UOB HOUSE VIEW

4Q2020

GLOBAL MACRO

Key events to watch as we end 2020 are the Brexit talks and US Presidential Election. The election is likely the bigger issue of the two. Regardless of the election result, one thing that will not change is the continued deterioration of US-China relations. The global economy remains on its recovery path but in an uneven manner. It is much like a stylised "K-shaped" recovery that shows the diverging paths of performance between economies, industries/sectors, and individuals.

FIXED INCOME

We remain overweight investment-grade credit, favor USD Asian investment-grade credits and stay underweight certain EM credits. We turn slightly cautious on duration risk, as sovereign bond yields would likely edge higher while remaining below 1%. US real rates could potentially normalize higher as the recovery gains more traction, and the US breakevens would be well-supported by Fed's AIT strategy.

ASSET ALLOCATION

We continue to favor balance, and income strategies. We recommend being neutral equities. We overweight fixed income with a focus on investment grade credits over government bonds and staying underweight high yield bonds. We are neutral commodities but within commodities prefer gold. We are neutral alternatives as they tend to achieve lower levels of volatility. We are underweight cash as short term rates have been cut and offer little return compared to credits.

COMMODITIES

Recent volatility notwithstanding, the positive drivers for gold remain very much intact. As such, we stay positive on gold for USD 2,200 / oz by 2Q21. On the other hand, LME Copper may have rallied too much ahead of the recovery in economic fundamentals, as such we see some consolidation around USD 6,500 / MT going forward. Finally, Brent crude oil has been left out of the broader commodities rally. We expect Brent to continue its struggle around USD 40 / bbl on renewed signs of OPEC production non-compliance.

EQUITIES

Within US equities, we advocated clients to progressively take profit out of the growth sectors (particular the technology sector) into strength, and diversify into cyclical sectors that were more directly hit by the pandemic.

In the meantime, we had increased the allocation to EM Asian equities to reflect our bullish view of a faster recovery in the region. We maintain an Overweight stance in this segment.

FX & INTEREST RATES

In the FX space, we continue to subscribe to a broad backdrop of weak US Dollar. As such, we stay positive on EUR and AUD. In Asia, we expect CNY strength to lead SGD and other Asia FX strengthening gradually alongside the CNY. In the Rates space, front end money market rates in US and SG will likely stay glued near zero for longer. But longer dated yields may well trend back up on increasing fiscal deficits and rising debt worries. As such, yield curve can be expected to steepen modestly from here on.

GLOBAL MACRO

A New Beginning Or Déjà vu?

The end of 2020 will see two familiar events in the spotlight: Brexit transition negotiations between UK and Europe and the US Presidential Elections on 3 November. The outlook for the Brexit talks is not favourable but the impact is likely to be mostly limited within the UK and EU. In comparison, the US election is seen to be of greater impact for the US and the global economy.

One main lesson we learnt from 2016 is that if it is a choice made in a democratic manner, then any outcome is possible. The elections this time could be close, contentious, controversial and a contested outcome that may eventually end up in the US courts for a final decision. But regardless of the election result, one thing that will not change post-US elections is the continued deterioration of US-China relations. Even with a change of a president, it will only change the style of negotiation, not the direction or substance of outcome. While US lawmakers have become very polarized and divided distinctly along party lines, both Republicans and Democrats have a unified view of China, and this is reflected by the near unanimous passage of a number of bills against China, on individuals, companies and the country.

K-Shaped Recovery: A Differentiated World

Even as COVID-19 pandemic infection cases continued to rise globally with nearly one million deaths, the global economy remains on its recovery path. However, this recovery is not even, and instead it is much like a stylised "K"-shaped recovery that shows the diverging paths of performance between economies, industries/sectors, and individuals.

Leading the growth pack is China, which was the first major economy to emerge from the downturn with positive y/y growth in 2Q while every other major economy suffered record GDP contraction during that quarter due to the severe lockdown and other restrictions to contain the spread of COVID-19.

But subsequently, some of the lagged major economies were also back on the recovery road thanks to the copious amounts of monetary and fiscal stimulus pumped into the system and varying degrees of success in containing the virus. Most of the G7 economies especially the US, saw their manufacturing and services PMIs bouncing off its April pandemic lows and was comfortably above 50 (i.e. expansion in overall activity) by July/August. The US is now expected to record an exceptional "V-shaped" growth spurt in 3Q thanks to the jump in jobs creation, retail sales, home sales, industrial production and durable goods orders. But the exception among the G7 was Japan as its PMIs remained under 50, exports still in double-digit decline and domestic consumption continued to shrink.

Looking at the trade data will also give a good indication which economies and sectors are performing well in the current environment. China's exports have recorded y/y growth in recent months and importantly, its share of global imports rose to its highest level ever this year during 2Q. The is a testament of its resilience and its bounce back from COVID-19, but at the same time it is also an indication that other economies were still struggling to recover from COVID-19, as they ceded market share. Similarly, exports from north Asian economies of Taiwan and South Korea also did well in recent months.

And the types of exports that did well, also helped to tell the story of which industries or sectors are thriving in the current environment. North Asian exporters saw strong demand for electronics products (electronics components and IT and communications) and medical equipment, while exports of ships and automobiles remained under pressure.

Meanwhile, tourism and travel related industries are probably the biggest casualties among the industries impacted by cross-border movements restrictions due to COVID-19 including airlines, travel & hospitality, F&B and entertainment, MICE (Meetings, incentives, conferences and exhibitions). And they will remain impacted as long as borders remain closed/restricted to prevent the spread of COVID-19. According to World Tourism Organisation, international travel declined by 65% in 1H 2020, and the 440 million international arrivals that disappeared during that period was estimated to be the equivalent of US$460bn loss in revenue. Economies like Thailand which are heavily dependent on tourism are naturally badly affected even though the country has very low number of COVID-19 infection cases. While domestic air travel is normalizing quickly in China, its outbound tourists to the rest of the world have yet to take off due to border closures/restrictions worldwide.

2020 is still a recession year but judging from the overall better-than-expected economic data versus the trough in March/April, the extreme pessimism a few months ago has given way to a less dire outlook. But the signs of stabilisation in the global economy cannot be taken for granted as the recovery path remains highly uncertain and dependent on risks of any resurgent wave of COVID-19 outbreak while the fiscal stimulus "cliff" in 4Q is another risk unless governments extend their support measures to business and households. A game changer for the outlook is the COVID-19 vaccine development where there is good progress and our base case is for an effective vaccine by mid-2021, although this is still a possibility of failure.

ASSET ALLOCATION

We continue to recommend that **the faster than expected recovery in asset markets is rational despite the sharp divergence of market performance with the real economy**. While we are cautious on the global economic recovery, we expect asset market performance to continue to lead the economic recovery, and the commitment to accommodative monetary conditions will support global equity and bond markets. We remain believers in staying invested, staying balanced and focusing on income strategies.

The economic fallout of the pandemic has been severe around the world. Nevertheless, the recovery has been exceeding market and economist expectations. Economic surprise indicators have hit all-time highs as actual economic data has surpassed market forecasts. Clearly, there are many parts of the global economy that continue to suffer, but key parts such retail sales and housing markets have fully recovered faster than expected.

Optimising surrounding the vaccine outlook and the policy support of governments continue to support market performance. Recent uptick in outbreaks and the inability to control the spread of COVID-19 have been frustrating to global investors. At the same time, the progress on vaccines appears ahead of schedule and markets are starting to price in the ability of vaccines to help make a big difference in 2021. Treatments have been improving and the case fatality rate has been declining significantly. COVID-19 remains very contagious but treatments and vaccines can make it far less dangerous in 2021. Additionally, policy makers and in particular the US FED, with their commitment to keeping interest rates low for a very long time, have offered historic levels of support to the global economy.

Uncertainties remain large but key elements of a more "bullish" scenario are forming. We had previously argued that markets are likely to recover to "close to" pre-crisis levels more quickly than many investors expect. However, we suggested that the market recovery would likely be "square-root" shaped with a fast initial recovery and then a flatter period of performance as the global economy caught up over the next year. With the economic recovery ahead of expectations, the progress on vaccines and treatments ahead of schedule, and global policy support at record highs, there is room to be even more constructive than our previous theory. If the recovery stays ahead of schedule and the US FED remains committed to a protracted period of low rates, then financial markets can do more than just quickly recover to pre-crisis levels, they can plausibly surpass pre-crisis levels.

Risks remain high. While we have a constructive outlook on equity and credit markets, we do not recommend being overly aggressive with investments as there remains a number of large risks to markets. Foremost, the trajectory of the pandemic remains unpredictable. While we think the evidence is pointing to a good probability that we are likely to see effective vaccines in early 2021, it remains possible that the vaccine progress can turn sour. In addition, US elections and the level of US/China hostilities continue to carry significant risks to markets. Finally, emerging markets have fewer resources to address the pandemic and as the epicenter of the outbreak turns to regions like South America and south Asia, it is possible that emerging market stresses could surface.

We continue to favor a balanced, as well as income strategies. **We recommend being neutral equities. We are overweight fixed income** with a focus on investment grade credits over government bonds and staying underweight high yield bonds. **We are neutral on commodities but within commodities prefer gold. We are neutral alternatives** as they tend to achieve lower levels of volatility. **We are underweight cash** as short term rates have been cut and offer little return compared to credits.

Global Asset Allocation For 4Q 2020

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

EQUITIES

In the third quarter of 2020, we were increasingly uncomfortable with the valuations in US equities, downgrading it eventually to Underweight (from Neutral) in September.

Most of the gains in US equities year to date were driven by the large-cap technology stocks. As an example, the information technology sector had grown to account for 28% of the total market capitalization of the S&P 500. Truly, the technology sector has not disappointed investors based on the second-quarter earnings, delivering positive year over year growth during the depth of the pandemic. These growth companies, with the longest “duration” earnings, benefit from a low interest-rate environment. Most of the gains in the tech sector are still driven by multiple re-rating. The reality of re-rating candidates is elevated expectations, and hence, a general inability to absorb disappointments. As such, the sector was sold off in September.

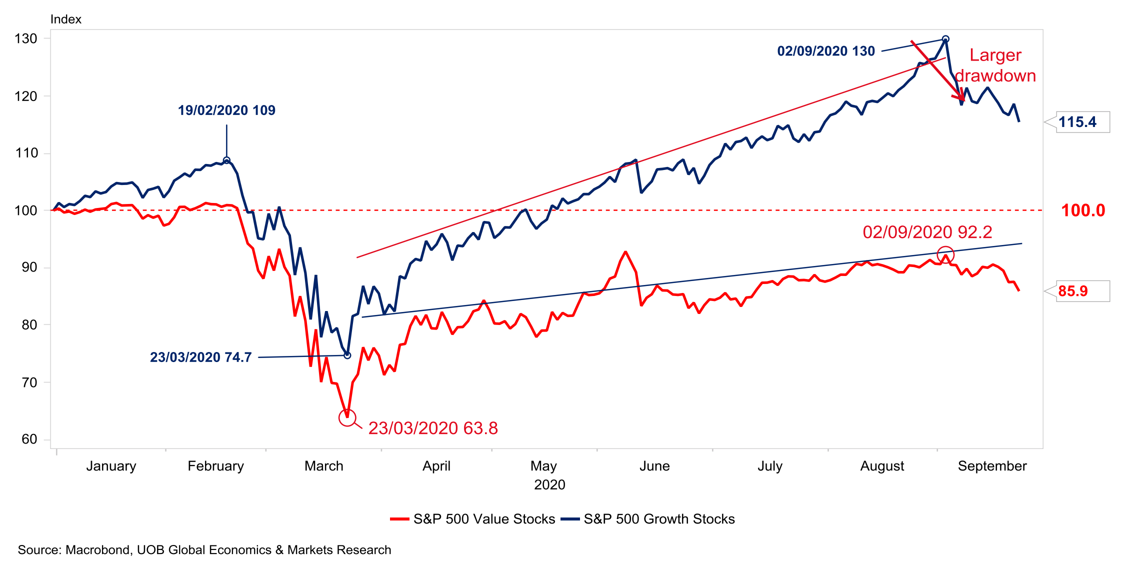
As such, within US equities, **we advocated clients to progressively take profit out of the growth sectors (particular the technology sector) into strength, and diversify into cyclical sectors that were more directly hit by the pandemic**.

The current valuation of US value stocks is attractive and do not seem to have priced in the expected strong year-on-year gains in the global economic recovery from 2Q 2021 onwards. As such, we advise clients with a longer investment horizon to accumulate into these sectors that include financials, industrials, materials, and energy.

That said, we believe that any significant correction in the US tech sector is a healthy one, especially in such an environment where the Federal Reserve had committed to a new monetary policy paradigm with an average inflation targeting (AIT) of 2%. Moreover, since the technology sector is also cyclical (although it became a defensive sector this year due to the pandemic-driven demand), it will be supported when the economy starts to recover. Because of this, the attractiveness of the technology sector will remain and we do not rule out upgrading this sector in future, on a tactical basis.

In the meantime, **we had increased the allocation to EM Asian equities to reflect our bullish view of a faster recovery in the region. We maintain an Overweight stance in this segment**.

S&P 500 Growth & Value Stocks Total Returns



Source: Macrobond, UOB Private Bank

COMMODITIES

Brent Crude Oil gets left behind in the broad commodities rally

The rally in gold prices intensified across 3Q20, staging a strong jump from USD 1,800 / oz in early Jul to a new record high of about USD 2,060 / oz by early August. Since then, gold has pulled back on profit-taking and is now consolidating at around USD 1,950 / oz. The strong rise in gold and other precious metals also seem to have helped industrial metals as well, extending LME Copper's rally across 3Q20 from above USD 6,000 / MT to as high as USD 6,800 / MT. With this latest move across 3Q20, gold is now up by about +30% year-to-date, while LME Copper is back in the green with a +10% year-to-date. However, Brent crude oil was left out of the rally. Previous attempts to lift the price towards USD 50 / bbl sputtered in 3Q20 with Brent pulling back and continuing to nurse a year-to-date loss of about -40%.

Gold: Spike in ETF replaces traditional jewelry demand

As cities gradually reopen in 2H and retail spending return, we can expect the traditional jewelry demand to return. At the same time, because of the near-zero interest rate environment in the US and developed countries, we can expect investment demand for gold to stay strong. In addition, gold is now increasingly seen as a hedge against further US Dollar depreciation. The US Federal Reserve's latest commitment for even easier monetary policy in the form of "Average Inflation Targeting" further reinforces this bullish case for gold. Overall, we keep our positive gold forecast at USD 2,100 / oz by 4Q20, USD 2,200 / oz by 1Q21 and USD 2,300 / oz by 2Q and 3Q21.

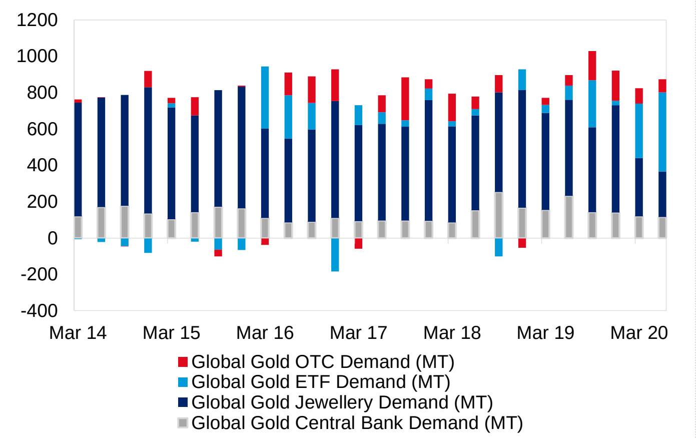
Brent Crude Oil: Still struggling around USD 40 / bbl

The promising rebound for Brent crude oil across 2Q this year faltered by late August. From the low of under USD 20 / bbl in April, Brent crude oil price rallied to a high of about USD 46.50 / bbl by late August. Thereafter, the abovementioned signs of weak downstream and product demand and worries about renewed OPEC non-compliance triggered weakness in Brent crude oil, which has since pulled back to struggle at the USD 40 / bbl handle. Going forward, we continue to expect Brent crude oil to struggle around USD 40 / bbl in the coming four quarters as the contango widens again with no clear sign of recovery in global energy demand.

Copper: Has copper prices ran ahead fundamentals?

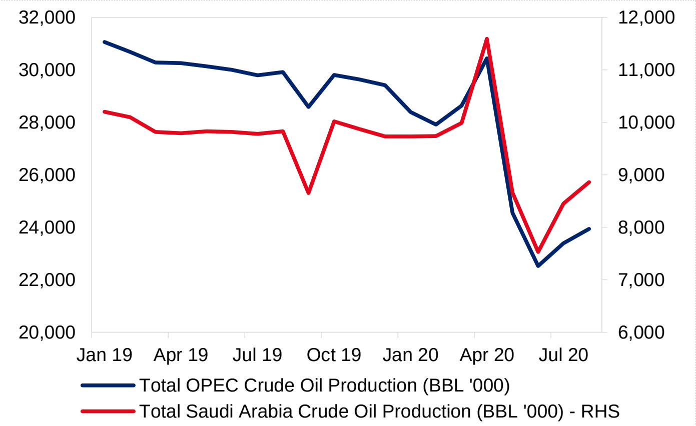
Industry reports continue to warn of longer term weaker demand due to the COVID-19 triggered widening of the major economies' output gap. While global production is unlikely to grow significantly due to lower yield from aging mines, overall annual demand in coming few years is expected to drop more significantly. As a result, leading copper consultancy CRU maintains that the world's copper market will suffer from "persistent and unsustainable" surpluses over the coming five years. Overall, after the strong price action in 2Q and 3Q, some breather is in order for LME Copper and we see some consolidation around the USD 6,500 / MT level for the coming four quarters.

Gold: ETF Investment Demand Has Replaced Traditional Jewelry Demand



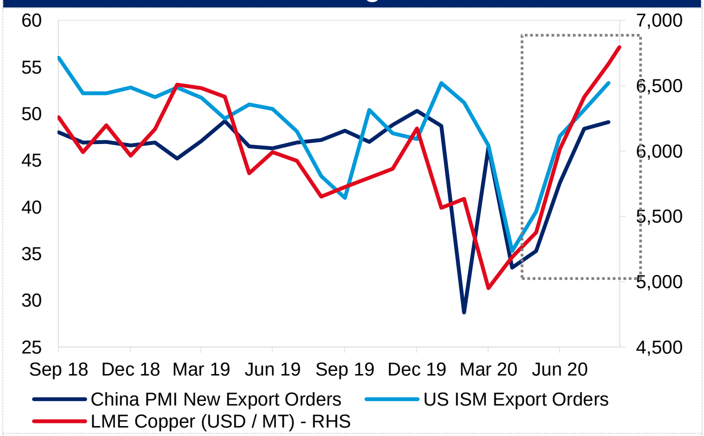
Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil: Saudi Arabia And OPEC Has Started To Pump More Oil Again



Source: Bloomberg, UOB Global Economics & Markets Research

Copper: Rebounds Alongside The Renewed Strength In PMI Orders



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on global fixed income markets remained positive in 3Q 2020 as macro conditions continued to normalise. Global growth remained strong in 3Q 2020, with economic activity in most large, developed market economies rising to much higher levels, even in the face of rising COVID-19 case counts and amidst a pullback of fiscal supports, such as in the US. Consensus expectations suggest a global synchronous recovery from mid-2021 onwards. Specifically, there was a broadening in the sources of global demand, from an initial surge in consumer goods spending, to a stock-building cycle as factory shutdowns depressed inventories, followed by a strong rebound in global capital expenditure, and more recently improvements in the services sector. Some have described the current recovery as ‘K-shaped’, with the upper fork in the K-shaped recovery representing the performance of the technology, media and telecommunications (TMT) sector (that has benefited from COVID-19), while the lower fork represents the performance of the cyclical sectors (that were adversely impacted by COVID-19).

In addition, the medical community continues to make good progress in the fight against COVID-19, with treatments and vaccines are on track for availability over the next couple of months. Overall, the availability of treatments and vaccines would boost consumer confidence and corporate activity, allowing for a faster normalization of economic activity, especially for cyclical sectors that has lagged in this recovery.

We continue to advocate high-quality credit at this juncture.

We remain overweight investment-grade credit. Notwithstanding that investment-grade credit spreads have tightened considerably against a backdrop of historic policy support, we think that spreads would continue to tighten as macro conditions normalize. Fiscal support has played a key role in propping up economic growth, and has been particularly important for the labour market, with Europe supporting workers with short-term work or furlough programs, while the US has supported workers with enhanced unemployment benefits. More broadly, US employment data has remained stronger-than expected, with a decline in the unemployment rate and an increase in labor participation.

Further, we continue to favor USD Asian investment-grade credits and remain underweight certain EM credits. Most Asian economies and especially China are leading the way out of COVID-19. China is likely to reach its pre-COVID-19 GDP levels from 4Q 2020. We maintain our preference for Asian investment grade (IG) credits given their relatively higher buffers (against deteriorations in corporate fundamentals) and their stable leverage profile. On the other hand, a number of EM economies such as India, South Africa and Latin America continue to face large disinflationary growth shocks. While central banks have responded by easing aggressively, fiscal challenges remain.

We turn slightly cautious on duration risk, as sovereign bond yields would likely edge higher. US real rates could potentially normalize higher as the recovery gains more traction, and that the US breakevens would be well-supported by average inflation targeting (AIT). At the virtual Jackson Hole Symposium on 27 Aug 2020, the US Federal Reserve (Fed) chair Jerome Powell laid a new marker by announcing a new tack in US monetary policy setting, that of AIT. The Fed injected two key modifications. First, that it will not be confined by a 2% forward-looking inflation target but rather 2% on average “over time.”[1] Second, the Fed will place more emphasis on the employment side of the equation based on “a broad-based and inclusive goal” in which policy decisions will be defined by “shortfalls” from maximum employment and not just deviations.[2]

The revised stance means that rather than raising rates once the unemployment rate drops below a certain level, Fed officials will wait until the jobs market has tightened and pushed inflation higher before thinking about tightening its monetary policy. Such “pre-emptive” action will stay in the toolbox, until easy monetary conditions are able to stimulate a much stronger and sustained recovery by allowing the “US economy to run ‘hotter for longer’ before the central bank considers hiking interest rates to rein in inflation.

Overall, research on average inflation targeting concludes that the new strategy should moderately improve economic outcomes, and would likely feed through to inflation expectations. Put simply, the change in the Fed’s framework could lead to inflation expectations that are to be structurally higher over this cycle and beyond. Currently, US 10Y real rates are at historical lows and US 10Y breakevens have normalised back to pre-crisis levels. Looking ahead, we think that US real rates could potentially normalize higher as the recovery gains more traction, and that the US breakevens would be well-supported by AIT.

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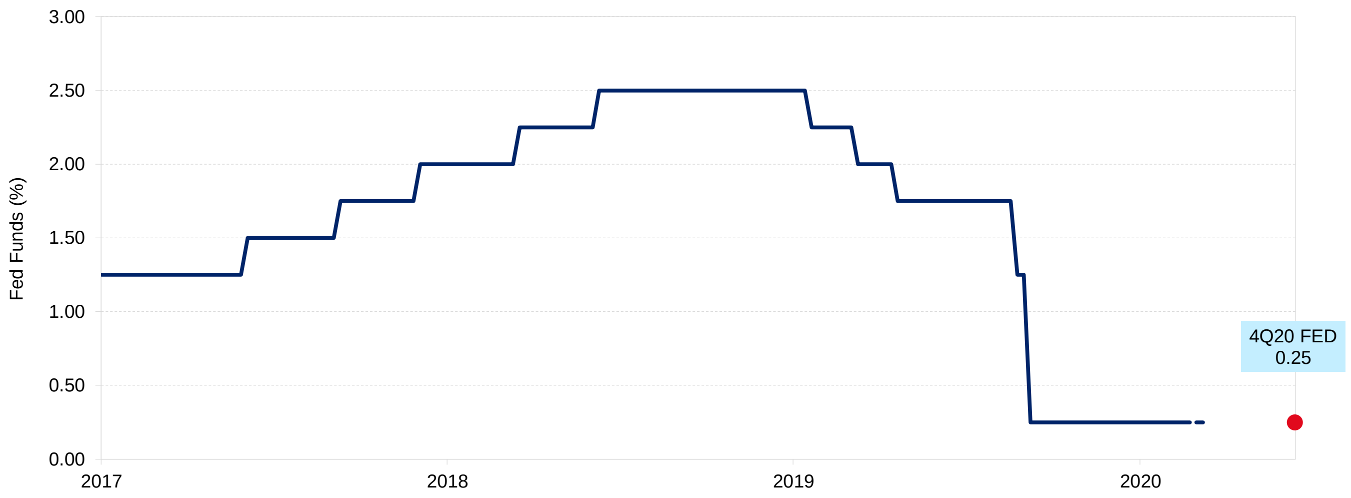
[1] It will instead permit inflation to overshoot at moderately above 2% for some time following periods of persistent undershoot. While the Fed chair did not clarify what “moderately above 2%” means, the Dallas Fed President, Robert Kaplan later said it probably meant inflation in a range of a 2.25% to 2.5% annual rate.

[2] Mr Powell noted that the latter change “reflects our view that a robust job market can be sustained without causing an outbreak of inflation” and that “employment can run at or above real-time estimates of its maximum level without causing concern”.

FX & INTEREST RATES

UNITED STATES

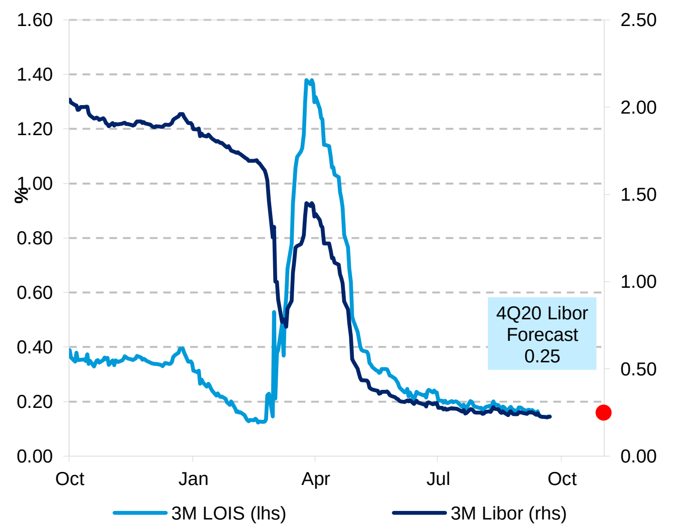
FED Funds Rate



In line with the Fed's adopting of the new strategy of AIT and putting emphasis on "broad and inclusive" employment, the September FOMC effectively confirmed a shift to a prolonged low rates era. We expect the Fed to keep its near zero percent policy rate until at least 2023.

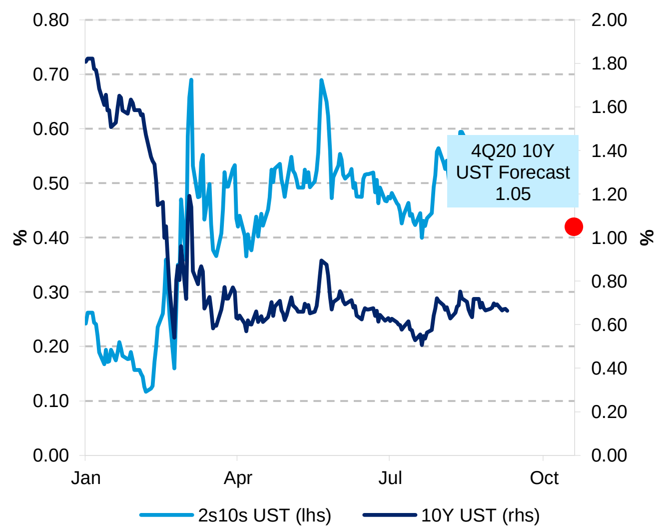
Going forward, as Powell has said that the guidance given in the Sep FOMC is "durable", the Fed will likely maintain this accommodative monetary policy and economic outlook for now and we believe Fed policy will likely stay out of the limelight ahead of the 3 November US Presidential elections. The next FOMC will be on 04/05 Nov 2020 (decision on Friday 06 Nov, 3am SGT) after the elections. We continue to hold the view the Fed will not want to push rates beyond zero, into negative territory, a view re-affirmed by the Dotplot. Meanwhile, the Fed is expected to continue its myriad of measures including its US$600bn Main Street Lending Program administered by the Boston Fed.

3M US Libors



- We expect to see 3M Libor at around 0.35% by the end of 4Q2020.
- Official expectations and market-based forwards sees limited upside in short term rates until after 3 years.
- 3M Libor vs. OIS has normalized, a testament of the massive liquidity response by the Fed and global central banks.

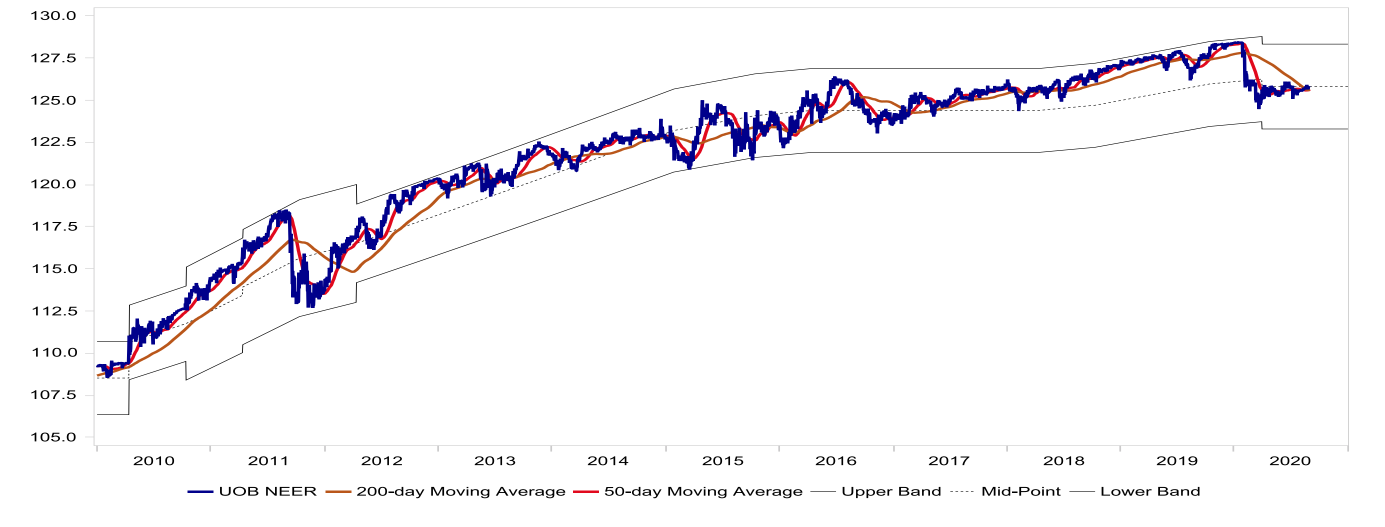
10Y US Treasuries



- We expect to see 10Y UST at 1.05% by the end of 4Q2020.
- Liquidity suppressed 10Y UST yield has room to reprice on economic growth traction from diminishing COVID-19 drag.
- We continue to favour the 2s10s curve grinding its way steeper over the course of 2020. Driven by economic recovery and deficit concerns.

SINGAPORE

S$NEER



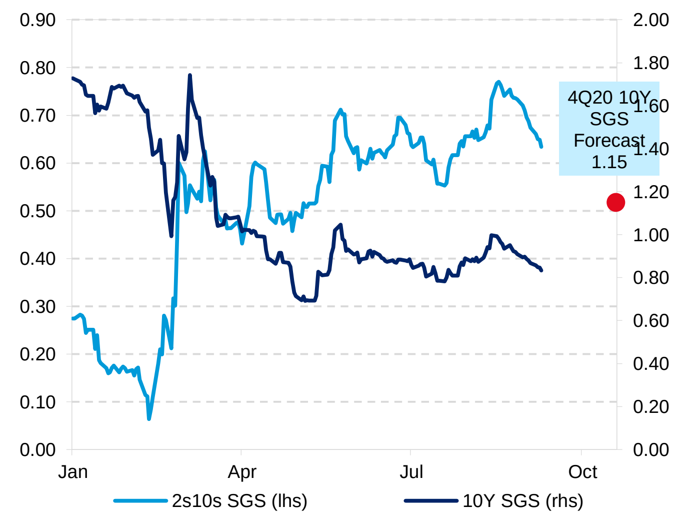
In its 30 March 2020 release, the Monetary Authority of Singapore (MAS) eased monetary policy by adopting a “zero percent per annum rate of appreciation of the policy band”. It also re-centred the policy band lower, while keeping the width of the band unchanged. Since then, high-frequency economic data continued to stay soft; manufacturing contracted 7.7% in the three months ending July 2020, while total exports fell 7.8% in the first seven months of 2020. Nonetheless, Singapore’s response to the COVID-19 fallout will stay underpinned by fiscal policy measures. As such, we think further monetary easing may be off the table for now, especially if COVID-19 containment efforts prove to be effective in curbing further outbreaks. Our expectation is for MAS to keep monetary policy unchanged in October 2020, which means keeping the rate of appreciation band, and its centre, unchanged from April’s decision.

After the MAS re-centred the S$NEER lower at end-March, the S$NEER remained at modest negative levels just under the estimated mid-point of the policy band. This is in-line with the weak GDP outlook where the government guided 2020’s full-year growth in a range of “-7.0 to -5.0 per cent” in Aug. Since the start of the 2Q, we have noted that the SGD has a statistically meaningful and positive correlation to the CNY. Thus we believe that there is still room for the SGD to appreciate against the USD given expected gains in the CNY going forth. Our updated USD/SGD forecasts are 1.35 for 4Q20, 1.34 for 1Q21, and 1.33 for both 2Q and 3Q21.

3M SOR and Sibor

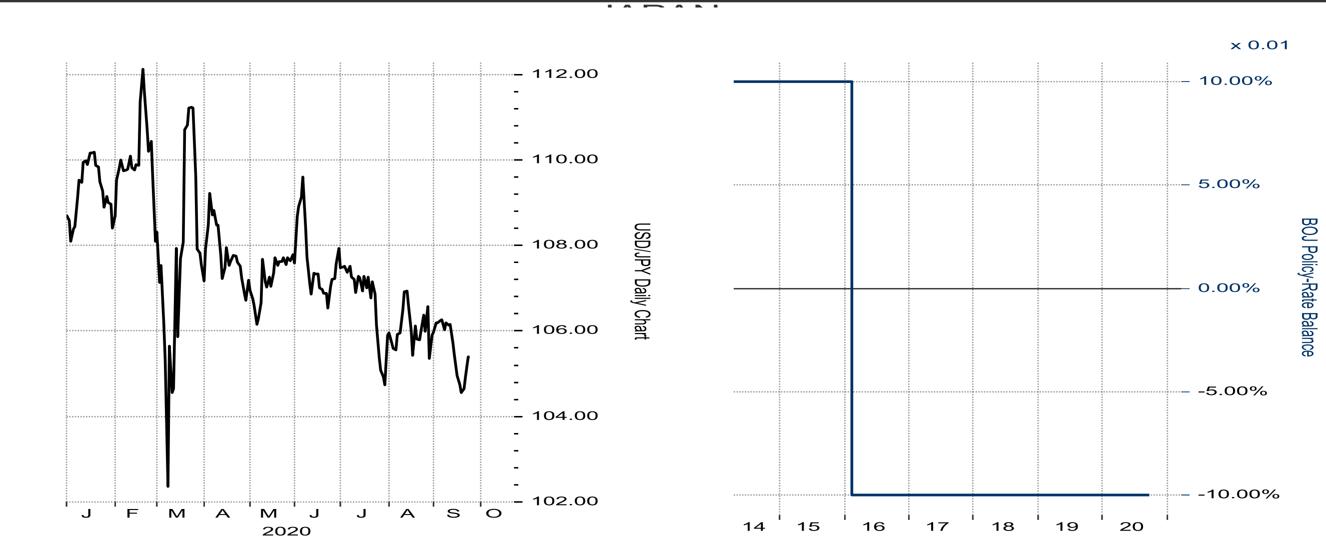
- We expect to see 3M SOR at 0.25% and SIBOR at 0.35% by the end of 4Q2020.
- Domestic liquidity conditions are not restrictive and the expectations surrounding the domestic currency are neutral.
- Lower for longer US rates will dictate a similar fate for SG rates.

10Y SG Bonds



- We expect to see 10Y SGS at 1.15% by the end of 4Q2020.
- Outright yield direction remains correlated to USTs. SGS could outperform if UST yields were driven higher by US deficit financing concerns.
- We favour steeper SG yield curves but risk off scenarios likely to result in sharp curve flattening episodes

JAPAN

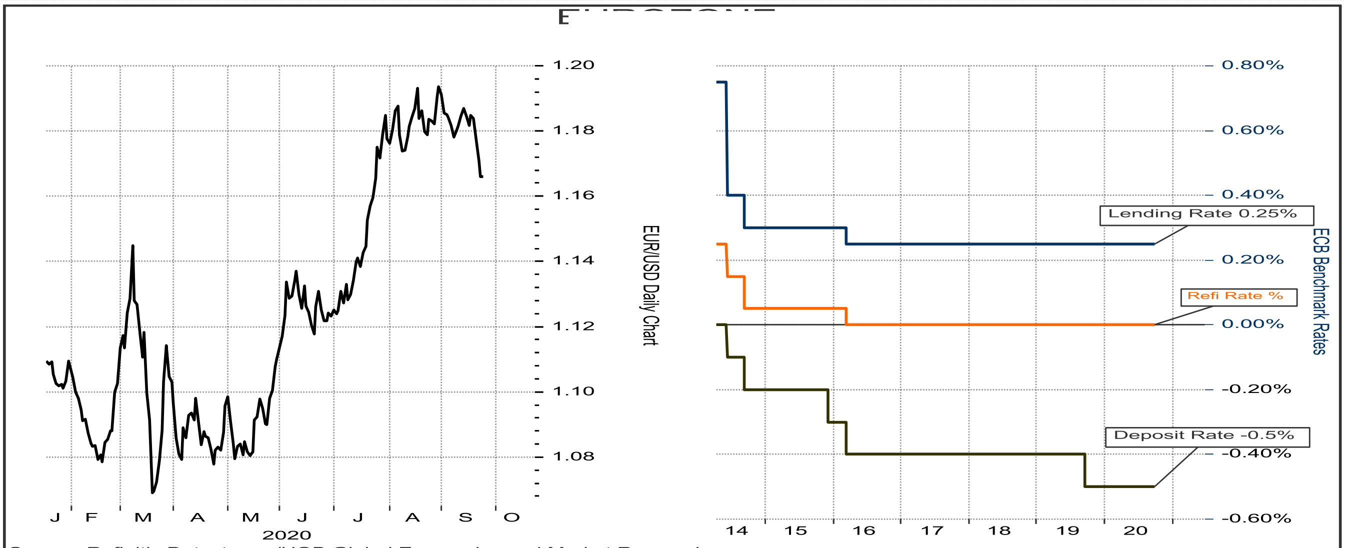


Source: Refinitiv Datastream/UOB Global Economics and Market Research

After being sworn in as the new PM, Suga (16 Sep) voiced his backing for Bank of Japan (BOJ) Governor Haruhiko Kuroda and pledged to continue the policies under Abe, including aggressive fiscal and monetary policies. So with policy continuity under Suga, monetary policy will also enjoy the same continuity under Gov. Kuroda who is now expected to remain in his post with the support of the current government until April 2023. Therefore, monetary policy is expected to stay on course as the BOJ continues to return inflation back to the 2% objective (which remains close to 0% currently) and do the necessary to combat the negative effects of COVID-19 on businesses and households.

We still expect the BOJ to do more and enhance its monetary easing stance further, most likely through increasing its JGB purchases, expanding its lending facilities to corporates and SMEs while the ETF and corporate bond buying programs may be enhanced. We no longer expect the BOJ to cut policy rate further into negative territory.

EUROZONE

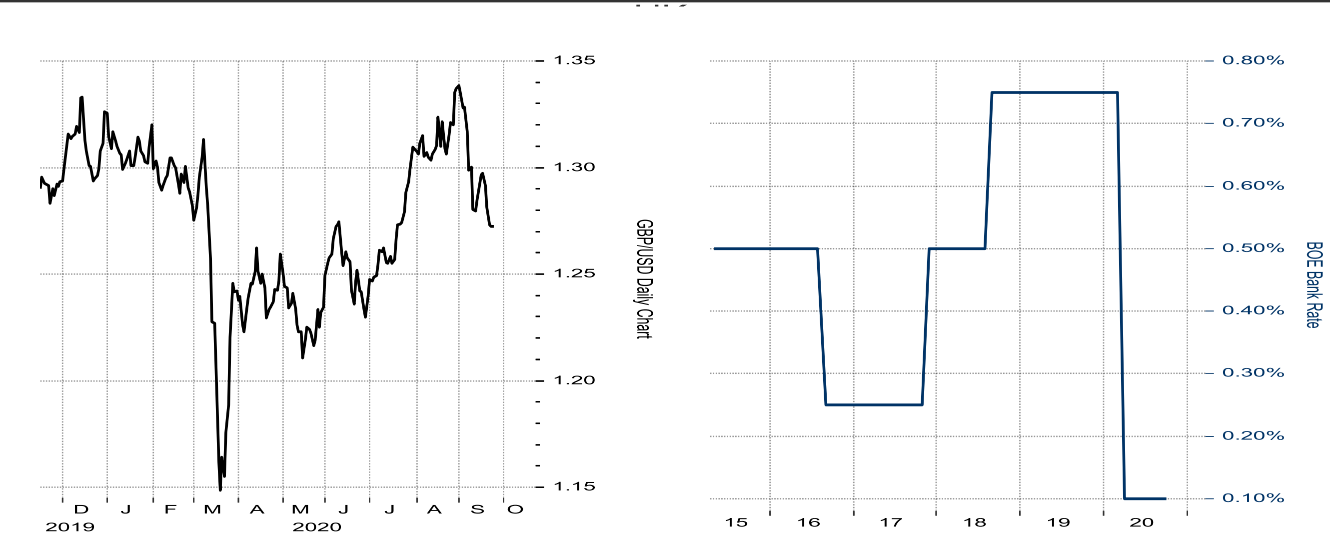


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The ECB remains the main propagator of "whatever it takes". Thus, with the latest inflation readings well short of the ECB's 2% price stability target, the prospect of further loosening of monetary conditions before year-end remains high. But fiscal policy is also increasingly seen as the way forward for boosting growth. ECB President Christine Lagarde has continuously called for solidarity and a Keynesian fiscal expansion by European member states that have fiscal leeway.

The almost straight-line rally of EUR/USD from 1.13 in July to 1.19 as at 21 September is matched by a net long futures positioning which has risen to the highest since records began in 1999. Part of the strong demand for EUR is also attributed to diversification of real money managers away from USD-denominated portfolios. At its latest policy meeting in September, the ECB pledged to "carefully assess… developments in the exchange rate". However until clearer evidence emerged of a sustained feedback into lower inflation expectations due to a strong EUR, a response from the ECB remains unlikely in the near term. For now, while positioning appears outstretched and vulnerable to a pullback, we expect the uptrend in EUR/USD to remain intact. Our updated point forecasts for EUR/USD are 1.18 for 4Q20, 1.19 for 1Q21, and 1.20 for both 2Q21 and 3Q21.

UNITED KINGDOM

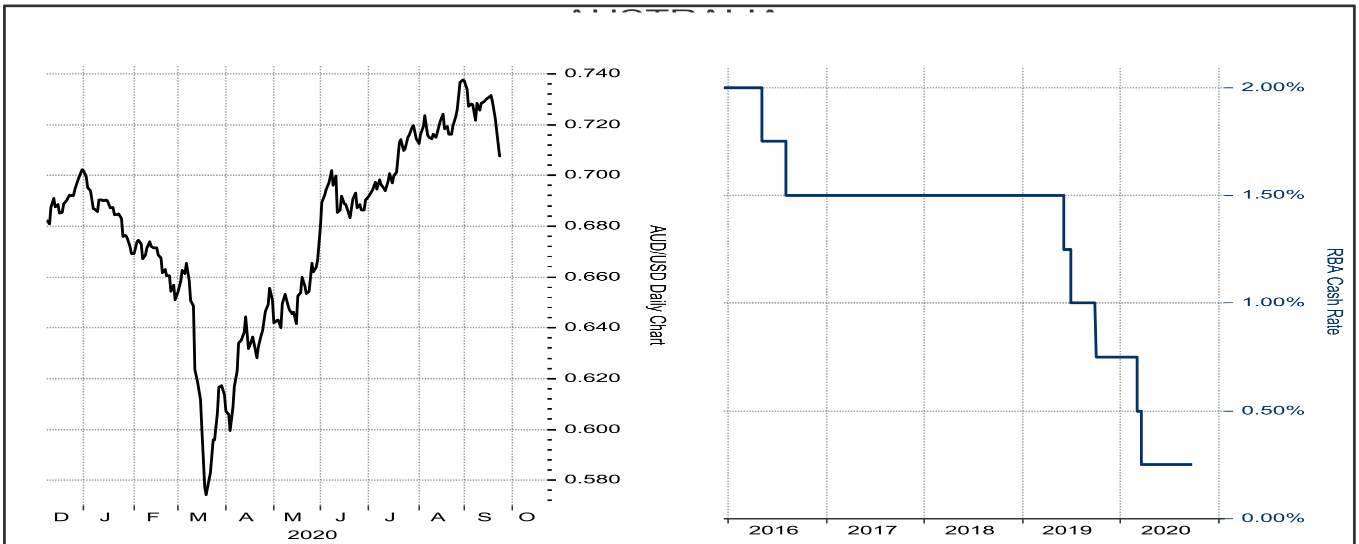


Source: Refinitiv Datastream/UOB Global Economics and Market Research

With November action from the BOE looking ever-more-likely (we expect the BOE to boost its bond-buying stimulus program by another GBP100b), we will also be watching closely to see if policymakers offer up any further clues on which tools they are most likely to deploy next. The message of recent weeks suggests QE remains the preferred tool, although negative interest rates cannot be ruled out over the coming months, especially on the back of a failure in UK-EU negotiations.

We have been cautious on GBP since the start of the year due to lack of progress in a Brexit trade deal ahead of the looming deadline at end-2020. However, bears returned to short the GBP in September when talks between the UK and the EU frayed. GBP/USD tumbled from 1.33 to 1.28 in the week of 14-18 September. In response to the higher odds of a hard Brexit at the end of the year, we now expect GBP/USD to stay depressed at 1.25 at end-4Q20 (compared to 1.32 previously). After which, counteracted by broad USD weakness, GBP/USD would stage a modest recovery, with point forecasts at 1.27 at 1Q21 and 1.29 for both 2Q21 and 3Q21.

AUSTRALIA

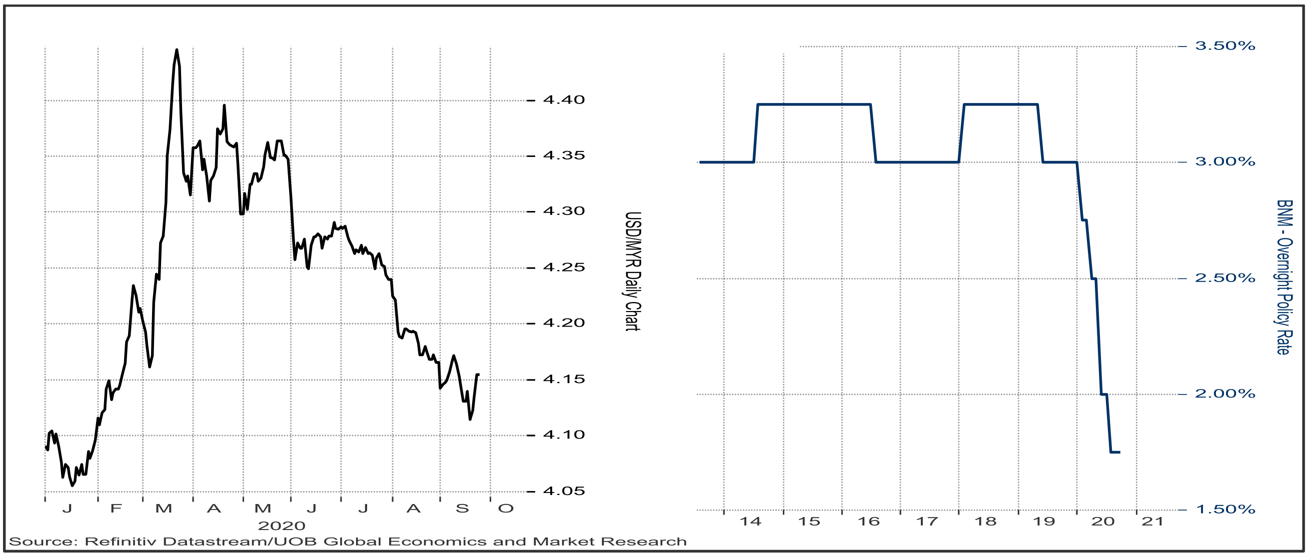


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The OCR is already down at 25bps, as is the yield curve control target for 3-year government bonds, so any further action would seem to necessitate a move further into unconventional territory. However, RBA Governor Philip Lowe remains unenthusiastic about negative interest rates, which impair the profitability and efficiency of the financial system. A move into negative territory is also not our base case, but we suspect the RBA will continue to give it due consideration. The main game, in our view, will still be fiscal policy. And in that regard, expectation for a strong stimulus at the 6 Oct federal budget will be high.

AUD/USD is comfortable sailing above 0.70, drawing strengths from external tailwinds such as the strong global risk appetite and a robust China recovery which spurred demand for Australia's commodity exports. As a result, AUD/USD rose for a fifth straight month in Aug, its longest winning streak since 2014. The V-shaped recovery in AUD/USD since March powered ahead despite a second wave of COVID-19 in Victoria in July and the resulting 4-week lockdown. Baring a significant setback in global risk sentiment, we remain comfortable in forecasting a higher AUD/USD. Our updated forecasts for the pair are 0.72 for 4Q20, 0.73 for 1Q21, and 0.74 for both 2Q21 and 3Q21.

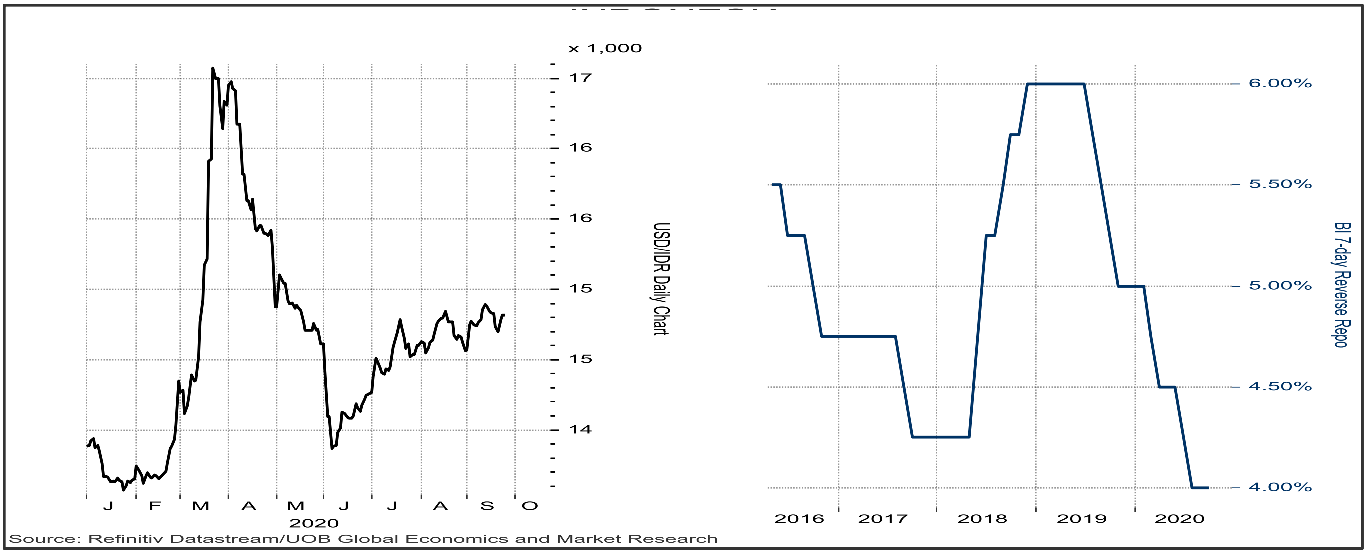
MALAYSIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) held the OPR unchanged at 1.75% in September following cumulative 125bps of rate cuts over four straight meetings since January. BNM sounded more positive (in Sep monetary policy statement) with them highlighting that the global economy continues to improve and Malaysia's economic activity is recovering from the trough in April. BNM expects the improvement to continue into 2021 though the pace of recovery will be uneven across sectors. BNM added that the current monetary policy stance is appropriate and accommodative, and is ready to utilise its policy levers as appropriate to sustain the recovery. We think this reflects a more neutral monetary policy stance that implies no further rate cuts at this juncture. Barring any negative surprises, we expect the OPR to stay at 1.75% until mid-2021. Signs of economic recovery and signals from the central bank for interest rate pause are positive factors for MYR. Key to watch are the country's fiscal stance, deficit and public debt projections for 2021 in its upcoming budget announcement. We expect the MYR to continue its modest gains alongside stable crude oil prices above USD 40 / bbl over the next few quarters. Our USD/MYR point forecasts are 4.12 for 4Q20, and 4.08 for 1Q21, and 4.05 for both 2Q and 3Q21.

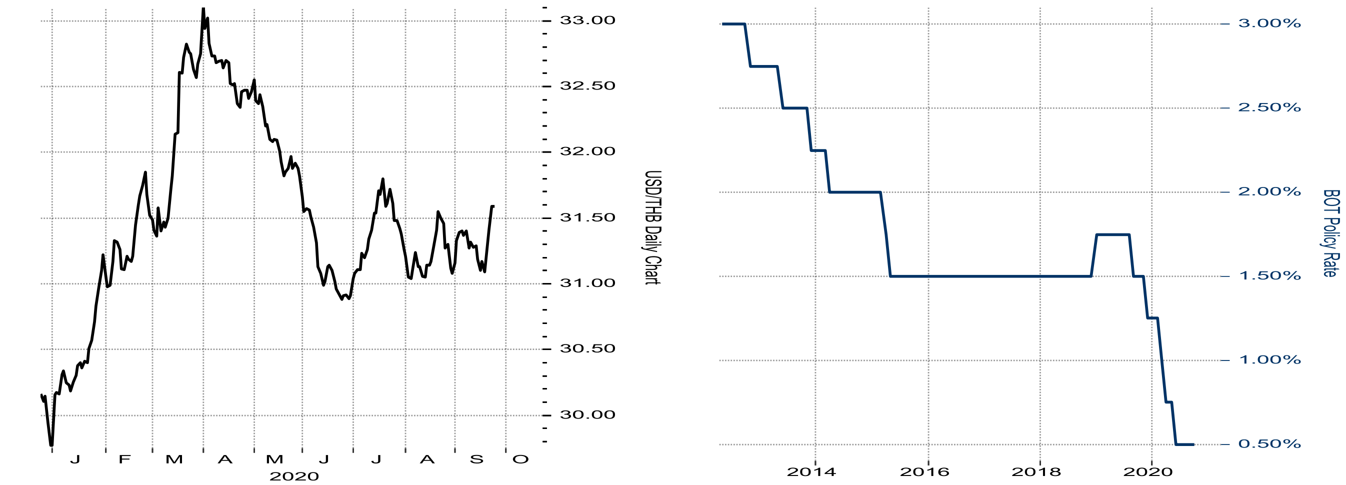
INDONESIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Indonesia (BI) has trimmed the benchmark interest rate four times this year by a total of -100bps in response to the pandemic, bringing the 7-Day Reverse Repo rate to an all-time low of 4.00%. During the last monetary policy meeting in September, BI stood pat and opted to provide support to the IDR which has been the worst performing currency in the region as a result of rising concerns about the 2021 budget, 2nd round of debt monetization, and PSBB part 2. With low inflationary pressures (which is far below BI's lower bound target) and an expected contraction in 3Q20 GDP, BI will likely be open to providing additional monetary stimulus in 4Q20 to complement the fiscal push. Currency stability will be another key factor for further easing as BI believes that the IDR remains "undervalued". We are keeping our forecast of another -25bps cut in the 7-Day Reverse Repo rate 4Q20. That said, indicators of depreciation pressures on the IDR remain subdued at this juncture – credit default swaps and NDF points are trading nearer to multi-year lows. Overall, we expect the IDR to stay weak in the immediate quarter before recovering. Our updated USD/IDR point forecasts are 14,900 for 4Q20, 14,800 for 1Q21, 14,700 for 2Q21, and 14,500 for 3Q21.

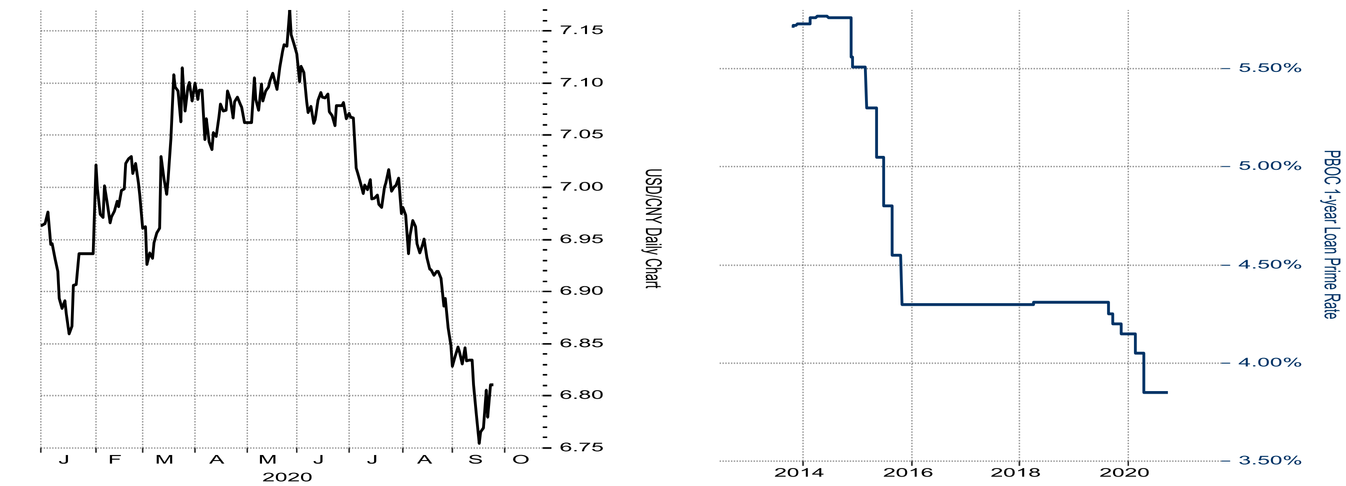
THAILAND



Source: Refinitiv Datastream/UOB Global Economics and Market Research

With Thailand's benchmark rate already at its record low, policy space is increasingly limited. In view of the improving economic outlook and a potential uptick in consumer prices going forward, BOT could be more reluctant in engaging further rate cuts in the year ahead. Fiscal measures are expected to play a greater role going forward should more stimulus be required. As such, we now expect BOT to keep its benchmark rate unchanged at 0.50% for the rest of 2020. On the charts, there is a strong support for USD/THB at 31 despite broad USD weakness. Due to the domestic economic woes, we expect the THB to weaken at least for the next two quarters before stabilizing. Our updated USD/THB point forecasts are 31.00 for 4Q20, 31.30 for 1Q21, and 31.50 for both 2Q and 3Q21.

CHINA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The People's Bank of China (PBoC) has kept its Loan Prime Rate (LPR) steady since May after 30bps cut in the earlier part of the year. With the acceleration of economic recovery, the pressure to ease monetary policy further has been greatly reduced which will now allow the PBoC to pay attention to financial risks mitigation ahead. Credit growth has increased sharply this year as the authorities step up financing support. Higher risk of financial imbalances in coming years will return the focus to deleveraging as the economy recovers. The rise in the Shibor rates also poses a challenge for banks to lower the LPR further. As such, we expect the PBoC to continue to hold rates into 2021.

Despite the increasingly tense relationship between the US and China, the stronger-than-expected growth momentum in China and stable monetary policy stance are the key drivers of CNY against the USD. With expectations that the growth recovery in China continues well into 2021, we believe that there is room for further CNY strength from here on. Furthermore, the PBoC has not made any hints or comments in recent days that the near-term strength in the CNY at 6.79 is excessive. As such, we update our USD/CNY point forecasts to 6.70 for 4Q20, 6.65 for 1Q21, and 6.60 for both 2Q21 and 3Q21.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	24 Sep 20	4Q20F	1Q21F	2Q21F	3Q21F
USD/JPY	106	104	103	102	102
EUR/USD	1.17	1.18	1.19	1.20	1.20
GBP/USD	1.28	1.25	1.27	1.29	1.29
AUD/USD	0.71	0.72	0.73	0.74	0.74
NZD/USD	0.65	0.67	0.68	0.69	0.69
DXY	94.4	93.4	92.5	91.7	91.6
USD/CNY	6.83	6.70	6.65	6.60	6.60
USD/HKD	7.75	7.75	7.78	7.80	7.80
USD/TWD	29.21	28.80	28.50	28.30	28.30
USD/KRW	1,170	1,160	1,150	1,140	1,140
USD/PHP	48.49	48.20	47.90	47.50	47.50
USD/MYR	4.17	4.12	4.08	4.05	4.05
USD/IDR	14,890	14,900	14,800	14,700	14,500
USD/THB	31.55	31.00	31.30	31.50	31.50
USD/MMK	1,325	1,325	1,310	1,300	1,300
USD/VND	23,175	23,000	22,800	22,600	22,600
USD/INR	73.90	74.00	74.50	75.00	75.50
USD/SGD	1.38	1.35	1.34	1.33	1.33
EUR/SGD	1.60	1.59	1.59	1.60	1.60
GBP/SGD	1.75	1.69	1.70	1.72	1.72
AUD/SGD	0.97	0.97	0.98	0.98	0.98
SGD/MYR	3.03	3.05	3.04	3.05	3.05
SGD/CNY	4.96	4.96	4.96	4.96	4.96
JPY/SGDx100	1.30	1.30	1.30	1.30	1.30

RATES	24 Sep 20	4Q20F	1Q21F	2Q21F	3Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD 3M LIBOR	0.23	0.25	0.25	0.25	0.25
US 10Y Treasuries Yield	0.67	1.05	1.05	1.05	1.20
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	0.10	0.10	0.10	0.10	0.10
AUD Official Cash Rate	0.25	0.25	0.25	0.25	0.25
NZD Official Cash Rate	0.25	0.25	0.25	0.25	0.25
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.85	3.85
HKD Base Rate	0.50	0.50	0.50	0.50	0.50
TWD Official Discount Rate	1.13	1.13	1.13	1.13	1.13
KRW Base Rate	0.50	0.50	0.50	0.50	0.50
PHP O/N Reverse Repo	2.25	2.25	2.25	2.25	2.25
SGD 3M SIBOR	0.41	0.35	0.35	0.35	0.35
SGD 3M SOR	0.18	0.25	0.25	0.25	0.25
SGD 10Y SGS	0.83	1.15	1.15	1.15	1.30
MYR O/N Policy Rate	1.75	1.75	1.75	1.75	1.75
IDR 7D Reverse Repo	4.00	3.75	3.50	3.50	3.50
THB 1D Repo	0.50	0.50	0.50	0.50	0.50
VND Refinancing Rate	4.50	4.00	4.00	4.00	4.00
INR Repo Rate	4.00	3.50	3.50	3.50	3.50
MMK Central Bank Rate	7.00	6.00	6.00	6.00	6.00

COMMODITIES	24 Sep 20	4Q20F	1Q21F	2Q21F	3Q21F
Gold (USD/oz)	1,867	2,000	2,100	2,200	2,200
Brent Crude Oil (USD/bbl)	42	40	40	40	40
LME Copper (USD/mt)	6,524	6,500	6,500	6,500	6,500

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

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