UOB HOUSE VIEW

2Q2019

GLOBAL MACRO

Global trade uncertainty is triggering synchronized growth moderation across key economies. We no longer see any more FED rate hikes going forward. In other words, FFTR has topped out at 2.5%. In Asia, various central banks are seen reverting to rate cuts to cushion the growth slowdown, such as BSP, BI, RBI and BNM. Singapore's MAS is also seen on hold in April after tightening S$NEER twice last year.

ASSET ALLOCATION

Global investing outlook has improved dramatically as the US Fed signaled that the rate cycle is near its end with no rate hikes expected in 2019. Our overall tactical recommendation remains to stay **neutral weightings for equities, slight overweight fixed income and overweight commodities, and underweight cash**. Multi-asset income strategies are well poised to benefit in a world of positive but slowing growth with rate hikes near the peak of the cycle.

EQUITIES

Our overall recommendation for equities is neutral versus fixed income. This may sound cautious for equities but even as the base case assumption is that equities will deliver mid to high single digit returns from the second quarter through the end of the year in 2019, equities are likely to provide positive returns but with a greater degree of uncertainty relative to fixed income.

FIXED INCOME

Against a backdrop of gradually decelerating growth across developed market economies and a dovish tilt by major central banks, the fixed income outlook is looking more attractive in 2019 and we prefer income strategies focusing on rates, credit and high yield. In the credit space, we think corporate fundamentals remain fairly strong and credit valuations of corporate bonds are reasonable notwithstanding that they have appreciated in value.

COMMODITIES

Gold is best poised to take advantage of the end of FED hiking cycle while China is seen reallocating reserves into gold, providing good support, and we turn positive on gold from neutral and targeting USD 1,450 by 1Q20. Brent crude oil trading range is raised to USD 65-75/bbl from previous forecast range of USD 55-65/bbl as OPEC+ maintains their disciplined production cuts. LME Copper seen to be more susceptible to global growth slowdown, stuck in USD 6,000-7,000 / MT range.

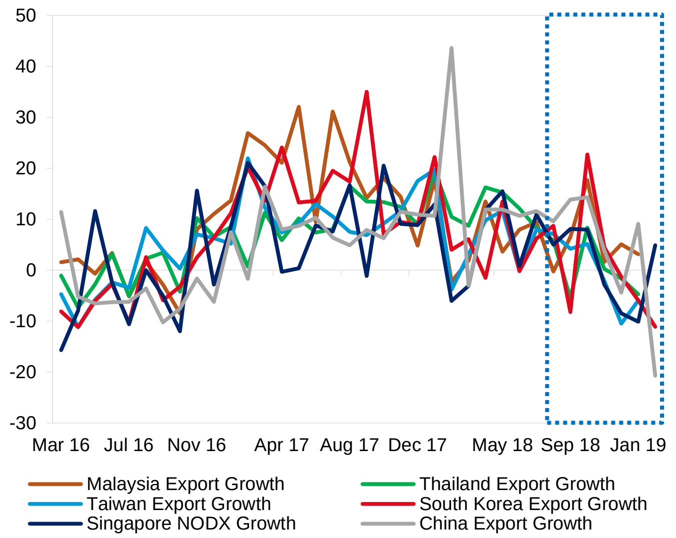
FX & INTEREST RATES

USD is increasingly on shaky ground as FED signals the end of hiking cycle. While we are still confident that EUR and AUD are bottoming, weaker growth outlook will limit immediate gains in them. Asian FX still unable to take advantage of the FED's end of hiking cycle due to respective central banks' renewed easing and region-wide weak growth, export slowdown. In view that the FED is no longer seen hiking rates, 3M US Libor will now hover around current level of 2.65% until year end.

UOB

GLOBAL MACRO

China Leads Asian Export Contraction As US-China Trade War Drags On



Source: OECD, UOB Global Economics & Markets Research

It's All About Trade!

Last March, exactly a year ago, US President Donald Trump announced his plans to start imposing tariffs on Chinese goods to reduce the ballooning US trade deficit with China, effectively triggering the start of the US-China trade war. By last August, both the US and China had imposed mutual tariffs on USD 50 bn of exports to each other. Since then, President Trump's threat on imposing a higher 25% tariffs (from the existing 10%) on USD 200 bn block of Chinese exports did not materialize, but damage is clearly done to global trade and growth.

Needless to say, China bore the brunt of the export contraction as the US-China trade war exacerbated the on-going slowdown. China conceded to a lower growth target range of "about 6.0% to 6.5%" for this year, compared to "around 6.5%" for last year. Alongside the downgrade in growth target, China has also announced broad fiscal stimulus, including a larger-than-expected VAT cut, widening the budget deficit to 2.8% of GDP (from 2.6% in 2018). From 6.6% last year, we see China GDP growth falling to 6.3% this year.

As China's growth and activity slowed down, Asia's export contraction intensified. Asian central banks (except the PBoC), which had tightened monetary policy en-mass last year, are now forced to consider unwinding the untimely rate hikes. Going forward, we see Bangko Sentral ng Pilipinas (BSP), Bank Negara Malaysia (BNM), Bank Indonesia (BI) and Reserve Bank of India (RBI) leading rate cuts across Asia. The Monetary Authority of Singapore (MAS) is also now seen staying on hold in April..

Outside of China, Germany narrowly escaped a technical recession in late 2018 but Italy unfortunately did not escape that outcome. The Eurozone is China's largest trading partner and an accelerated growth slowdown in China will weigh on Eurozone growth prospects. As such, the European Central Bank (ECB) not only lowered its 2019 Eurozone growth forecast from 1.7% to 1.1%, but also signaled that it will keep policy rate unchanged till early next year. To ease funding pains, the ECB announced yet a third tranche of Targeted Long Term Refinancing Operation (TLTRO III).

Finally, the global "synchronized" slowdown across China, Asia and Europe appears to have started to boomerang back to the US. Various macroeconomic figures like retail sales, payrolls and PMI have turned more volatile for the US. The US Federal Reserve's (FED) has clearly turned dovish as they dramatically lowered the rate hike trajectory. In addition, the FED also guided that they are looking to stop Balance Sheet Reduction (BSR) by Sep this year. Bottom line, we no longer expect any more rate hikes from the FED in this cycle.

However, lest one gets overly pessimistic; it is worth noting that even as the trade contraction induced global growth moderation has clearly intensified, it is important to note that this growth moderation is still a far cry from the very severe global recession during the 2008/09 Global Financial Crisis.

ASSET ALLOCATION

FED U-Turn changes everything

On 3 Oct 2018, US FOMC Chairman Powell indicated that US interest rates were far below the neutral rate imply there were many more hikes to come. Global equity and bond markets plummeted in the fourth quarter of 2018. At the start of January, the US Fed Chairman reversed course and said US interest rates were near neutral and the FED would be patient before engaging any further rate hikes. Global equity and bond markets rallied in the 1st quarter of 2019 and have recovered almost all the 4th quarter of 2018 losses.

The global investing outlook has improved dramatically as the US Fed has signaled that the rate cycle is near its end with no rate hikes expected in 2019. Fixed income market yields have improved over the past 2 years due to rate hikes and wide credit spreads. Fixed income returns are no longer facing the headwinds from interest rate hikes and bond funds should be able to achieve returns in line with their yields of 3-5%. Equity markets should face better liquidity conditions as global central banks refrain from further tightening monetary conditions. As we have mentioned before, 2018 market performance appears similar to the market performance of the rate hike cycle in 1994. So far, 2019 is mirroring the market performance of 1995 when the US FED paused rate hikes. Subsequently in 1995, stocks and bonds went on to have a year of strong performance.

Global expansion is slowing and aging

The global expansion is entering its 11th year and is becoming one of the longest expansions ever. Global growth is slowing more than expected in most regions. Global GDP growth was 3.7% in 2018, but is expected to slow to 3.4% in 2019 according to the latest Bloomberg consensus forecast (which is down from the 3.5% 2019 forecast 2 months ago). Global growth of 3.4% is positive enough to be supportive of markets, but the decline from 2018 puts global investors on alert for the risks of growth to slow further from these levels and raise the risk of a recession.

Many market observers point to the inversion of the yield curve between the 10 year US Treasury note and the 3 month Treasury bill as a warning signal of a coming recession. We also find this to be a reliable indicator as the yield curve inversion has always been followed by a recession in 12 to 36 months. But from an investment perspective, the signal is not immediate and markets tend to do well in the subsequent 12 months following a yield curve inversion. In the 1980's cycle, global equities gained 12% in the subsequent 12 months after the yield curve inversion. In the 1990's cycle, markets returned 18% in the next 12 months, and the in the 2000's cycle, global equities returned 12%. Thus, while the risk of a recession in the next 18 months increases, we do not recommend that it is justification to stop investing. It is possible that we could be waiting 2-3 years before the recession actually sets in.

Global risks are plentiful

While we expect the global macro environment to be slowing, but remain strong enough to support markets, it is also fair note there remain a multitude of issues that can weigh on markets in the coming quarters. We expect the US and China to come to a trade agreement which reduces the risks of further escalation of trade hostilities, but uncertainties remain on the details of a final agreement. We hope the UK Brexit process can avoid a no-deal scenario that would be destabilizing to markets, but the process remains very chaotic and unclear how it will be resolved. We expect growth will not deteriorate further and cause a recession in 2019 but note that the risks will rise again in 2020. We expect markets to remain stable through elections in Thailand, India and Indonesia, but we have seen many surprising election results over recent years. Overall, we remain positive on the 2019 outlook but the risks have to be monitored.

Income strategies are likely to be back in favor

Our overall tactical recommendation remains to stay within the neutral weightings for equities, slight overweight fixed income and overweight commodities, and underweight cash. Multi-asset income strategies have faced headwinds in the past 18 months due to rising rates but are now well poised to benefit in a world of positive but slowing growth with rate hikes near the peak of the cycle. We recommend staying balanced, cautious and constantly monitoring the outlook for 2019 that has the potential to turn either positive or negative. Investors need to be mindful that the various geopolitical and end of cycle risks could worsen and trigger weaker markets, but at the same time it is possible for growth to stabilize at the same time the FED is being accommodative and could trigger market rallies. We would advise clients to stay invested but be vigilant against potential market changes and monitor conditions for those potential changes.

EQUITIES

Our overall recommendation for equities is neutral versus fixed income. This may sound cautious for equities but the base case assumption is that equities will deliver mid to high single digit returns from the second quarter through the end of the year in 2019. These returns would be modestly higher than our expectation of fixed income returns of 3-5%. Nevertheless, we would describe this outlook as neutral as the fixed income returns should be less volatile and more dependable. We think clients should get a message that is not bearish about equities, but rather a message that notes that equities are likely to provide positive returns but with a greater degree of uncertainty relative to fixed income. The neutral ratings for equities and a slight overweight fixed income are an indication that at this stage in the cycle, balance between the asset classes is warranted.

Fundamentals support equities

Our expectation of mid to high single digit returns would be on top of the 10% returns achieved by most global equity markets in the 1st quarter of the year. We would argue the 1st quarter rally was simply recovering the panic of the 4th quarter of 2018. The gains for the rest of the year are likely to be driven by corporate earnings growth and dividends. Global corporate earnings growth in 2019 are expected by the aggregate consensus forecasts to be 4-5%. Dividends should boost total returns by another 2-3% and thus mid to high single digit returns look realistic. Global valuations that have been above average in recent years have come back down to being in line with average valuations and thus earnings growth should flow into price returns.

Upside and Downside risks

We should note that scenarios for equity rallies and corrections are both plausible at this stage in the cycle. On the upside, if global growth and corporate earnings growth stabilizes at current levels while the US FED remains dovish, then risk assets could see a strong rally in line with other cycles in the periods after the FED pauses rate hikes. On the downside, if global growth slows further from current levels then equites could correct again similar to what we saw in the 4th quarter of 2018. Our base case is something more modest in the middle.

The US and Asian equity markets remain our top overweights

The US remains the most consistently performing economy among the developed markets. While business investment has tapered in the US, the US consumer remains a key pillar of support in the global economy. Employment growth continues to average 2% growth of new total jobs per year and wage growth is 3.4% in Feb, implying almost 5% more income and spending power per year. Hiring surveys indicate the demand for more workers is among the highest levels seen in 20 years. The US consumer provides stability and confidence that the US corporates should have a solid base from which to continue to deliver earnings growth.

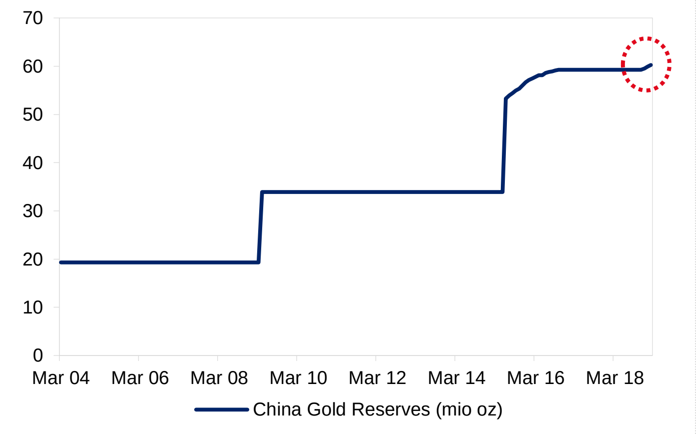
The outlook for Asia has improved dramatically compared to 2018. In the middle of 2018, Asia was dragged down by trade conflicts, capital outflows, weakening currencies and pressures to hike rates to stabilize currencies. In 2019, that is all reversed. Trade conflicts appear to be easing and Asia is again receiving capital inflows, while Asian currencies have been strengthening and Asian central banks have the breathing room to consider rate cuts that could boost growth. Asian valuations remain at average levels and below that of the averages for the rest of the world.

COMMODITIES

Gold Is Best Poised To Strengthen As FED Signals End To Hiking Cycle

Gold: To rise further towards USD 1,400 / oz as FED signals end to rate hiking cycle. Previously, we were neutral on gold on the expectation that the pace of the FED rate hikes across 2019 will slow. Since Jan, Gold has climbed steadily from USD 1,250 / oz to USD 1,315 / oz. In view of the end to FED's tightening cycle, we now raise our gold call to positive. Other key positive drivers for gold include a return to net long positioning and possible renewed reallocation into gold within China's reserves. As such, we now expect further gold strength. We forecast higher gold to USD 1,350 / oz by 2Q19, USD 1,380 / oz by 3Q19, USD 1,400 / oz by 4Q19 and USD 1,450 / oz by 1Q20.

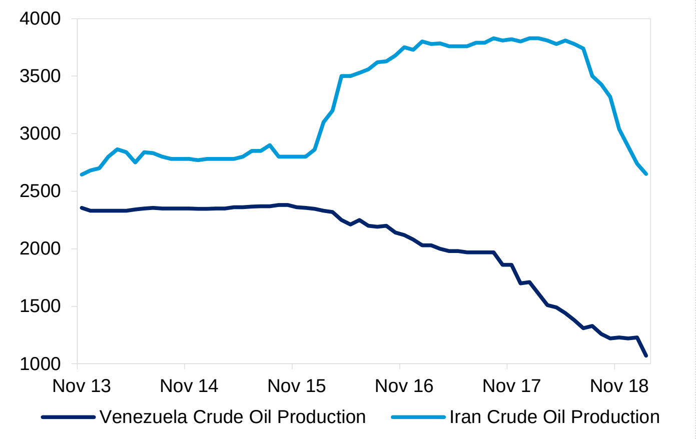
Has China Resumed Its Reserve Allocation Into Gold?



Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil: OPEC production cut keeps global growth slowdown bears in check. As for Brent crude oil, the on-going production cut from OPEC+ and further loss of production elsewhere in Iran and Venezuela have helped to maintain a healthy backwardation in its futures curve. On the other hand, further strength in Brent crude oil is premature due to elevated global growth slowdown concerns. Overall, we stay neutral in our outlook for Brent crude oil. But in view of strong OPEC+ compliance to production cuts and weaker USD outlook, we raise our point forecasts for Brent crude oil slightly to a higher trading range of USD 65/ bbl to 75 / bbl in the coming four quarters, from the trading range of USD 55 / bbl to 65 / bbl previously.

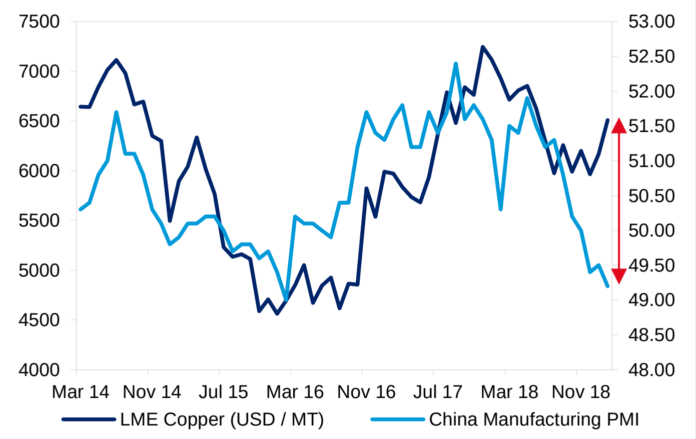
Both Venezuela And Iran Crude Oil Production Continue Their Steep Drop



Source: Bloomberg, UOB Global Economics & Markets Research

Copper: Weak macro backdrop will likely keep copper within familiar trading range. So far, Copper appears to have held up well despite the clear slowdown in growth across key economies. Part of the short term squeeze and cash premium in copper can be attributed to the tightening in environmental and recycling laws in China. However, it would appear that copper inventory is being rebuilt after the massive sell-down across 2018. Going forward, electronic industry demand for copper usage is at risk of moderating. Overall, we keep our neutral outlook for LME Copper and believe that it will remain range bound at USD 6,000 to 7,000 /MT.

Copper Price Appears To Have Held Up Well Despite The Slump In China's PMI



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

As healthy global fundamentals re-asserted themselves over worries over global trade and economic growth earlier seen in 4Q 2018, fixed income markets experienced a strong turnabout in 1Q 2019. Global financial conditions eased considerably, and global rates declined and credit spreads tightened. With remarkably dovish language from the Fed – indicating that the end of the rate hike cycle is almost at hand and that no rate hikes are expected in 2019 - central bank monetary policy has been thrust back into the limelight. The Fed has joined other major central banks in shifting towards a more accommodative monetary policy, and such dovish rhetoric would help towards anchoring short-end rates. This flattening in interest rate trajectory, coupled with a gradually decelerating growth in developed market economies, paints a supportive backdrop for fixed income markets.

Against a backdrop of gradually decelerating growth across developed market economies and a dovish tilt by major central banks, the fixed income outlook is looking more attractive in 2019 and we prefer income strategies focusing on rates, credit and high yield. With the FOMC literally doubling down on their patience approach, we have revised our expectations and expect no further rate hikes in 2019. Further, Fed speakers have increasingly laid the groundwork for a shift towards greater data dependency in setting interest rates, and the FOMC may soon utilize such monetary policy frameworks so as to preserve lending conditions. In the credit space, we think that corporate fundamentals remain fairly strong and credit valuations of corporate bonds are reasonable notwithstanding that they have appreciated in value.

Our cycle views still support credit over government bonds, and we upgrade EM local currency bonds

We think the chances of a near-term recession risk as being low but potentially rising in 2020. With a mild US technical recession potentially rearing its head in 2020, we expect the Fed to cut policy rates by a nominal 25bps in 3Q 2020 and will leave the door open to do more if the ongoing slowdown becomes protracted. Most trends continue to suggest healthy global corporate conditions with strong cash flows and earnings growth. As such, we think that the higher yields of investment grade credit offers reasonable value and that they should outperform government bonds. Further, the ongoing easing in global financial conditions provides a window of opportunity for EM local currency bonds to outperform as well.

Biased towards long duration but buy on dips

In 1Q 2019, US long-end yields have been pulled lower by weaker than expected data as well as dovish Fed rhetoric, and consequently the yield curve has flattened. Beyond the near-term weakness, the US economy should return to longer-term trend growth by late 2019 and as such, bond yields would normalize towards higher levels. Meanwhile, long-end rates would also rise in Europe and Japan. As the economic cycle continues to mature, the fundamental outlook 2020 is likely less positive compared to 2019, thus we are modifying our duration advice to be more neutral-positive in duration going into 2H 2019.

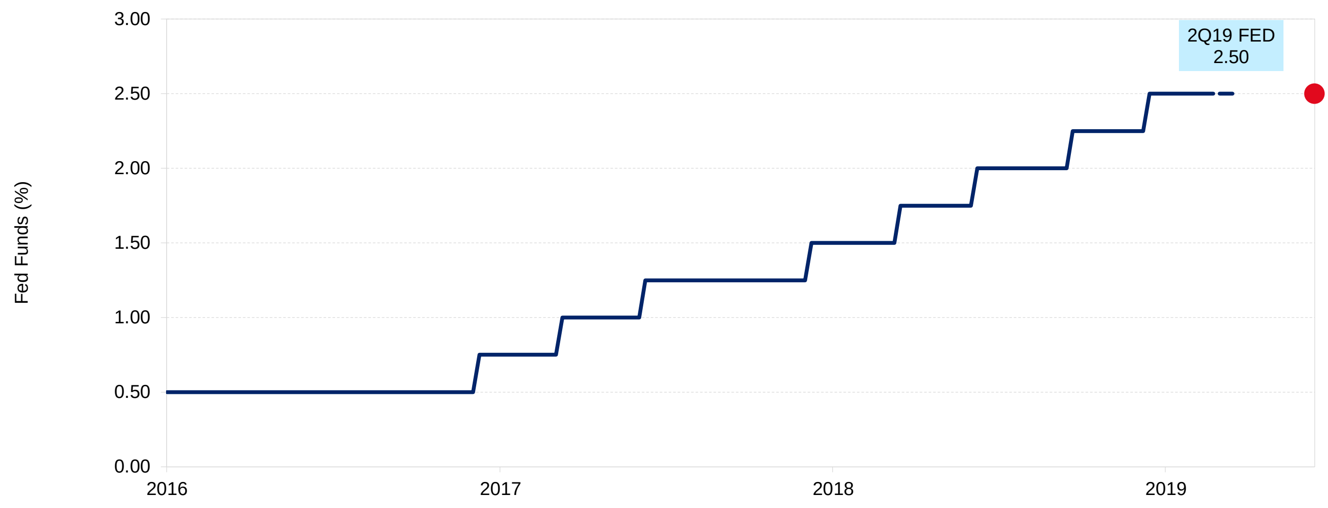
We favor USD Asian/ emerging markets credits as well as local currency bonds

In view that market volatility would likely remain benign, we would prefer USD Asian/EM credits as well as local currency bonds. While we continue to seek a yield pickup in Asia and EM credits, we are cautious to not overweight aggressively either. We overweight investment grade credits over high yield due to the uncertainties in the macro environment, as the former is a more defensive play at this late stage of the economic cycle.

FX & INTEREST RATES

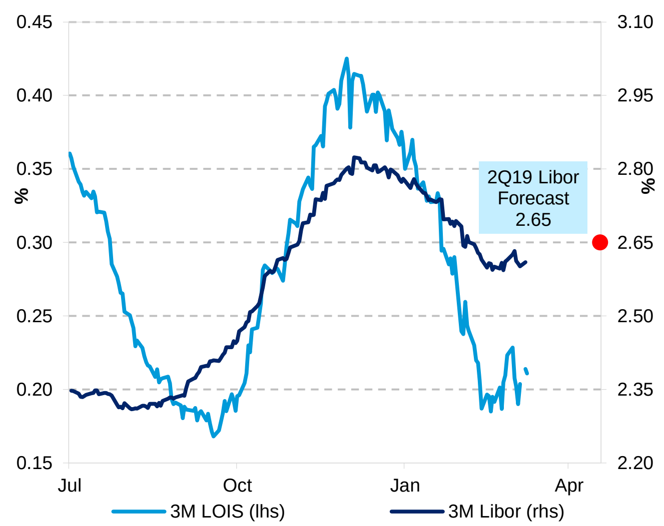
UNITED STATES

FED Funds Rate



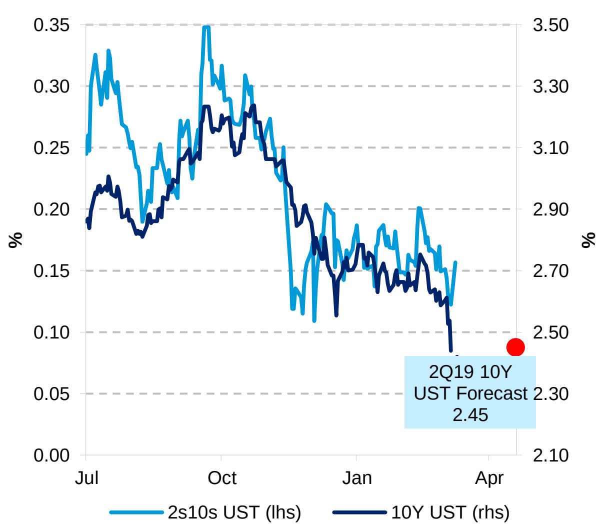
The FOMC kept its policy Fed Funds Target Rate (FFTR) unchanged at the 2.25%-2.50% range in Mar (2019), as widely expected but the big surprise was that the updated Mar 2019 dot-plot chart showed a dramatically lowered rate hike trajectory which indicates that the Fed will not hike rates in 2019 (from 2 hikes previously) and the Fed also announced its intention to taper its balance sheet reduction (BSR) program from May 2019 and to conclude the BSR at the end of Sep 2019. With the FOMC literally doubling down on their patience approach, we have revised our expectations and we now think the Fed is done with the current rate hike cycle, i.e. no more hikes in 2019. And with a mild US technical recession potentially rearing its head in 2020, we expect the Fed to cut policy rate by a nominal 25bps in 3Q 2020 and will leave the door open to do more if the slowdown is exacerbated. A major caveat to this projection is that US inflation stays in check (around 2%) despite robust wage growth since Oct 2018.

3M US Libors



- We expect to see 3M Libor at around 2.65% at the end of 2Q2019.
- Libor vs. OIS spread is expected to fluctuate around 20bps in the next quarter, further tightening will hinge on renewed inflows into US money market funds.
- Libor trajectory is flat lined in tune with our FED on hold call.

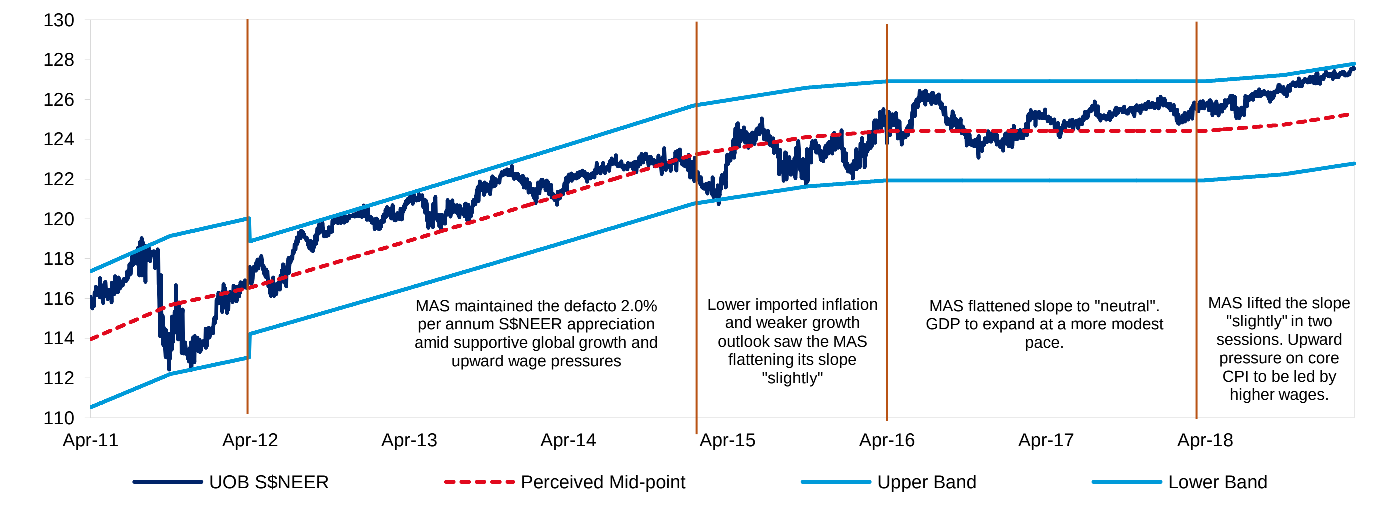
10Y US Treasuries



- We expect to see 10Y UST at 2.45% by the end of 2Q2019.
- Q2 will be a bottoming process for 10Y UST in line with moderation of global growth fears. Ultimately a lower range compared to Q1 is the likely outcome.
- Deficit outlook weighs negatively on UST in the background.

SINGAPORE

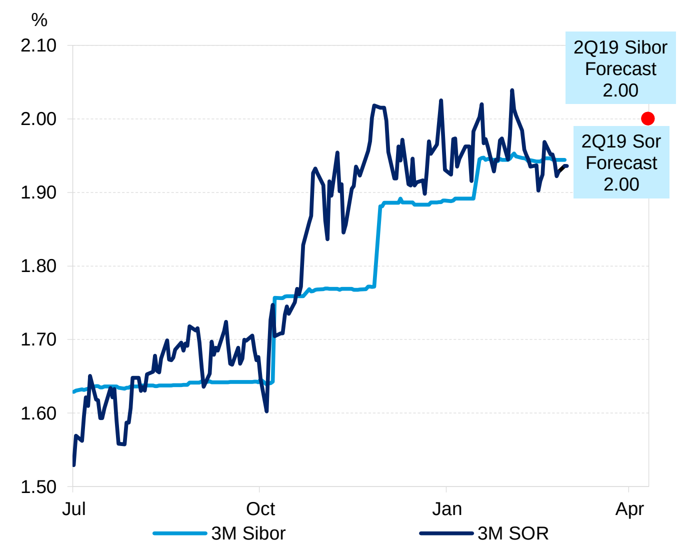
S$NEER



In view of the recent economic softness in Singapore together with a challenging external outlook (US-China trade tension, Brexit etc), we are now expecting the Monetary Authority of Singapore (MAS) to stay on hold in the upcoming policy meeting in April – keeping unchanged the slope of the Singapore Nominal Effective Exchange Rate (S$NEER) policy band, the width of the policy band and the level at which it is centred. This comes after two tightening exercises in April and October last year where the policy slope is increased from 0% to an estimated +1.0% per annum appreciation.

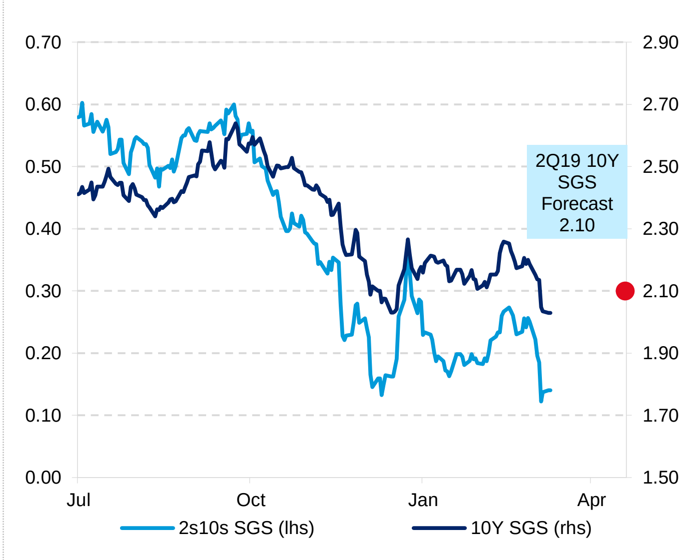
Since the last policy meeting last October, the S$NEER continued to persist within the stronger half of the policy band, averaging +1.5% above the policy midpoint, in part due to markets' expectations of further tightening from MAS come April. So, if MAS stays on hold this time round, this will limit further S$NEER strength going forward. Overall, our expectation of MAS staying on hold in April reinforces the existing higher trajectory in USD/SGD, in line with gradual CNY weakness as well. However, with latest dovishness from the FED, we moderate the point forecasts lower, now expecting USD/SGD to finish the year at 1.37 from 1.38 previously. In addition, we have recalibrated our UOB S$NEER model through the use of restricted least square estimation. Our S$NEER model tracks the MAS actual very well, with weekly levels correlation since 2016 at 0.9738.

3M SOR and Sibor

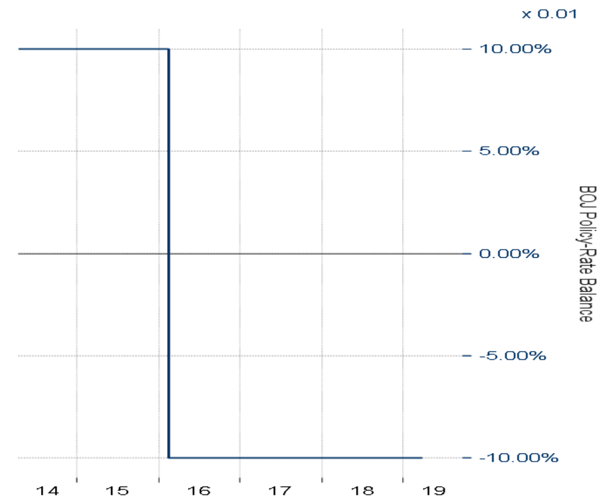


- We expect to see both 3M SOR and SIBOR at 2.00% by the end of 2Q2019.
- Our MAS call for policy hold in April implies some downside risk to the domestic currency and hence upside risk on SOR.
- However, idiosyncratic risks are absent and S$EER could yet equilibrate on the strong half of the trading band post-MAS.

10Y SG Bonds



- We expect to see 10Y SGS at 2.10% by the end of 2Q2019.
- Q2 supply targets 10Y, 2Y and 20Y and a mini-auction.
- Belly of the curve is rich due to FED policy expectations. Supply in Q2 may bring about repricing as positions in the belly are lightened ahead of supply. Front end yield to remain sticky until funding conditions turns conducive.

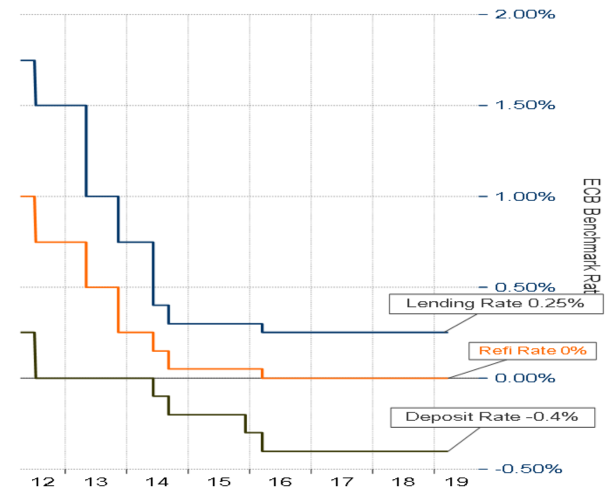


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

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 far away from its 2% inflation target. The projected weaker growth environment (domestically and overseas) and likelihood of downside price pressures in 2019 adds further challenges to BOJ's monetary policy. One persistent point of contention that is unhelpful to BOJ's "fight" is the projected annual pace of JGB buying continues to be well below its official target of JPY80tn. We think the BOJ may still need to do more policy "tweaks" to reassert its easy monetary policy position, like what it did in July 2018 MPM.

USD/JPY recovered in 1Q from the lows of 104.87 during its "flash crash" in early Jan. A potential US-China trade agreement in 2Q19 could bolster risk-taking sentiments further, taking USD/JPY above 112. Domestically, amidst a weak growth coupled with low inflation outlook, it is likely the BOJ will reassert its dovish monetary policy bias across 2019. Even as the Fed has signaled a pause to the current hiking cycle in 2019, the still wide rate differential between US and Japan (255bps in the 10-year) would likely be supportive for USD/JPY. Taken together, we reiterate our gradual upwards trajectory in USD/JPY.

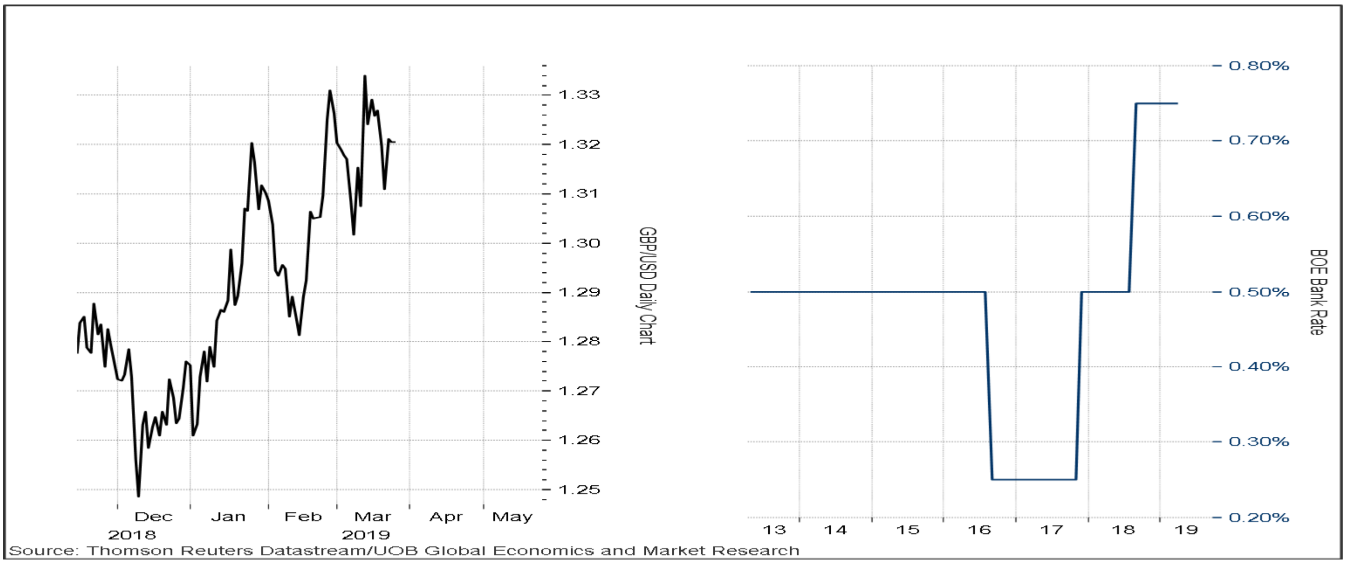
EUROZONE



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

With the dovish shifts in both ECB and the FED across March, the FED has effectively handed the monetary policy baton to the ECB as the FED has probably reached its peak in the current interest rate cycle while the ECB is still expected to hike rates next year. Also, in the context of a Euro-area slowdown (rather than a recession) one may find it hard to argue for a crisis-era EUR/USD below 1.10, where it was last at when the ECB was conducting massive monetary stimulus. More importantly, last year, the ECB has ended its bond-buying programme, removing a key negative driver against the EUR. On the positives, market-based indicators such as the interest rate differentials (between EU and US) and EUR/USD risk reversals have not deteriorated against the EUR/USD in response to ECB's latest change in guidance. In fact, both measures are pointing to further stabilization in EUR/USD after basing last November. Overall, we stay positive on EUR/USD with point forecasts at 1.15 in 2Q19 and 3Q19, 1.18 in 4Q19, and 1.20 in 1Q20. EUR/USD remains our conviction trade in the G-10 space.

UNITED KINGDOM

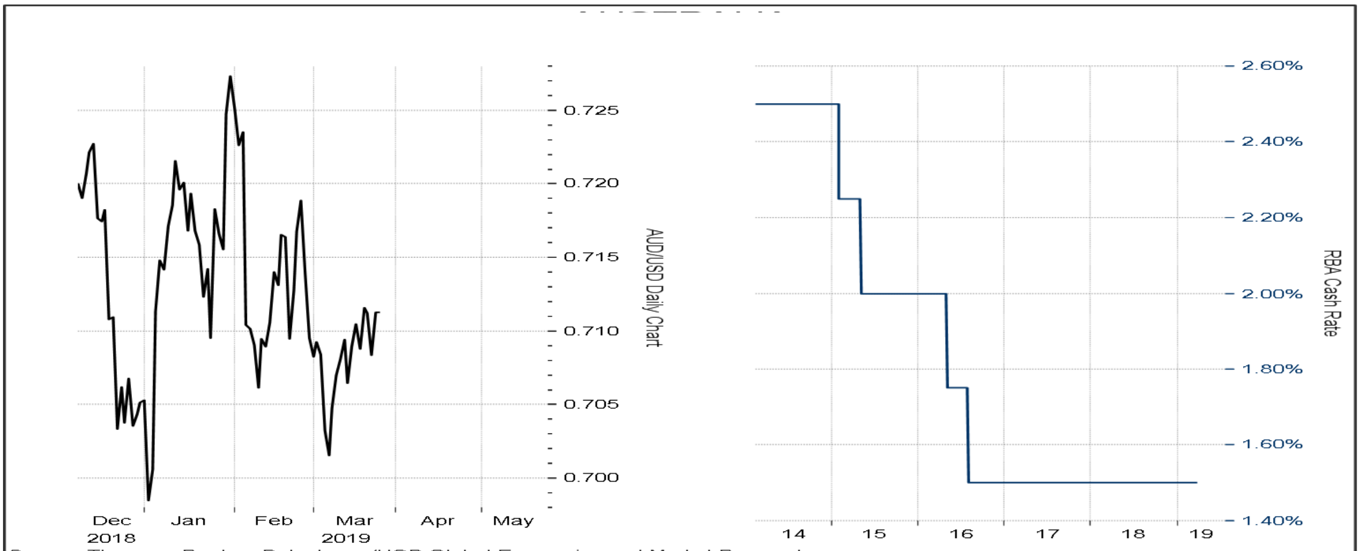


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

The BoE has suggested policy rates could go in either direction, given the varied Brexit outcomes. If the British Parliament passes Theresa May's Brexit deal and there is a short technical extension to Article 50 to pass the necessary legislation, the BoE could resume its tightening cycle soon as data suggests a hike is appropriate. If Brexit continues to be delayed, a rate hike in the summer could be likely. After all, the MPC raised rates last August, just eight months before Brexit. If, however, there is a no deal, the BoE might have to cut rates as early as the next meeting on 2 May. But until we get more clarity, the BoE is likely to stay firmly on the sidelines.

GBP/USD is likely to stay volatile and sensitive to headlines. Overall, we stay cautious on the GBP until the uncertainty of the Brexit fog clears. In terms of point forecasts, we see GBP/USD at 1.28 in 2Q19, 1.30 in 3Q19, 1.30 in 4Q19 and 1.32 in 1Q20. Prevailing spot reference rate is 1.32.

AUSTRALIA

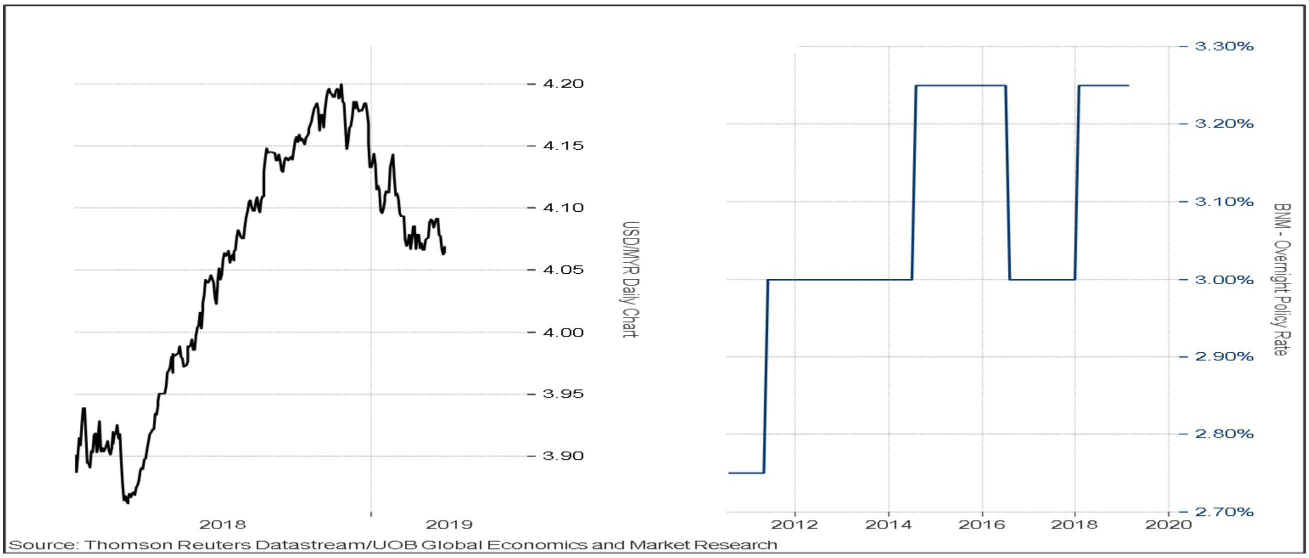


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

AUD/USD was resilient in 1Q19 – having snapped back from a "flash crash" in early January and endured a dramatic shift in RBA from hawkish to neutral in February. There were also louder calls for the RBA to cut rates this year, putting pressure on the AUD. In all, the AUD/USD took all in stride and still managed a 0.8% gain year-to-date, at 0.71.

Going forward, we reiterate a higher trajectory in AUD/USD. A dovish Fed lightens the pressure on the AUD/USD as the wide interest rate differential between Australia and US may start to abate or even reverse. The key positive trigger for further upside in the AUD/USD remains that of a US-China trade agreement which looks increasingly likely in 2H19 in our view. To recap, the trade conflict between US and China attributed to most part of the 0.74 to 0.70 move in AUD/USD since last June. Lastly, our point forecasts are now at 0.72 in 2Q19, 0.72 in 3Q19, 0.73 in 4Q19, and 0.74 in 1Q20. Prevailing spot reference is 0.71.

MALAYSIA

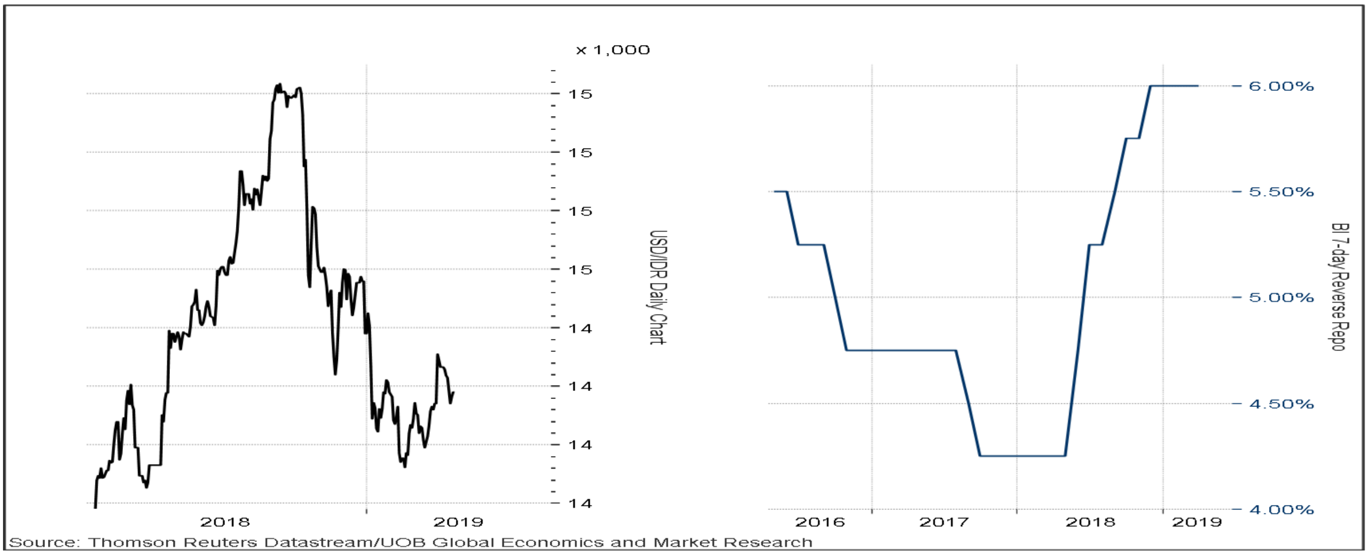


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) acknowledges the downside risks to growth with a more cautious tone in its March monetary policy statement citing unresolved trade tensions, heightened uncertainties in the global and domestic environment, and prolonged weakness in the commodity-related sectors that could further weigh on growth. The US Fed's ultra-dovish tone in the March FOMC statement, lends more flexibility for BNM to consider easing rates in view of the external headwinds and weaker domestic sentiment. We are pencilling in a 25bps cut in the Overnight Policy Rate (OPR) to 3.00% this year.

The potential rate cut by BNM may not be that damaging for the MYR as the Fed stands pat this year and there are some domestic support factors including current account surplus and stable flows. Given this alongside the strong start for Asian FX to date and potential upside if a US-China deal is struck, we keep to the view of a firmer USD/MYR but adjust our USD/MYR point forecasts lower to 4.06 in 2Q19, 4.08 in 3Q19, and 4.11 in 4Q19 and 1Q20 (Previous point forecasts were 4.15 in 2Q19 and 4.18 for 3Q19 and 4Q19). Prevailing spot reference rate is 4.06.

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 last year remained 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 global financial markets. This year, we had expected a stand-pat decision and based on March's monetary policy meeting (MPC), BI seemed to have a relatively neutral view on further rate hikes going forward though it still offers a rather "data (CAD, stability, and inflation)/Fed-dependent" view compared to a hawkish tone in January 2019 meeting. For us, it is rather clear that BI is likely done in its rate-hike cycle in 2019. From the latest decision and considering that external conditions may warrants less interest rate hike in some advance economies, we therefore put our BI rate forecast to 6.00% till Q3 2019, then to be lowered by a cumulative 50bps in the final quarter of 2019 (likely two 25bps cuts). This will bring our year end forecast of BI rate to 5.50%.

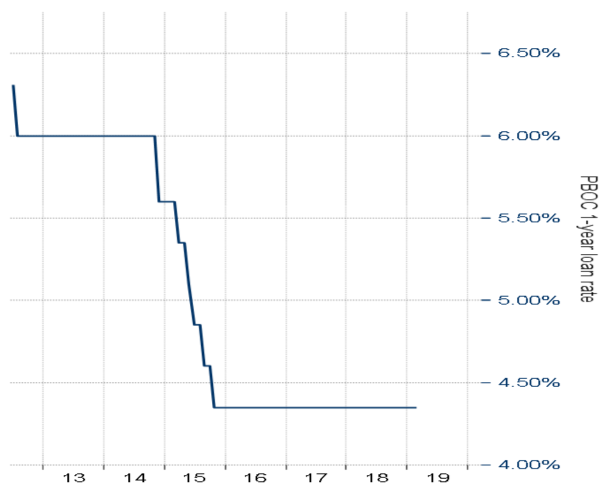
THAILAND

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

The BoT is expected to hike the policy rate from 1.75% to 2% in 2H 2019. There is no urgency to tighten monetary policy aggressively, whilst inflationary pressure is modest. Current monetary conditions remain accommodative and commensurate with the needs of the Thai economy.

Going forward, with exports growth moderating, authorities will be on the alert against further THB strength, which may dent Thai export competitiveness. Overall, we still reiterate our modestly higher view of USD/THB. Our point forecasts for USD/THB are 31.80 by end-2Q19, 31.90 by end-3Q19, and 32.00 for end-4Q and 1Q20.

CHINA



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

The government targets to boost bank lending by large banks to small/micro and private companies by 30%, from about 20% in 2018. This will be through further cuts in banks' reserve requirement ratio (RRR), though PBoC Governor Yi Gang later pointed out that the room for RRR cuts is getting lesser. Along this line, we maintain our expectation that there could be another two reserve requirement ratio (RRR) cuts this year, following the broad-based 100bps reduction in January and the 4 "targeted" RRR cuts in 2018. The next move could come in early-2Q19. In the interest rate space, given the proactive fiscal and monetary policy measures in place so far, we see low probability of a PBoC rate cut in the next 3-6 months.

Despite weaker macroeconomic data, CNY had in fact strengthened across 1Q19. Against the USD, the CNY strengthened by 2.4% from 6.88 to 6.72 (as at 27 March 2019). On a trade weighted basis, the CFETS RMB Index also gained by 2% from 93 to 95. This contrarian strength in the CNY might be due to positive expectations that the US-China trade talks will eventually come to a successful trade agreement. However, in view of the negative economic fundamentals, we prefer to stay cautious on the CNY until we can assess the merits of the upcoming US-China trade deal. For now, we maintain our USD/CNY point forecasts for 6.70 in 2Q19, 6.75 in 3Q19 and 6.80 in 4Q19 and 1Q20.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	22 Mar 19	2Q19F	3Q19F	4Q19F	1Q20F
USD/JPY	111	111	112	113	113
EUR/USD	1.14	1.15	1.15	1.18	1.20
GBP/USD	1.31	1.28	1.30	1.30	1.32
AUD/USD	0.71	0.72	0.72	0.73	0.74
NZD/USD	0.69	0.69	0.70	0.71	0.72
DXY	96.3	95.9	95.7	94.1	93.2
USD/CNY	6.70	6.70	6.75	6.80	6.80
USD/HKD	7.85	7.85	7.80	7.80	7.80
USD/TWD	30.81	31.00	31.20	31.30	31.30
USD/KRW	1,130	1,130	1,140	1,145	1,145
USD/PHP	52.61	53.00	53.50	53.50	54.00
USD/MYR	4.06	4.06	4.08	4.11	4.11
USD/IDR	14,158	14,100	14,200	14,300	14,300
USD/THB	31.73	31.80	31.90	32.00	32.00
USD/MMK	1,515	1,530	1,540	1,560	1,560
USD/VND	23,203	23,300	23,400	23,500	23,500
USD/INR	68.83	68.80	69.20	69.50	69.50
USD/SGD	1.35	1.35	1.36	1.37	1.37
EUR/SGD	1.53	1.55	1.56	1.62	1.64
GBP/SGD	1.77	1.73	1.77	1.78	1.81
AUD/SGD	0.96	0.97	0.98	1.00	1.01
SGD/MYR	3.01	3.01	3.00	3.00	3.00
SGD/CNY	4.97	4.96	4.96	4.96	4.96
JPY/SGDx100	1.22	1.22	1.21	1.21	1.21

RATES	22 Mar 19	2Q19F	3Q19F	4Q19F	1Q20F
US Fed Funds Rate	2.50	2.50	2.50	2.50	2.50
USD 3M LIBOR	2.61	2.65	2.65	2.65	2.65
US 10Y Treasuries Yield	2.53	2.45	2.60	2.70	2.70
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.75	0.75	0.75	0.75	0.75
AUD Official Cash Rate	1.50	1.50	1.50	1.50	1.50
NZD Official Cash Rate	1.75	1.75	1.75	1.75	1.75
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35	4.35
HKD Base Rate	2.75	2.75	2.75	2.75	2.75
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.75	1.75	1.75	1.75	1.75
PHP O/N Reverse Repo	4.75	4.50	4.25	4.25	4.25
SGD 3M SIBOR	1.94	2.00	2.05	2.10	2.10
SGD 3M SOR	1.94	2.00	2.05	2.10	2.10
SGD 10Y SGS	2.03	2.10	2.20	2.30	2.30
MYR O/N Policy Rate	3.25	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.00	6.00	6.00	5.50	5.50
THB 1D Repo	1.75	1.75	2.00	2.00	2.00
VND Refinancing Rate	6.25	6.25	6.25	6.25	6.25
INR Repo Rate	6.25	6.25	6.00	6.00	6.00

COMMODITIES	22 Mar 19	2Q19F	3Q19F	4Q19F	1Q20F
Gold (USD/oz)	1,310	1,350	1,380	1,400	1,450
Brent Crude Oil (USD/bbl)	68	65-75	65-75	65-75	65-75
LME Copper (USD/mt)	6,421	6,000-7,000	6,000-7,000	6,000-7,000	6,000-7,000

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

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