UOB HOUSE VIEW

4Q2019

GLOBAL MACRO

As 2019 progressed beyond the halfway mark, the prognosis of global macroeconomic health has deteriorated in line with the escalation of US-China trade tensions. We can expect the FED to lead global central banks into synchronized rounds of monetary policy easing and Asian central banks are expected to follow. What remains at odds to this dovish narrative of slower growth and lower rates is that of a stubbornly strong US Dollar.

ASSET ALLOCATION

The best recommendation to clients in our view, is to be cautious but not necessarily bearish. Our view is that the number of risks, the magnitude of the slowdown, and the risks of this mature cycle turning toward recession next year warrant an investment approach that is risk aware and cautious. Client portfolios need to be protected from elevated recession risks, but not completely focused on the fear of another great recession like in 2008.

EQUITIES

The US-China trade tussle remains highly uncertain and although talks are being restarted, the outcome is far from assured, so we have decided to reduce our equity allocation as an insurance given the risk of a serious policy miscalculation. We are neutral on US, European and Japanese equities. The exception in our view is emerging markets equities which are the key area of our focus and we are recommending an overweight.

FIXED INCOME

A decelerating but still positive expansion in most major economies, coupled with easing monetary policy (i.e. anchoring in short-end rates, as well as translating into tighter or stable credit risk premium) paints a supportive backdrop for fixed income markets. At this juncture, we continue to advocate high-quality credit.

COMMODITIES

A unique characteristic for commodities that sets it apart from other key investment asset classes like equities and fixed income is its underlying supply and demand driven volatility. In terms of outlook, our conviction call is for gold to head higher to USD 1,650/oz by 2Q20 and its rally may have sparked a similar nascent rally in Silver too. We still see weakness in 3M LME Copper, mainly due to global growth risks. Brent Crude Oil is projected at USD 60 to 70 / bbl range in the next 12 months but the recent surge in oil price has put Middle East geopolitics back on as a rising risk.

FX & INTEREST RATES

As the US-China trade conflict drags, the USD is expected to stay strong against Asian FX alongside a weaker CNY. However, the USD is expected to gradually top out against its G-10 peers with the US Dollar Index easing to 95.8 by 3Q20. Meanwhile, coordinated monetary easing is expected to continue into the new quarter. Both FED and MAS fall within the easing camp. We see downside for 3M Libor, Sibor and Sor to 1.45%, 1.55%, and 1.45% respectively by end 2019.

Fuelled By Widespread Asian And EM FX Weakness, FED's Broad Dollar Index Has Now Made A New High Above 130

Source: Bloomberg, UOB Global Economics & Markets Research

Slower Growth, Lower Rates And A Stubbornly Strong US Dollar

As 2019 progressed, the prognosis of global macroeconomic health has deteriorated in line with the escalation of US-China trade tensions. By now, most major economies in the world have either downgraded their growth forecasts for next year, or sounded their recession alarm. Most prominently, Germany and Japan are at risk of slumping into a technical recession. The US has fared much better, but growth is still seen slowing from 2.5% this year to 1.3% in 2020.

Overall, from last year's 3.7% global growth rate, the IMF has downgraded this year's global growth rate repeatedly to a low of 3.2%. Most recently, in line with rising concerns over global trade slowdown, on 9th September, the IMF launched a new World Trade Uncertainty Index. This index tracks the trade outlook for 143 economies from 1996. Needless to say, the IMF warned that "Globally, the trade policy uncertainty index is rising sharply, having been stable at low levels for about 20 years".

The epicenter of the global growth slowdown is of course China. In our previous quarterly, we warned that should US-China trade tensions escalate further, there is a risk that China's growth outlook could slump further towards our Worst Case Scenario. Indeed, with the latest tariff escalation after August, we now see China's GDP falling below 6% to 5.9% in 2020. Similarly, the CNY has now fallen past 7.00 and is likely to target 7.30 by early 2020. What remains comforting is that amidst this challenging macroeconomic and trade backdrop, the PBoC has intensified its push for interest rate reform by reinforcing the Loan Prime Rate (LPR). Going forward, the transmission of monetary policy is expected to be more efficient and market driven, now that new loan rates and mortgage rates are referenced to the LPR, which is in turn linked to the Medium-term Lending Facilities (MLF). As of this latest quarterly report, we start forecasting the 1Y LPR and expect it to drop to 3.9% by end of this year and 3.65% by 1Q20.

Similarly, we can expect the FED to lead global central banks into synchronized rounds of monetary policy easing. With the FED now expected to front load its 3 cuts for the remaining 3 FOMC meetings of the year, we can also expect varying intensities of rate cuts forthcoming next year across Asia, particularly in Malaysia, Philippines, Indonesia and Thailand. All these benchmark rate easing will drive the respective money market rates lower in the months ahead.

Global bond yields are of course way ahead of the curve and have literally collapsed over the past quarter leading to instances of yield curve inversion across key economies globally. If the upcoming synchronized easing led by the FED is effective, it may well help stabilize yield curves and rejuvenate longer dated bond yields should the front loading of rate cuts restore global growth and inflation expectations. What remains at odds to this dovish narrative of slower growth and lower rates is that of a stubbornly strong US Dollar. Since the US-China trade conflict started, the USD has climbed from strength to strength. In fact, the FED's trade weighted Broad Dollar Index has now shot above 130 to a new high, above the previous peak last seen in 2002. And from the narrower US Dollar Index (DXY) perspective, the recent climb in DXY towards 100 is at further odds against expectations of upcoming FED rate cuts as well as the deteriorating 10 year weighted yield spread.

While we are not fans of President Trump's trade policies, he may not be wrong in his regular remonstrations against US Dollar strength. Treasury Secretary Steven Mnuchin has went further to entertain albeit briefly the thought of intervention against US Dollar strength. While the practical mechanics of an official US Dollar intervention is unlikely to be endorsed by the US Federal Reserve, there is nothing to stop President Trump from making this one of his top agenda next year as the 2020 Presidential election cycle heats up. At this stage, we are uncertain when precisely the US Dollar will finally succumb to slower growth and lower rates. Indeed, our FX forecasts appear conflicted and reflect an uncertain divide of gradual USD weakness against the Majors, countered by on-going USD strength against the CNY and Asian FX. Nonetheless, risk has increased that the currency space will be increasingly volatile in the months ahead.

The September surge in oil price has put Middle East geopolitics back on as a rising risk. And while we refrain from adjusting our Brent crude oil forecast for now as we await more clarity on how quickly Saudi Arabia can restore its lost production, the geopolitical risk premium to oil prices can no longer be ignored.

ASSET ALLOCATION

We continue to recommend being cautious though not necessarily bearish. The global expansion is very mature and at the same time global growth has slowed significantly compared to last year and the UOB economics research team warns a US technical recession appears to be brewing in 2020. Additionally, there are an elevated number of geopolitical risks to global markets. Our view is that the number of risks, the magnitude of the slowdown, and the risks of this mature cycle turning toward recession next year warrant an investment approach with clients that is risk aware and cautious.

The greatest silver lining in this global slowdown is it comes at a period where inflation risks are benign and global central banks have maneuverability for cutting rates and other stimulative policies. If inflation were high and central banks needed to keep rates high, then risks of a significant recession would be far greater. We expect the US Fed will cut rates further in 4Q 2019, and we expect the ECB and other Asian central banks to continue with their respective stimulative policies. All of these supportive policies have the potential to mitigate the global growth slowdown and make any technical recession milder and in turn support asset markets.

Thus, the best recommendation to clients in our view, is to be cautious but not necessarily bearish. Client portfolios need to be protected from elevated recession risks, but not completely focused on the fear of another great recession like in 2008. We recommend underweighting equities relative to bonds but not divesting all positions. Within equities, we recommend defensive strategies with a focus on good quality companies and dividend-focused equities. Within fixed income, we recommend investment grade corporate credits. Yields have been volatile, but as benchmark yields such as the 10yr UST falls below 1.7% we would recommend short duration bills but as yields climb back above 1.7% then we prefer longer duration credits. We would also overweight cash and gold as additional hedges in this environment. While this positioning is defensive we would argue it is not overly bearish. If we had a view of a sharp downturn/recession, then the recommendation would switch to a "recession portfolio" which would heavily cut equities and move into long duration government bonds and cash. Our recommendation of focusing on equity dividends and shorter investment grade credits is cautious relative to a growth portfolio but not as defensive as a "recession portfolio".

Aging expansion versus rate cuts. In the past four periods where the US Fed has cut interest rates, the expansion was sustained for several more years in 2 cases, but in the other 2 cases the rate cuts were not enough to prevent the recession. In the cases where the rate cuts helped extend the cycle, global equities went on to have a strong year, but in the other cases, equities fell significantly. The US Fed has cut rates once and it is too early to tell if the rate cuts will help sustain the cycle like the rate cuts did in 1995 and 1998.

Elevated global geopolitical risks. Major global geopolitical risks have continuously surged and receded in recent months. Risk over US-China trade tensions, Brexit, Middle East conflicts, North Korea, and Hong Kong protests all have the potential to trigger significant volatility in asset markets. We remain concerned that even though it is not our base case that these risks will resolve badly, it is nevertheless too high a risk, especially when sum of all the possibilities is considered. In recent weeks, it appears that Brexit risks and US-China trade frictions have moderated, but Middle East tensions are rising. Our view is that all of the risks are likely to have periods of surging and receding in coming months, but as investors, our conclusion is that they are serious enough a risk to investment outlook that they contribute to our view to stay cautious.

Signposts may turn more bullish or bearish. Global manufacturing, business investment and trade remain very weak across almost all countries. On the other hand, employment and consumer spending have been fairly resilient across most markets including the US, Europe, Japan and Asia. We continue to look for signs of global growth stabilization in manufacturing. If global PMIs bounced back above 50 on a broad based manner in coming months, then that would be an important signpost to at least neutralize the underweight in equities. On the other hand, we are closely watching for signs of employment weakness. Corporate profits of the MSCI World Index have fallen to 0%. At this stage, corporates start to protect the bottom line by cutting costs which generally includes cutting employment. If global employment trends weaken then we think that will be a sign to turn even more cautious and position in a "recession portfolio".

Global Asset Allocation

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

EQUITIES

Equities
The China-US trade tussle remains highly fluid and although talks are reportedly being restarted, the outcome is far from assured. We are of the view that market had been too eager and optimistic in digesting any positive trade news. In fact, it has become nearly impossible to judge each turn of event. Hence, we have decided to reduce our equity allocation as an insurance given the risk of a serious policy miscalculation.

For US equities, we remain on a neutral stance. The August headlines had revolved around the 10-2Y yield curve inversion which has exacerbated fears of a recession. Yet, the bigger narrative would be that markets have priced in structurally lower long-term growth, and that markets think the Fed has to conduct more interest rate cuts in response.

We are also **neutral on European equities** as industrial production, exports growth and business confidence remained weak. Given that Europe is highly exports-dependent, China's recent interest rate reform would play a pivotal role in shoring up Chinese import demand for European goods and services. Yet, the substantial amount of European negative-yielding debt speaks volume about Europe's tepid growth and inflation outlook. We do note that European equity valuations are looking attractive as the 12-month forward P/E is hovering in between the negative 1 and 2 standard deviations currently.

We are **neutral on Japanese equities**. The China-US trade tensions and recent strength of yen have been the main economic drags for Japan. Muted global trade has led to weaker exports, hugely impacting the Japanese firms as they derive around half of their revenue overseas. Japan equity valuations are attractive relative to its 5-year average, similar to their European counterparts. Moreover, they have also been the laggard when compared to the regional equity markets.

Emerging Markets equities are the key area of our focus and we are recommending an overweight. While the risks in EM remains on areas such as potential credit downgrades, currency weakness and anti-globalization sentiments, EM policy makers had been pushing out stimulus programmes. EM central banks, for instance, have been getting more accommodative. China's attempt to improve credit transmission mechanism via the interest rate reforms and the recent 50bps RRR cut should lower borrowing costs for businesses and improve liquidity. This policy reflation is expected to have positive spillovers to some EM Asia countries. In August, the MSCI EM Index has also corrected to end 2018-lows.

COMMODITIES

Never Underestimate The Supply And Demand Driven Volatility In Commodities

The above title may sound like an irrelevantly broad statement, but one of the very unique characteristics for commodities that sets it apart from other key investment asset classes like equities and fixed income is its underlying supply and demand driven volatility. In other words, changes in each of the commodities underlying supply and demand can drive wild swings in the respective commodities that are independent of the broader market direction.

Copper: Deceptive calm in Copper amidst intense volatility in other industrial metals

This demand supply led volatility is particularly evident in the industrial metals complex. While 3M LME Copper drifted lower towards USD 5,800 / MT amidst deceptive calm, 3M LME Nickel spiked by more than 50% across the third quarter alone, jumping from USD 12,000 / MT to USD 18,000 / MT after Indonesia brought forward its nickel ore export ban by 2 years, upsetting demand supply dynamics. Concurrently, iron ore prices also went through a roller coaster ride, whipsawing from USD 70/t to USD 120/t before pulling back to USD 90/t, caught in-between opposing forces of growth and demand slowdown versus aggressive seasonal stockpiling by China.

Overall, while there is divergence within industrial metals complex, we continue to see weakness in 3M LME Copper, mainly due to global growth risks. As such, we see 3M LME Copper pulling back to USD 5,600 / MT in 4Q19, USD 5,400 / MT in 1Q20 and USD 5,200 / MT across 2Q and 3Q20.

Brent Crude Oil: Return of geopolitical risk?

Our current forecast is for Brent to trade within $60 to $70 /bbl range over the coming four quarters. Market has been underpricing geopolitical risk and that risk premium has been loaded back, pushing Brent back towards $70 / bbl. Geopolitical risk premium is back in full force and near term supply uncertainties are likely to underpin Brent closer to $70 /bbl. For now, we refrain from adjusting our Brent crude oil forecast and await more clarity on how quickly Saudi Arabia can restore the lost production.

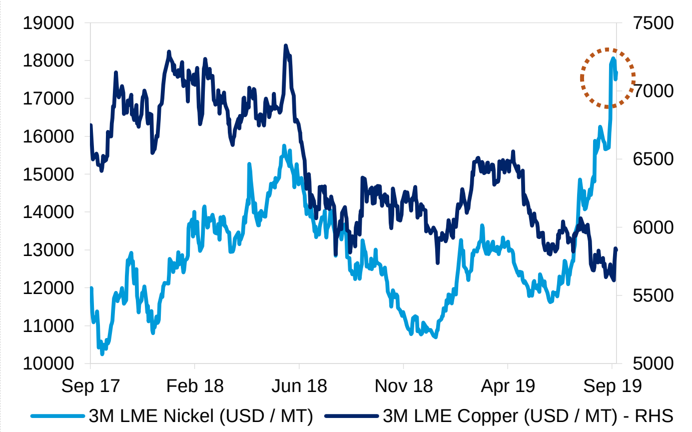
The recent surge in oil price has put Middle East geopolitics back on as a rising risk, and, the geopolitical risk premium to oil prices can no longer be ignored.

Gold: Poised to continue its outperformance

Finally, as we reach the final quarter of 2019, it would appear that gold has outperformed significantly ahead of 3M LME Copper and other base metalsi. A "perfect storm" of anticipated aggressive rate cuts from the FED, fueled by lower for longer bond yields and boosted by strong demand from investor risk aversion helped spark the breakout in gold above USD 1,400 / oz to the current high of just above USD 1,555 / oz in early Sep. The strong rally in gold price appears to have sparked a similar nascent rally in Silver as well.

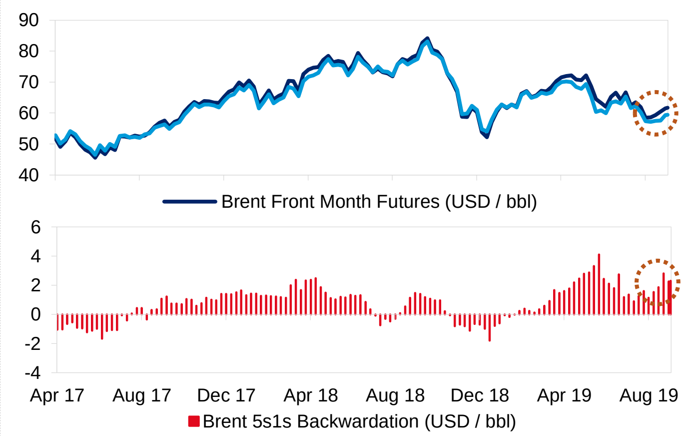
Overall, we forecast gold at USD 1,550 / oz in 4Q19, USD 1,600 / oz in 1Q20 and USD 1,650 / oz across 2Q20 and 3Q20. Spot rate is USD 1,510 / oz.

Nickel Jumped As Indonesia Brings Forward Ore Export Ban



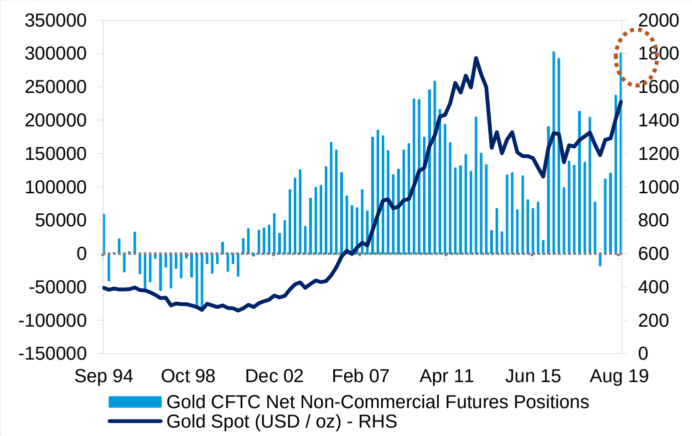
Source: Bloomberg, UOB Global Economics & Markets Research

On-going OPEC Production Discipline Keeps Brent Curve In Healthy Backwardation



Source: Bloomberg, UOB Global Economics & Markets Research

Net Long Futures Positioning In Gold Is Now Back At All Time High



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Fixed income markets posted another quarter of positive returns, supported by decelerating global economic growth and increasingly accommodative monetary policy from major global central banks. Uncertainties relating to the US/China trade negotiations continued to cloud the macro outlook. Decelerating global growth that could potentially end in a recession remains the key macro risk, as flagged by certain leading indicators such as an inverted yield curve and contractionary global PMIs. Even as global PMIs continued to decline – pointing to significant weakness in manufacturing, business investment, and trade in the near term– a manufacturing contraction may be an insufficient single factor to drive an overall recession. US manufacturing now accounts for only 10% of US nominal GDP (whereas it accounted for 20% of US nominal GDP in the 1980s). More broadly, consumers around the world have generally been holding up better than businesses as employment and income trends have remained mostly stable.

Against this backdrop, monetary policy continues to provide an important offset to the broadening storm. Both the US Federal Reserve (Fed) and the European Central Bank (ECB) have demonstrated considerable commitment – Fed Chair Jerome Powell reiterated that the Fed stands ready to "act as appropriate" to sustain the ongoing expansion, while ECB President Mario Draghi committed the ECB to ease monetary policy further in Sep via lowering deposit rates cuts and resuming quantitative easing/ asset purchases despite some pushback from some of its more hawkish members. Specifically, an easing monetary policy would keep risk-free or discount rates low, and would have a strong immediate effect on tightening/ depressing credit risk premium, and in so doing, influence the very channel that appears to strongly benefit economic activity. More policy easing is expected from the Bank of Japan as well as the People's Bank of China (PBoC). which continued to lower the reserve requirement ratio (RRR) for all banks, thus encouraging banks to lower their Loan Prime Rate (LPR).

Such a decelerating but still positive expansion in most major economies, coupled with easing monetary policy (i.e. anchoring in short-end rates, as well as translating into tighter or stable credit risk premium) paints a supportive backdrop for fixed income markets. At this juncture, we continue to advocate high-quality credit.

We maintain our overweight to investment-grade credit. Most trends suggest some deterioration in global corporate conditions and cash flows while earnings growth would decelerate alongside the moderation in global growth prospects. As such, we continue to advocate defensive carry and reiterate the need to stay cautious on credit selection. For instance, we note that there has been a sharper correction in Asian high yield versus Asian investment grade credit (e.g. the JP Morgan Asia credit composite spread widened by 19bps to 279bps, while the non-investment grade segment spread widened substantially by 61bps to 598bps in the month of Aug'19). More broadly, investment grade credit tends to outperform (i.e. deliver above-average returns) in a decelerating or sub-par growth environment.

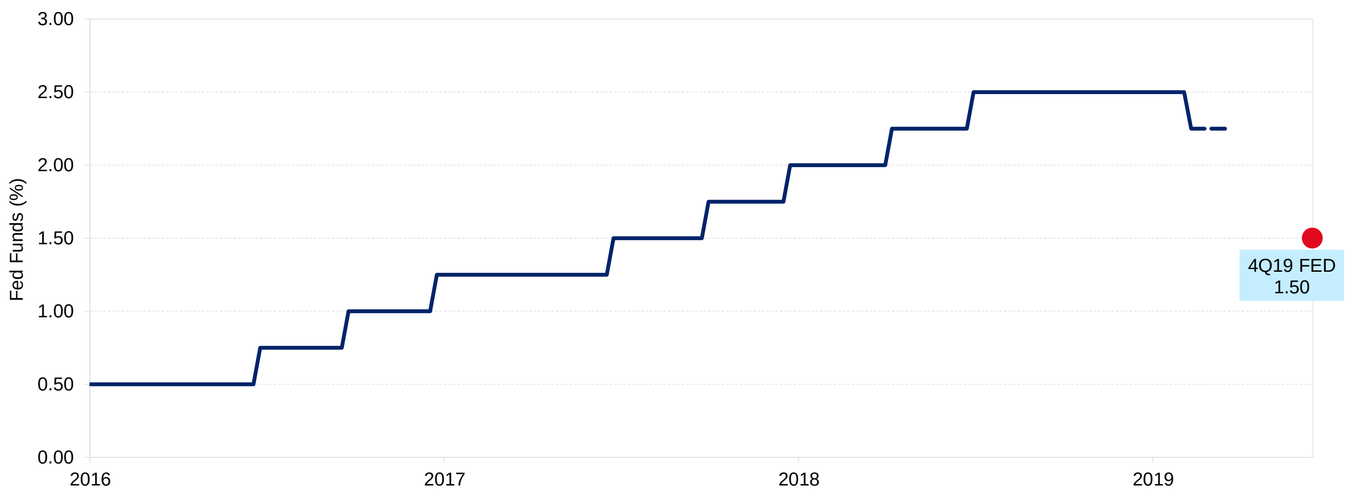
Tactically reduce duration risk, as US-10 year yields have rallied by over 125 basis points over the past year to reach a recent low of around 1.5% in August. In addition to the decelerating growth dynamics, market volatility relating to sanctions on Iran, Argentina debt woes, Japan/South Korea bilateral trade struggles, North Korea nuclear testing, Hong Kong protests and Brexit have also contributed to the flight-to-quality phenomenon benefiting US Treasuries. As such, US 10-yr yields have fallen quite sharply since the start of 2019. At this current juncture, we think that the risk-reward of holding US Treasuries is considerably less attractive and in fact, somewhat asymmetric as well (i.e. fairly limited price upside to US Treasuries, versus quite some substantial price downside to US Treasuries). Having said that, we plan to neutralize our duration risk exposure at higher levels.

We favor USD Asian investment-grade credits. In light that market volatility could resume in the near term, we would prefer USD Asian investment-grade credits. In terms of sector exposures, a fairly small portion of the JP Morgan Asia credit universe is exposed to the US/China trade tensions thus Asian investment-grade credit provide a defensive play amidst the uncertainties in the macro environment.

FX & INTEREST RATES

UNITED STATES

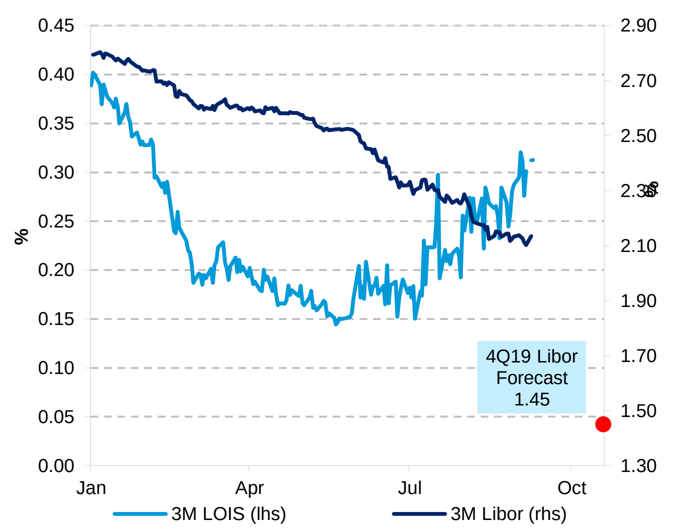
FED Funds Rate



The intensification of the US-China tariff fight in 3Q took us by surprise and the worsening trade policy development will likely "push" the Fed to take on more "insurance" rate cuts in 2019. We now expect the Fed to cut the FFTR by another 25bps in the 17/18 Sep 2019 FOMC. We also project two more 25bps "insurance" rate cuts in the 29/30 Oct and the 10/11 Dec FOMC, bringing the upper bound of the FFTR lower to 1.5%, well below the 2% inflation target.

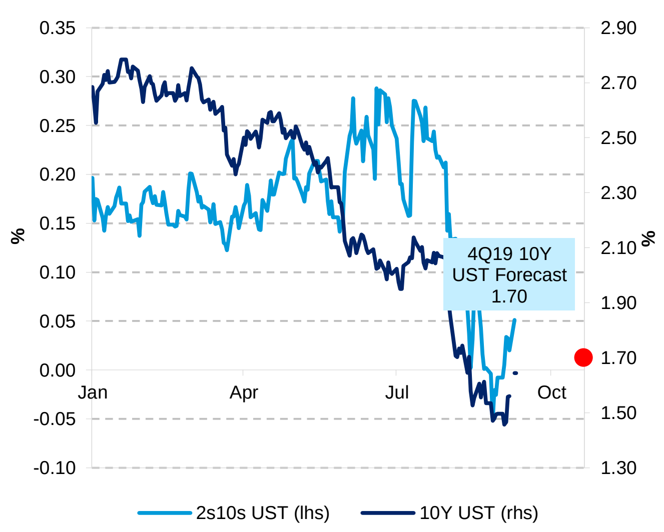
We have not priced in further cuts in 2020 and our base case is for some sort of US-China trade deal happening in 1H 2020. However, if trade tensions persist well beyond 2019, then we think the Fed will have to take on more "insurance" easing, especially if it leads to material downside impact to US and global growth.

3M US Libors



- We expect to see 3M Libor at around 1.45% at the end of 4Q2019.
- This is markedly lower compared to our previous due to FED cuts revisions mentioned above.
- Libor has widened vs. OIS in 3Q but fluctuated sideways against T/bills. Further pressure on funding, due to US debt supply, can be expected in 4Q.

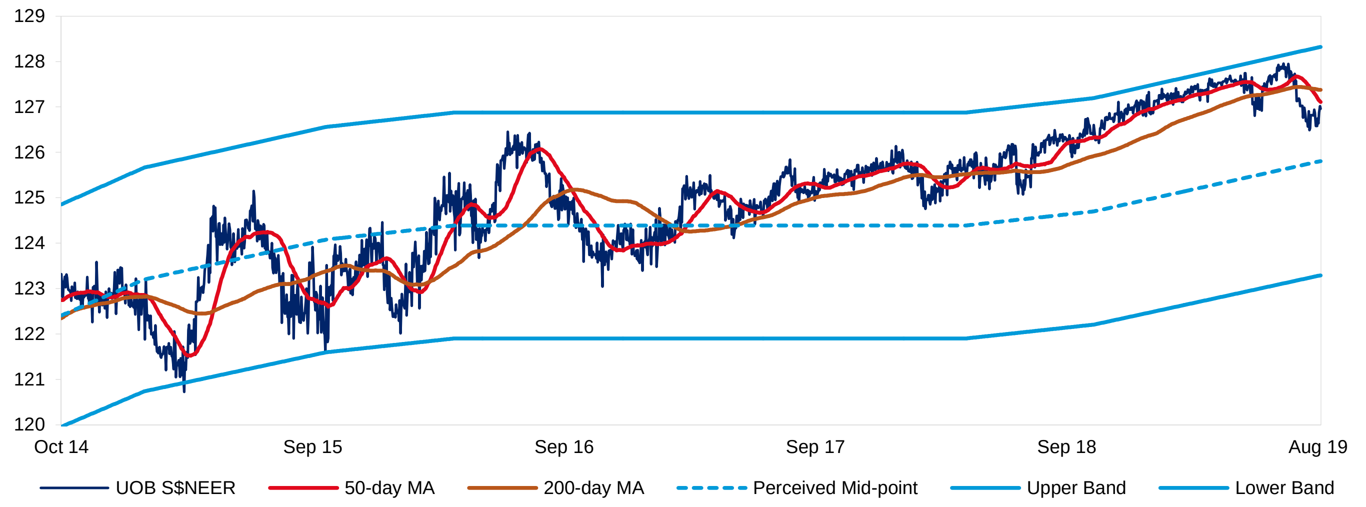
10Y US Treasuries



- We expect to see 10Y UST at 1.70% by the end of 4Q2019.
- Modest growth and inflation combined with dovish central banks will cap yield upside.
- Curve steepening may be delayed by trade uncertainties, but it is not denied. Magnitude of steepening over the complete cycle is expected to be shallower than past.

SINGAPORE

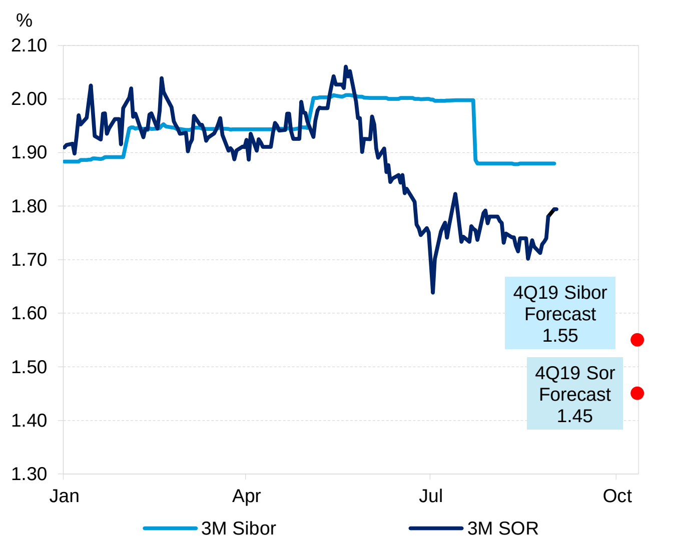
S$NEER



Growth prospects for Singapore had been pallid in 1H19, although signs of stabilisation are seen in early 2H19, led by the uptick in Singapore's manufacturing Purchasing Managers' Index (PMI) for the second straight month in Aug. Moreover, industrial production (which accounts for approximately 20% of GDP) surprisingly grew by 3.6% on a m/m seasonally adjusted basis in Jul. Respondents in the MAS Survey of Professional Forecasters (Sept 2019) shaded down their full-year growth expectations to 0.6% y/y, down from Jun's survey result of 2.1%, while 3Q19 growth is penciled to print +0.3% y/y, suggesting that a negative q/q SAAR print then may not come to pass.

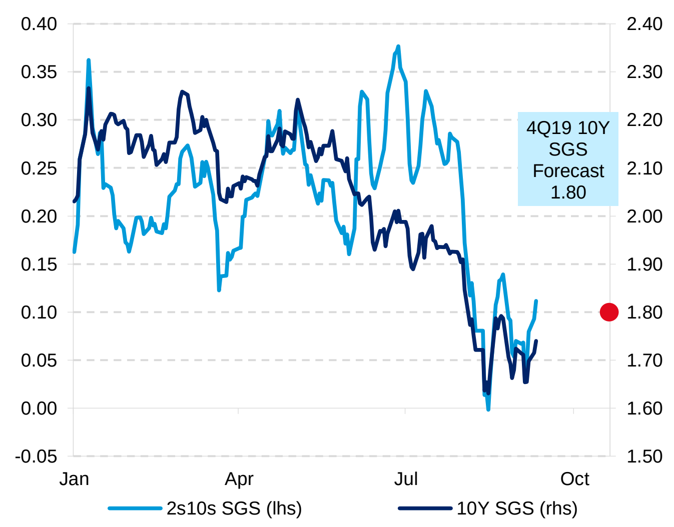
With MAS objective to maintain price stability conducive to sustained growth, the likely persistent negative output gap in the 2H this year (and possibly beyond) will likely persuade policy-makers to ease monetary policy at the October meeting. We expect MAS to lower the S$NEER policy slope by 0.5% point from a currently estimated 1.0% appreciation, while keeping the rest of its policy parameters (i.e. midpoint and width of bands) unchanged. This brings the estimated appreciation slope to 0.5%, reversing one of the two steepening moves made in 2018. Moreover, there is a growing risk that MAS may flatten the appreciation slope and ease the policy all the way to neutral, a signal that a looser monetary policy is needed to cushion both inflation and growth risks into 2020. We expect USD/SGD to rise towards 1.40 in 4Q19, 1.41 in 1Q20 and 1.42 in 2Q20.

3M SOR and Sibor



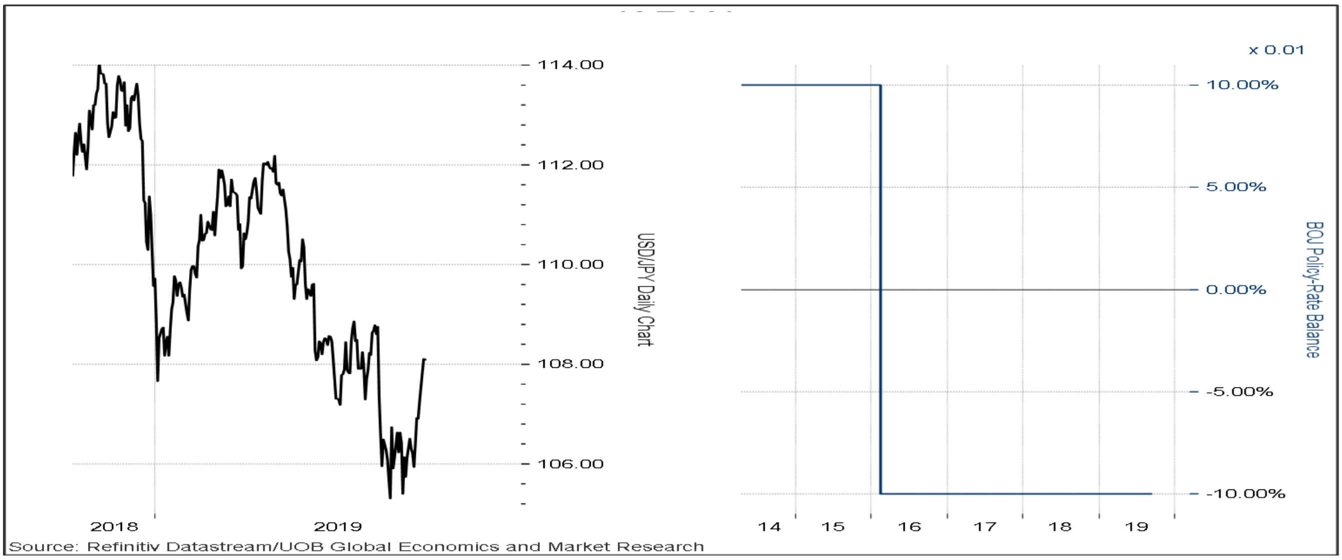
- We expect to see 3M SOR at 1.45% and SIBOR at 1.55% by the end of 4Q2019.
- SG$ NEER at around 0.90% above the mid-point at the end of Aug is rich for our MAS view. Currency re-pricing to pose transitory upside pressure on SOR and SIBOR.
- Primary directional impulse is still pointed down due to expected FED rate cuts.

10Y SG Bonds



- We expect to see 10Y SGS at 1.80% by the end of 4Q2019.
- There is no significant duration supply for SGS starting from 4Q until around Feb 2020.
- Potential for SGS to outperform UST is improving, if October MAS statement is not too downbeat and financial market volatility decreases going forward.

JAPAN

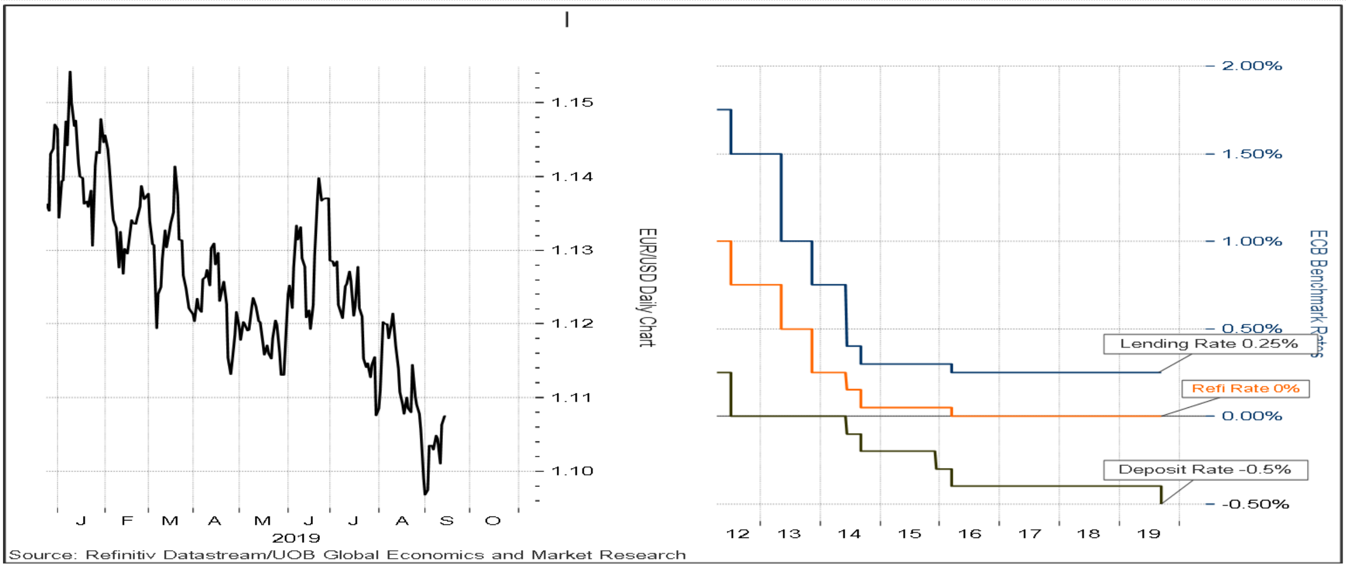


Source: Refinitiv Datastream/UOB Global Economics and Market Research

We believe that as long as the government stays on course to implement the next sales tax hike in Oct (which can be taken as a sign the government is keeping its pledge to fiscal discipline and restore fiscal balance at some point), that may be sufficient to convince the BOJ to use this as an opportunity to reassert its easy monetary policy position without changing the policy targets, i.e. "allow" the Finance Ministry to issue more debt (JGBs) which the BOJ in turn will buy so as to push its JGB buying closer to the JPY80trn annual pace. This may happen as early as Sep MPM. Based on current projection, the BOJ is buying JGBs at an annual pace of JPY24trn (as of 31 Aug) markedly below JPY80trn.

With intensifying speculation of a global recession, portfolio reallocation has been geared towards preparing for one. We expect the JPY to stay strong and update our view towards further strength towards 103/USD by mid-2020. Overall, investors are urged to hedge their JPY liabilities as the twin tail risks of US-China trade conflict and Brexit remain unresolved and tilted to the downside.

EUROZONE

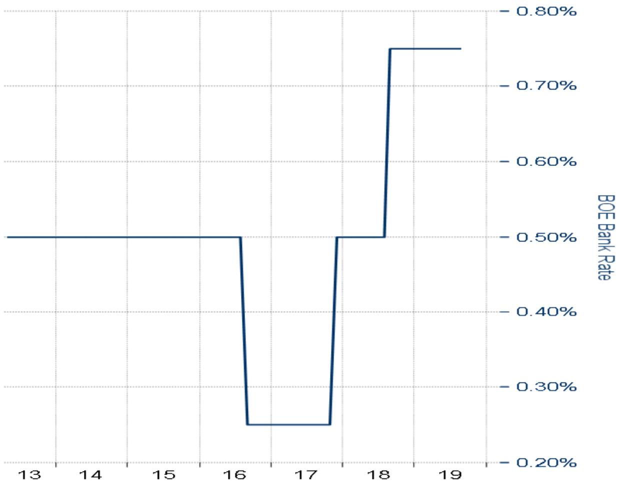


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The September ECB meeting is not Draghi's last, but we do not expect any major announcements at the October meeting. Whilst Draghi has certainly left plenty of room for maneuver to his successor Christine Lagarde, her first policy meeting in December is also unlikely to be groundbreaking.

EUR/USD dropped to a low of 1.0927 on 12 Sep, one pip above its 2-year low touched early Sep. Near term, the spectre of QE is likely to pin EUR/USD at low levels near 1.10. However, if the previous QE by the ECB from 2015-2018 was any guide, EUR/USD may even stabilize after bond purchases commence ("sell of rumor, buy on fact"). Moreover, further stimulus if required could come in the form of fiscal policy instead of solely monetary policy, lessening the pressure on the EUR. Coupled with a more aggressive easing profile by the Fed, we expect EUR/USD to gradually recover to 1.12 in 2Q20 and 1.14 in 3Q20.

UNITED KINGDOM

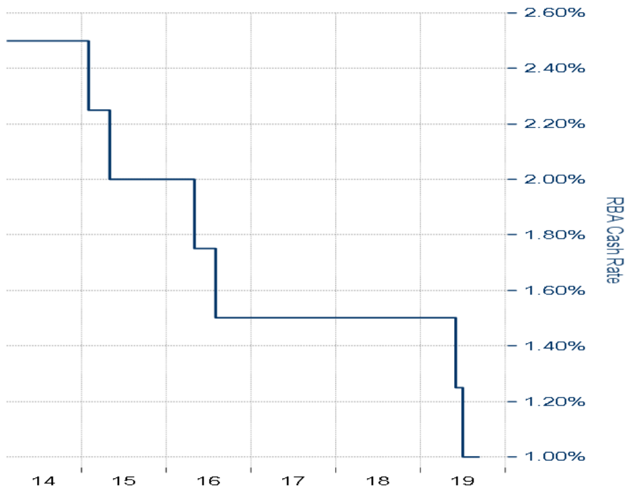


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The main takeaway continues to be the fact that "monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction". On balance, this suggests that the BoE is unlikely to act until the path of Brexit becomes clearer, and would be on a wait-and-see approach for now.

From 1.27 at the start of July, GBP/USD dropped in a straight line fashion and even traded briefly below the key support of 1.20 in early-September. Now, another extension to Brexit, its third, may be the most likely outcome ahead of the current 31-Oct deadline. If the previous two extensions were any guide, the recent rebound of GBP/USD from 1.20 to 1.23 in early-September is likely to be short-lived as long as the underlying Brexit issue is not resolved. Overall, we maintain the view that the GBP/USD would stay depressed at 1.20 in the immediate two quarters until the fog of Brexit is lifted.

AUSTRALIA

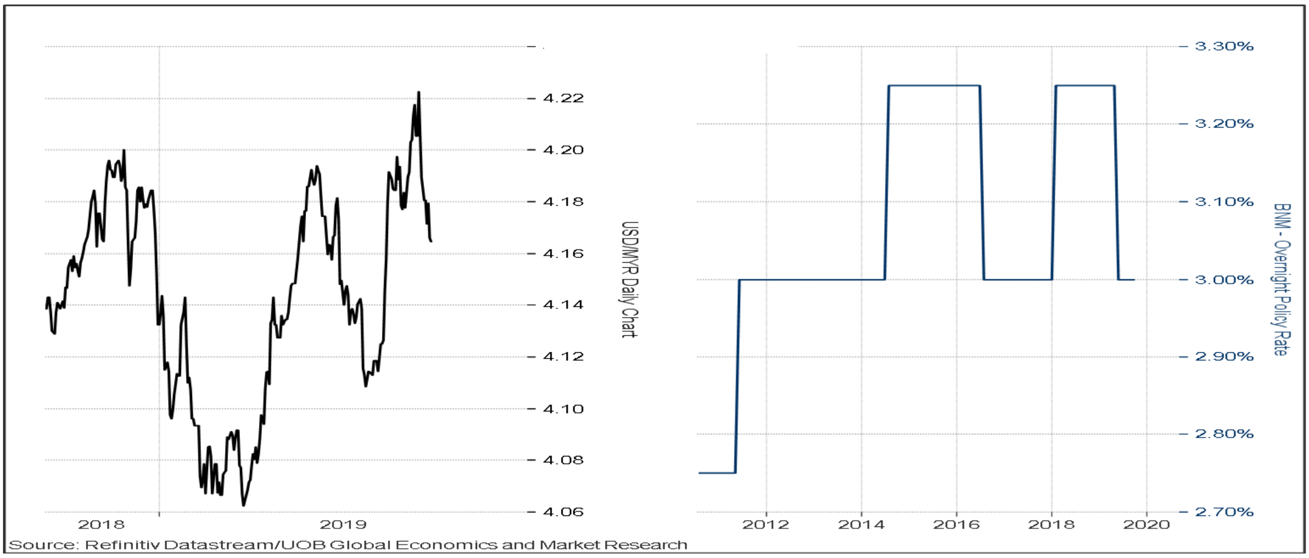


Source: Refinitiv Datastream/UOB Global Economics and Market Research

By November, the RBA will have received more data on inflation, as well as further labour market information. For now, there are good reasons for the RBA to remain on a "wait-and-see" approach, especially since the OCR is already at a historic low of 1.00%. Our current forecast is for a steady OCR of 1.00% for the rest of this year. Further easing in 2020 cannot be ruled out. We will, as such, keep watch on global trade tensions, soft consumer spending, undershooting inflation, and mediocre wages, which will be factors that may prompt us to revise our view further ahead.

With the RBA on a wait-and-see approach, pressures on the AUD due to aggressive rate cut expectations may start to abate. Moreover, with the Fed cutting thrice while the RBA stay pat at 1.00% for the next four quarters, a narrowing interest rate differential may soon turn into a tailwind for AUD/USD. Overall, we expect the AUD/USD to stabilize at 0.69 for the next two quarters before a modest recovery towards 0.71 by 3Q20. In-line with our view of a "relatively rich" S$NEER, there could be value for AUD/SGD at current levels of around 0.94 as it nears GFC lows of 0.9066. The main risk for AUD remains a further escalation of the US-China trade conflict which could easily derail the modest recovery.

MALAYSIA

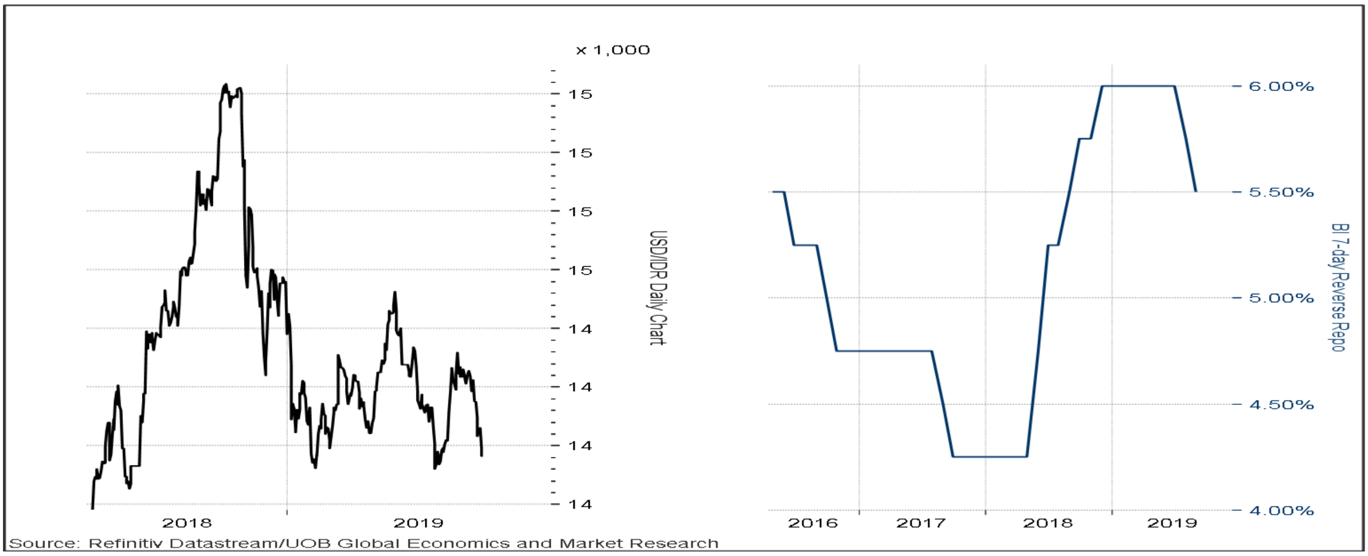


Source: Refinitiv Datastream/UOB Global Economics and Market Research

Although the US Fed is expected to embark on further rate cuts, we think BNM is likely to be more cautious and gradual in their monetary approach to avoid setting rates "too low and too fast". This will be accompanied by necessary fiscal support as the government is expected to step up spending, and adopt a more pragmatic and expansionary approach in the upcoming budget to support the economy. As such we project OPR to stay at 3.00% for the rest of the year, followed by a potential 25bps cut to 2.75% in 1Q20.

Going forth, we keep to the view of a modestly higher USD/MYR and lift our forecasts to 4.26 by mid-2020, up from 4.22 previously. Regional exports, including Malaysia's remain under threat in the absence of a resolution to the US-China trade conflict. A key risk event to watch out for is FTSE Russell's decision whether to exclude Malaysia bonds from its World Government Bond Index (WGBI) on 26 Sep.

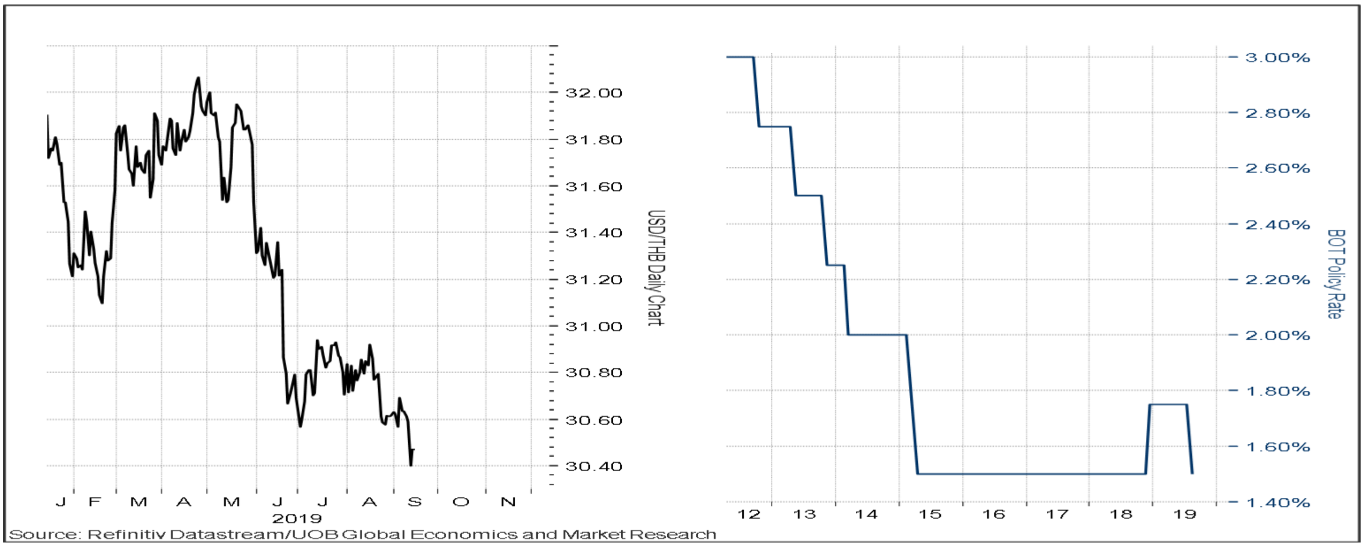
INDONESIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

BI 7-day Reverse Repo Rate was lowered by total of 50bps to 5.50% across Jul and Aug monetary policy meetings, as a pre-emptive measure to safeguard economic growth momentum against the impact of global economic moderation. Going forward, we view that BI will maintain an accommodative monetary stance and utilize various policy tools such as macroprudential intermediation ratio (RIM), reserve requirement, strengthening payment system policy and financial market deepening, as well as expanding economic financing through green finance. This is in line with the low inflation forecast as well as ensuring an attractive yield differential. With that, we are forecasting the BI rate to remain unchanged at 5.50% until the end of 2019. Going forth, the worsening global economic backdrop is unlikely to bode well for the IDR. Investors are likely to reduce exposure into high yield emerging currencies such as the IDR as the global slowdown deepens. As such, we maintain that the path of least resistance for the IDR is to weaken anew, alongside the CNY and its regional peers. Internally, Indonesia's twin deficit in fiscal and current account, together with more rate cuts by the BI next year would continue to weigh on the IDR. Overall, we maintain a higher trajectory for USD/IDR. Our point estimates are 14,300 for 4Q19, 14,400 for 1Q20 and 14,500 for both 2Q and 3Q20.

THAILAND

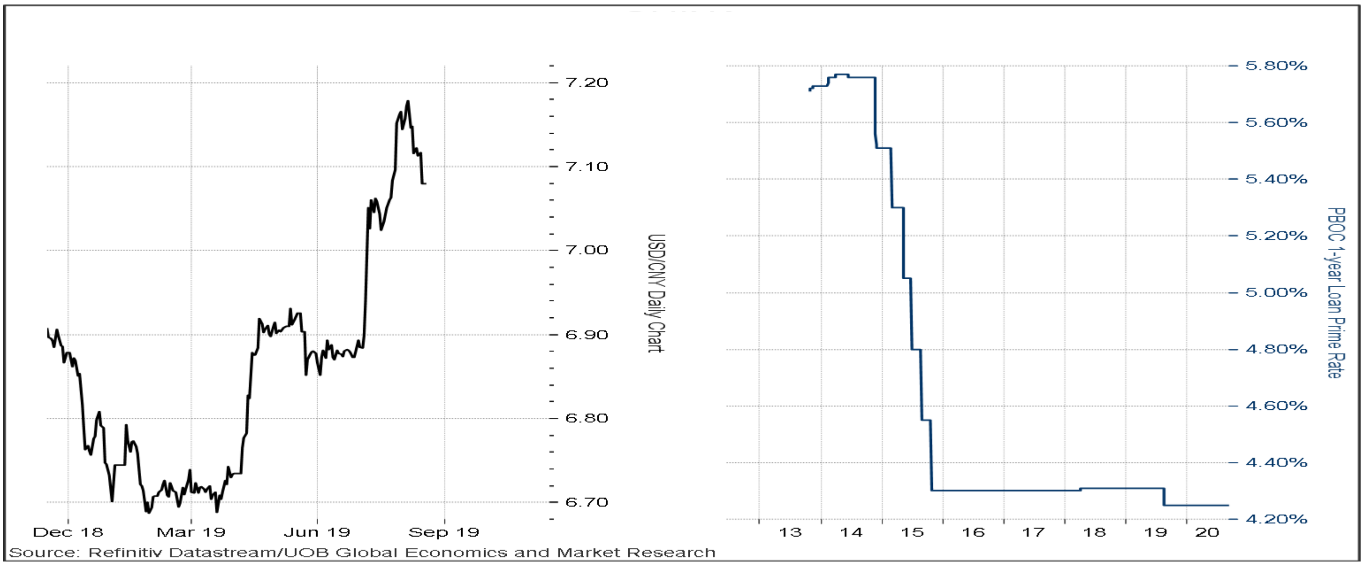


Source: Refinitiv Datastream/UOB Global Economics and Market Research

For the rest of this year, we expect the BoT to maintain the policy rate at 1.50% to gauge the transmission mechanism of monetary policy first before considering the next move. However, if incoming economic data remain sluggish over the coming months, we would likely see another cut by the BoT to bring the policy rate to 1.25%, given that the BoT has already signaled that it still has policy space left.

Going forward, as the trade conflict drags on and together with the BoT shifting to an easing mode, we keep to the view that THB would eventually weaken alongside its Asian peers against the USD, albeit at a more measured pace. Overall, our updated point forecasts for USD/THB are 30.9 in 4Q19, 31.2 in 1Q20, and 31.5 in both 2Q and 3Q20.

CHINA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The PBoC announced its third cut to the reserve requirement ratio (RRR) this year in Sep, encompassing both broad and targeted cuts. Further out, we believe there is room for one more RRR cut in 4Q19. The PBoC has also revamped the Loan Prime Rate (LPR) which will replace the 1Y Lending Rate to price new loans going forward. The LPR which is pegged to the 1Y Medium-term Lending Facility (MLF) is expected to fall with PBoC potentially looking at directly lowering of borrowing costs through an easing in the MLF rate. We see the likelihood for 1Y MLF to be cut by 25 bps and by more should the US-China trade tensions escalate further. From 4.25% (as of 20 August), we expect the LPR fixing to move lower to 3.90% by end-4Q19 and to 3.65% by end-1Q20.

Our weaker outlook of China's economy also supports our view of a weaker CNY going forth. Overall, underpinned by the various headwinds against the CNY, we believe USD/CNY will trade in the new normal of above 7.00 going forth. Our new point forecasts for USD/CNY are 7.20 at 4Q19, 7.25 at 1Q20 and 7.30 for both 2Q and 3Q20.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	13 Sep 19	4Q19F	1Q20F	2Q20F	3Q20F
USD/JPY	108	106	105	103	103
EUR/USD	1.11	1.10	1.10	1.12	1.14
GBP/USD	1.23	1.20	1.20	1.21	1.22
AUD/USD	0.69	0.69	0.69	0.70	0.71
NZD/USD	0.64	0.64	0.64	0.65	0.66
DXY	98.4	98.7	98.4	96.8	95.8
USD/CNY	7.08	7.20	7.25	7.30	7.30
USD/HKD	7.83	7.85	7.85	7.80	7.80
USD/TWD	31.04	31.60	31.90	32.00	32.00
USD/KRW	1,191	1,210	1,220	1,230	1,230
USD/PHP	51.95	52.50	53.00	53.50	53.50
USD/MYR	4.16	4.19	4.23	4.26	4.26
USD/IDR	13,994	14,300	14,400	14,500	14,500
USD/THB	30.45	30.90	31.20	31.50	31.50
USD/MMK	1,532	1,530	1,540	1,550	1,550
USD/VND	23,208	23,400	23,600	23,800	23,800
USD/INR	71.14	72.50	73.00	73.50	73.50
USD/SGD	1.38	1.40	1.41	1.42	1.42
EUR/SGD	1.52	1.54	1.55	1.59	1.62
GBP/SGD	1.70	1.68	1.69	1.72	1.73
AUD/SGD	0.94	0.97	0.97	0.99	1.01
SGD/MYR	3.03	2.99	3.00	3.00	3.00
SGD/CNY	5.15	5.14	5.14	5.14	5.14
JPY/SGDx100	1.27	1.32	1.34	1.38	1.38

RATES	13 Sep 19	4Q19F	1Q20F	2Q20F	3Q20F
US Fed Funds Rate	2.25	1.50	1.50	1.50	1.50
USD 3M LIBOR	2.13	1.45	1.45	1.45	1.45
US 10Y Treasuries Yield	1.77	1.70	1.70	1.70	1.80
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	1.00	1.00	1.00	1.00	1.00
NZD Official Cash Rate	1.00	1.00	1.00	1.00	1.00
CNY 1Y Loan Prime Rate	4.25	3.90	3.65	3.65	3.65
HKD Base Rate	2.50	1.75	1.75	1.75	1.75
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.50	1.25	1.25	1.25	1.25
PHP O/N Reverse Repo	4.25	4.00	3.75	3.50	3.50
SGD 3M SIBOR	1.88	1.55	1.45	1.35	1.35
SGD 3M SOR	1.77	1.45	1.45	1.35	1.35
SGD 10Y SGS	1.72	1.80	1.70	1.70	1.70
MYR O/N Policy Rate	3.00	3.00	2.75	2.75	2.75
IDR 7D Reverse Repo	5.50	5.50	5.25	5.00	4.75
THB 1D Repo	1.50	1.50	1.50	1.25	1.25
VND Refinancing Rate	6.25	6.00	6.00	6.00	6.00
INR Repo Rate	5.40	5.15	5.15	5.15	5.15

COMMODITIES	13 Sep 19	4Q19F	1Q20F	2Q20F	3Q20F
Gold (USD/oz)	1,501	1,550	1,600	1,650	1,650
Brent Crude Oil (USD/bbl)	60	60-70	60-70	60-70	60-70
LME Copper (USD/mt)	5,833	5,600	5,400	5,200	5,200

THE TEAM

Global Economics & Markets Research
Asset Management
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