UOB HOUSE VIEW

4Q2018

GLOBAL MACRO

Ahead of the US mid-term election in November, global macro and financial markets uncertainties are expected to intensify further. The FED is expected to continue rate hikes as Trump's tax cuts and fiscal stimulus cocoons US economy in a surreal sweet spot. But elsewhere, Trumps' aggressive trade agenda risks further moderation of EM and Asian growth and exports. We lower our 2019 China GDP growth forecast to from 6.6% to 6.3%.

ASSET ALLOCATION

The strong macro fundamentals in a low inflationary environment would have normally been a healthy backdrop for investing. But the risks are substantial and worrisome. We don't recommend turning "risk off" and hiding in safe assets, but rather we think we should be more **neutral** between equities, fixed income and commodities. We advise to spread out investments over time to help neutralize the volatility and invest in a diversified manner.

EQUITIES

A perfect storm of tightening of dollar liquidity, China's credit restraint, and the escalation of the Sino-US trade dispute, darkened the prospect for many EM countries. While overweighting equities relative to fixed income to date had broadly added value, the building up of economic stresses, the trade impasse, as well as moderately expensive US equity valuation, would suggest that a **neutral** equity exposure is appropriate at this stage.

FIXED INCOME

Over the past quarter, fixed income markets started to improve after a poor start to the year. In 3Q and into 4Q, our expectations are that the base rate movements will be more modest and spreads should narrow from the wide levels of 3Q18. Thus while most fixed income portfolio struggled to give positive returns in 1H18, we expect the better carry from higher yields will result in positive returns for most fixed income markets in 4Q18.

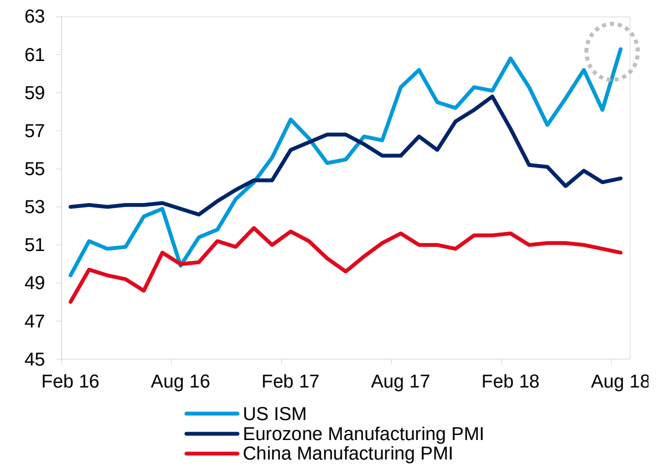
COMMODITIES

Escalating global trade tension is a key negative for growth sensitive base metals and we see Copper staying cautious at USD 5,500 to 6,500 / MT. Crude oil may encounter a supply squeeze in 4Q as US bans Iranian supply. Thus, we see Brent crude oil trading at a higher range of USD 75 to 85 / bbl. Gold price continues to melt in the face of higher interest rates and the stronger USD. We see gold falling further to USD 1,150 / oz.

FX & INTEREST RATES

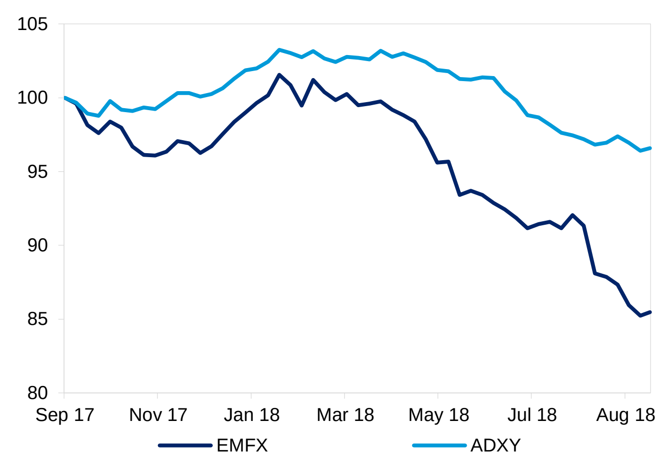
Amidst rising global trade tensions, Asian currencies are expected to weaken further as the RMB falls towards 7.0 to the USD by 1Q 2019. USD/SGD poised to target 1.40. The USD will retain its broad strength in the EM space, however it is premature to write off the EUR and AUD. Rates will continue to push higher as FED hikes further and liquidity tightens. 10 year US Treasuries yield to trade above 3.0% as 3M Sibor and SoR encounter more volatility in their push above 2.0%.

Make America Great Again
Trump's Fiscal Stimulus Help US ISM
To Outperform Eurozone And China PMIs



Source: Bloomberg, UOB Global Economics & Markets Research

Amidst Widespread Weakness In EM And Asia FX
Normalized YTD Falls In Emerging Market FX (EMFX)
And Asia Dollar Index (ADXY)



Source: Bloomberg, UOB Global Economics & Markets Research

Trump's Roller Coaster Ride

The US mid-term election is now upon us in November as Trump's US Presidency reaches the end of its second year. On hindsight, Trump's first year of Presidency in 2017 was relatively benign for financial assets despite the daily White House drama punctuated by harmless entertainment from Sean Spicer. On the other hand, Trump's second year of Presidency (so far in 2018) has been much more volatile and has had much wider reaching global economic impact and geopolitical consequences.

Trump's aggressive trade agenda saw him tearing up decades long free trade agreements with key trading partners of the US and re-negotiation of trade deals with Canada, Mexico, European Union and China. At the moment of writing, Canada has yet to agree to the renegotiated NAFTA terms, while Trump seemed to have expressed renewed doubts on previously agreed broad strokes on lowering auto tariffs with the EU. Most recently, Trump has expressed his displeasure over US trade ties with Japan (although we are not sure why). On a more serious note, the US-China trade tension continues to drag on with no near term resolution in sight. Even before tariffs are imposed on the next USD 200bn block of Chinese imports, Trump threatened to impose tariff on all remaining Chinese imports.

Trump's significant tax cut and fiscal stimulus has indeed made America great again. It would appear that the US economy is now cocooned in a surreal sweet spot that is insulating itself from the economic distress spreading through the weaker Emerging Market countries like Turkey and Argentina. Amidst strong above trend US GDP growth of 3% this year, coupled with robust job market that is at full employment, various US inflation indicators have all started to point higher.

As such, the US Federal Reserve is poised to hike two more times this year (very soon in Sep and thereafter in Dec) and looks increasingly likely to hike three more times across 2019. Consequently, we reiterate our long running view for higher rates. Over the course till mid-2019, as Federal Funds Rate rise from 2.0% to 3.25%, 3M US Libor is poised to rise from 2.3% to 3.2% as 10 year US Treasuries yield rise from 2.9% to 3.5%.

Outside of the US, the rest of the world has to live with the consequences of on-going US rate hikes and increasing trade tariffs on both US and Chinese goods. There are increasing concerns that supply chains may be disrupted, leading to higher production costs that will ultimately be passed onto consumers. We assume the base case of USD 200 bn of tariffs by US on Chinese goods and a long negotiation process into 2019 before reaching a resolution. Our macro team has downgraded China's 2019 GDP growth from 6.6% to 6.3%. Consequently, we forecast that USD/CNY will trade above 7.0 sometime early next year.

We now see more meaningful growth impact on Asian economies and have moderated the 2019 GDP forecasts for key economies in Asia, including South Korea and Singapore. The trade tensions have also triggered widespread US Dollar strength at the expense of other Developed Market (DM), Emerging Market (EM) and Asian currencies. In the face of further rate hikes from the US Federal Reserve and growing risks to global trade outlook, it is difficult to call an end to the dominant USD strength anytime soon.

In our previous House View published in mid-June, we highlighted various global risk events. All these risk events seemed to have intensified over the third quarter into the Allegro con brio of Beethoven's Fifth. China's GDP growth is likely to moderate in 2019 as US-China trade tensions drag on. EM currencies will likely stay weak and volatile as the US Federal Reserve is poised to lift interest rates further. Eurozone geopolitics remain a wild card with a populist Italian government now in place while the UK now heads toward Brexit with no clear agreement yet on divorce terms with the EU. Adding to this volatile mix is the upcoming incendiary US sanction of Iranian oil exports.

As for the US mid-term elections on 6 Nov, based on the seats available for contest the Democrats may well be able to wrestle back either the House or the Senate from the Republicans. Should that happen, will the mercurial US President tone down his aggressive trade agenda, or will he double down instead in the second half of his Presidency? Amidst all these, Robert Mueller's special investigation is picking up pace and whispers are getting louder to invoke the 25th Amendment. The Trump roller coaster ride may have just begun.

ASSET ALLOCATION

So far in 2018, global equities have outperformed global fixed income but the environment feels far from bullish. While global equities are up over 6% in SGD terms through September 2018, it has been supported by the US and only a few other markets. Asian equities as a whole are down YTD, Global fixed income and Asia fixed income are down and thus there have been many ways investors could end up with negative returns so far in 2018. Additionally, the geopolitical risks appear to be escalating, leaving most investors feeling quite bearish. While the macro environment is volatile, we remind investors that global macro fundamentals are quite solid and valuations have turned attractive after the weak first half of the year. We turn more **neutral** between the major asset classes. We think both equities and fixed income markets are likely to deliver positive returns in the fourth quarter of 2018, but we recommend investors to stay diversified, average into markets and be vigilant to monitor the potential for risks to escalate further.

Global macro fundamentals are sound and unappreciated. Global GDP growth remains as strong as in 2017, which supported very bullish markets. Growth, however is less broad based compared to 2017 with US growth strong while regions like Europe and Japan have positive growth but at levels slower than 2017. Asian growth is down only slightly compared to 2017 but remains at levels usually associated with healthy market performance, especially as inflation remains in check. Additionally, global corporate earnings remain at very healthy levels with global earnings growing at 16%. The US region is the strongest with 23% earnings growth (half driven by tax cuts), but regions like Asia are still achieving double digit growth. Equity valuations were above average at the end of 2017, but after strong earnings a lackluster market performance global equity valuation have come back down to average levels and regions like Asia appear cheaper than average. Finally, inflation around the world appears to growing but at contained levels and our checklist of recession indicators are not signaling warning signs of a new recession in the coming year. Based purely on the fundamental backdrop, we would argue this should be a healthy year for growth investments.

Risks issues such as trade wars and other geopolitics are weighing heavily on markets, especially Asia. While US policy leadership remains unpredictable, the US trade policies have been consistently trending along worse case scenarios. Our base case now fully assumes the US$200bn of China exports to the US with new tariffs and the US$60bn of US exports to China with new tariffs. Additionally, we assume a long drawn out negotiating process that will last through 2019. Tariffs are “anti-growth”, hurt consumers and weaken productivity. Our assumptions are that global GDP could be reduced by 0.6% if the tariffs remain for another year. We don’t completely rule out an “October Surprise”, where the US president “declares victory” and announces the tariff reductions that China has already agreed to and claims that he has fought for a good deal for Americans right before the mid-term elections. But increasingly signs point to a long drawn out process. Additionally, other risks also pose the threat of increasing investor concerns in 4Q18. European politics are likely to become more troublesome in Italy and with Brexit. As the economy grows and trade tariffs are implemented, inflation remains a force to be monitored.

The Fundamentals vs the Risks. If we knew nothing else about market performance during the year we would argue that the strong macro fundamentals in a low inflationary environment would be a healthy backdrop for investing. But the risks are substantial and worrisome. We don’t recommend turning “risk off” and hiding in safe assets, but rather we think we should be more neutral between equities, fixed income and commodities. We advise to spread out investments over time to help neutralize the volatility and invest in a diversified manner. Growth is supportive of equities, valuations are increasingly attractive and limited inflation implies that although rates are expected to climb, most of the rate moves have been digested by the markets and fixed income returns should be better in the coming quarters.

For 4Q 2018, we shift to neutral equities, fixed income, commodities, and cash against the benchmark.

Asset Class	Policy	UOB House View Weight (%)	Benchmark Weight (%)
Equities	Neutral	55.0	55.0
Bonds	Neutral	38.0	38.0
Commodities	Neutral	5.0	5.0
Cash	Neutral	2.0	2.0

EQUITIES

Over the past quarter, the equity markets had appropriately distinguished between the stronger and weaker countries, and those with large twin deficits suffered a deeper sell off. A perfect storm of tightening of dollar liquidity, China's credit restraint, and the escalation of the Sino-US trade dispute, darkened the prospect for many EM countries. The Chinese response has so far been measured: selective and cautious fiscal expansion, and rebates for exporters, without large-scale monetary easing. Unsurprisingly, EM assets have underperformed, while the US market traded near an all-time high. While overweighting equities relative to fixed income to date had broadly added value, the building up of economic stresses, the trade impasse, as well as moderately expensive US equity valuation, would suggest that a neutral equity exposure is appropriate at this stage.

We maintain a Neutral stance on US equities. Earnings growth remains healthy, boosted by corporate tax cuts. In addition, profit repatriation has been utilized in share buy backs which benefitted stock prices. Indeed, business spending which has been expanding sequentially since 2Q 2016, has been on a tear in 1H 2018 (expanding 8.5% in 2Q and 11.5% in 1Q), and will remain constructive to growth this year. However, while fundamentals for US equities stay positive, returns are likely to be moderate due to above average valuation and continued tightening of monetary policy.

We maintain a Neutral stance on European equities. Activity indicators weakened in the first half but there are signs of a turnaround with rise of the IFO Pan Germany Business Expectations in August. European equity market performance was negatively affected by bank exposure to Turkey. European equities trade at a discount to US and with clearer evidence of an economic rebound, performance could recover in the coming months. Second quarter national accounts show that the 0.4% q/q GDP growth was largely driven by the 1.2% rise in gross fixed capital formation. Although higher business investment may provide some boost, the uncertainties surrounding Brexit may dampen business sentiments.

We maintain a Positive stance on Japanese equities. Economic growth has moderated but is still expanding at a healthy pace. Indeed, after a brief contraction in 1Q 2018 – following 8 straight quarters of unabated growth, the longest streak in 28 years – the economy rebounded by an annualized rate of +3.0% (0.7%q/q) in 2Q 2018. Inflation, or rather the lack of it, has been the Achilles' heel for policymakers. As such, the Bank of Japan has maintained its ultra-accommodative monetary policy which benefits equities through a more competitive currency. Prime Minister Shinzo Abe's comfortable victory to remain as LDP President (20 Sep) paves the way for him to be Prime Minister for the third term through to September 2021, providing political and policy stability. After a spate of foreign selling this year, Japanese equities should be well supported going into the latter part of the year.

We are Neutral on Emerging Market equities. Emerging markets are facing almost a perfect storm of rising USD and more recently, the spectre of a full blown trade war. With the tightening of USD liquidity, countries with twin deficits will see weaker currencies and asset prices. However, further sell off could be a buying opportunity for long term investors as valuation has become more attractive although catalysts remained elusive in the near term.

COMMODITIES

Diverging fortunes between gold, copper and crude oil

What a difference a quarter makes! When we published our previous Quarterly Global Outlook at the half year mark, with the exception of gold and precious metals, the commodities space in general looked rather constructive. In particular, copper could do no wrong and appear poised to trade higher. Since then, US-China trade relations took a turn for the worse and emerging markets currencies and assets encountered a heavy wave of selling. Thereafter, new drivers emerged and pulled gold, copper and crude oil in different directions.

Precious Metals: Gold tumbles in the face of King Dollar

In the precious metals space, the sell-off continues. Rising US interest rates together with further USD strength is the dominant negative driver that forced gold, silver and platinum lower. The only bright spot is palladium which received a boost from industrial demand due to the start of stricter car emissions ratings from European authorities. Across 3Q, gold was sold-off from USD 1,260 / oz at the start of Jul, to the end-Aug level of just under USD 1,200 / oz. We stay negative on gold and see further weakness to USD 1,150 / oz by mid-2019.

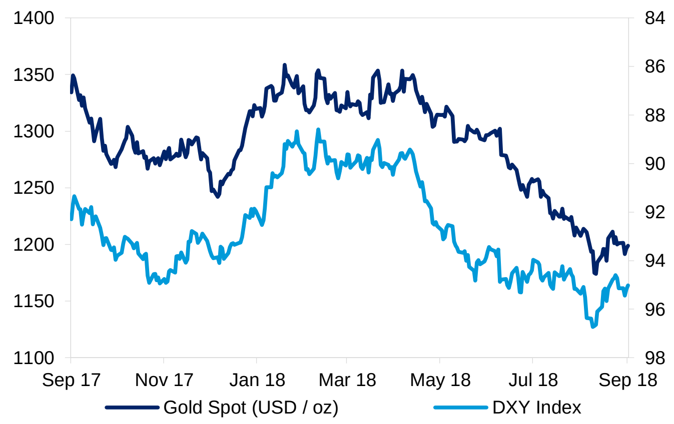
Base Metals: Copper held hostage by global trade tension

With the further deterioration of US-China trade relations, the base metals complex had to endure renewed intense selling. In particular, bullish long positions in copper that were painstakingly built up from 2017 were liquidated in a short space of time across the past few weeks. Worries about copper supply deficit were unfounded as the much feared wage negotiations in the world's largest copper mine was successfully and swiftly concluded without any mining strike. Overall, until the trade tensions pass, we were wrong in our previous positive copper view and now adopt a neutral outlook. For the coming 4 quarters, we now expect 3M LME copper to range trade between USD 5,500 / MT and USD 6,500 / MT.

Energy: US ban on Iranian oil a key risk for crude oil

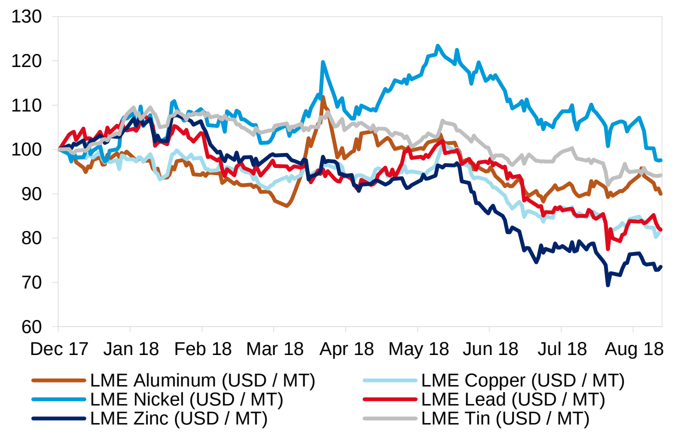
In the energy space, all eyes are now on the upcoming US embargo of Iranian crude oil export in November. In fact, supply contraction may have started as Iran's crude oil production and export have started to take a noticeably dip in August. In the mean-time, Saudi Arabia and other OPEC members do not seem to be able to pump more oil to offset the impending supply cliff from Iran. For now, it would appear that supply concerns are over-riding growth related concerns from the global trade tensions. In addition, OPEC has warned that global demand for crude oil is likely to surpass 100 mio bpd at a quicker pace, before the year is up. Overall, we maintain our neutral outlook for Brent crude oil, but raise the forecast trading range from USD 70 – 80 / bbl to USD 75 to 85 / bbl.

The Strong USD Continues To Drive Gold Lower



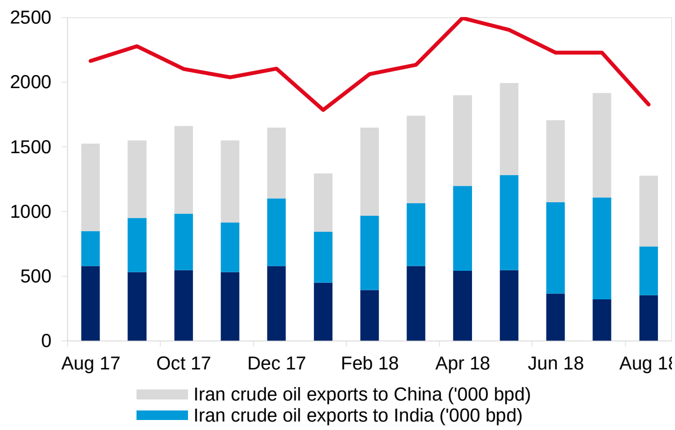
Source: Bloomberg, UOB Global Economics & Markets Research

Base Metals Melt Amidst Escalating Trade Tensions



Source: Bloomberg, UOB Global Economics & Markets Research

Iran's crude oil exports have started to fall



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Over the past quarter, fixed income markets started to improve after a poor start to the year. Key benchmark yields were relatively more stable and corporate spreads started to modestly narrow after widening in the first half of the year. In the first half of 2018, fixed income markets faced a dual headwind of rising rates and widening credit spreads. In the 3rd quarter and into the fourth quarter our expectations are that the rate movements will be more modest and spreads should narrow from the wide levels of 3Q18. Thus while most fixed income portfolio struggled to give positive returns in 1H18, we expect the better carry from higher yields will lead positive returns for most fixed income markets in 4Q18.

Benchmark yields have been range bound since February. At the start of 3Q18, the 10 year UST yield was 2.86% and as of mid-September 2018 the yield was 2.99%. The 10-year Singapore government bond yield started the quarter at 2.53% and drifted down to 2.48% by mid-Sept 2018. We continue to expect the 10 year rates to drift higher through the end of 2018 and into 2019 but at a gradual rate. We expect 2 more rate hikes in by the US FED in 2018 and 3 more in 2019 which would imply the Fed Funds rate moves up to 3.5% and close to the terminal rate. A terminal rate around 3.5% should become a 2019 expectation for the 10 year as we would expect the yield curve to be flat at that stage of the cycle. Thus, over the next year and a half it is reasonable to expect long-term rates to trend higher by another 50bp. Rising yields will remain a headwind but a gradual and modest one over the coming year.

Credit spreads narrowed in 3Q18 and we see room to narrow further in 4Q18. At the end of June, the average credit spread of the Barclays Global Agg Corporate Bond Index was 126bp, and by the middle of September the average spread had narrowed to 114bp. The average spread of the JPM Asia Credit Index was 227bp at the end of June and narrowed to 220bp by the middle of September. We continue to think that bond portfolios will see some offset to the rising rate environment by seeing some modest credit spread compression as markets stabilize after heightened volatility at the start of the year. Many bond portfolios now carry a 3% yield of the benchmark government bond yields plus a corporate spread of 114bp implying total yields of over 4%. At these levels, and with room for modest spread compression, fixed income portfolio should be posting positive returns over the coming quarters.

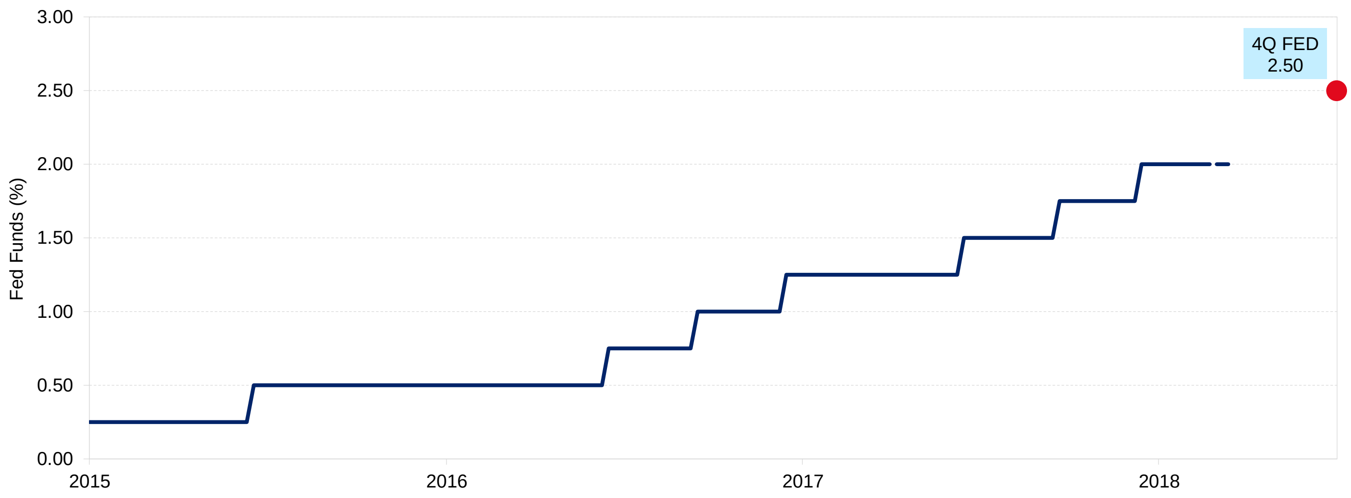
Performance improved in 3Q18. After posting negative returns in 1H18, most fixed income markets turned positive in 3Q18. The JPM Asia Credit index was up about 0.3% in USD terms during the quarter through mid-September, and the Barclays Global Aggregate Hedged index was up 20bp. The JPM Asia High yield index returned 1.44% through mid-Sept and the Barclays Global High yield index returned 1.47% through mid-September. Fixed income returns remain challenged by rising rates but the evidence of 3Q18 is that returns should be able to stay positive despite the rising yields.

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

FX & INTEREST RATES

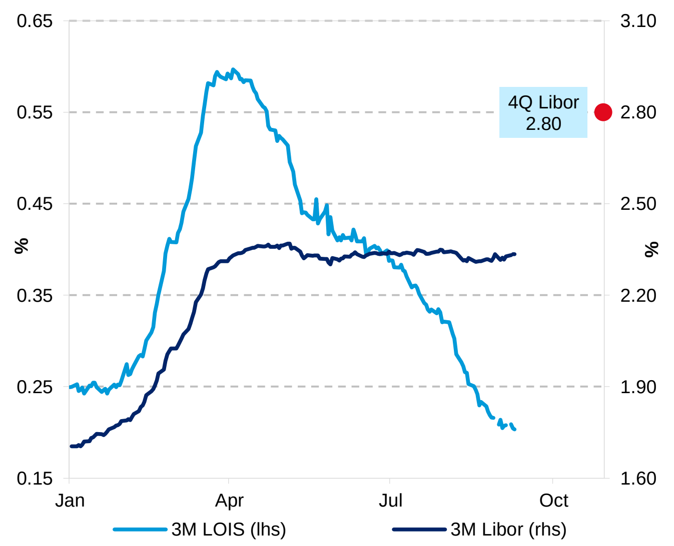
UNITED STATES

FED Funds Rate



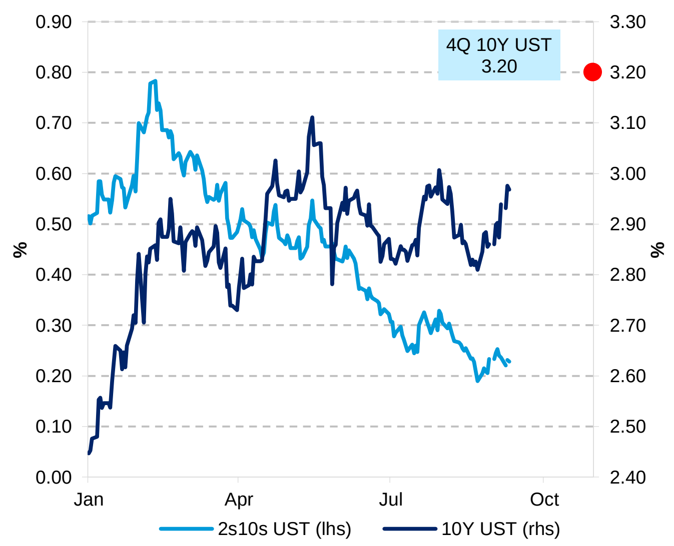
We maintain our Fed rate trajectory in 2018 and we continue to expect two more hikes in 2H 2018 (Sep and Dec FOMC) to bring the FFTR range to 2.25%-2.50% by end-2018. That said, even if the Fed hikes four times this year – which represents the fastest annual pace of normalization since the Fed started hiking rates in 2015 – we do not see it as excessive US monetary tightening. We also maintain our 2019 rate hike expectation at three 25bps hikes which now implies that we expect the Fed to exceed their long run FFTR at 3.0% by mid-2019. While we remain mindful that stronger wage and inflation expectations could add to the risk of a more aggressive Fed in terms of policy normalization, the elephant in the room is clearly the escalating US-China trade tensions which could warrant a more cautious Fed., FOMC Chair Powell and recent FOMC minutes already sounded the warning about trade concerns although the impact is not yet quantified in Fed's economic forecasts. The Fed's balance sheet reduction (BSR) program is expected to continue as scheduled. Taking the BSR into consideration, implies the FOMC will not add more rate hikes (beyond what is implied in the dot-plot chart) unless we get a sharp inflation surprise.

3M US Libors



- We expect to see 3M Libor at around 2.80% at the end of 4Q2018.
- Libor vs. OIS spread has mean-reverted significantly and has limited scope for further compression.
- An upward trajectory in Libor is justified by further US monetary policy tightening through rate hikes as well as balance sheet reductions.

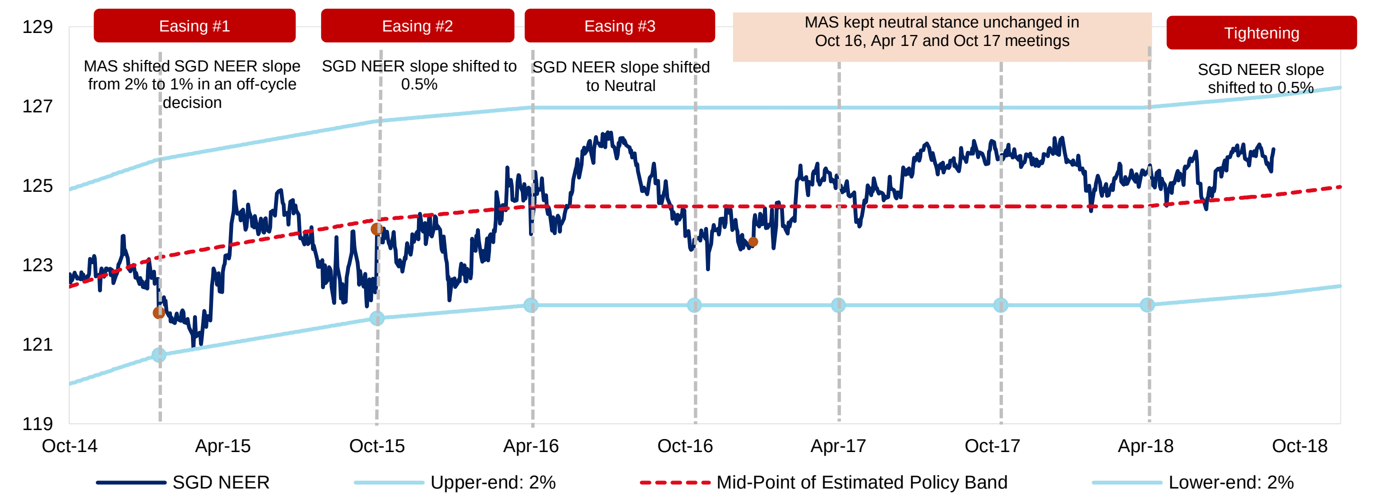
10Y US Treasuries



- We expect to see 10Y UST at 3.20% by the end of 4Q2018.
- Path of least resistance for 2s10s UST curvature is lower and given current low levels the risk of inversion is there, but is not our base case for 4Q2018.
- 10Y UST term premium remains resistant to richening; we see limited downside unless recessionary fears take hold.

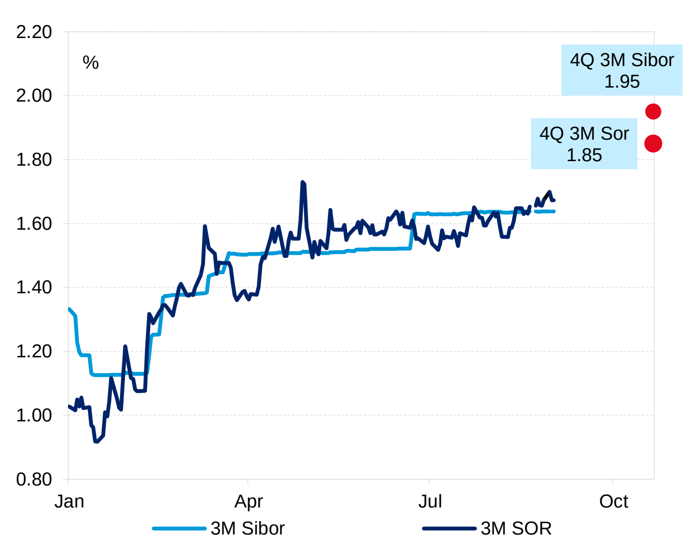
SINGAPORE

SGD NEER



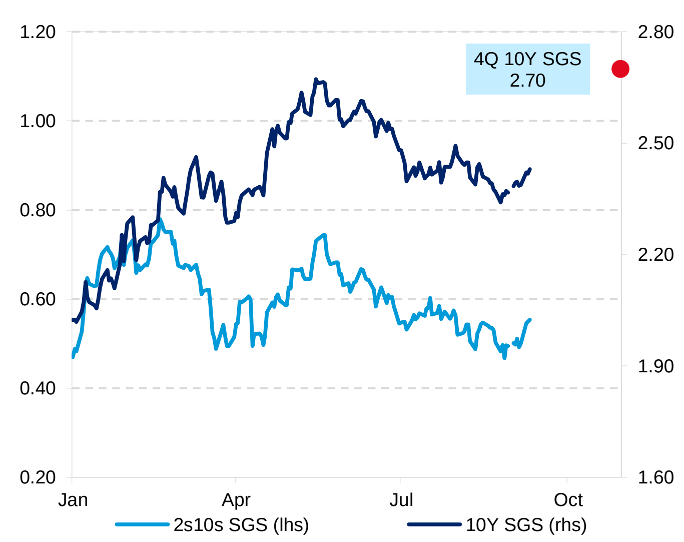
We expect the Monetary Authority of Singapore (MAS) to release its half-yearly monetary policy statement in the week of 8-12 October 2018 (likely to be on 12th October, Friday, in our view), where we expect the MAS to keep the existing stance of "a modest and gradual appreciation path of the SGD NEER policy band" unchanged (UOB estimate: 0.5% pa) and also keeping the midpoint and bandwidth of the policy band unchanged. Our view is based on concerns of the rising risk environment. Global manufacturing PMIs had been weakening, emerging market currencies sold down, Trump administration continuing their anti-trade rhetoric, and the US Federal Reserve moving forward on a tightening path. On the domestic front, economic growth has been slowing too with both the positive output gap weakening and the composite leading indicator pointing to slower economic activities in the quarters ahead. Although Singapore's core inflation had accelerated to a four-year high in the latest CPI print, it was reflecting an upward adjustment of electricity tariffs. Major segments such as food inflation remained stable and upside wage pressures seem to be toning down. Moreover, oil prices are likely to stablise at current levels and do not present significant upside risks. With the MAS expected to stay on hold in October, the strong USD will be the dominant negative driver against the SGD. We still expect gradual SGD weakness alongside other Asian currencies. We forecast USD/SGD at 1.39 in 4Q18, 1.40 in 1Q19 and 1.41 in 2Q and 3Q19.

3M SOR and Sibor



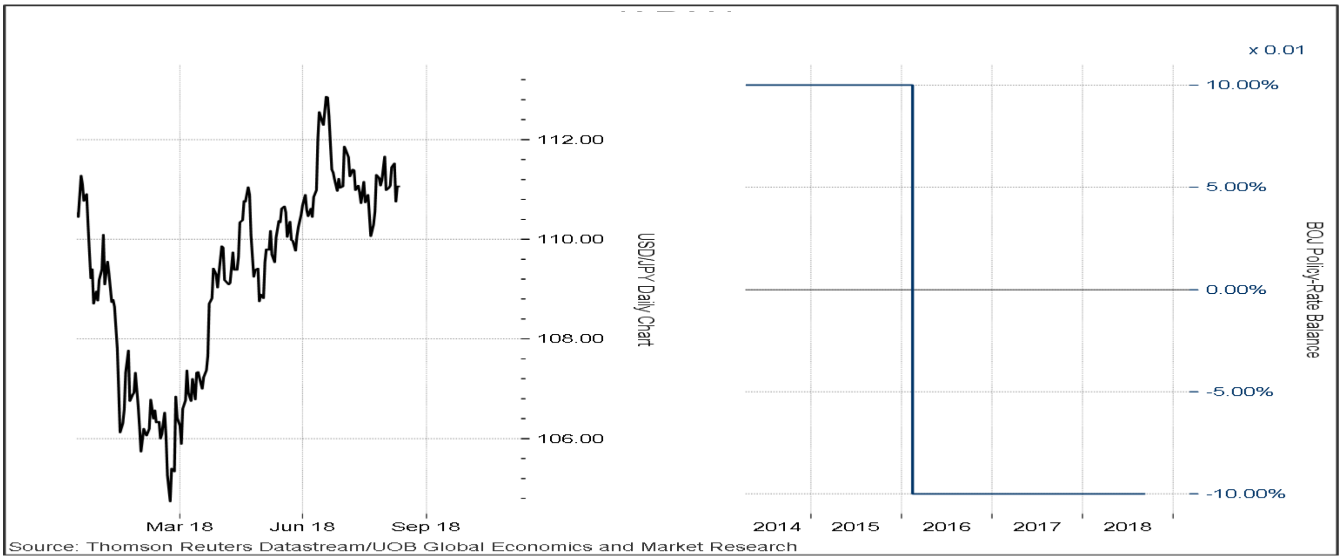
- We expect to see 3M SOR and SIBOR at 1.95% and 1.85% by the end of 3Q2018 respectively.
- SG rates discount to US rates is expected to hold. October's MAS meeting is unlikely to shift the outlook for interest rate differentials significantly.
- SG rates volatility has been low amidst Emerging Market adversity. We are wary of volatility picking up in 4Q2018.

10Y SG Bonds



- We expect to see 10Y SGS at 2.70% by the end of 4Q2018.
- SGS auction calendar is complete, bar a mini auction in October, after September's 15Y supply. SGS demand prospects will be boosted if Life Insurance industry performance comes in line with 4Q seasonality.
- 2019's SGS auction calendar will be released in October.

JAPAN

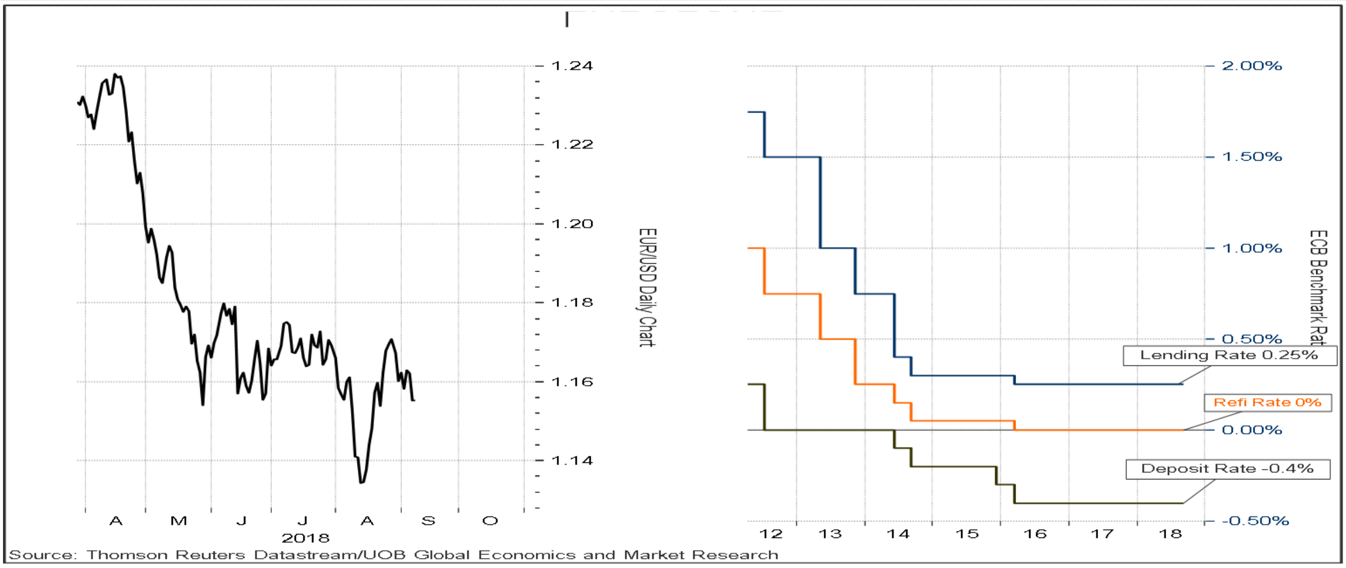


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

For now, the market will probably recognize that the BOJ has not given up on its easy monetary policy and that it remains premature for the BOJ to talk about normalizing/tapering its easing program anytime soon, because Japan is still far away from its 2% inflation target. PM Abe's comfortable victory to remain as LDP President (20 Sep) paves the way for him to be Prime Minister for the third term through to September 2021, providing political and policy stability.

That said, one nagging point of contention which has been unhelpful to BOJ's "fight" is the fact that the projected annual pace of JGB buying has continued to be well below target so far this year, from JPY58trn (end-2017) to a low JPY42.9trn in end-June and hovering at JPY44.8trn (as of 10 Sep) currently, versus its official target of JPY 80trn. A significant decline in the pace of buying will certainly re-ignite speculation of policy normalization. We think it is likely that the BOJ still needs to do more "tweaks" to monetary policy to reassert its easy monetary policy position, possibly in early 2019, although we cannot rule out that move being brought forward as early as 4Q 2018. We expect USD/JPY to reach 112 by end-2018, to 114 by mid-2019.

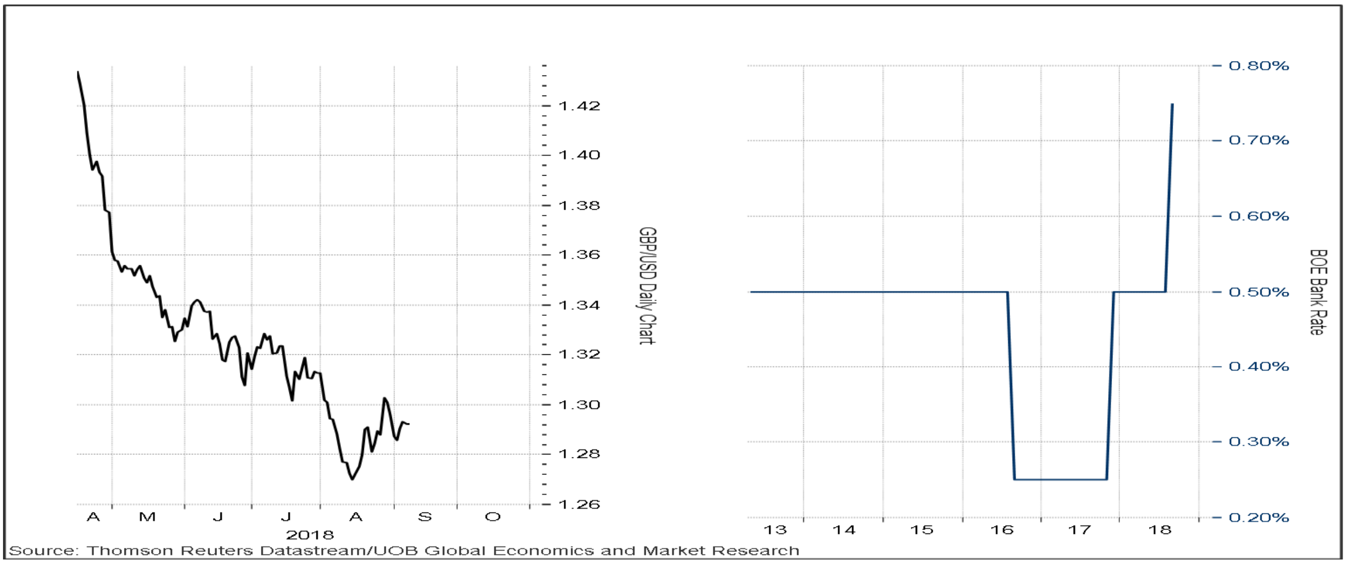
EUROZONE



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

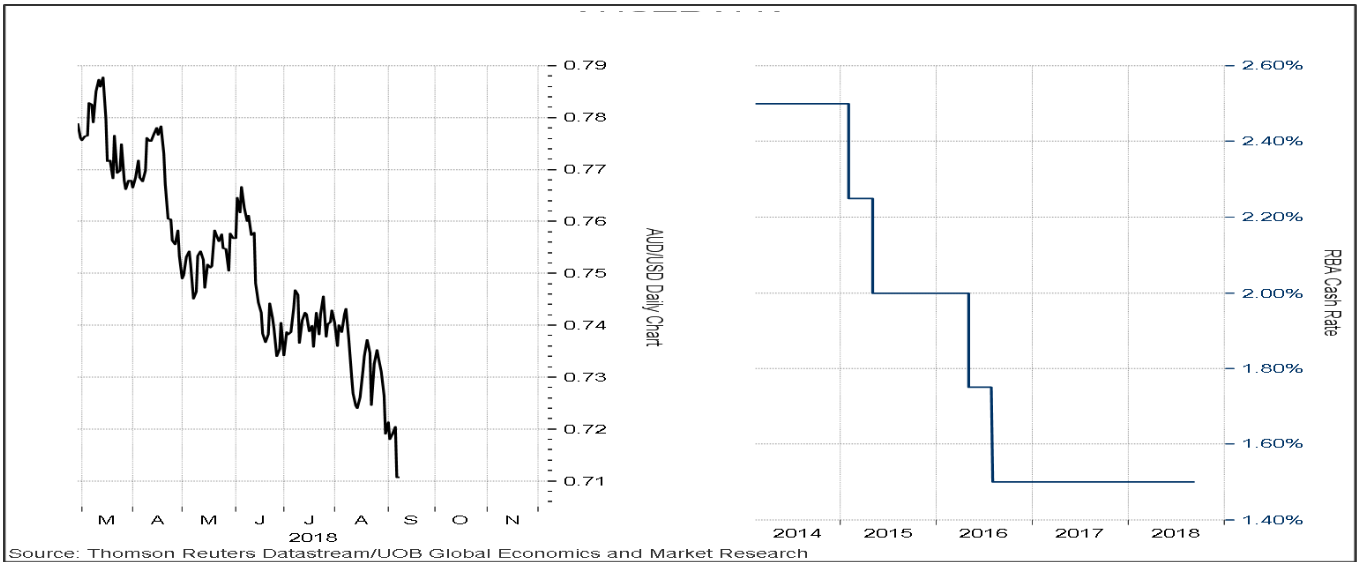
Since June, EUR/USD has been capped under 1.18 across 3Q. Amidst broadening USD strength, there was an acute sell-off in the EUR/USD in August towards 1.13, however the pair swiftly returned to 1.16 by September. Overall, the various negative drivers against the EUR/USD remained unchanged compared to the previous quarter. Despite the upcoming end to QE at the end of the year, the ECB is in no hurry to hike interest rates. In addition, political concerns were reignited after Italy's populist government revealed plans for an expansionary budget that will most likely widen Italy's fiscal deficit further. All these concerns have kept the EUR/USD depressed. However, with Eurozone inflation back above the long term 2% target, ECB officials will need to eventually discuss further normalization of easy monetary policy. While Eurozone business sentiment has taken a hit amidst the risk aversion, it is worth noting that in general, current account balances in Eurozone member countries remain healthy. In fact, Eurozone as a whole is expected to register a current account surplus of about 3.3% of GDP as Germany's current account surplus stays strong above 8% of GDP. As such, we believe that EUR/USD may currently be a bottoming process that will set the stage for a recovery in 2019 once ECB starts further normalization of easy monetary policy, possibly via rate hikes. Overall, we forecast EUR/USD at 1.15 across 4Q18 and 1Q19, before rising to 1.17 in 2Q19 and 1.20 in 3Q19.

UNITED KINGDOM



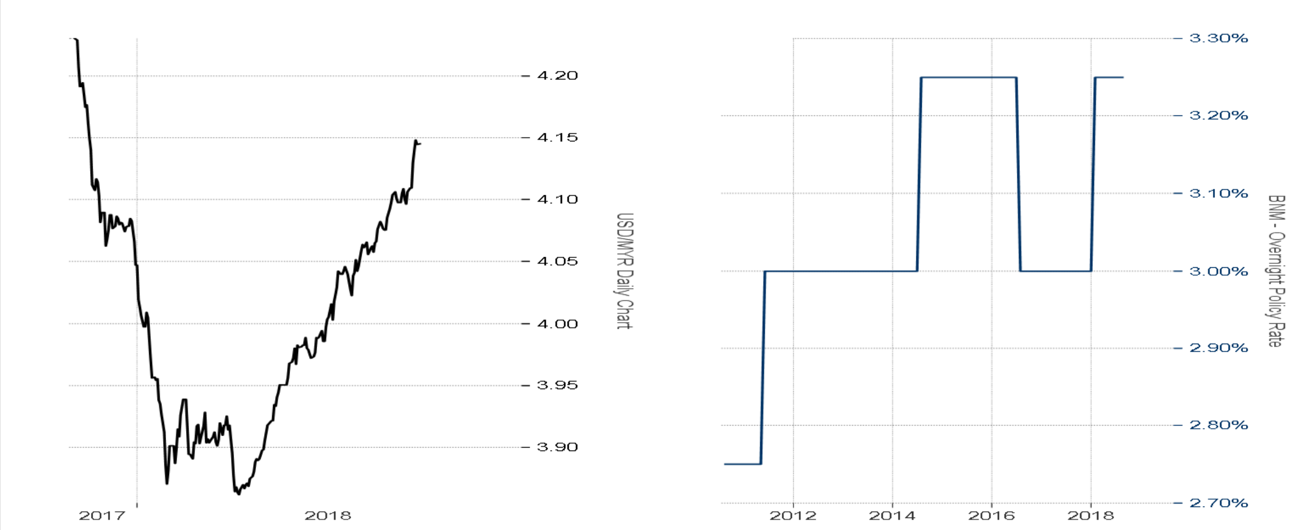
It is now less than 6 months away from the official Brexit day and yet there is still no clarity on the trade, immigration and financial details of the Brexit process. Whilst punctuated by the occasional supportive commentary, UK's Brexit discussion with the EU has been tough so far, met with fierce disagreements in Westminster as well as key ideological divides with the EU. In the meantime, softening GDP growth, a pullback in inflation and a wide current account deficit will ensure that the latest BoE rate hike in August, may well be the last for some time to come. Whilst there are some near term words of encouragement from EU's key Brexit negotiator Michel Barnier, we stay cautious on the GBP/USD until the Brexit negotiations are successfully concluded with clearer parameters. After the initial sell-off below 1.30 to 1.27 in mid-August, GBP/USD may well struggle below 1.30 going forward. As such, we forecast GBP/USD weakening further to 1.27 in 4Q18 and 1.25 in 1Q19 before recovering modestly to 1.27 in 2Q19 and 1.29 in 3Q19. Compared to our more constructive EUR/USD view, this would imply more upside in the EUR/GBP cross rate. Hence, we forecast renewed strength in EUR/GBP back above 0.90, to 0.91 in 4Q18, 0.92 in both 1Q19 and 2Q19, 0.93 in 3Q19.

AUSTRALIA



So far this year, we were wrong in our positive view of the AUD. The AUD has encountered heavy selling amidst escalating US-China trade conflict as well as EM currency sell-off. The weakness in the AUD/USD intensified across 3Q as the pair fell below 0.75 to just under 0.71. Amidst the current risk averse backdrop, there is little incentive to pick the bottom in the AUD/USD. In addition, it does not help that the RBA remains comfortably on hold as inflation remains benign. This has eroded the carry for the AUD as the Fed continues its gradual rate hikes. However, amidst the sell-off, other positive factors have emerged that may limit excessive medium term weakness in the AUD/USD. These include resilient terms of trade for Australia, stronger quarterly GDP growth and growing negative positioning against the AUD. Overall, we acknowledge the abovementioned negative drivers for near term AUD/USD weakness but remain hopeful that recent intense weakness may be setting the stage for a modest rebound. Our updated forecasts for AUD/USD are 0.70 in both 4Q18 and 1Q19, 0.72 in 2Q19 and 0.74 in 3Q19.

MALAYSIA

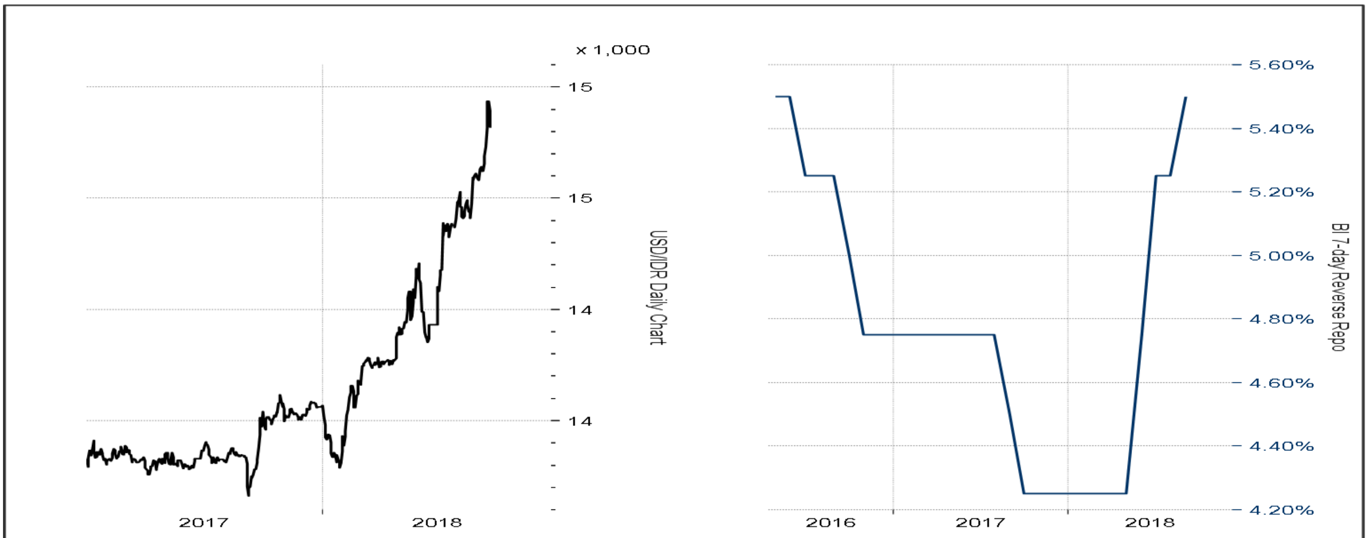


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

With a new Governor taking the helm at Bank Negara Malaysia (BNM) since July, BNM continues to keep the Overnight Policy Rate (OPR) unchanged at 3.25%. The course ahead will not be easy as the central bank juggles to manage growth, inflation, and currency expectations as financial conditions tighten. With less fiscal room to maneuver and slower inflation, all eyes are on BNM to ease slowdown fears. We expect the OPR to stay unchanged at 3.25% for the rest of this year.

Once the MYR weakened past 4.0 to the USD in late Jun, it fell further across 3Q to the current level of about 4.14 to the USD. Amidst the external negative environment of broad USD strength and escalating US-China trade conflict, there is nowhere that the MYR can hide. However, it is worth noting that MYR still has relatively stronger FX metrics compared to other Emerging Asian currencies. These include stronger FX reserve ratio, support from rising energy prices as well as strong current account surplus. As such, while the MYR is expected to weaken further from here on, the pace of weakness is likely to be measured. We now forecast modest USD strength against the MYR. Our updated USD/MYR point forecasts are 4.15 in 4Q18, 4.18 in 1Q19 and 4.22 in both 2Q and 3Q 19.

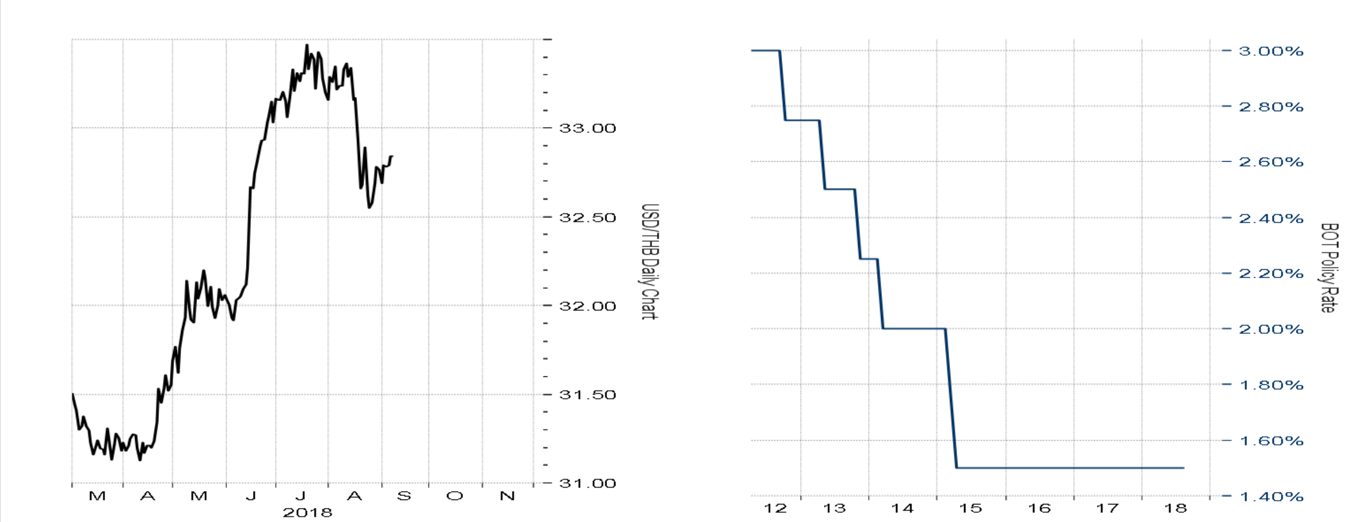
INDONESIA



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 125bps to reach the current level of 5.50% since May 2018. The decision is consistent with BI's pre-emptive, front-loading, and "ahead of the curve" strategy to anchor the stability of the domestic financial market against increased uncertainty in the global financial markets. In specific, BI's decision was made to anchor financial stability and also in a bid to keep current account deficit (CAD) from widening further. BI's strategy to keep as minimal a currency volatility as possible is also complemented by its policy direction in providing FX swap rate at a better pricing in order to stimulate further transaction in its bid to deepen the financial market, especially the exchange rate market. Going forward, our forecast is for BI to continue hiking another 25bps in Q4 to 5.75% with risk of that happening sooner rather than later, and our 25bps/quarter rate hike forecast, each in Q1 and Q2 2019 would then likely to be brought forward. We forecast USD/IDR at 15,000 in 4Q18, 15,200 in 1Q19 and 15,400 in 2Q and 3Q19.

THAILAND

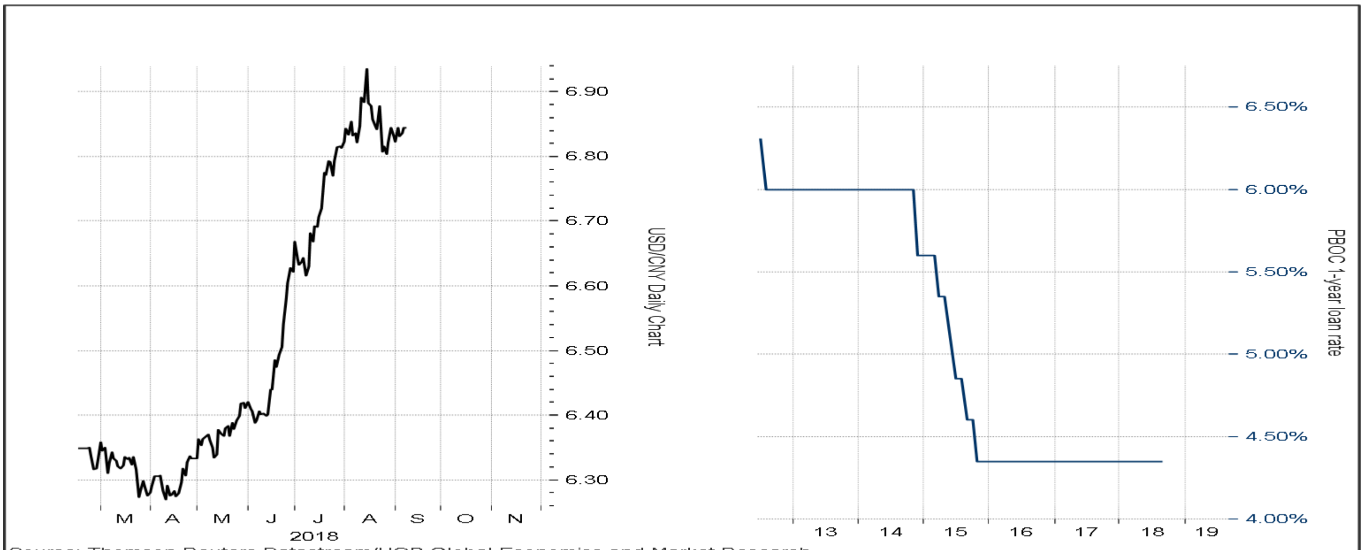


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

The BoT kept the policy rate unchanged at 1.5% in a 5-2 vote on 19 Sep 2018. Looking forward, the BoT will likely raise the policy rate to 1.75% in 4Q18 as the economy would continue to expand steadily at around its potential rate, thus lessening the need for an exceptionally accommodative monetary policy.

The THB is seen drawing support from supportive monetary policy with the BoT expected to join the rate hiking club with a 25 bps hike in the coming final quarter of the year. However, like the rest of the Asia FX block, there is no hiding from the overwhelming background strength in the USD. Overall, we forecast USD/THB at 33.0 in 4Q18, 33.3 in 1Q19, 33.5 in 2Q-3Q19.

CHINA



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

Chinese policymakers have been prompt to soften any potential growth fallout from the trade tensions. Credit conditions have been eased to support growth, particularly to increase the loans supply to the small and micro enterprises. However, it is clear that China is doing so on a managed and targeted manner in line with the continued focus on financial risks prevention. This was seen in the three targeted reductions to the reserve requirement ratio (RRR) this year and we expect there is still room for PBoC to lower RRR further, since at 15.5%, it is still well above the record low of 6.0%, last seen in 2003.As for interest rates, we now see a prolonged hold on the policy rates (1Y lending and 1Y deposit rates) while PBoC continues to maintain interbank liquidity.

To limit the pace of excessive weakness in the CNY, the PBoC has implemented various targeted measures. These include the return of the 20% reserve margin ratio for forward sales of CNY as well as the Counter Cyclical Factor (CCF) that aims to dampen extreme moves in the USD/CNY central parity fixing rate. In addition, by late October, the US Treasury is due to publish its semi-annual report on the “Foreign Exchange Policies of Major Trading Partners of the US”. As such, over the near term, CNY may well consolidate around current level. However, over the longer run, CNY is likely to continue its broad weakening trend, due to increasing risks to trade and growth outlook from the on-going US-China trade conflict as well as deteriorating yield differential. Overall, we stay positive on USD/CNY and see an eventual test of the 7.0 resistance in early next year. We forecast USD/CNY at 6.95 in 4Q18, 7.00 in 1Q19 and 7.10 in both 2Q and 3Q19. Prevailing spot reference rate is 6.85.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	17 Sep 18	4Q18F	1Q19F	2Q19F	3Q19F
USD/JPY	112	112	113	114	115
EUR/USD	1.16	1.15	1.15	1.17	1.20
GBP/USD	1.31	1.27	1.25	1.27	1.29
AUD/USD	0.72	0.70	0.70	0.72	0.74
NZD/USD	0.66	0.64	0.64	0.65	0.66
USD/CNY	6.87	6.95	7.00	7.10	7.10
USD/HKD	7.85	7.85	7.85	7.84	7.84
USD/TWD	30.79	31.20	31.60	32.00	32.00
USD/KRW	1,127	1,150	1,160	1,170	1,170
USD/PHP	54.15	54.50	55.50	56.00	56.00
USD/MYR	4.14	4.15	4.18	4.22	4.22
USD/IDR	14,865	15,000	15,200	15,400	15,400
USD/THB	32.69	33.00	33.30	33.50	33.50
USD/MMK	1,555	1,560	1,580	1,600	1,600
USD/VND	23,255	23,500	23,800	24,000	24,000
USD/INR	71.86	72.50	73.50	74.50	74.50
USD/SGD	1.37	1.39	1.40	1.41	1.41
EUR/SGD	1.60	1.60	1.61	1.65	1.69
GBP/SGD	1.80	1.77	1.75	1.79	1.82
AUD/SGD	0.98	0.97	0.98	1.02	1.04
SGD/MYR	3.01	2.99	2.99	2.99	2.99
SGD/CNY	5.00	5.00	5.00	5.04	5.04
JPY/SGDx100	1.23	1.24	1.24	1.24	1.23

RATES	17 Sep 18	4Q18F	1Q19F	2Q19F	3Q19F
US Fed Funds Rate	2.00	2.50	2.75	3.00	3.25
USD 3M LIBOR	2.34	2.80	2.95	3.20	3.45
US 10Y Treasuries Yield	3.00	3.20	3.25	3.35	3.40
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	1.00
AUD Official Cash Rate	1.50	1.50	1.50	1.50	1.75
NZD Official Cash Rate	1.75	1.75	1.75	1.75	1.75
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35	4.35
HKD Base Rate	2.25	2.75	3.00	3.25	3.50
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.50
KRW Base Rate	1.50	1.50	1.75	1.75	1.75
PHP O/N Reverse Repo	4.00	4.75	5.25	5.50	5.50
SGD 3M SIBOR	1.64	1.95	2.05	2.30	2.50
SGD 3M SOR	1.69	1.85	2.00	2.25	2.45
SGD 10Y SGS	2.47	2.70	2.75	2.80	2.80
MYR O/N Policy Rate	3.25	3.25	3.25	3.25	3.25
IDR 7D Reverse Repo	5.50	6.25	6.50	6.75	7.00
THB 1D Repo	1.50	1.75	1.75	1.75	2.00
VND Refinancing Rate	6.25	6.25	6.25	6.25	6.50
INR Repo Rate	6.50	7.00	7.25	7.25	7.25

COMMODITIES	17 Sep 18	4Q18F	1Q19F	2Q19F	3Q19F
Gold (USD/oz)	1,195	1,190	1,170	1,150	1,150
Brent Crude Oil (USD/bbl)	78	75-85	75-85	75-85	75-85
LME Copper (USD/mt)	5,973	5,500-6,500	5,500-6,500	5,500-6,500	5,500-6,500

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

Singapore Company Reg No. 193500026Z