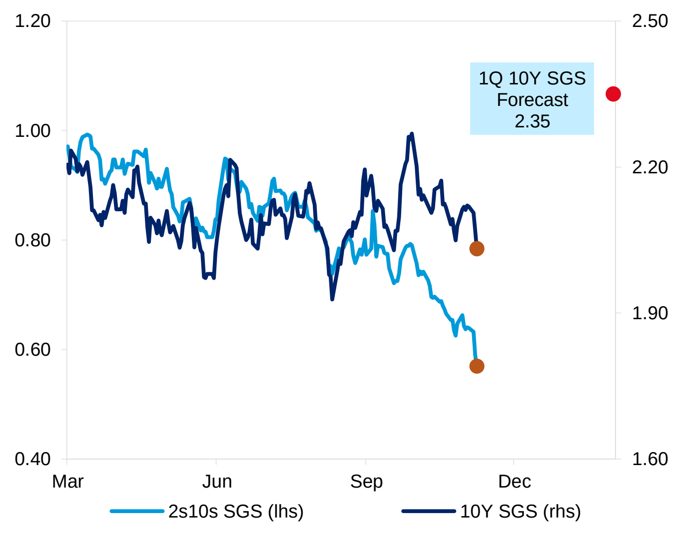
Overall, ahead of the MAS monetary policy meeting in April, given the strong rebound in economic growth, we can expect SGD to stay strong. As such, we forecast USD/SGD at 1.34 in 1Q18. Thereafter, mild USD strength can be expected to resume in 2H18 as the FED tightens policy further and USD/SGD will glide higher to 1.35 in 2Q18, 1.37 in 3Q18 and 1.38 in 4Q18.

3M SOR and Sibor



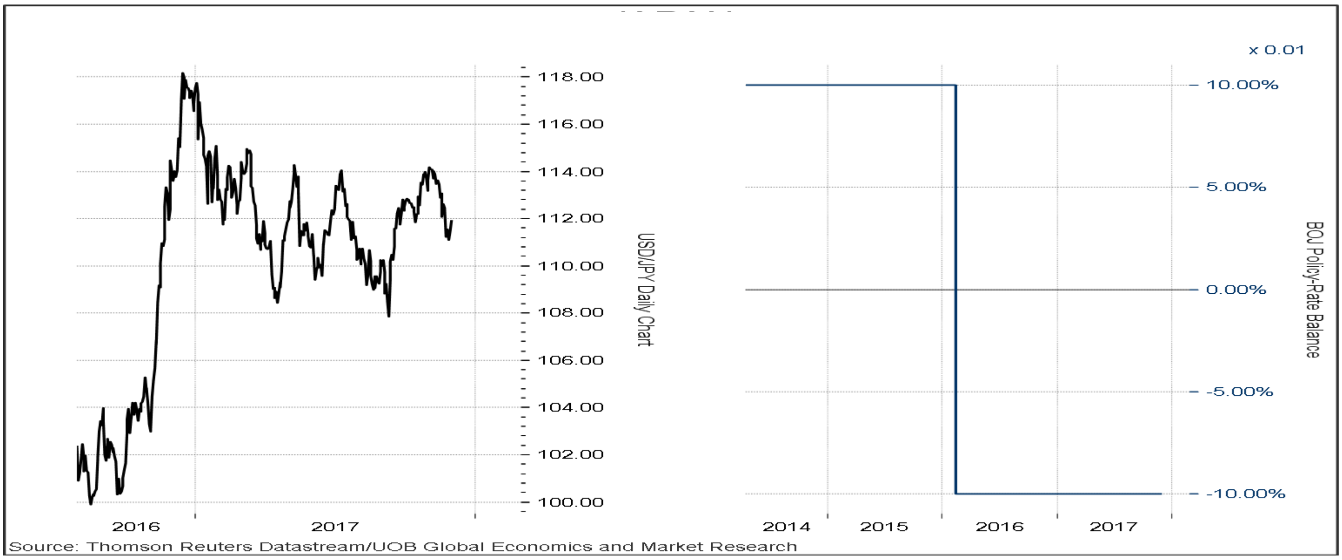
- We expect to see 3M SOR and SIBOR at 1.30% and 1.50% by the end of 1Q2018 respectively.
- Sor discount to Sibor is the path of least resistance as the unsecured lending market remains calibrated to prevent excess liquidity while on the other hand FX swaps are expected to remain in discount to reflect a USD funding premium.
- Risk premium repricing is an outlier possibility given our Macro team's constructive view of Asian Emerging Markets in 2018.

10Y SG Bonds



- We expect to see 10Y SGS at 2.55% by the end of 1Q2018.
- 2018 SGS supply has a full slate of 15Y, 20Y and 30Y scheduled, thus places a floor on how far the 10s30s curve can flatten.
- An implication of Sor discount to Sibor/MAS bills and SGS supply suggests that ASW/Bondswap spreads will likely remain on the tighter end of history for most of 2018.

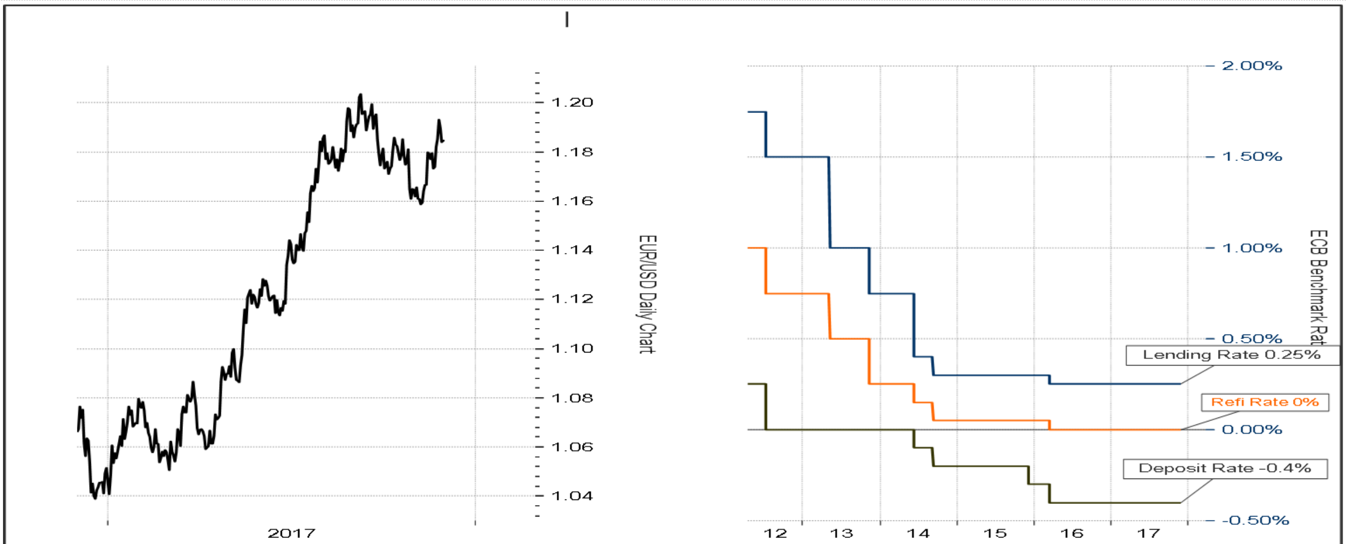
JAPAN



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

While we have (for most of 2017) been stressing that it remains premature to even expect the BOJ to talk about normalizing/tapering its easing program anytime soon, because Japan is still far away from its 2% inflation target, changes maybe afoot & sooner than expected, as BOJ Gov Kuroda made mention of a “reversal rate” (which is the level where rate cuts by a central bank hurt, not help, the economy by damaging banks and discouraging lending)and some MPM board members followed up with warnings about being vigilant to the cost of easing and that BOJ’s yield curve control could be watered down. The specter of “BOJ normalization” is now etched into market psyche which may involve BOJ adjusting its yield curve control parameters while still proclaiming continuity of ultra-expansionary monetary policy. Kuroda’s term as BOJ chief ends in April 2018 and his re-appointment is now hanging in fine balance. The only way Kuroda can get re-appointed is to play by PM Abe’s book which is to “continue with bold monetary easing”. If Kuroda increasing shifts his bias towards some form of normalization ahead of the 2% target, we are likely to see a resurgent yen in the near term (1Q) but it will also mean that PM Abe is less likely to re-appoint Kuroda and appoint a pro-easing candidate like Etsuro Honda. And once the name is announced, market’s BOJ policy expectations will revert back to “expansionary till 2% is met”.

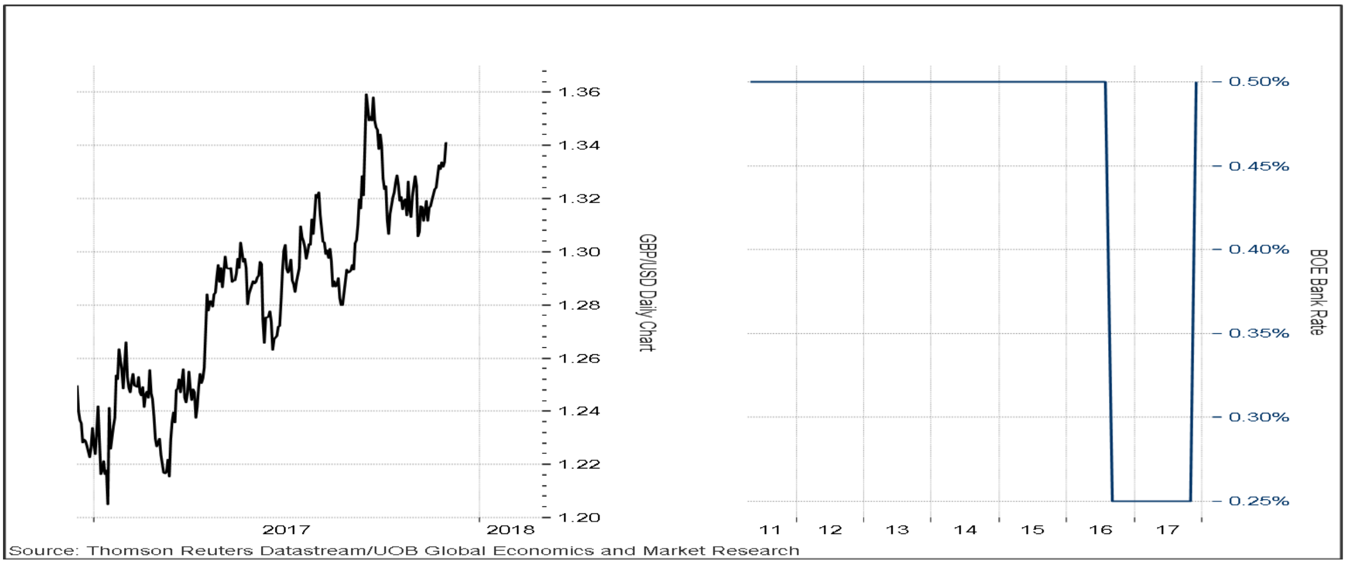
EUROZONE



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

Despite Chancellor Angela Merkel’s ongoing difficulty in forming a coalition government for Germany, both Germany and Eurozone’s strong economic recovery remains intact. The Eurozone’s job market improved as unemployment rate fell below 9.0%. Concurrently, Eurozone’s growth recovered as quarterly GDP turned out stronger than expected. Furthermore, Eurozone’s current account balance is now back in the pink of health, led of course by German’s strong current account surplus of above 7% of GDP and Greece now back successfully in international debt market. All these suggest that the European Central Bank (ECB) may well dovetail net asset purchases down to zero by Sep 2018. All these factors are positive for the EUR/USD. Overall, we see some consolidation around 1.18 in 1Q18.

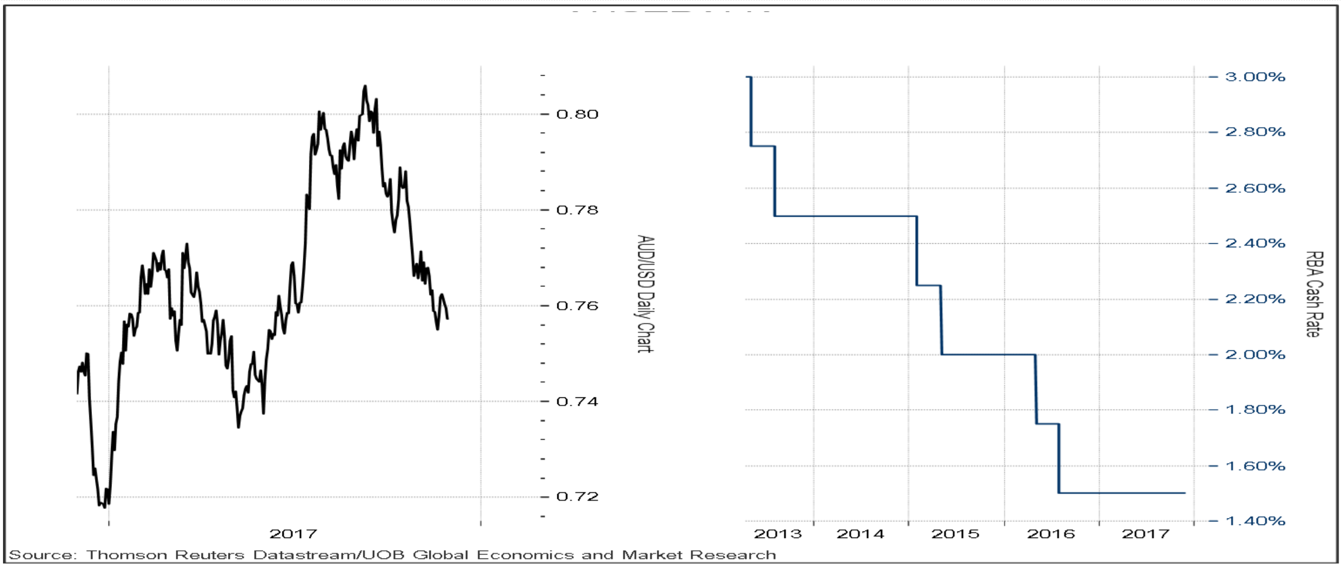
UNITED KINGDOM



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

Over the near term, the GBP/USD was buoyed by a hopeful turn of events that suggest that both the UK and EU may well agree on a possible quantum for Brexit cost. However, the tough negotiations will only continue with many other key questions remaining over the future of EU-UK relationship and many other specifics regarding trade, migration, citizen rights remain unresolved. There remains risks of renewed political uncertainty as the longevity of the Tory government as well as the premiership of Theresa May will repeatedly come into doubt. With the “dovish” hike by the Bank of England (BoE) out of the way, we see renewed weakness in GBP/USD – falling back to 1.32 in 1Q18.

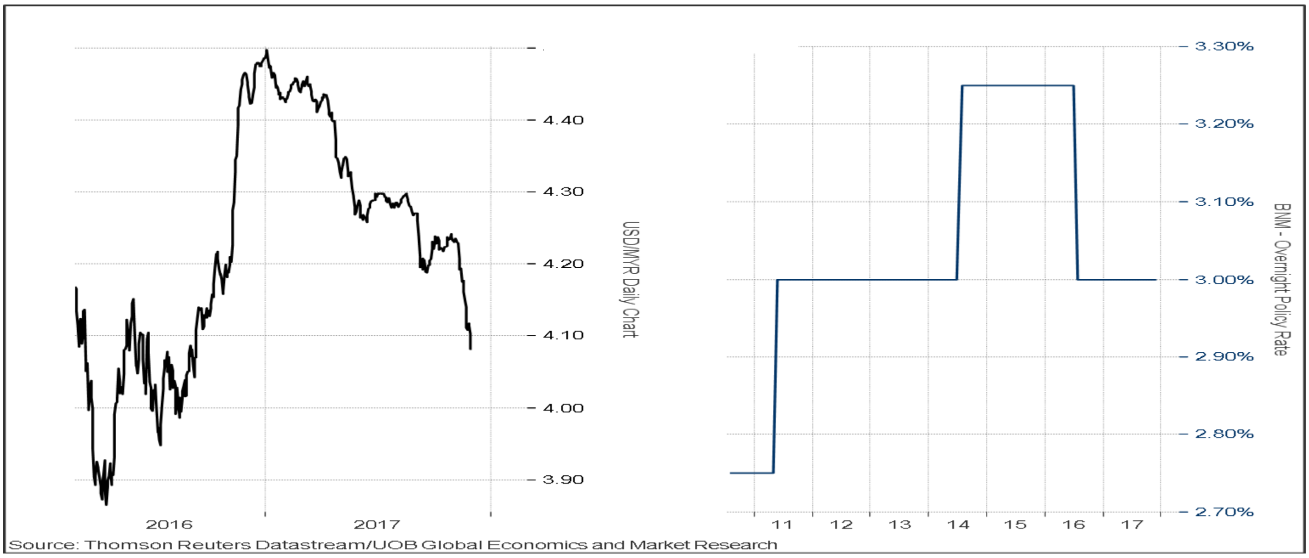
AUSTRALIA



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

By now, it is apparent that the Reserve Bank of Australia (RBA) remains comfortably on hold. Australia’s weak inflation outlook, with CPI looking subdued at the bottom of the RBA’s 2% to 3% range, reinforces that RBA’s neutral stance. With the RBA now stuck in neutral gear, given that Australia is a key commodities exporter, we believe that the key idiosyncratic driver for the AUD/USD now reverts back to commodities outlook. Overall, we maintain our positive outlook on industrial commodities, including base metals and crude oil. We thus maintain our positive outlook for AUD/USD and see a rebound to 0.78 in 1Q18.

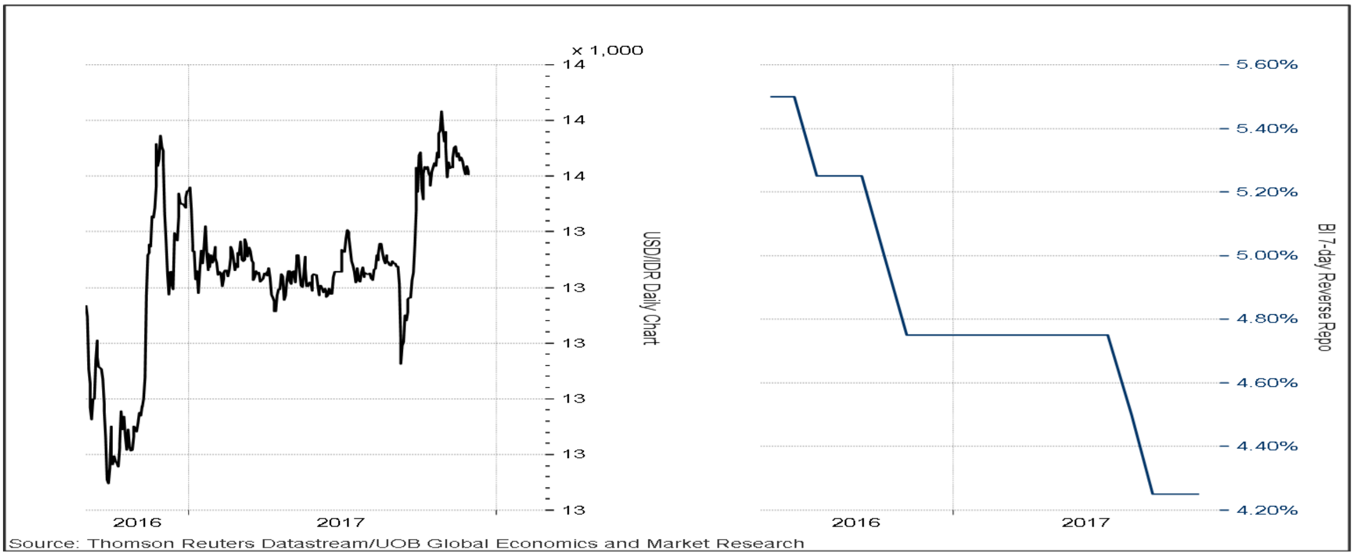
MALAYSIA



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

Bank Negara Malaysia (BNM) sounded the possibility of reviewing the degree of monetary accommodation at its final monetary policy meeting this year, opening the door for a 25bp hike in the Overnight Policy Rate (OPR) to 3.25% in early 2018. The growth outlook remains promising with officials projecting GDP growth of 5.0%-5.5% in 2018. Our technical indicator points to more MYR strength ahead. Coupled with a growing list of positive macroeconomic indicators and potential rate hike from BNM, we reiterate our positive MYR view. We expect USD/MYR at 4.05 in 1Q18, 4.02 in 2Q18, 3.97 in 3Q18, and 3.95 in 4Q18. Key risks to our positive MYR view are a more aggressive pace of US FED rate hikes or renewed weakness in crude oil prices.

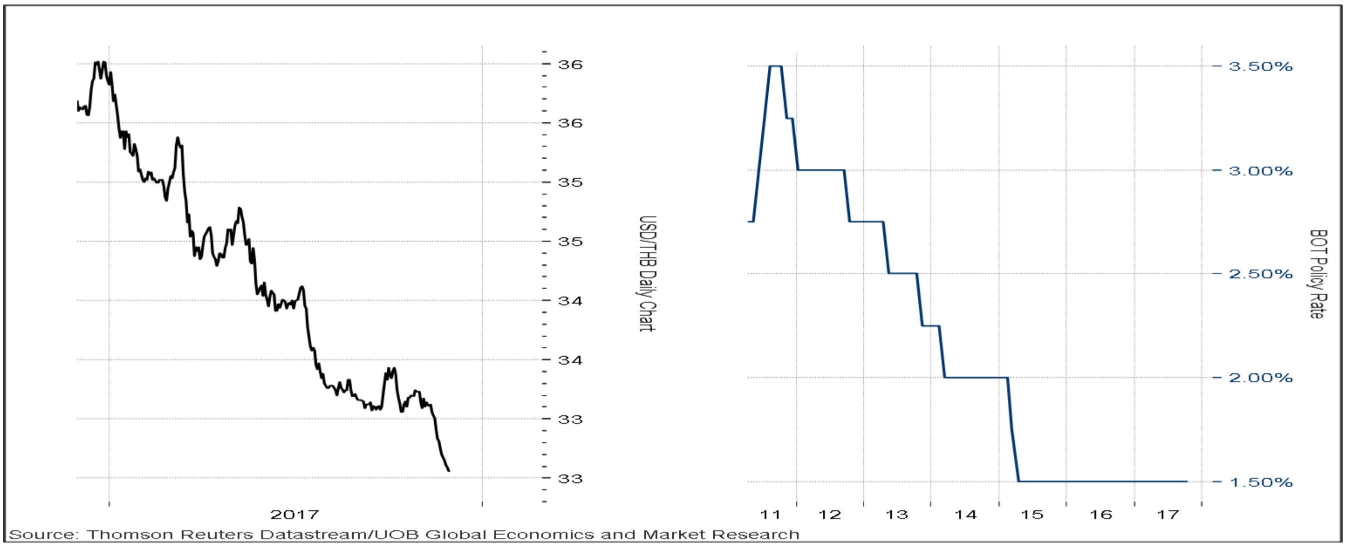
INDONESIA



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 do not see scope for anymore cut this year and BI may keep the benchmark rate to 4.25% for most of 2018 but we forecast one 25bps rate hike at year-end (December 2018) to bring the rate up to 4.50%. The main factor is likely due to central banks in developed economies such as the BOE, ECB and the US Fed unwind their loose monetary policies. 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.

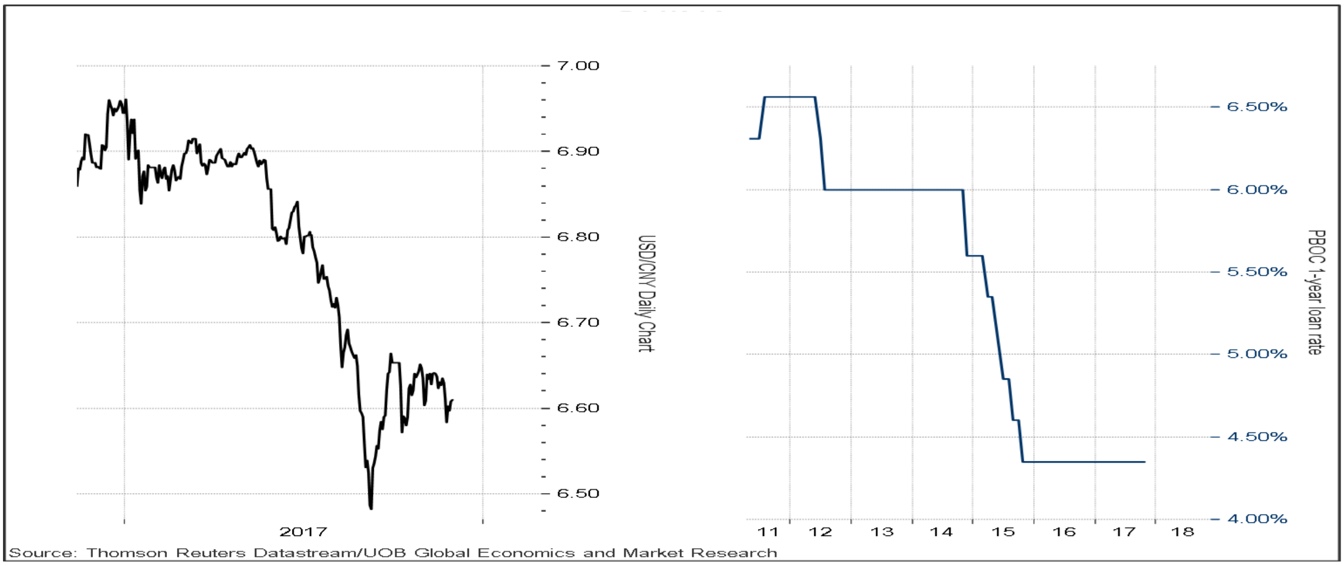
THAILAND



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

The BoT kept the policy rate unchanged at 1.5% on 8 Nov 2017. Looking forward, the BoT will likely raise the policy rate to 1.75% in the second half of 2018 as the Thai economy would continue to expand and return to its potential growth, thus lessening the need for an exceptionally accommodative monetary policy. The anticipated BoT rate hike in 2H18 is also a positive for the THB. Our technical indicator also suggests more THB strength ahead with the 33.00 level now seen as a key resistance. As such, we see that the THB is biased to remain stronger for longer across 1H 2018. Thereafter, the USD may stabilize somewhat in 2H18 as the US FED continues its monetary policy normalization. Overall, we forecast risk of further USD/THB weakness to 32.30 in 1H18, before some marginal recovery to 32.60 in 3Q18 and 32.90 to 4Q18.

CHINA



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

The CNY is expected to remain relatively stable, guided by the steady hand of PBoC. The on-going policy priorities to reduce excessive leverage and curb corporate debt will reinforce China's GDP growth outlook within the 6.5%-7.0% range. In terms of monetary policy, both onshore money market rates and longer term benchmark bond yields have traded noticeably higher, in line with our expectations of at least one hike in benchmark rates. We look for PBoC to stay with its prudent bias, with possibly of at least one 25bps hike into 2018, from its current 1Y benchmark lending rate of 4.35% and deposit rate of 1.50%. Note that the targeted reserve requirement ratio (RRR) cut of 50bps announced in Sep will take effect from 2018

Going into 2018, the CNY may experience some mild weakness in line with the forward curve. This is mainly due to some anticipated renewed strength in the USD as the US FED normalizes policy further and Balance Sheet Reduction (BSR) heads into steady state by end-2018. Our technical indicator also suggests some mild CNY weakness in to 2018. Overall, we see USD/CNY edging up to 6.63 in 1Q18, 6.68 in 2Q18, 6.70 in 3Q18 and 6.73 in 4Q18.

FX, INTEREST RATE & COMMODITIES OUTLOOK

FX	08 Dec 17	1Q18F	2Q18F	3Q18F	4Q18F
USD/JPY	113	108	111	113	115
EUR/USD	1.18	1.18	1.19	1.21	1.23
GBP/USD	1.35	1.32	1.30	1.28	1.27
AUD/USD	0.75	0.78	0.79	0.81	0.82
NZD/USD	0.68	0.69	0.70	0.71	0.72
USD/CNY	6.62	6.63	6.68	6.70	6.73
USD/HKD	7.81	7.80	7.80	7.80	7.80
USD/TWD	30.00	30.00	30.00	30.20	30.50
USD/KRW	1,095	1,070	1,090	1,100	1,110
USD/PHP	50.70	50.80	51.00	51.20	51.40
USD/MYR	4.09	4.05	4.02	3.97	3.95
USD/IDR	13,557	13,500	13,500	13,600	13,700
USD/THB	32.60	32.30	32.30	32.60	32.90
USD/MMK	1,358	1,370	1,370	1,380	1,390
USD/VND	22,715	22,700	22,700	22,800	22,900
USD/INR	64.60	64.50	65.00	65.50	66.00
USD/SGD	1.35	1.34	1.35	1.37	1.38
EUR/SGD	1.59	1.58	1.61	1.66	1.70
GBP/SGD	1.82	1.77	1.76	1.75	1.75
AUD/SGD	1.02	1.05	1.07	1.11	1.13
SGD/MYR	3.02	3.02	2.98	2.90	2.86
SGD/CNY	4.90	4.95	4.95	4.89	4.88

RATES	08 Dec 17	1Q18F	2Q18F	3Q18F	4Q18F
US Fed Funds Rate	1.25	1.75	2.00	2.00	2.25
3M USD LIBOR	1.52	1.90	2.15	2.15	2.40
10Y US Treasuries Yield	2.37	2.55	2.65	2.70	2.90
JPY Policy Rate	-0.10	-0.10	-0.20	-0.20	-0.20
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.50	0.50	0.50	0.50	0.75
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	4.60	4.85	4.85	4.85
HKD Base Rate	1.50	2.00	2.25	2.25	2.50
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.50	1.75	2.00	2.00	2.00
PHP O/N Reverse Repo	3.00	3.00	3.25	3.25	3.25
SGD 3M SIBOR	1.21	1.50	1.70	1.70	1.85
SGD 3M SOR	1.08	1.30	1.50	1.50	1.65
MYR O/N Policy Rate	3.00	3.25	3.25	3.25	3.25
IDR 7D Reverse Repo	4.25	4.25	4.25	4.25	4.50
THB 1D Repo	1.50	1.50	1.50	1.75	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	5.75

COMMODITIES	08 Dec 17	1Q18F	2Q18F	3Q18F	4Q18F
Gold (USD/oz)	1,248	1,260	1,230	1,200	1,200
Brent Crude Oil (USD/bbl)	62	62	64	66	68
LME Copper (USD/mt)	6,564	6,500	6,800	7,000	7,200

THE TEAM

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