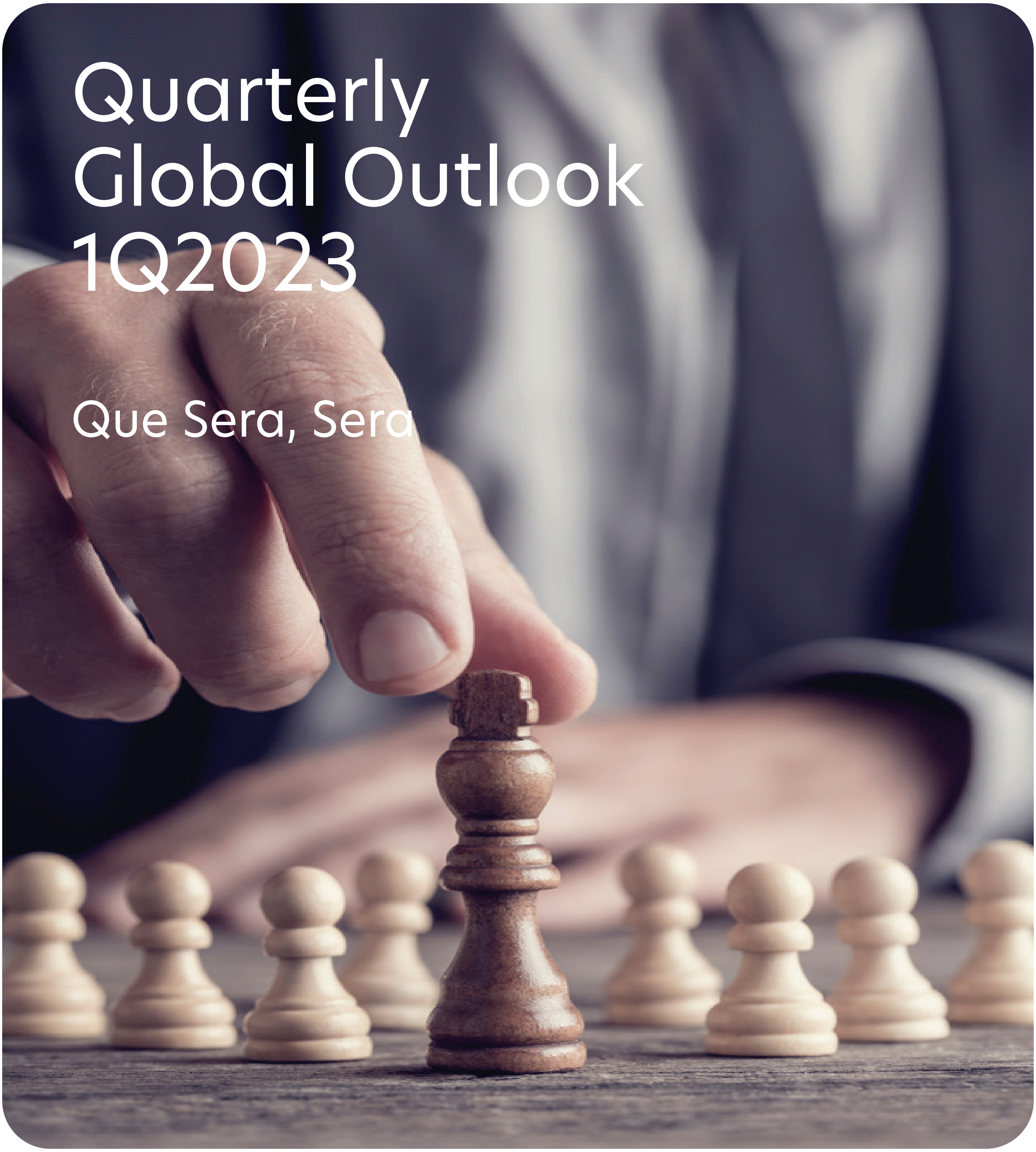
UOB

Quarterly Global Outlook 1Q2023

Que Sera, Sera



Right By You

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Information as of 02 December 2022

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Executive Summary
Que Sera, Sera*

* Whatever Will Be, Will Be. – a song written by Jay Livingston and Ray Evans in 1955

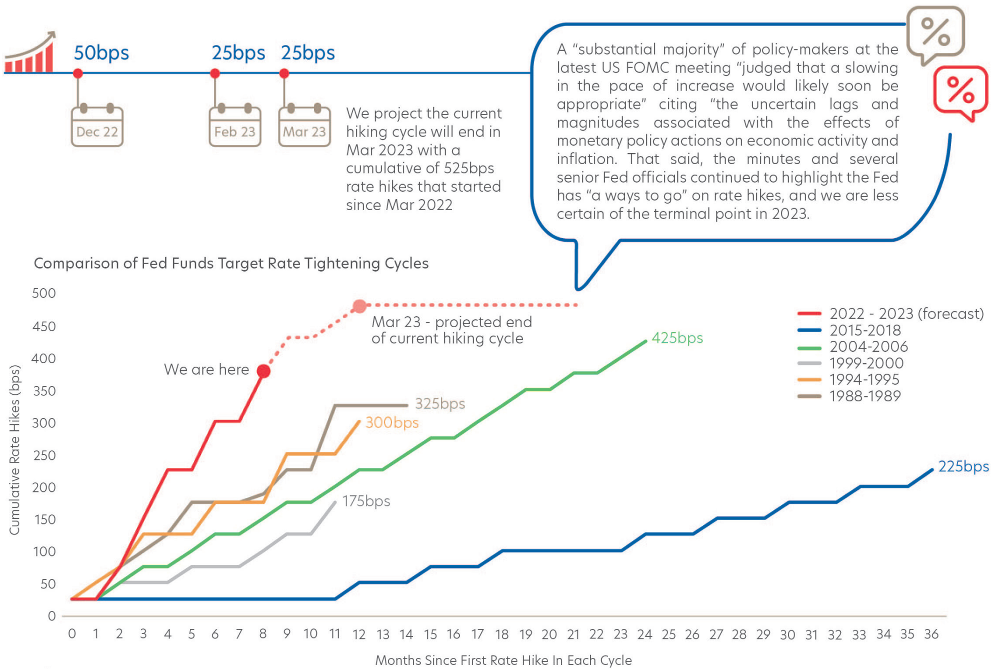
An Inevitable Downturn For Developed Markets In 2023

It has been a tumultuously eventful 2022 to say the least; inflation at 40-year highs, a war in Europe, the passing of a Queen, the assassination of a former Prime Minister, a historical third term for a Chinese President, a Chinese economic and real estate slump, the start of an electronics downcycle, and of course, the sharp pace of interest rate tightening by major central banks in the developed markets.

Global economic outlook is set to be weaker in 2023 with the main driving force being the aggressive pace of monetary policy tightening led by the US Federal Reserve and major central banks to tame multi-decade high inflation. The clearest casualty of higher interest rates is the US real estate market where residential fixed investments plunged and exerted a large drag on GDP in 3Q, even exceeding the worst quarter during the pandemic while monthly housing market data continued flashing red, signaling further erosion in housing demand as mortgage rates now exceeded 7% from the record low of 2.65% just in Jan 2021.

That said, we continue to expect the US economy to fall into a shallow recession (-0.5% full year GDP forecast) and higher unemployment (4.5%) in 2023 due to the combination of elevated inflation, global growth slowdown with a European mild recession (Eurozone GDP at -0.5%, UK GDP also at -0.5%) and importantly, the impact from the aggressive central bank rate hikes. We do not expect a severe recession, due to the absence of financial imbalances. We are pricing in the US recession to happen in 1H 2023 as we project the Fed to reach its terminal rate (5%) by first quarter next year and stay on a prolonged pause for the rest of year until 1Q 2024.

The implication is of course if the Fed does shift to a slower but much longer rate hike trajectory that extends and lifts its policy rate much higher than our projected terminal 5%, we will then have to expect a more negative impact on aggregate demand and in turn, a likely deeper/prolonged US recession as a consequence. That is not our base case, but admittedly a probable and significant risk scenario. Other risk factors include financial stability risks due to tightening financial conditions and potential global funding markets dysfunction, further escalations in the war in Ukraine and geopolitical tensions. It is noted that many economies no longer consider COVID-19 as a downside growth risk.



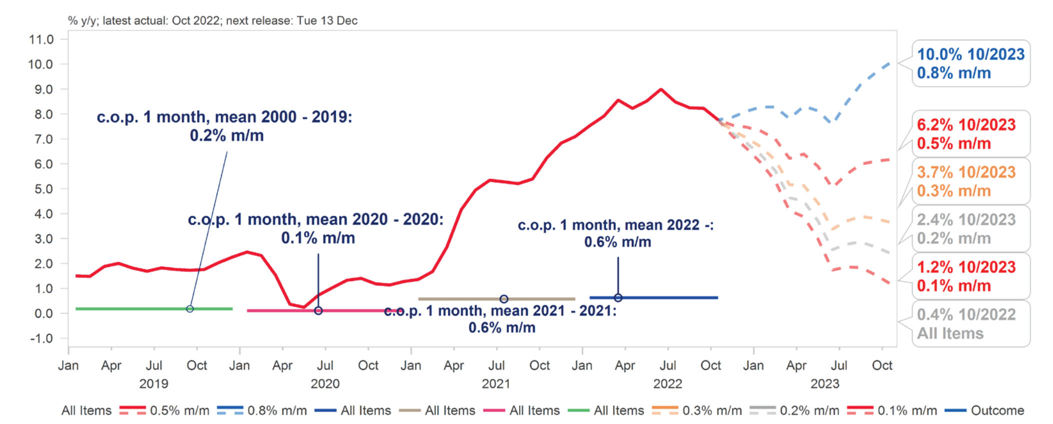
Which brings us to most important question to central banks: Where is inflation heading to in 2023? The latest headline Nov CPI prints out from Eurozone and Oct CPI/PCE prints from US seem to suggest that inflation has peaked (y/y terms) although European inflation may stay elevated especially due to surge in energy prices during the winter months.

Subsequently, we expect both headline and core inflation in DM to ease in 2023, but it will still likely average above the "gold-standard" 2% objective. The US for example, is likely to see inflation average at 3% in 2023, above the Fed's objective but importantly, the balance of risk on inflation remains on the upside and the US cost of living is still materially high, reflected by the persistent rise of food and shelter costs, and that services inflation remains elevated amidst ample demand. We remain wary of risks from several potential inflation shocks including rising labor-employer tensions, a new round of global energy price increases, renewed disruptions in supply chains, on-going impact from the Russian-Ukraine conflict, and the threat of a wage-price spiral.

We illustrate in a simple graph where US inflation may be in 12 months' time. If the m/m pace stayed positive but a more moderate 0.1% for next 12 months (it was 0.4% in Oct versus the 0.6% average in Jan-Sep), then inflation will ease to 1.2% y/y in Oct 2023. But if it is 0.2% (or higher), will imply that inflation will be 2.4% y/y or higher in Oct, above the Fed's 2% objective, and justifies the need for a prolonged pause versus a pre-mature rate cut which will risk of resurgent inflation.

United States, Consumer Price Index Scenarios Over 12-month Horizon

Source: Macrobond, UOB Global Economics & Markets Research



For much of the world, COVID-19 restrictions now seemed like a distant memory from the past, but it remains a painful reality for the second biggest economy in the world. Granted that there are some loosening/easing of measures but China's zero-COVID policy may take a while to unwind (especially during the winter months) and the reopening could be a long road for China, so don't take out the champagne just yet. We expect China's outlook will improve more materially in 2H23 and GDP growth may improve to 4.8% next year (from a projected 3.3% in 2022) as we anticipate further gradual easing of its COVID-19 measures next year (which may quicken as the government plans to accelerate elderly vaccination) as well as flow-through of the stimulus measures to be positive for the economy with a helpful stabilization of the property market even though home sales recovery may take longer in a more uncertain environment.

The role of China, in the face of a looming global downturn in 2023, is really a double-edged sword; a faster than expected durable reopening from COVID-19 restrictions would be a positive factor and help offset some of the downside drivers next year, and could benefit global and especially Asian outlook. Conversely, a prolonged zero-COVID strategy will risk a deeper downturn in global demand and worsen supply chain disruptions.

Beyond growth and inflation worries, 2023 will also present much geopolitical uncertainty. The top geopolitical concern remains to the Russia-Ukraine conflict; when will it end or will it escalate and bring more suffering, will commodity prices skyrocket again, fueling another round of food and energy inflation spike across the world?

Geopolitical tensions between US and China has already been a well-established fixture in the global landscape in recent years, and we are unlikely to see improvement in this area. We only hope that things do not get worse, but chances are it should get more tense next year. Our premise is based on US domestic politics. After the mid-term elections, a divided US Congress has come to pass (where the Republicans regained control of the House of Representatives while the Democrats held on to its slim majority in the Senate for the 118th Congress). This will likely mean a paralysis of domestic policies under the new Congress although President Biden will still be able to get passage for any senior appointments for the remainder of his current term as this falls under the purview of the Senate. The other potential nightmare is the likelihood of the return of the US debt ceiling limit crisis sometime in 2023.

Even as the two main US political parties remained highly polarized and will almost likely disagree on all domestic issues, the one likely issue that both Democrat and Republican lawmakers will agree and work together on will be measures against China. Thus, we expect more Chinese-related measures to be delivered in the next two years ahead of the next major election event, 2024 US Presidential Elections.

Injecting a bit of cheerful fatalism, another one of the special events that make 2022 a "memorable" year is the holding of a "winter" FIFA Men's World Cup in Qatar. Will we get an old soccer superpower retaining the crown or will we see a new country crowned world champion? (the US, anyone?) "Que Sera, Sera, whatever will be will be. The future's not ours to see, Que Sera, Sera."

Hereafter is a brief synopsis of key Focus piece as well as key FX and Rates views.

FX Strategy
After A Bumper Year, USD Strength Will Normalize In 2023

The relentless and broad-based USD rally this year has lifted USD valuation significantly. Now that the Fed has signaled a slower pace of rate hikes starting "as soon as" Dec, the tailwind behind the USD rally in the last couple of months could start to ease. And given the outsized 16% year-to-date rally in the DXY this year, position recalibration to a slower Fed could easily spark a normalization of the DXY lower. Overall, we reiterate the view that the DXY is likely to peak in 1Q23 alongside US rates. Recession risks are expected to pin EUR/USD and GBP/USD lower towards 1.01 and 1.16 respectively in 1Q23 before recovering gradually towards 1.08 and 1.25 by end-2023. After recording stellar gains in 2022, USD/JPY will normalize lower towards 132 by end-2023.

Next year, while we expect headwinds plaguing Asia FX in 2022 to recede, it is not time to take out the party poppers yet. A slower Fed may lessen the portfolio outflow pressures of Asia FX. However, uncertainty over the China slowdown and the extent of spill over from recessions in the US, UK and EU are big unknowns. Other material risks include the prolonged Russia-Ukraine military conflict and potential global funding markets dysfunction. Overall, we err on the side of caution and expect Asia FX to weaken modestly against the USD across 2023. Specifically, USD/CNY keeps its upward trajectory towards 7.30 by end-2023 on economic and COVID policy uncertainties. USD/SGD is likely to grind higher and revisit the 1.40 level.

Rates Strategy
Taking Stock And Initial Thoughts On SG Rates

For the front end, upside potential for yields remain in effect into the end of the year and 1Q 23. That said, the magnitude of future increase ought to be lesser than what we have experienced thus far in 2022.

From a medium-term holding period perspective; we prefer an opportunistic and positive stance on duration. We expect to see bond yields drift lower across 2023, based on our expectation that Fed Funds Target Rate will peak in 1Q 23 as well as accounting for our view that the balance of risk will increasingly tilt in favour of slowing economic growth and richer safe haven premiums going forward.

Commodities Strategy
Stay Positive On Gold

In 4Q22, the price movements in gold, LME Copper and Brent crude oil were relatively modest and remain well within the confines of much larger volatile trading ranges across the year. For 2023, we reiterate our confidence in gold as a portfolio diversifier of risk as well as a long-term safe haven asset to own. Once the Fed Funds Target Rate start to peak out after 1Q23, gold will then have a more meaningful recovery. We maintain our point forecasts for gold at USD 1,800 / oz in 1Q23, USD 1,900 / oz in 2Q23 and USD 2,000 / oz across 2H23.

For oil, more signs of a global growth slowdown have emerged across 4Q22 and dented the demand outlook for oil. However, the various background supply issues also persisted. On balance, we forecast Brent crude oil at USD 90 / bbl in 1H22 and USD 100 / bbl in 2H22, with rising risks of elevated volatility.

For copper, long term economic growth-related drivers are weakening noticeably and these will likely result in a weaker industrial demand. As such, given the backdrop of global growth slowdown and weak demand from China, it is difficult to expect any meaningful rebound in LME Copper price. Therefore, we maintain our forecast of USD 7,000 / MT and continue to be weary of intermittent price volatility.

ASEAN Focus
Sustaining Through A Year Of Market Turmoil In 10 Charts

As 2022 draws to a close and a new year beckons, it should be no surprise that key members in ASEAN have managed to ride through a year of volatile market swings. The year 2022 was beset by lingering effects from the pandemic, Russia-Ukraine military conflict, US-China tensions, sharp price spikes and supply disruptions in the energy and commodity complex, multi-decade high inflation around the world, the aggressive interest rate hikes by the Fed and other central banks, and a USD rally. While key members in ASEAN managed to sustain through a year of market volatility without touching off a financial market crisis, what are the key factors behind such resilience and will it be able to take on further market volatility? In the following 10 charts, we argue that fundamental factors are supportive of these ASEAN economies to defend against the uncertain environment ahead in 2023, as risks loom for economic recessions in the US, UK and Europe, tightening financial conditions, further straining of US-China relations and Russia-Ukraine conflict, among others.

Global FX

USD/JPY: The outsized move in USD/JPY this year lends scope for a respectable normalization going forth. However, the expected path lower for USD/JPY is unlikely to be a straightforward one. If markets extend pricing for a higher terminal Fed Funds rate on sticky US inflation, there is likely sustained two-way volatility for the USD/JPY pair. Overall, we update USD/JPY forecasts to 142 in 1Q23, 137 in 2Q23, 134 in 3Q23 and 132 in 4Q23.

EUR/USD: EUR/USD's recent recovery may have gone ahead of fundamentals in the euro-area. The Eurozone growth (for 2023) downgrade cycle is showing little signs of turning around while business and investor sentiment remained close to the lowest levels since the onset of the pandemic. As such there is scope for a pullback in EUR/USD in 1Q23 before a sustained move higher for the rest of 2023 as Fed's rate pause becomes clearer. Our updated EUR/USD forecasts are at 1.01 in 1Q23, 1.04 in 2Q23, 1.06 in 3Q23 and 1.08 in 4Q23.

GBP/USD: While value-buying of GBP remains a valid proposition, the pace of gains from here is likely to be checked by economic realities. According to BOE, UK has entered a recession in 4Q22 and is expected to worsen in 2023 as the cost of living crisis – brought about by runaway inflation and rising rates – bites. We also expect UK growth to underperform within G-10 in 2023. The intensifying economic headwinds are likely to weigh on the GBP in the near term. Overall, our updated GBP/USD forecasts are at 1.16 in 1Q23, 1.20 in 2Q23, 1.23 in 3Q23 and 1.25 in 4Q23.

AUD/USD: While the outlook for AUD/USD has improved from our last quarterly report, it worth noting that there are considerable uncertainties ahead including expected recessions in US, UK and the EU. A recent surge in China's virus cases is likely to weigh on AUD/USD, at least in the immediate quarter (1Q23). Overall, we keep to our cautiously optimistic outlook for AUD/USD and update the point forecasts to 0.65 in 1Q23, 0.68 in 2Q23 and 0.70 in both 3Q23 and 4Q23.

NZD/USD: After the outsized move in 4Q22, we expect some consolidation in NZD/USD. Domestic and external growth uncertainties are likely to keep further gains in NZD/USD modest. Overall, our updated NZD/USD forecasts are at 0.61 in 1Q23, 0.63 in 2Q23 and 0.65 in both 3Q23 and 4Q23.

Asian FX

USD/CNY: It remains to be seen how China will pivot to a "new stage" in its fight against the pandemic and engineer a smooth economic recovery. As such, the economic and policy uncertainties will be with us for a while longer and will reinforce two-way volatility in the CNY. Overall, we keep to the upward trajectory of USD/CNY until clear signs of stabilization emerge for the Chinese economy. Our updated USD/CNY forecasts are 7.18 in 1Q23, 7.24 in 2Q23, 7.28 in 3Q23 and 7.30 in 4Q23.

USD/SGD: Tethered by a weakening CNY, the SGD is still expected to lag against the USD and we maintain an upward trajectory in USD/SGD. Our updated USD/SGD forecasts are 1.38 in 1Q23, 1.39 in 2Q23 and 1.40 in both 3Q23 and 4Q23.

USD/HKD: The 3-month Hibor-Libor spread has flipped into negative territory, favouring the HKD over the USD on a carry-trade basis. The spread is also likely to drop further as HKD liquidity is tightened further. Overall, we see a good likelihood that USD/HKD will return to the middle of its 7.75 to 7.85 trading band. Our updated USD/HKD forecasts are at 7.80 through 4Q23.

USD/TWD: In 2023, the TWD is unlikely to turn around just yet. Slower domestic and China's growth, downturn in global semiconductor cycle, uncertainty over China's zero-COVID policy and global recession worries are some of the reasons to stay cautious on TWD. Overall, we maintain an upward trajectory for USD/TWD with updated forecasts at 31.3 in 1Q23, 31.5 in 2Q23, 31.8 in 3Q23 and 32.0 in 4Q23.

USD/KRW: There are still significant risks that can derail the recovery of the KRW. The dimming global growth outlook, which the KRW is highly sensitive to, will likely keep KRW on a defensive stance. Regional FX sentiment is likely to be dented by recent surge in China's COVID-19 cases. Overall, we keep to a cautious outlook for KRW alongside a weakening CNY. Our updated USD/KRW forecasts are at 1350 in 1Q23, 1360 in 2Q23, 1370 in 3Q23 and 1380 in 4Q23.

USD/MYR: A key factor that could impact MYR is the trend of the CNY. We note that the MYR is highly correlated to movements of the CNY against the USD since Apr till about mid Nov. At this juncture, it remains to be seen if returning confidence in Malaysia's markets will be enough to overcome the drag of a weakening CNY. For now, we maintain an upward trajectory for USD/MYR, similar to that of USD/CNY. Our updated USD/MYR forecasts at 4.55 in 1Q23, 4.60 in 2Q23 and 4.65 in both 3Q23 and 4Q23.

USD/IDR: The relatively poor price action means that once external risks such as recession in western economies and China slowdown concerns start to build again, IDR will still be vulnerable to further declines. As such, we reiterate our expectations of higher USD/IDR ahead, with point forecasts unchanged at 15,900 in 1Q23, 16,000 in 2Q23, 16,100 in 3Q23 and 16,200 in 4Q23.

USD/THB: This is unlikely to be the much awaited inflexion point for the THB given the uncertain global environment, dovish Bank of Thailand (relative to Fed and Asian peers) and still-wide negative real rates. While the THB is expected to fall alongside Asian peers against the USD, we have factored the THB to outperform on a relative basis to its peers as its tourism recovery gains traction. Our updated USD/THB are at 35.6 in 1Q23, 35.8 in 2Q23, 36.0 in 3Q23 and 36.2 in 4Q23.

USD/PHP: In 2023, the PHP is expected to be weighed by external uncertainties such as China's latest surge in COVID-19 infections and potential spillover impact from recessions in the US, UK and EU. Meanwhile, BSP is projected to unleash more rate hikes into 1Q23, which will help to cap excessive move in PHP. We tweak our USD/PHP forecasts lower to 57.5 in 1Q23, 57.8 in 2Q23 and 58.0 in both 3Q23 and 4Q23

USD/VND: Looking ahead, there are still significant uncertainties that may trouble the VND. External risks particularly the recent surge in China's COVID-19 cases and potential spillover impact from recessions in western economies (US, UK and EU) continues to put an upward bias to USD/VND. Overall, we reiterate our current set of USD/VND forecasts which are at 25,200 in 1Q23, 25400 in 2Q23, 25,600 in 3Q23 and 25,800 in 4Q23.

USD/INR: Going forward, we continue to keep a cautious outlook on INR. Further weakness in domestic growth, India's twin deficits and potential spillover impact from recessions in US, UK and EU cast doubts of a return of foreign flows in 2023. Overall, we reiterate our current set of USD/INR forecasts which are at 84.5 in 1Q23, 85.0 in 2Q23, 85.5 in 3Q23 and 86.0 in 4Q23.

Our Forecasts

Real GDP Growth Trajectory

y/y% change	2021	2022F	2023F	1Q22	2Q22	3Q22	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F
China	8.1	3.3	4.8	4.8	0.4	3.9	3.9	3.7	6.8	4.4	4.4
Hong Kong	6.3	-3.1	3.5	-3.9	-1.3	-4.5	-2.5	1.4	1.7	5.9	4.9
India	8.7	7.0	6.5	13.5	6.3	4.5	4.8	5.5	6.3	6.8	7.2
Indonesia	3.7	5.4	4.9	5.0	5.4	5.7	5.5	4.9	4.8	4.7	5.0
Japan	1.6	1.5	1.0	0.6	1.7	1.8	1.6	1.1	0.3	1.3	1.2
Malaysia	3.1	8.3	4.0	5.0	8.9	14.2	5.5	4.0	4.0	4.1	4.1
Philippines	5.7	7.4	5.0	8.2	7.5	7.6	6.5	6.0	5.2	4.8	4.0
Singapore	7.6	3.5	0.7	3.9	4.5	4.1	1.7	0.5	0.5	0.7	1.0
South Korea	4.1	2.7	1.7	3.0	2.9	3.1	1.6	1.4	1.1	1.5	2.8
Taiwan	6.5	3.0	2.3	3.9	3.0	4.0	1.4	1.1	3.3	2.5	2.5
Thailand	1.6	3.2	3.7	2.2	2.5	4.5	3.5	3.7	4.2	3.5	3.2
Vietnam	2.6	8.2	6.6	5.0	7.5	13.7	6.8	6.5	6.7	6.6	6.8
Australia	5.0	3.8	1.9	3.3	3.6	6.1	2.5	2.5	2.0	1.6	1.4
Eurozone	5.4	3.1	-0.5	5.5	4.3	2.1	0.5	-0.6	-1.2	-0.4	0.2
New Zealand	5.3	1.8	1.5	-0.1	0.0	4.9	2.2	2.4	1.1	1.0	1.5
United Kingdom	8.5	4.4	-0.5	10.9	4.4	2.4	0.2	-0.9	-1.2	-0.5	0.5
United States (q/q SAAR)	5.9	1.6	-0.5	-1.6	-0.6	2.6	-3.6	-2.0	-1.6	3.6	4.1

Note that India full-year growth are illustrated based on its fiscal calendar
Source: Macrobond, UOB Global Economics & Markets Research Forecast

Heatmap

Markets	Quarterly GDP % y/y change	Headline CPI % y/y change	Mfg PMI Month	Jobless rate %	Trade balance Billion USD, month	Current a/c % of GDP, quarter	Foreign Dir Inv (FDI) Billion USD, 2021	Fiscal balance % of GDP, 2021
China	3.9	2.1	49.4	5.5	85.2	3.2	181.0	-5.2
India	6.3	6.8	55.7	8.0	-26.9	-2.8	3.7	-9.9
Indonesia	5.7	5.4	50.3	5.9	5.7	1.3	1.7	-4.6
Malaysia	14.2	4.0	47.9	3.6	3.9	3.1	11.6	-6.4
Philippines	7.6	7.7	52.7	5.0	-4.8	-7.7	12.4	-8.6
Singapore	4.1	6.7	49.7	2.0	3.8	20.5	8.3	1.4
Thailand	2.2	6.0	51.1	1.2	1.1	-1.2	1.0	-5.6
Vietnam	13.7	4.4	47.4	2.3	0.8	-4.9	1.3	-4.5

Green = Strongest across country (rows)
Red = Weakest
Source: Macrobond, UOB Global Economics & Markets Research

Our Forecasts
Central Bank Outlook

Central bank	Cumulative hike/cut since first hike/cut	Hike/cut Dec 22	Hike/cut 1Q23	Terminal Rate
Fed	375	50	50	5.00% by 1Q23
BSP	300	50	50	6.00% by 1Q23
BOK	275		25	3.50% by 1Q23
RBNZ	250	Another 25bps hike in Apr 23 before reaching terminal rate in 2Q23	50	5.00% by 2Q23
RBA	250	25		3.10% by 4Q22
BOE	200	50	50	4.00% by 1Q23
ECB	200	50	25	2.75% by 1Q23
SBV	200		100	7.00% by 1Q23
RBI	190	35	25	6.50% by 1Q23
BI	175	25	50	6.00% by 1Q23
BNM	100		50	3.25% by 1Q23
BOT	75		50	1.75% by 1Q23
CBC	50	12.5	12.5	1.875% by 1Q23
PBOC*	-15 (ytd in 2022)	10bps cut in 1Q23 to 3.55% before inching up towards end 2023 if the economy begins to recover	-10	
BOJ	We continue to expect the BOJ to keep its current easy monetary policy intact and maintain its massive stimulus for the rest of 2022 and 1Q 2023.			

* 1Y Loan Prime Rate
Source: UOB Global Economics & Markets Research

Our Forecasts
FX, Interest Rates & Commodities

FX	01 Dec 22	1Q23F	2Q23F	3Q23F	4Q23F
USD/JPY	136	142	137	134	132
EUR/USD	1.05	1.01	1.04	1.06	1.08
GBP/USD	1.21	1.16	1.20	1.23	1.25
AUD/USD	0.68	0.65	0.68	0.70	0.70
NZD/USD	0.63	0.61	0.63	0.65	0.65
DXY	105.53	109.0	105.9	103.8	102.0
USD/CNY	7.07	7.18	7.24	7.28	7.30
USD/HKD	7.79	7.80	7.80	7.80	7.80
USD/TWD	30.64	31.3	31.5	31.8	32.0
USD/KRW	1,299	1,350	1,360	1,370	1,380
USD/PHP	56.21	57.5	57.8	58.0	58.0
USD/MYR	4.40	4.55	4.60	4.65	4.65
USD/IDR	15,603	15,900	16,000	16,100	16,200
USD/THB	34.97	35.6	35.8	36.0	36.2
USD/VND	24,610	25,200	25,400	25,600	25,800
USD/INR	81.16	84.5	85.0	85.5	86.0
USD/SGD	1.36	1.38	1.39	1.40	1.40
EUR/SGD	1.42	1.39	1.45	1.48	1.51
GBP/SGD	1.64	1.60	1.67	1.72	1.75
AUD/SGD	0.93	0.90	0.95	0.98	0.98
SGD/MYR	3.25	3.30	3.31	3.32	3.32
SGD/CNY	5.21	5.20	5.21	5.20	5.21
JPY/SGDx100	0.99	0.97	1.01	1.04	1.06

POLICY RATES	01 Dec 22	1Q23F	2Q23F	3Q23F	4Q23F
US Fed Fund Rate	4.00	5.00	5.00	5.00	5.00
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	2.00	2.75	2.75	2.75	2.75
GBP Repo Rate	3.00	4.00	4.00	4.00	4.00
AUD Official Cash Rate	2.85	3.10	3.10	3.10	3.10
NZD Official Cash Rate	4.25	4.75	5.00	5.00	5.00
CNY 1Y Loan Prime Rate	3.65	3.55	3.55	3.55	3.60
HKD Base Rate	4.25	5.25	5.25	5.25	5.25
TWD Official Discount Rate	1.63	1.88	1.88	1.88	1.88
KRW Base Rate	3.25	3.50	3.50	3.50	3.50
PHP O/N Reverse Repo	5.00	6.00	6.00	6.00	6.00
MYR O/N Policy Rate	2.75	3.25	3.25	3.25	3.25
IDR 7D Reverse Repo	5.25	6.00	6.00	6.00	6.00
THB 1D Repo	1.25	1.75	1.75	1.75	1.75
VND Refinancing Rate	6.00	7.00	7.00	7.00	7.00
INR Repo Rate	5.90	6.50	6.50	6.50	6.50

INTEREST RATES	01 Dec 22	1Q23F	2Q23F	3Q23F	4Q23F
USD 3M SOFR (compounded)	3.09	4.30	4.80	4.80	4.80
SGD 3M SORA (compounded)	2.92	3.99	4.31	4.31	4.31
USD 3M LIBOR	4.76	5.10	5.10		
SGD 3M SIBOR	4.17	4.45	4.55	4.55	4.55
SGD 3M SOR	4.43	4.70	4.70		
US 10Y Treasuries Yield	3.61	4.20	4.00	4.00	3.80
SGD 10Y SGS	2.98	3.55	3.50	3.50	3.30

COMMODITIES	01 Dec 22	1Q23F	2Q23F	3Q23F	4Q23F
Gold (USD/oz)	1,783	1,800	1,900	2,000	2,000
Brent Crude Oil (USD/bbl)	86	90	90	100	100
LME Copper (USD/mt)	8,239	7,000	7,000	7,000	7,000

USD 3M LIBOR and SGD 3M SOR will be ceased by end-June 2023
Source: UOB Global Economics & Markets Research Estimates

Key Events
1Q 2023

January - March
Appointing The Next BOJ Governor
Japan Prime Minister Kishida is expected to name the next Bank of Japan (BOJ) Governor to succeed Haruhiko Kuroda who has served as the 31st BOJ Governor since 20 Mar 2013 and will exit the central bank on 8 Apr 2023.

16-20 January
World Economic Forum 2023
The annual meeting will again take place in Davos-Klosters, Switzerland, with the theme "Cooperation in a Fragmented World" which will address economic, environmental, political and social fault-lines brought about by the sheer number of ongoing crises.

22-28 January
China's Spring Festival
China will be on week-long Lunar New Year holiday, while many Asian economies will also be on holiday during some periods of that week.

February
Singapore's Budget 2023
The first Budget since the implementation of the latest GST hike in Jan 2023. Amidst elevated inflation and slower growth outlook, we believe the budget will aim to address the rising cost of living for households and help companies navigate the economic downturn. Longer term challenges like climate will also be on the table. We expect another fiscal deficit will still be likely in 2023, albeit a small one.

Malaysia Re-tabling of Budget 2023
The new government led by Datuk Seri Anwar Ibrahim will retable a budget for 2023, whereby some of the initial budget forecasts are subject to minor changes as more actual data points and new developments will be reflected towards the re-tabling date. The fund allocation will also depend on the new government's priorities.

February
China's Second plenum of the 20th Central Committee
The focus is on the nominations of key government posts including the premier, vice premiers as well as the leadership of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC). Li Qiang, the number two in China's new Politburo Standing Committee is widely expected to be nominated as the successor to Premier Li Keqiang who is set to retire in March 2023.

Hong Kong's Budget 2023/24
It will likely remain expansionary to boost Hong Kong's economic recovery.

March
China's Two Sessions
The nominations of key government posts will be approved at China's annual "Two Sessions" and Xi Jinping will be confirmed as president. The National People's Congress (NPC) will also set key economic targets and the most important will be the GDP growth target for 2023 as policy measures will be geared towards this goal.

Bank Negara Malaysia's Economic & Monetary Review 2022 and Financial Stability Review 2H22
The central bank will release its assessment on the Malaysian economy and outlook, current and potential risks to financial stability, as well as the resilience on the Malaysian financial system to sustain its financial intermediation role in the economy.

23-24 March
European Council Meeting
Meeting against the backdrop of Russia's war of aggression against Ukraine and amid the global economic downturn, this meeting will be a much-needed boost to solidarity and strategic communication.

ASEAN Focus

Sustaining Through A Year Of Market Turmoil In 10 Charts

Holding Up Well Against Bouts Of Market Volatility In 2022

As 2022 draws to a close and a new year beckons, it should be no surprise that key members in ASEAN (namely, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) have managed to ride through a year of volatile market swings.

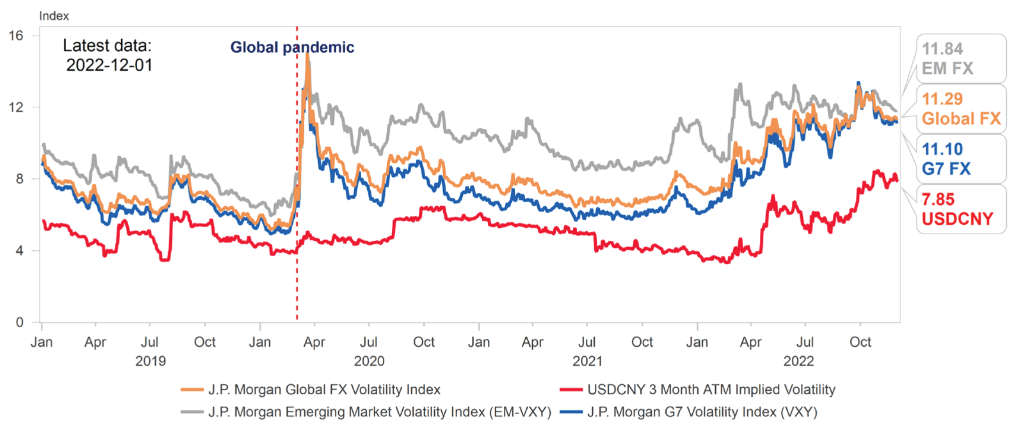
The year 2022 started off with the lingering effects from the contagious COVID-19 variant of Omicron wave globally, and then the Russia-Ukraine military conflict erupted which sparked off a round of sharp price spikes and supply disruptions in the energy and commodity complex, at a time when global supply chains were attempting to recover from two years of COVID-19 pandemic.

This was followed by a surge in inflation globally and the US Federal Reserve began one of its most aggressive rate hike campaigns in history to quell inflation pressures. Other central banks followed the Fed's footsteps to combat multi-decade high inflation and to guard against disruptive capital outflows as the US interest rates surged and the USD strengthened.

The ensuing market turmoil resulted in G7 and Emerging Market (EM) FX volatility spiking to the highest levels since Mar 2020 during the early days of the global pandemic, and it remains elevated and has yet to show sustained signs of returning to normal.

FX: Volatility surged through 2022

Source: Macrobond, UOB Global Economics & Markets Research

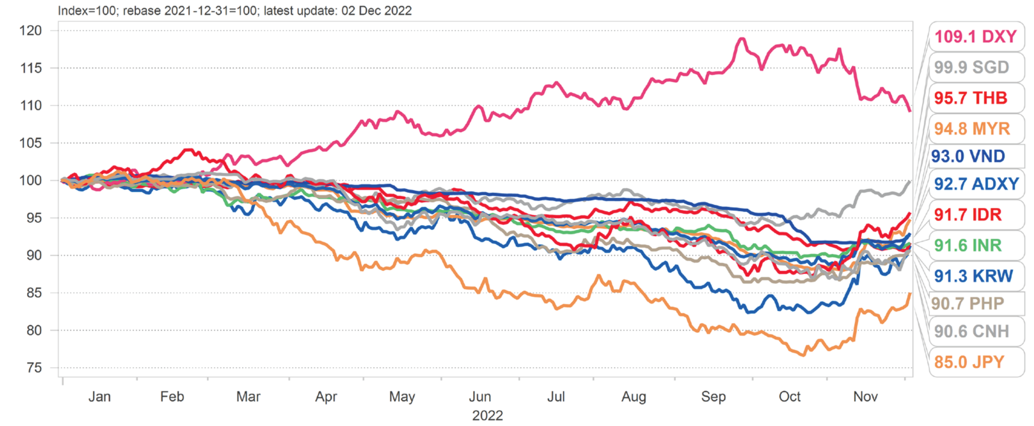


For the key members of ASEAN, pressures from these global market developments were most visible from their respective central banks' actions (stepped up pace of rate hikes and for Singapore, tightening of SGD NEER policy), decline in foreign reserves and selling pressures on currencies, equity and bond markets.

Except for the SGD which has held up quite well against the USD so far in 2022, partly due to the quick, pre-emptive actions from MAS to strengthen the SGD NEER policy early and forcefully, most of the rest of Asian currencies are down by 5-10% in 2022 after a bout of weakness in 2Q and 3Q.

Asia: FX performance against USD

Source: Macrobond, UOB Global Economics & Markets Research



However, on a relative basis, Asian currencies (except for JPY) as a whole has withstood the onslaught of the USD strength quite well, given that the US dollar index (DXY) strengthened as much as 19% at one point. The DXY has since pared about half of its yearly gains.

Overall, the capital flows movements were orderly and nowhere near the scale experienced during the severe drawdowns in Mar 2020 when the COVID-19 became a global pandemic.

Similarly for capital flows, key markets in Asia, including those in ASEAN, experienced a year of volatility with episodes of significant outflows. However, in aggregate, ASEAN still saw net inflows of USD3.3 bn for the year to Nov, with inflows in the equity markets offsetting outflows from bond markets. Overall, the capital flows movements were orderly and nowhere near the scale experienced during the severe drawdowns in Mar 2020 when the COVID-19 became a global pandemic.

Asia: YTD changes* in foreign holdings in equity and bonds flows

Source: Macrobond, UOB Global Economics & Markets Research

USD, millions (YTD flows)	11/2022 (YTD)	1m ago 10/2022	2m ago 9/2022	3m ago 8/2022	2021 Full yr	2020 Full yr	2020-03 Pandemic
ASEAN total flows	3,318.7	-1,508.9	1,731.3	5,934.7	9,392.3	-14,533.5	-25,471.4
Net equity flows	11,940.1	10,407.0	9,670.5	10,798.7	-2,439.5	-20,679.9	-7,164.1
Net bond flows	-8,621.3	-11,915.8	-7,939.2	-4,864.1	11,831.8	6,146.4	-18,307.4
India net flows	-18,634.6	-23,403.8	-24,061.7	-22,638.1	2,236.1	9,519.7	-16,362.5
South Korea net flows	43,438.0	37,272.7	32,202.2	29,200.0	83,246.9	42,200.7	603.9
Taiwan net flows	-41,469.1	-47,945.1	-44,567.4	-38,819.4	-15,336.7	-15,256.9	-17,878.4

* Estimates based on publicly available data on bonds and equity flows by foreign holders
Last update: 02 Dec 2022, 11:58AM SGT

Is ASEAN Able to Withstand Further Market Volatility?

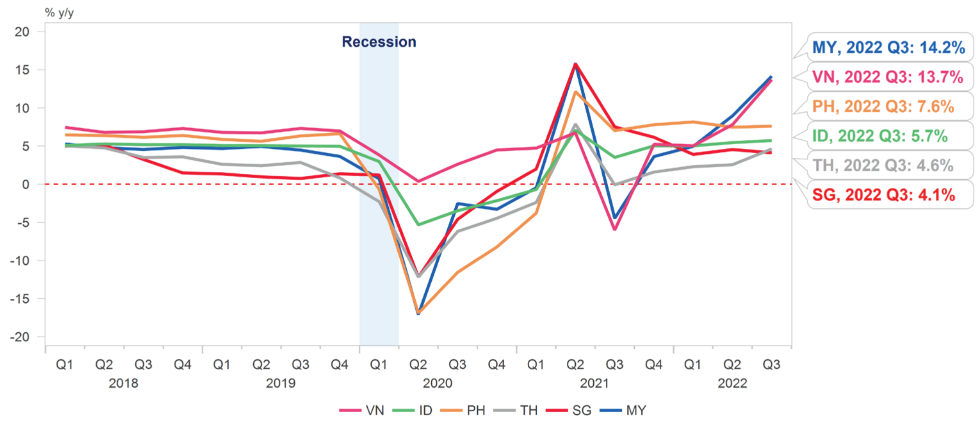
While key members in ASEAN (namely, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) managed to sustain through a year of market volatility without touching off a financial market crisis, what are the key factors behind such resilience and will it be able to take on further market volatility?

In the following 10 charts, we argue that fundamental factors are supportive of these ASEAN economies to defend against the uncertain environment ahead in 2023, as risks loom for economic recessions in the US, UK and Europe, tightening financial conditions, further straining of US-China relations and Russia-Ukraine conflict, among others.

1. Strong recovery momentum post-pandemic: GDP growth for most economies has rebounded strongly in 2Q-3Q22 on the back of exports demand and increasingly domestic demand as COVID-19 restrictions have mostly been lifted across ASEAN. Malaysia topped the list in 3Q22 with the fastest growth rate in ASEAN.

ASEAN: Real GDP growth (quarterly)

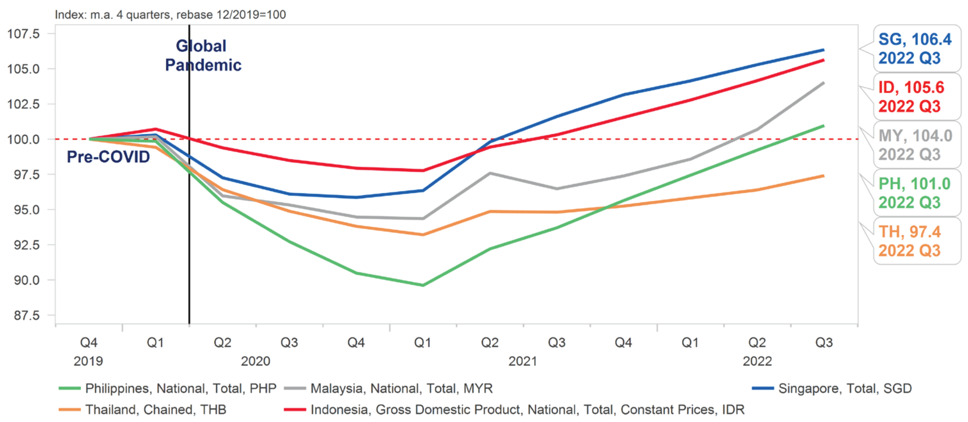
Source: Macrobond, UOB Global Economics & Markets Research



2. Back above pre-pandemic output levels: Except for Thailand, national output is now back to pre-COVID levels as ASEAN benefitted from exports demand and reopening of the economies boosted domestic demand. The consistent recovery helps to support income growth and stabilize government finances and financial market confidence, among others.

ASEAN: Real economic output largely above pre-COVID level

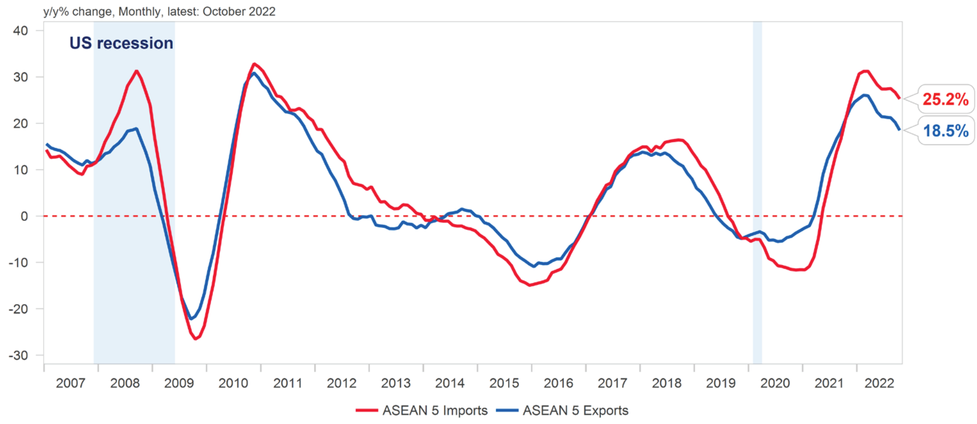
Source: Macrobond, UOB Global Economics & Markets Research



3. Robust trade performances: Exporters and manufacturing sectors in ASEAN were the main beneficiaries especially during the pandemic period, though global demand is expected to soften in the coming months as rising interest rates globally dampen spending and business activities.

ASEAN5: Trade performance (12-month ma)

Source: Macrobond, UOB Global Economics & Markets Research



4. Tourism recovery: Lifting of COVID-19 restrictions and reopening of domestic economies across ASEAN since mid-2022 added further to recovery momentum as visitor flows surged and services sectors rebounded. These factors are expected to be the main pillar for various ASEAN economies in 2023. As and when China further relaxes its zero-COVID policy and reopens its borders, it will be a further boost to the tourism-related sectors across ASEAN.

Asia: Inbound visitor arrivals, YTD

Source: Macrobond, UOB Global Economics & Markets Research

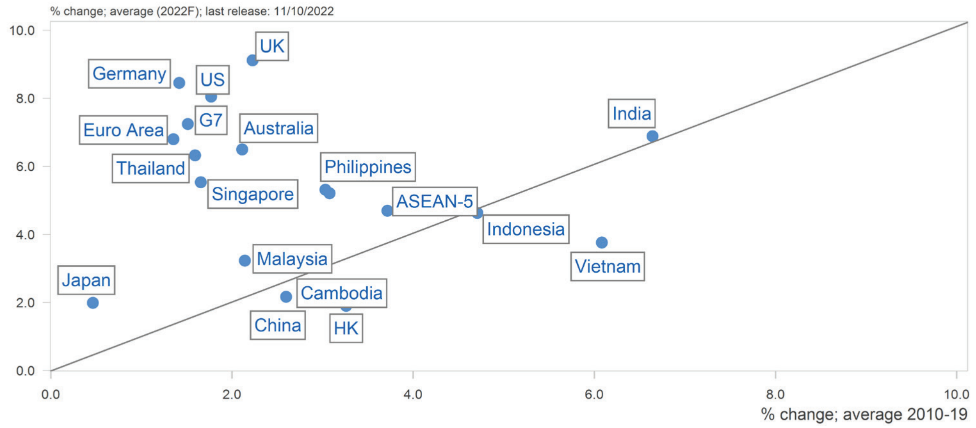
	No. of Persons, million (0 2 4 6 8)	Latest YTD	% y/y	1Y ago YTD	2021	2020	2019
Thailand		7.16	8244.7	0.20	0.43	6.70	39.9
Singapore		4.56	2548.6	0.24	0.33	2.74	19.1
India		3.26	535.2	1.15	1.45	2.70	10.9
Malaysia		3.21	6239.0	0.10	0.13	4.33	26.1
Indonesia		3.08	180.3	1.39	1.56	4.05	16.1
Vietnam		2.95	2261.9	0.14	0.16	3.84	18.0
South Korea		2.20	218.6	0.88	0.97	2.53	17.5
Japan		1.53	699.7	0.23	0.25	4.12	31.9
Taiwan		0.42	308.8	0.13	0.14	1.38	11.9
Hong Kong		0.33	423.3	0.08	0.09	3.57	55.9

Latest

5. Benign inflation: Inflation rates in Asia and ASEAN have generally been at lower levels relative to the developed markets in 2022, as consumer prices are partially cushioned by administrative measures as well as access to energy, mineral and agriculture commodities for some ASEAN countries. This means that regional central banks' policy tightening is less aggressive than the Fed's, allowing more flexibility for economic expansion.

Selected economies' inflation (historic and forecasts from IMF), forecasts for 2022

Source: Macrobond, UOB Global Economics & Markets Research



6. Supply chain shifts: This is reflected in the share of US' imports from ASEAN, particularly Vietnam, while US' imports from China fell after 2016 when Trump became US president and US-China tensions flared up. The shifts are likely to be structural with US pursuing various measures to counter China's rise, including onshoring, offshoring and "friendshoring", and deglobalization/regionalization of supply chains, all of which will benefit ASEAN as a manufacturing and exports hub.

United States: Top import sources, YTD (% share)

Source: Macrobond, UOB Global Economics & Markets Research

Latest release: 03/11/2022	Latest YTD	2021	2020	2019	2016
China	17.0	17.8	18.5	18.0	21.1
Mexico	13.9	13.6	13.8	14.3	13.4
Canada	13.7	12.6	11.6	12.8	12.7
ASEAN	10.5	6.9	9.9	8.3	7.2
Japan	4.5	4.8	5.1	5.7	6.0
Germany	4.3	4.8	4.9	5.1	5.2
Vietnam	4.0	3.6	3.4	2.7	1.9
South Korea	3.5	3.4	3.3	3.1	3.2
Taiwan	2.8	2.7	2.6	2.2	1.8
India	2.7	2.6	2.2	2.3	2.1
Ireland	2.4	2.6	2.8	2.5	2.1
Italy	2.1	2.2	2.1	2.3	2.1
Switzerland	1.9	2.2	3.2	1.8	1.7
United Kingdom	1.9	2.0	2.2	2.5	2.5
Thailand	1.8	1.7	1.6	1.3	1.3
France	1.7	1.8	1.8	2.3	2.1
Malaysia	1.7	2.0	1.9	1.6	1.7
Brazil	1.2	1.1	1.0	1.2	1.2
Indonesia	1.1	1.0	0.9	0.8	0.9
Netherlands	1.1	1.2	1.2	1.2	0.7
Singapore	1.0	1.0	1.3	1.1	0.8
Belgium	0.8	0.7	0.9	0.8	0.8
Saudi Arabia	0.7	0.5	0.4	0.5	0.8
Spain	0.7	0.7	0.7	0.7	0.6
Israel	0.7	0.7	0.7	0.8	1.0
Colombia	0.6	0.5	0.5	0.6	0.6
Turkey	0.6	0.6	0.5	0.4	0.4
Austria	0.5	0.5	0.5	0.5	0.5
Chile	0.5	0.5	0.4	0.4	0.4
Russia	0.5	1.0	0.7	0.9	0.7

7. Healthy investment inflows: Supply chain shifts are also accompanied by investment inflows, leading to a surge of foreign direct investments (FDI) inflows to the region as businesses set up manufacturing plants, warehouse facilities, distribution networks, and others. Despite the pandemic conditions, FDI inflows to ASEAN jumped by 44% in 2021 to a new record high of USD175.3bn, above the previous record set in 2019. ASEAN is also the world's third largest destination of FDI inflows, after the US and China.

Foreign Direct Investment (FDI), inward flows

Source: Macrobond, UOB Global Economics & Markets Research

UNCTAD Last: 15 Aug 2022	2021	2020	2019	CAGR % 2010-2021	2010
China	181.0	149.3	141.2	4.2	114.7
ASEAN	175.3	122.1	175.0	4.1	112.9
Singapore	99.1	75.4	106.3	5.1	57.5
Brazil	50.4	28.3	65.4	-3.9	77.7
India	44.7	64.1	50.6	4.6	27.4
South Africa	40.9	3.1	5.1	24.6	3.6
Russia	38.2	10.4	32.1	1.7	31.7
Mexico	31.6	27.9	34.4	1.4	27.2
Indonesia	20.1	18.6	23.9	3.5	13.8
Vietnam	15.7	15.8	16.1	6.3	8.0
Turkey	12.5	7.8	9.6	3.0	9.1
Malaysia	11.6	3.2	7.8	2.3	9.1
Thailand	11.4	-4.8	4.8	-2.2	14.7
Philippines	10.5	6.8	8.7	23.1	1.1
Argentina	6.5	4.0	6.7	-4.9	11.3
Cambodia	3.5	3.6	3.7	8.6	1.4
Myanmar	2.1	1.9	2.5	-10.1	6.7
Lao	1.1	1.0	0.8	13.0	0.3
Brunei	0.2	0.6	0.4	-7.5	0.5

Annual, USD, billion (bars: 2021; dots: 2010; axis 0, 50, 100, 150, 200)

8. Ample foreign reserves: The build up in foreign reserves since the Asian financial crisis has allowed for greater buffer against financial market volatility. Despite the depletion over the past 12 months in view of the strong US dollar, the quantum of reserves on hands remains substantial compared to the levels seen in 1997. These will continue to serve as a buffer against sharp capital outflows from domestic markets.

IMF IFS, official reserve assets, USD

Source: Macrobond, UOB Global Economics & Markets Research

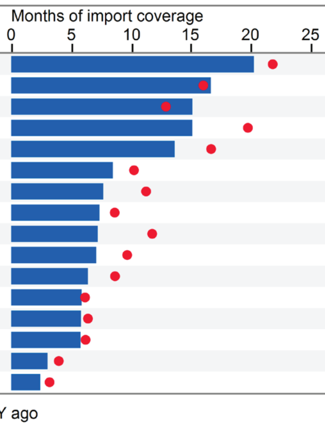
Source: IMF Released: 29/11/2022	Latest USD bn	end-1997 USD bn	% chg since 97
India	577.2	27.6	1833
Russia	573.3	17.8	3444
Hong Kong	491.4	92.8	352
Singapore	379.8	71.4	301
Brazil	347.4	52.2	523
Thailand	245.5	26.9	651
Indonesia	137.1	17.4	652
Malaysia	108.6	20.9	404
Philippines	104.5	8.8	961
Vietnam	98.9	2.1	4402
Turkey	85.1	20.0	441
South Africa	53.0	5.8	904
Argentina	39.4	22.4	72.3
Myanmar	8.1	0.3	3007

USD, billion (bars: Latest; dots: end-1997; axis 0, 100, 200, 300, 400, 500, 600, 700)

9. Ability to pay imports: The ability to pay for imports is another test of confidence and most of the ASEAN countries have more than sufficient reserves available to pay for 3 months of imports (which is seen as an international "rule of thumb").

International reserves: imports coverage (months)

Source: Macrobond, UOB Global Economics & Markets Research

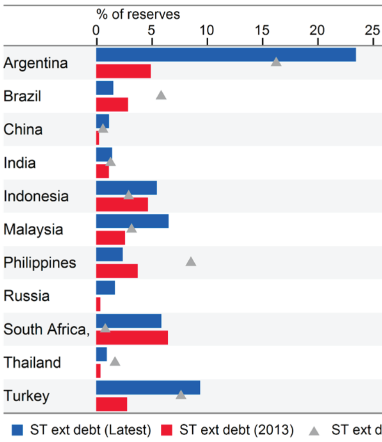


	Latest	1Y ago	Avg 2010-19
Russia	20.2	21.8	19.7
Taiwan	16.7	16.0	19.2
China	15.1	12.9	22.4
Japan	15.1	19.8	19.7
Brazil	13.6	16.7	22.6
Thailand	8.5	10.2	9.4
India	7.7	11.3	8.8
Hong Kong	7.4	8.6	7.9
Singapore	7.2	11.8	8.9
Philippines	7.1	9.7	11.2
Indonesia	6.4	8.7	7.8
Argentina	5.9	6.2	8.0
Malaysia	5.8	6.4	8.2
South Africa	5.8	6.2	5.7
Vietnam	3.0	4.0	2.4
Turkey	2.4	3.2	4.9

10. Short-term external debt: Most of the ASEAN countries have relatively small amount of short-term external debt relative to their reserves, except for Indonesia and Malaysia, which are still below 10% of their foreign reserves. This keeps ASEAN countries in a good position to withstand the pressures of a strengthening USD and rising global interest rates.

Ratio of short term external debt to FX reserves (%) - Comparisons

Source: Macrobond, UOB Global Economics & Markets Research



	ST ext debt (Latest)	ST ext debt (2013)	ST ext debt (1997)
Argentina	23.5	4.9	16.3
Brazil	1.6	2.9	5.9
China	1.2	0.3	0.6
India	1.4	1.2	1.3
Indonesia	5.5	4.7	2.9
Malaysia	6.6	2.6	3.2
Philippines	2.4	3.8	8.6
Russia	1.7	0.4	n/a
South Africa,	5.9	6.5	0.8
Thailand	1.0	0.4	1.7
Turkey	9.4	2.8	7.7

Outlook - Slower Growth Pace In 2023

While improved fundamentals have allowed ASEAN markets to withstand the financial market volatility in 2022, the year ahead is expected to remain uncertain and challenging.

While improved fundamentals have allowed ASEAN markets to withstand the financial market volatility in 2022, the year ahead is expected to remain uncertain and challenging amid looming risks of economic recessions in the US and Europe, tightening financial conditions, further straining of US-China relations and Russia-Ukraine conflict, among others. Given the export-oriented nature of ASEAN economies and the world's third largest destination of FDI inflows, the possibility of spillovers from these risk factors cannot be ignored.

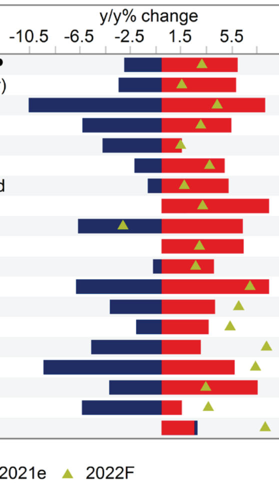
However, these are offset somewhat by the ongoing recovery in domestic activities with the relaxation of COVID-19 pandemic restrictions and reopening of cross border movements, which will benefit domestic oriented sectors such as retail, food & beverage, transport, accommodation, among others. One potential uplift will be when China reopens its borders, which will revitalize the tourism sector especially for Thailand, Malaysia, Singapore and Vietnam.

China will likely see meaningful recovery in 2023 as we anticipate further gradual easing of its COVID-19 measures next year as well as flow-through of the stimulus measures.

Overall, GDP growth rates around the world will be lower in 2023 with developed markets such as the US, Europe and UK experiencing full year declines, while the main economies in ASEAN are expected to see growth rate slowing to sub-5% pace from above 6% in 2022. China will likely see meaningful recovery in 2023 as we anticipate further gradual easing of its COVID-19 measures next year (which may quicken as the government plans to accelerate elderly vaccination) as well as flow-through of the stimulus measures.

Real GDP growth rate (annual)

Source: Macrobond, UOB Global Economics & Markets Research



	2018	2019	2020	2021e	2022F	2023F
World GDP	3.6	2.8	-3.0	**6.0**	**3.2**	**2.7**
US (q/q saar)	2.3	2.3	-3.4	**5.9**	**1.6**	**-0.5**
UK	1.7	1.6	-11.0	**8.2**	**3.4**	**-0.5**
Euro Area	1.8	1.6	-6.3	**5.5**	**2.7**	**-0.5**
Japan	0.7	-0.3	-4.7	**1.6**	**1.5**	**1.0**
Australia	2.8	2.0	-2.1	**5.0**	**3.8**	**1.9**
New Zealand	4.3	3.4	-1.1	**5.3**	**1.8**	**1.5**
China	6.6	6.2	2.0	**8.8**	**3.3**	**4.8**
HK	2.9	-1.6	-6.6	**6.4**	**-3.1**	**3.5**
Taiwan	2.8	3.0	3.3	**6.5**	**3.0**	**2.3**
South Korea	2.9	2.2	-0.7	**4.1**	**2.7**	**1.7**
India (FY)	7.3	4.5	-6.8	**8.7**	**7.0**	**6.5**
ASEAN6	5.2	4.3	-4.1	**4.2**	**6.1**	**4.1**
Indonesia	5.2	5.0	-2.0	**3.7**	**5.4**	**4.9**
Malaysia	4.8	4.4	-5.6	**3.1**	**8.3**	**4.0**
Philippines	6.3	6.1	-9.3	**5.5**	**7.4**	**5.0**
Singapore	3.7	1.1	-4.1	**7.6**	**3.5**	**0.7**
Thailand	4.2	2.2	-6.3	**1.6**	**3.7**	**3.7**
Vietnam	7.1	7.0	2.8	**2.6**	**8.2**	**6.6**

Printed on: Fri 02 Dec 2022, 11:24 AM

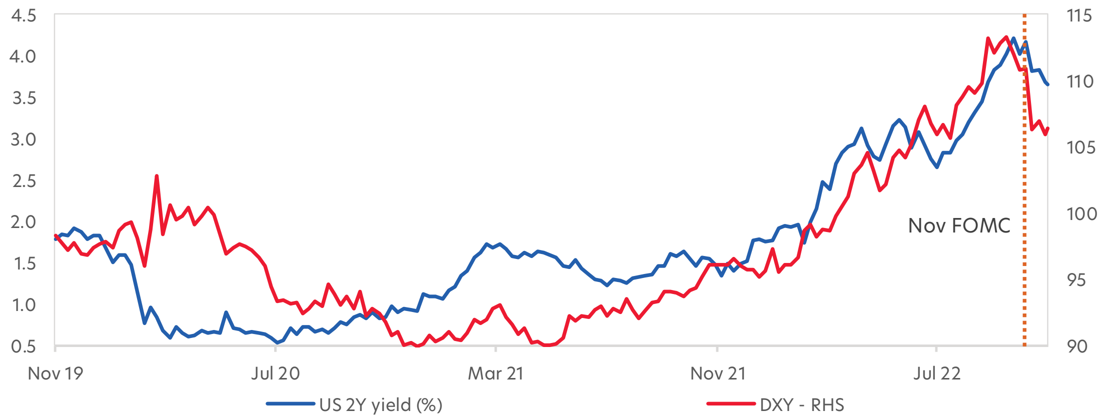
FX Strategy

After A Bumper Year, USD Strength Will Normalize In 2023

2022 is one for the books for the USD. Underpinned by four successive 75 bps Fed rate hikes, the US Dollar Index (DXY) rose as much as 20% on the year to 114.78, the highest level in two decades. While the DXY has given back about half of its gains after the Fed signalled a slower pace of rate hikes in the Nov FOMC, it is still on track for the best yearly gain since 2014.

Chart 1: The rates-driven DXY rally started to lose steam after Nov FOMC

Source: Bloomberg, UOB Global Economics & Markets Research



While the brunt of the USD rally may be over, the normalization trajectory of USD is unlikely to be straightforward.

By now, it is crystal clear that the driver of outsized USD gains this year has been the relentless rise in US front-end yields. So, if US inflation starts to cool as scripted and the increased emphasis on financial stability, the Fed could proceed to step down rate hikes to 50 bps in Dec followed by 25 bps increments in 1Q23. Fed Chair Powell has also affirmed in late Nov that the time to moderate pace of rate hikes may come as soon as the Dec meeting. This could well put in a significant peak in US yields and hence the DXY. While the brunt of the USD rally may be over, the normalization trajectory of USD is unlikely to be straightforward. The Fed's fight against inflation is far from over and a couple of stronger than expected inflation readings may rekindle pricings for a higher terminal Fed Funds rate – above our current expectation of 4.75 – 5%. Also, safe haven demand may also limit the downside for USD as global recession concerns become a bigger focus in 2023.

Chart 2: The recent USD pullback is more pronounced against Major FX than Asia FX

Source: Bloomberg, UOB Global Economics & Markets Research

While still nursing a year-to-date loss, the Asia Dollar Index (ADXY) rebounded in 4Q22 after posting three straight quarterly losses. A sooner-than-expected easing of China's COVID-19 measures and new measures to support its troubled property sector after the 20th Communist Party Congress helped stabilized sentiments in the CNY and most Asia FX. China's vice premier Sun Chunlan's comments in late Nov that the nation's fight against the pandemic is at a "new stage" also spark reopening bets. Asian central banks have also intensified efforts in the quarter to ease FX volatility spurred by portfolio outflows. After falling over 9% this year, the biggest ADXY drop since the 1997 Asia Financial Crisis, is the worst for Asia FX finally over?

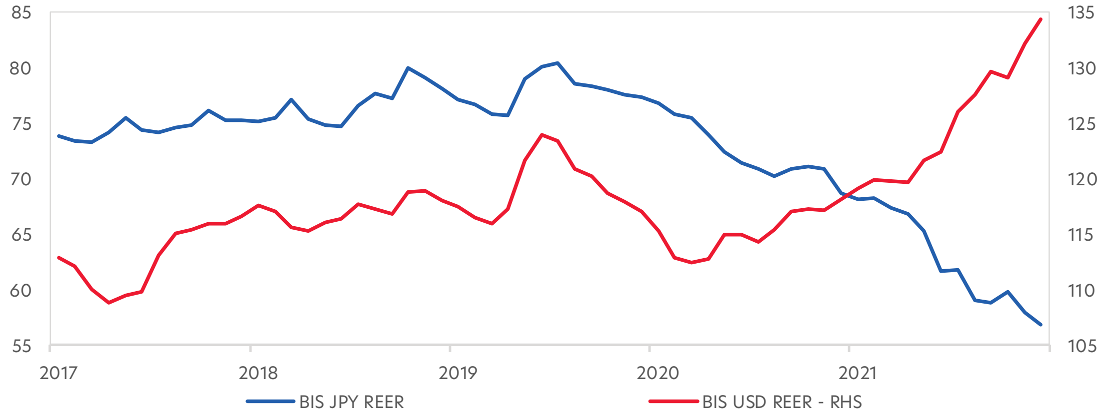
Major FX Strategy

Rich USD Valuation Starts To Unwind

The relentless and broad-based USD rally this year has lifted USD valuation significantly. Within the Major FX space, the valuation gap is most pronounced between USD and JPY due to the monetary policy divergence between the Fed and Bank of Japan (BOJ). Now that the Fed has signalled a slower pace of rate hikes starting Dec, the tailwind behind the USD rally in the last couple of months could start to ease. And given the outsized 16% year-to-date rally in the DXY this year, position recalibration to a slower Fed could easily spark a normalization of the DXY lower.

Chart 3: USD valuation is particularly rich compared to JPY's due to monetary policy divergence

Source: Bloomberg, UOB Global Economics & Markets Research

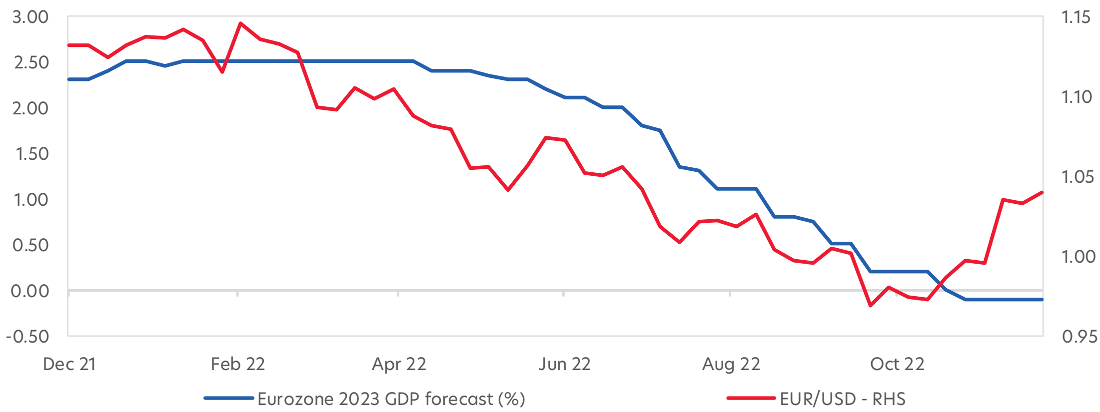


USD will still maintain its yield advantage against its developed peers even as the Fed shifted to a "slower but longer" rate hike trajectory. This may reduce the extent of the pullback in USD even as it is projected to peak in 1Q23.

Overall, we reiterate the view that the DXY is likely to peak in 1Q23 alongside US rates. That said, the path is still fraught with policy uncertainties. Not only is the Fed slowing down, the Bank of Canada (BOC), European Central Bank (ECB) and Reserve Bank of Australia (RBA) have started to downshift rate increments as they seek a balance between inflation and economic risks. This means that the USD will still maintain its yield advantage against its developed peers even as the Fed shifted to a "slower but longer" rate hike trajectory. This may reduce the extent of the pullback in USD even as it is projected to peak in 1Q23.

Chart 4: Eurozone's growth downgrade cycle likely to weigh on EUR/USD

Source: Bloomberg, UOB Global Economics & Markets Research

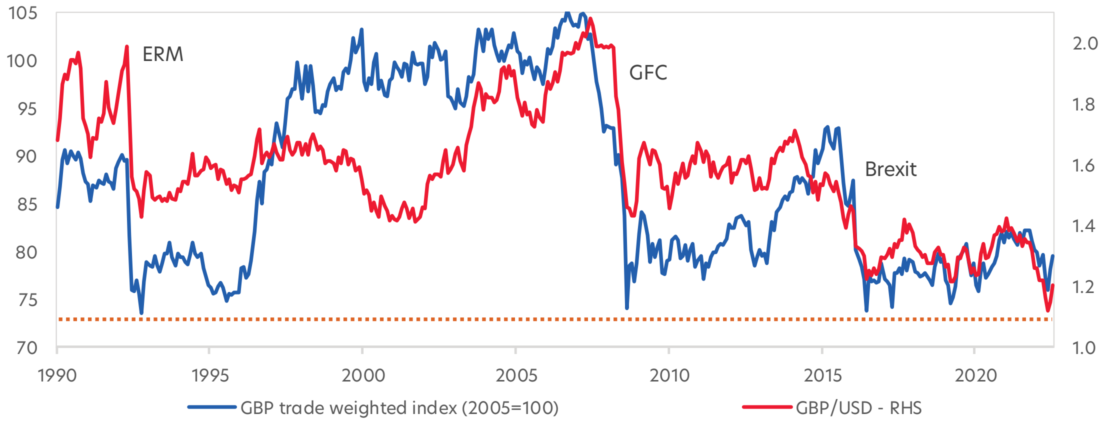


There is scope for a pullback in EUR/USD in 1Q23 before a sustained move higher for the rest of 2023 as Fed's rate pause becomes clearer.

Since touching a 20-year low of 0.9536 in late Sep, EUR/USD has rebounded to 1.04, highest level since late Jun. Fueling the breakout above the parity level is probably position recalibration to a slower Fed. We note that the currency move may have gone ahead of fundamentals in the euro-area. The Eurozone growth (for 2023) downgrade cycle is showing little signs of turning around while business and investor sentiment remained close to the lowest levels since the onset of the pandemic. As such there is scope for a pullback in EUR/USD in 1Q23 before a sustained move higher for the rest of 2023 as Fed's rate pause becomes clearer. Our updated EUR/USD forecasts are at 1.01 in 1Q23, 1.04 in 2Q23, 1.06 in 3Q23 and 1.08 in 4Q23.

Chart 5: GBP trade weighted index rebounded off key crises' lows

Source: Bloomberg, UOB Global Economics & Markets Research



While value-buying of GBP remains a valid proposition, the pace of gains from here is likely to be checked by economic realities.

The GBP was one of the best performing G-10 currencies in 4Q22. From the record low of 1.0350 inflicted by the "mini budget" crisis in Sep, GBP/USD has since recovered above 1.20. The recovery in spot due to fiscal sustainability headwinds abating also coincided with a rebound off critical lows in the GBP trade-weighted index that was put in place during previous major UK crises such as Brexit (2015), Global Financial Crisis (2008) and European Exchange Rate Mechanism Crisis (1992). While value-buying of GBP remains a valid proposition, the pace of gains from here is likely to be checked by economic realities. According to BOE, UK has entered a recession in 4Q22 and is expected to worsen in 2023 as the cost of living crisis - brought about by runaway inflation and rising rates - bites. We also expect UK growth to underperform within G-10 in 2023. The intensifying economic headwinds are likely to weigh on the GBP in the near term. Overall, our updated GBP/USD forecasts are at 1.16 in 1Q23, 1.20 in 2Q23, 1.23 in 3Q23 and 1.25 in 4Q23.

Due to the stark monetary policy divergence between the Fed and BOJ, USD/JPY has a high sensitivity to US-Japan interest rates differential, thus attributing to the sharp move in the currency pair this year. USD/JPY rose as much as 32% on the year to 151.95 in Oct, a historic move with records dating back to 1970. This came as the 10-year rates gap widened to close to 4% from 1.4% at the start of 2022. Now, markets pricing for an eventual Fed pivot and a smaller USD rate advantage over the JPY has started to turn USD/JPY on its head. Furthermore, the outsized move in USD/JPY also lends scope for a respectable normalization going forth. However, the expected path lower for USD/JPY is unlikely to be a straightforward one. If markets extend pricing for a higher terminal Fed Funds rate on sticky US inflation, there is likely sustained two-way volatility for the USD/JPY pair. Overall, we update USD/JPY forecasts to 142 in 1Q23, 137 in 2Q23, 134 in 3Q23 and 132 in 4Q23.

Chart 6: The relentless USD/JPY rally is ending as the yield gap narrows

Source: Bloomberg, UOB Global Economics & Markets Research

AUD/USD remains highly correlated to global risk sentiment and rebounded from 2-year lows of 0.6170 alongside equities. This came after global central banks led by the Fed started to shift away from jumbo rate hikes. While the outlook for AUD/USD has improved since our last quarterly report, it worth noting that there are considerable uncertainties ahead including expected recessions in US, UK and the EU. A recent surge in China's virus cases is likely to weigh on AUD/USD, at least in the immediate quarter (1Q23). Overall, we keep to our cautiously optimistic outlook for AUD/USD and update the point forecasts to 0.65 in 1Q23, 0.68 in 2Q23 and 0.70 in both 3Q23 and 4Q23.

Asia FX Strategy

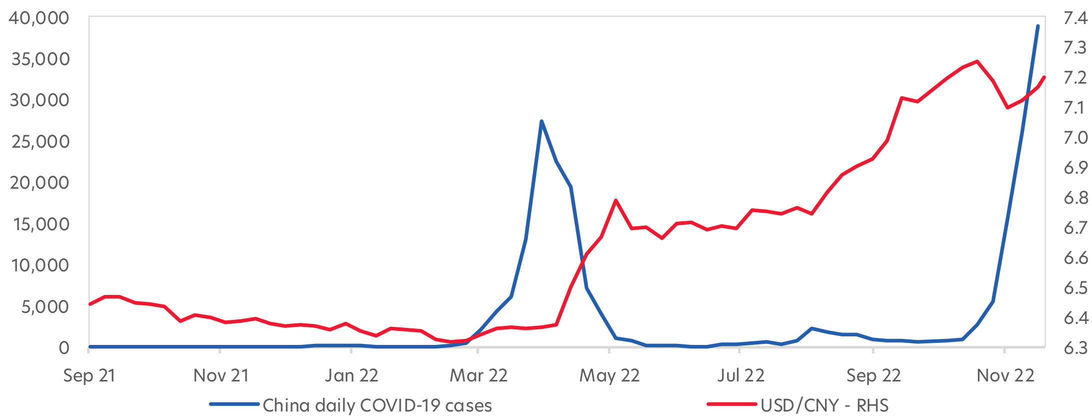
Lingering Uncertainties To Weigh On Asia FX Awhile Longer

Most USD/Asia pairs are not expected to exceed their respective peaks reached across Oct-Nov 2022.

Next year, while we expect headwinds plaguing Asia FX in 2022 to recede, it is not time to take out the party poppers yet. A slower Fed may lessen the portfolio outflow pressures of Asia FX. However, uncertainty over the China slowdown and the extent of spill over from recessions in the US, UK and EU are big unknowns. Other material risks include the prolonged Russia-Ukraine military conflict and potential global funding markets dysfunction as recently flagged by the Monetary Authority of Singapore (MAS). Overall, we err on the side of caution and expect Asia FX to weaken modestly against the USD across 2023. Broadly, most USD/Asia pairs are not expected to exceed their respective peaks reached across Oct-Nov 2022.

Chart 7: USD/CNY vulnerable to further upside as virus cases surge

Source: Bloomberg, UOB Global Economics & Markets Research

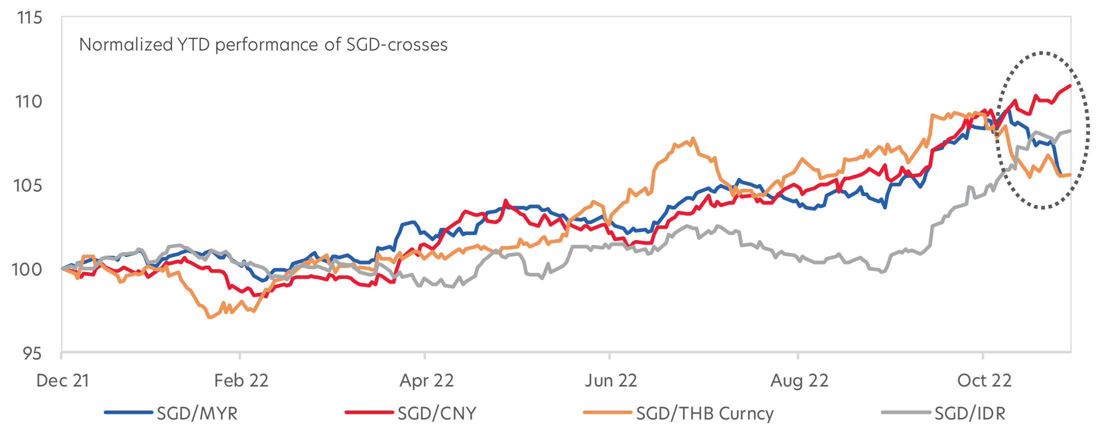


Markets are concerned that the disruption to businesses and trade flows would intensify given the latest surge of COVID-19 infections. This has shown up in the underperformance of CNY regionally in Nov where the CNY only gained 3% while other Asian peers such as KRW, THB and MYR jumped as much as 8%.

There is no let-up of the pressure on the CNY though the currency has posted the first monthly gain since Feb in Nov. Markets are concerned that the disruption to businesses and trade flows would intensify given the latest surge of COVID-19 infections. This has shown up in the underperformance of CNY regionally in Nov where the CNY only gained 3% while other Asian peers such as KRW, THB and MYR jumped as much as 8%. In addition, latest data laid bare to the cost of China's zero-COVID strategy and keeps economic risks skewed to the downside. The weaker economic data in Oct, in particular the surprise contraction in retail sales and the sharp fall in new aggregate financing and new loans, should keep the outlook for 4Q22 cautious. Another pressure point for the CNY is the sustained negative yield spread between China Government Bonds and US Treasuries, spurring further portfolio outflows from China. It remains to be seen how China will pivot to a "new stage" in its fight against the pandemic and engineer a smooth economic recovery. As such, the economic and policy uncertainties will be with us for a while longer and will reinforce two-way volatility in the CNY. Overall, we keep to the upward trajectory of USD/CNY until clear signs of stabilization of the Chinese economy. Our updated USD/CNY forecasts are 7.18 in 1Q23, 7.24 in 2Q23, 7.28 in 3Q23 and 7.30 in 4Q23.

Chart 8: SGD pared gains vs MYR and THB while rose further vs CNY and IDR

Source: Bloomberg, UOB Global Economics & Markets Research



The extent of SGD's outperformance is starting to wane given the recent softness in Singapore's inflation, non-oil domestic exports and industrial production. Weighed by a weakening CNY, the SGD is still expected to lag against the USD and we maintain an upward trajectory in USD/SGD.

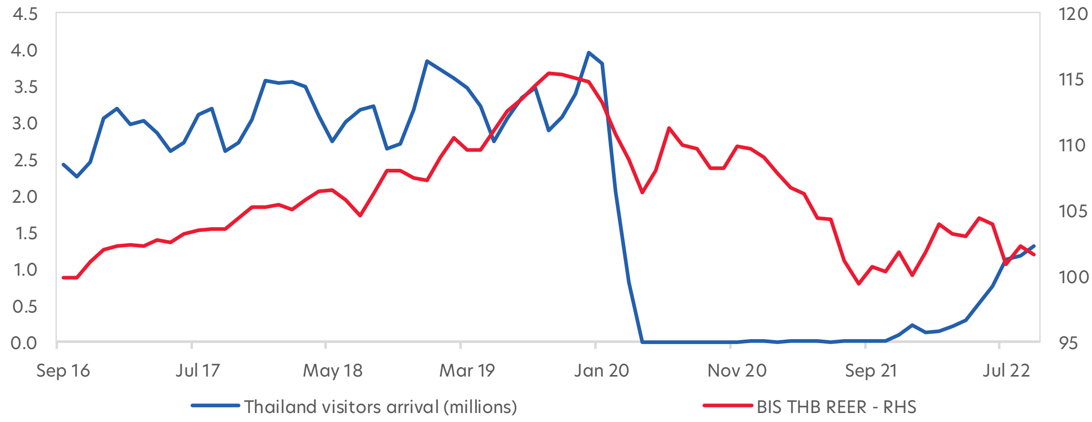
The SGD is one of the most resilient Asian FX in this Fed tightening cycle. Cushioned by the five rounds of tightening by MAS since last Oct, the SGD has fallen less than 1% this year to 1.36 / USD and has risen against most of its Asian peers. Given our expectations of further tightening from the MAS next year, the outperformance of the SGD versus its Asian peers is likely to persist. That said, we note that the extent of SGD's outperformance is starting to wane given the recent softness in Singapore's inflation, non-oil domestic exports and industrial production. Weighed by a weakening CNY, the SGD is still expected to lag against the USD and we maintain an upward trajectory in USD/SGD. Our updated USD/SGD forecasts are 1.38 in 1Q23, 1.39 in 2Q23 and 1.40 in both 3Q23 and 4Q23.

The MYR gained over 5% in Nov to 4.48 /USD, the biggest monthly gain since 2016. The outsized move was due to broad USD weakness on slower pace of Fed hikes, relaxation of China's COVID-19 measures and overcoming the recent political impasse. We noted that this is the only and biggest post-election MYR gain dating back to the last four elections, after the MYR de-pegged. Other potential domestic catalysts for MYR include political resolution that paves the way for pro-growth policies and domestic reforms, and further OPR hikes. A key factor that could impact MYR is the trend of the CNY. We note that the MYR is highly correlated to movements of the CNY against the USD since Apr till about mid Nov. At this juncture, it remains to be seen if returning confidence in Malaysia's markets will be enough to overcome the drag of a weakening CNY. For now, we maintain an upward trajectory for USD/MYR, similar to that of USD/CNY. Our updated USD/MYR forecasts at 4.55 in 1Q23, 4.60 in 2Q23 and 4.65 in both 3Q23 and 4Q23.

The THB jumped closed to 8% in Nov, registering its biggest monthly advance against the dollar since 1998. Covering of extended short-THB positioning as markets recalibrated towards smaller Fed rate increments and a surge in inflows into the local bond market are likely catalysts for the outsized currency move. However, it is unlikely to be much awaited inflexion point for the THB given the uncertain global environment, dovish Bank of Thailand (relative to Fed and Asian peers) and still-wide negative real rates. While the THB is expected to fall alongside Asian peers against the USD, we have factored in the THB to outperform on a relative basis to its peers as its tourism recovery gains traction. Our updated USD/THB are at 35.6 in 1Q23, 35.8 in 2Q23, 36.0 in 3Q23 and 36.2 in 4Q23.

Chart 9: THB may start to outperform as tourism recovery gains traction

Source: Bloomberg, UOB Global Economics & Markets Research



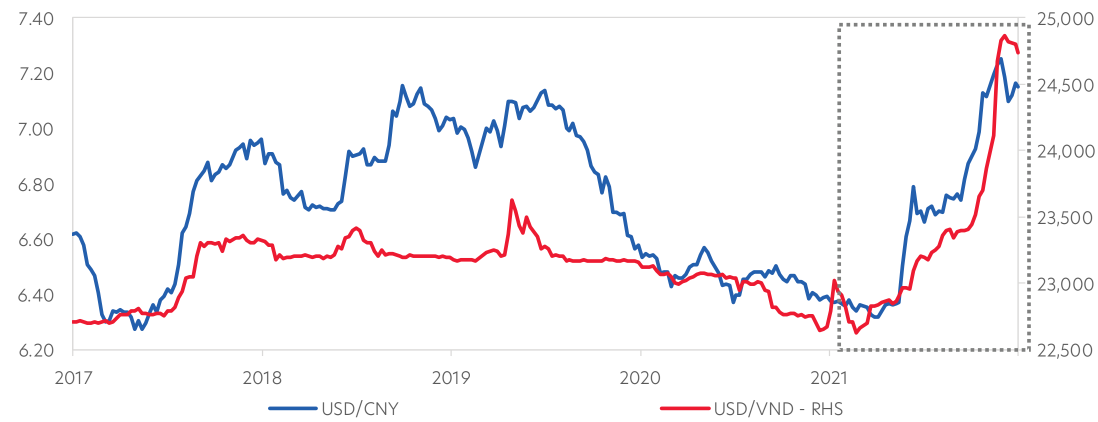
The relatively poor price action means that once external risks such as recession in western economies and China slowdown concerns start to build again, IDR will still be vulnerable to further declines.

The IDR was the standout underperformer in Nov, closing marginally lower on the month at 15,700 /USD while other Asian peers surged on prospects of a slower Fed. The relatively poor price action means that once external risks such as recession in western economies and China slowdown concerns start to build again, IDR will still be vulnerable to further declines. As such, we reiterate our expectations of higher USD/IDR ahead, with point forecasts unchanged at 15,900 in 1Q23, 16,000 in 2Q23, 16,100 in 3Q23 and 16,200 in 4Q23.

The VND appeared to have stabilized in Nov at around 24,800 /USD after weakening close to 1,000 dongs in Oct. Underpinning the stability is the reduction of broad USD strength as the Fed signalled for a slower pace of rate hikes. The VND also benefited from a strong rebound in other Asian peers in Nov. Looking ahead, there are still significant uncertainties that may trouble the VND. External risks particularly the recent surge in China's COVID-19 and potential spill over from recessions in western economies (US, UK and EU) continues to put an upward bias to USD/VND. Also, we note an increasing correlation of VND with CNY this year which may extend into 2023. Relative underperformance in the CNY in Nov probably limit VND's participation in the broad Asia FX rebound in the month. Overall, we reiterate our current set of USD/VND forecasts which are at 25,200 in 1Q23, 25400 in 2Q23, 25,600 in 3Q23 and 25,800 in 4Q23.

Chart 10: VND traced weakness in CNY this year

Source: Bloomberg, UOB Global Economics & Markets Research



Rates Strategy
Taking Stock And Initial Thoughts On SG Rates

- Notable outsized moves in the SG rates market for 2022 includes repricing in the SGD NEER as well as the yield curve.
- Efficacy of what has worked in 2022 will become diminished in 2023.
- 2023 SGS auction calendar potentially more duration heavy in 1H but incremental net duration has flat lined over that past three years.

Has The Top In 10Y UST Yield Been Recorded?

Based on assumptions of 1) a 5% peak Fed funds rate and 2) no rate cuts in 2023, then we think that the year to date 10Y UST yield high of 4.33% on 21 Oct could well turn out to be the high water mark for this Fed tightening cycle.

Signs of slower growth and possible relief on the inflation front augurs for a more constructive bias for longer maturity UST.

Signs of slower growth and possible relief on the inflation front augurs for a more constructive bias for longer maturity UST. In particular, the UST 10Y real yield has also been repriced to its highest levels in more than a decade. By our estimates, the requirement for significantly higher 10Y real yields does not strike us as being especially pressing at prevailing levels.

Chart 1: 10Y Real UST Yield

Source: Bloomberg, UOB Global Economics & Markets Research

On a shorter timeframe, we don't exclude the possibility that the 10Y UST could find its way back towards the 4% level in view of policy makers continuing to talk tough on inflation. However, it is our expectation that the 10Y UST yield will end 2023 lower than where it begins, due to weaker growth and employment outcomes displacing inflation as the dominant area of concern.

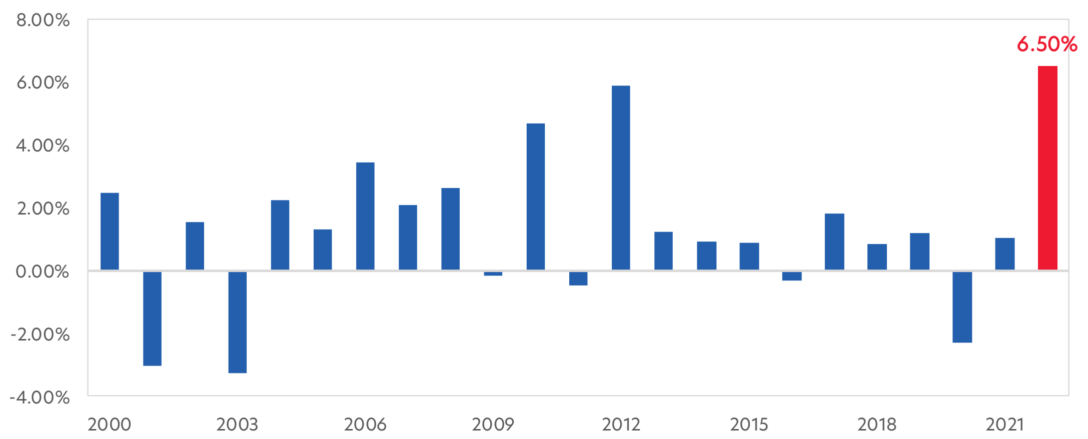
SG Rates Market 2022, What Stood Out

As investors wind down for the year, here's our pick of charts that capture the tone of what transpired in the SG rates market over 2022.

Inflation has been the first and last word for investors this year. Global monetary policies have been tightened aggressively, barring a few outliers. In this respect, the Monetary Authority of Singapore (MAS) has also been on the front line, bringing out "off-cycles" and "double-tightening", policy actions which hitherto have rarely been seen. This has translated to the largest annual percentage gain in the SGD NEER basket since 2000.

Chart 2: SGD NEER (annual % change)

Source: Bloomberg, UOB Global Economics & Markets Research

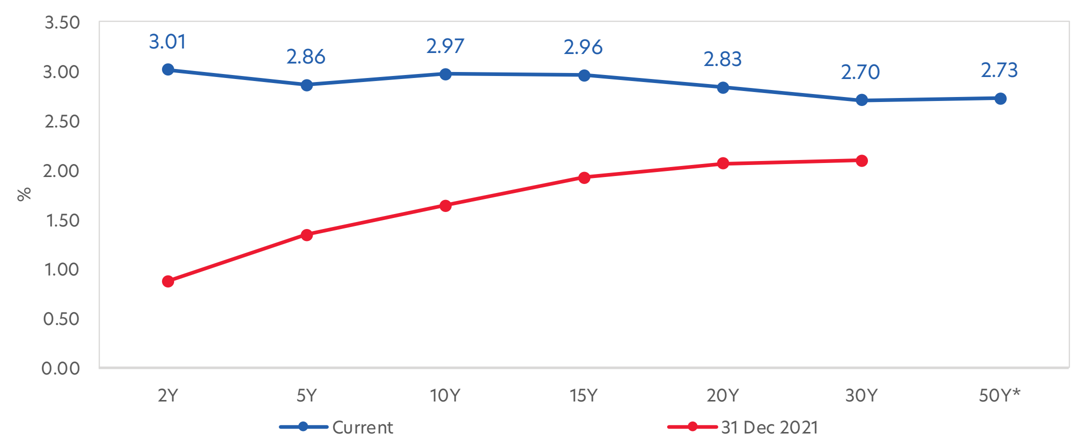


SG rates market has also undergone some seismic shifts this year. The SGS yield curve has repriced higher as well as dramatically flatter.

SG rates market has also undergone some seismic shifts this year. The SGS yield curve has repriced higher as well as dramatically flatter. From a thematic perspective these outcomes were predictable, and we have written at length on this in both our Monthly and Quarterly publications since the start of 2022. What did surprise us was the speed at which these tightening cycle themes have played out this year.

Chart 3: SGS Yield Curve

Source: Bloomberg, UOB Global Economics & Markets Research



Domestic liquidity conditions are also a notable mention as the interbank market has persistently been priced on the tight side. 3M USDSGD FX swap is high relative to previous US monetary policy cycles as well as accounting for the background MAS policy bias. To illustrate this, we can see that the prevailing 3M USDSGD FX swap is at its largest positive deviation from the regression trend line since 2000.

Chart 4: Gap between 3M FX swap and trendline (2000 to 2022)

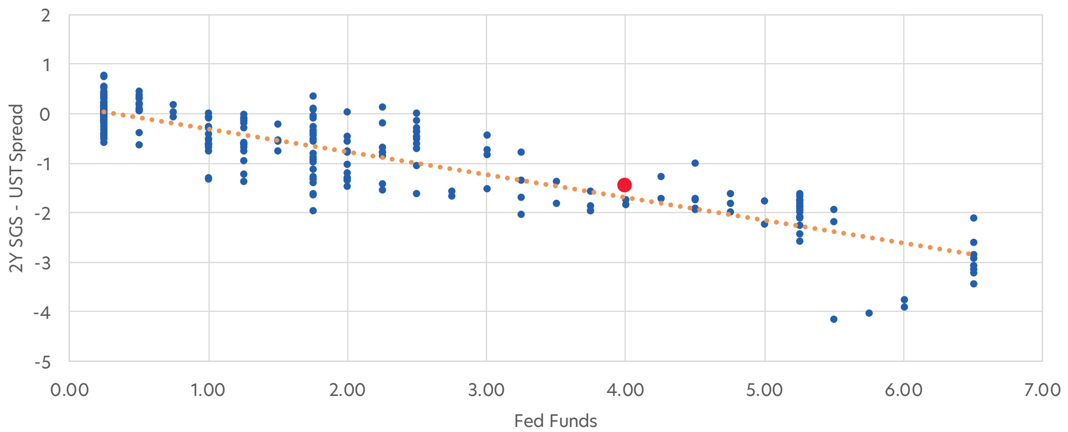
Source: Bloomberg, UOB Global Economics & Markets Research

The shorter end of the bond curve is typically more sensitive to the FX swap market, but a plot of the 2Y SGS – UST spread shows that local bonds have repriced to higher UST yields in a historically consistent fashion.

Interestingly, tightness in the interbank market has not morphed into a material drag on the SGS performance. The shorter end of the bond curve is typically more sensitive to the FX swap market, but a plot of the 2Y SGS – UST spread shows that local bonds have repriced to higher UST yields in a historically consistent fashion.

Chart 5: SGS performance vs UST unaffected (2000 to 2022)

Source: Bloomberg, UOB Global Economics & Markets Research



Our logical conclusion is that the MAS is not going to aggressively ease monetary policy, the SGS yield curve is not going to bull steepen dramatically, SG interbank liquidity is not going to loosen significantly, and SGS is not going to erase its yield discount to UST.

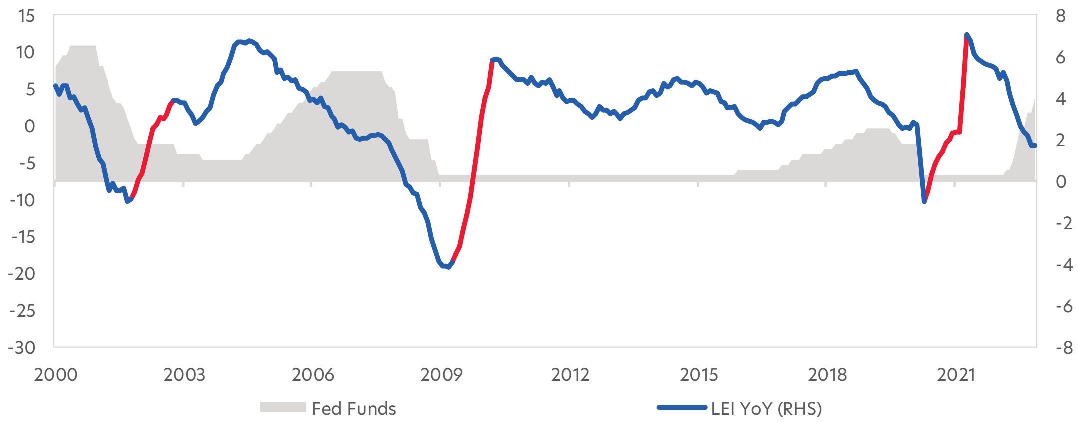
What Will 2023 Bring?

We want to state at the outset that 2023 is unlikely to bring about a reversal of the above SG rates market highlights. Going by our macro team's economic base cases, our logical conclusion is that the MAS is not going to aggressively ease monetary policy, the SGS yield curve is not going to bull steepen dramatically, SG interbank liquidity is not going to loosen significantly, and SGS is not going to erase its yield discount to UST. To generalise, our macro base case assumption is for a controlled glide path lower in economic growth, while a sustained plateau of peak rates is required in order to converge inflation outcomes towards policy makers' preferred ranges by end 2023.

On the other hand, it would be a very bold call to expect a cut and paste of this year's magnitude of repricing to carry over into 2023. Instead, we think that the efficacy of what has worked well in 2022 will become diminished going into next year. This is because, economic growth is unambiguously slowing as seen through various leading indices. Therefore, the ability of economies to digest incremental policy tightening is much reduced. In addition, because policy measures act with a lag, declines in leading indicators tend to persist and usually only rounds the corner during a monetary policy loosening cycle.

Chart 6: Outlook brightens at the bottom of Fed cycles

Source: Bloomberg, UOB Global Economics & Markets Research



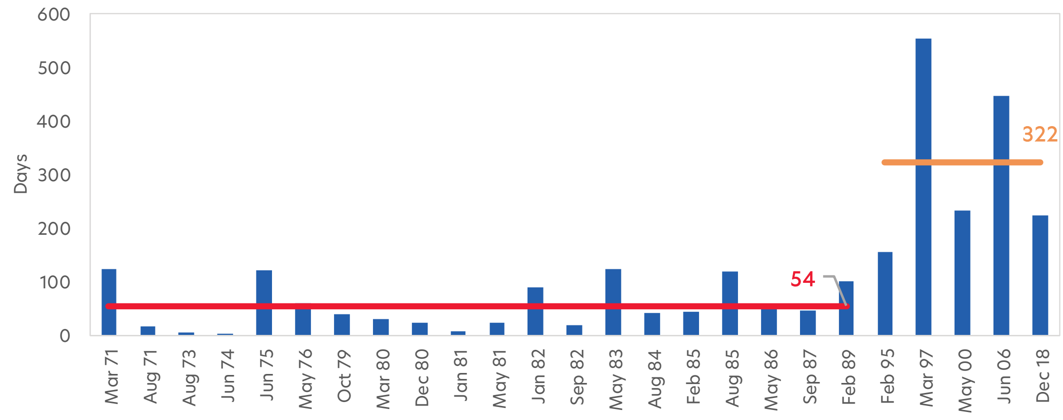
Yield curves could continue to chip their way flatter, and SGS will likely perform in line with USTs until a turn in the policy cycle becomes consensus.

So, what are our expectations for 2023 then? At least for the start of the year, we do not foresee a fundamental shift in our directional, curvature and spread views. Broadly speaking, yield curves could continue to chip their way flatter, and SGS will likely perform in line with USTs until a turn in the policy cycle becomes consensus.

Directionally, the risk to front end yield still favours upside surprises relative to market pricing (more so in terms of the duration of the policy rate plateau). Post 1990s, Fed funds have averaged 322 days between the last hike and the first cut. As it stands, investors have priced in the last hike for 1Q 23 and the first cut at the end of the year. This equates to a plateau that lasts for around three quarters, which is shorter than the historical average.

Chart 7: Days at peak Fed Funds

Source: Bloomberg, UOB Global Economics & Markets Research



That said, we will be paying attention to cracks in the resilient economic growth narrative more so than inflation surprises in 2023. Further aggressive monetary policy response to inflation will only hasten a hard landing scenario and demand destruction will take care of said inflation problem, albeit not in the way that anyone will be thankful for.

What Else Will 2023 Bring? Thoughts On The Auction Calendar

On 16 Nov, MAS unveiled the 2023 SGS auction schedule. Before we look at what's in store, we begin by taking stock of how the domestic bond market has stacked up this year.

The overall SGS market composition stands at around 70% bonds and 30% T-bills as of end Oct. SGS bonds outstanding have grown by 8% or SGD 12bn in 2022. This year also saw the inception of a new 50Y tenor via syndication. Growth rate in SGS bonds outstanding has been slowing from 10% in 2020 to 9.4% in 2021.

Chart 8: Composition of SG government debt market (Oct 2022)

Source: Bloomberg, UOB Global Economics & Markets Research

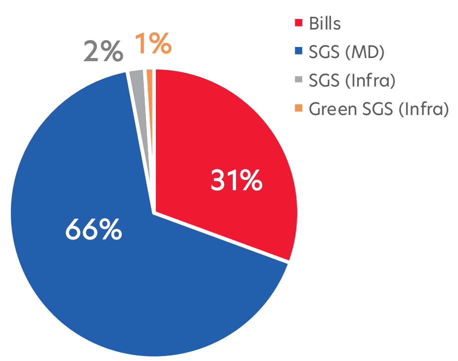
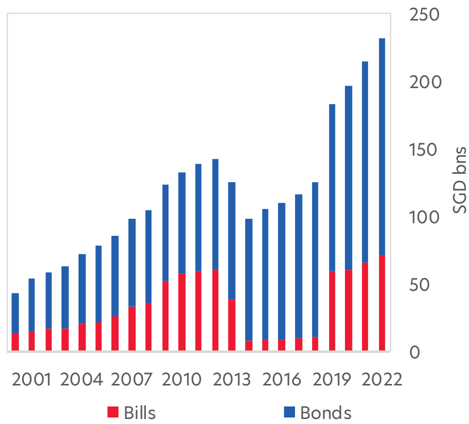


Chart 9: SG government debt market

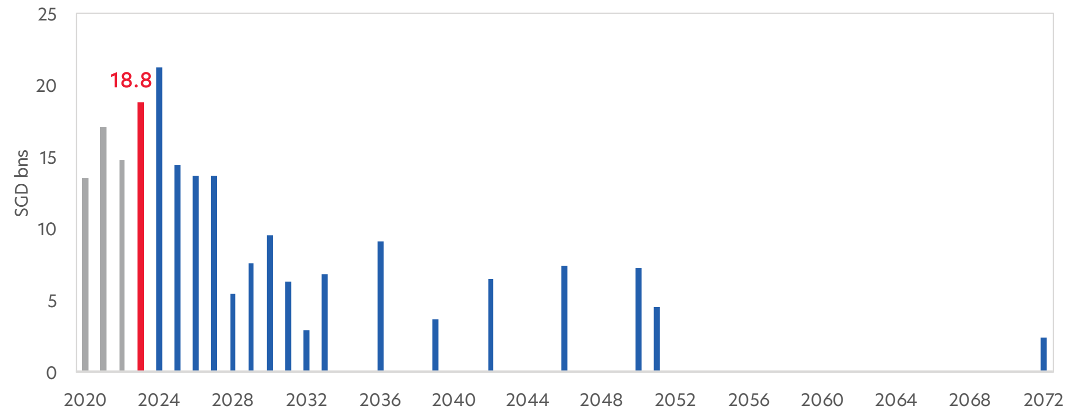
Source: Bloomberg, UOB Global Economics & Markets Research



In the accompanying statement to the 2023 SGS auction calendar, MAS indicated their expectation that SGS bond market growth might slow further into 2023. For reference, the 5-, 10-, and 20-year average growth rates are 8.1%, 6.7%, and 7.0% respectively. Assuming a reversion to long term mean, a 6.7% to 7.0% growth rate for 2023 translates into between SGD 10.7bn to 11.3bn of net notional issuance. There will be SGD 18.8bn of maturities next year, thus gross issuance could come at between SGD 29.5bn to 30.1bn. This will be in the ballpark of 2021's high-water mark for gross supply which stands at SGD 29.9bn.

Chart 10: SGS maturity profile

Source: Bloomberg, UOB Global Economics & Markets Research



While a larger maturity profile in 2023 may push SGS gross supply higher, it is notable that net issuance has been stable since 2020, averaging at SGD 11.3bn of 10Y equivalent.

While a larger maturity profile in 2023 may push SGS gross supply higher, it is notable that net issuance has been stable since 2020, averaging at SGD 11.3bn of 10Y equivalent. The profile of SGS supply has also seen a shift towards the front end of the curve over the past three years. The 2- to 10-year maturity bucket has risen to account for 26% of 2022's supply compared to 18% in 2020. Most of the gains in the front-end supply have come at the expense of the belly (10- to 20-year) segment.

Chart 11: Net issuance (10Y equivalent)

Source: Bloomberg, UOB Global Economics & Markets Research

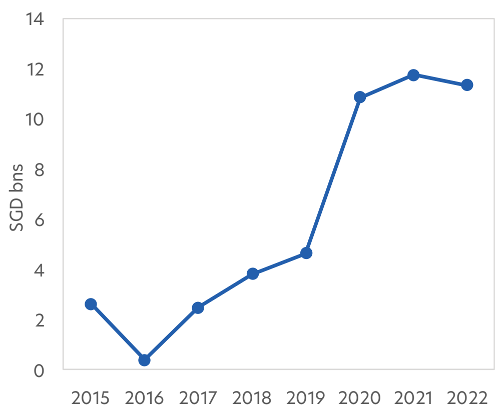
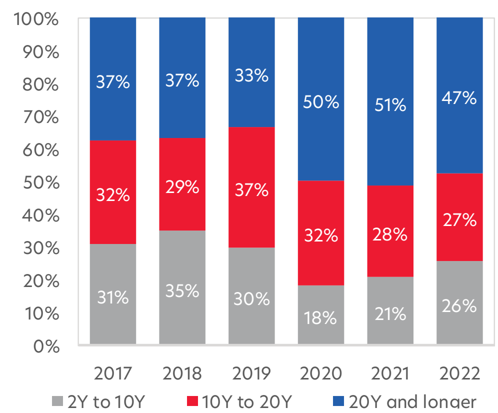


Chart 12: Composition of SGS issuance (10Y equivalent)

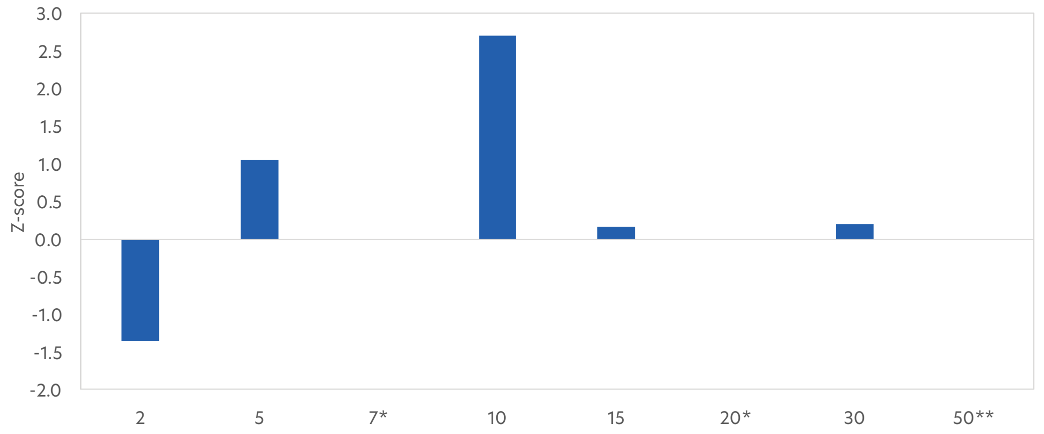
Source: Bloomberg, UOB Global Economics & Markets Research



Investors SGS demand this year has shown a clear preference for 10Y bond auctions. When benchmarked to auction outcomes in the past five years, the z-score of 2022's bid-to-cover (BTC) ratio was the most positive for the 10Y tenor (2.70) followed by the 5Y tenor (1.05). In contrast, demand for the 2Y tenor on average has been less robust with a BTC z-score of -1.36.

Chart 13: 2022 auction bid-to-cover vs 5Y average

Source: Bloomberg, UOB Global Economics & Markets Research



MAS has chosen to retain the syndication option, although a regular auction remains possible for the 50Y SGS reopening. In our view, this will likely take place in 2H 23, with either Jul or Aug as possible candidates.

Comparing 2022 and 2023's auction schedules, there are a few points to note. First, a 5Y auction has been swapped out and replaced by a 15Y auction next year. Second, 1H 23 will see on average longer maturities up for auction compared to 1H 22 and the reverse is true for 2H 23. Lastly, MAS has chosen to retain the syndication option, although a regular auction remains possible for the 50Y SGS reopening. In our view, this will likely take place in 2H 23, with either Jul or Aug as possible candidates.

Auction Schedules

Auction Month	2022 Schedule	2023 Schedule	Longer (+) / Shorter (-)
Jan	5Y	10Y	+
Feb	10Y	2Y	-
Mar	5Y	15Y	+
Apr	2Y	5Y	+
May	5Y	5Y	unchanged
Jun	2Y	10Y	+
Jul	10Y	5Y	-
Aug	5Y	2Y	-
Sep	30Y	30Y	unchanged

Source: UOB Global Economics & Markets Research

A snapshot of the SGS market shows that the belly of the curve (10- to 15-year) is relatively cheap. SGS belly spreads to either SORA or UST are higher than the other tenors. In addition, the 2s10s30s SGS butterfly is also holding at elevated levels compared to the equivalent UST butterfly going back to 2012.

Chart 14: SGS-SORA swap spread curve with 1Y high/low range (29 Nov)

Source: Bloomberg, UOB Global Economics & Markets Research

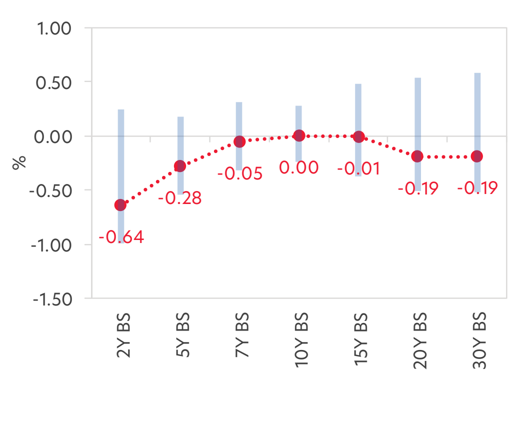


Chart 15: SGS-UST spread curve with 1Y high/low range (29 Nov)

Source: Bloomberg, UOB Global Economics & Markets Research

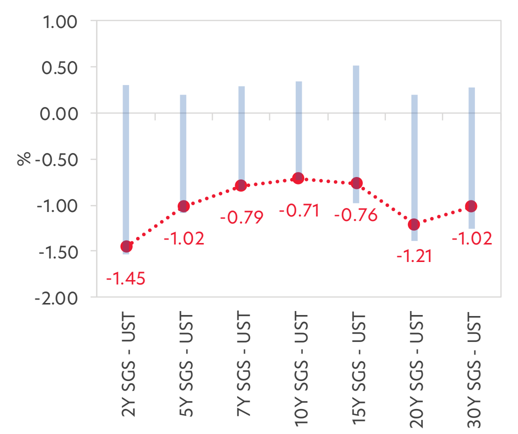
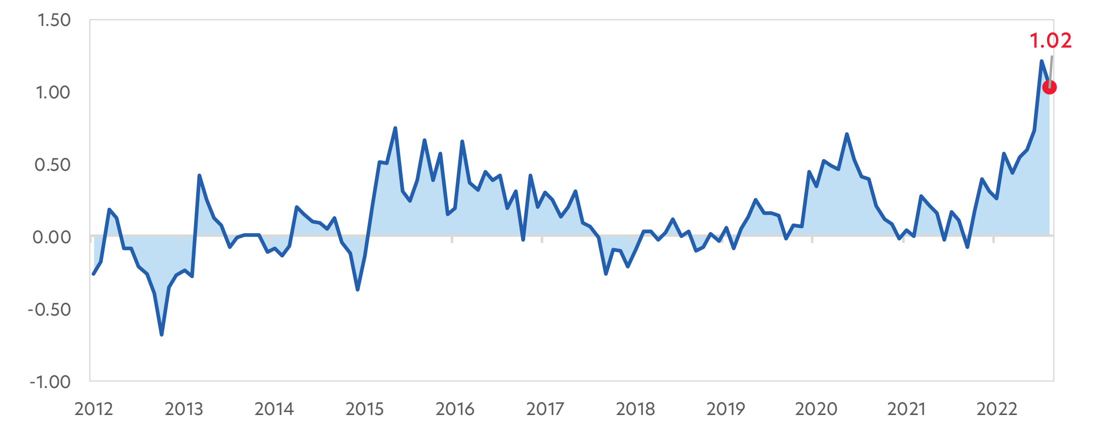


Chart 16: Difference between SGS and UST 2s10s30s butterfly spread

Source: Bloomberg, UOB Global Economics & Markets Research



While it appears that the robust primary market demand, as seen from the 10Y auction BTC z-score, that has not spilled over into the relative value space in the secondary market. We do note that significant changes in the spread levels have occurred as we crossed into 4Q 22 and judging by the near simultaneous correlation breakdown across different measures, the price action suggests that a flow factor into SGS was at work behind the prevailing dislocations.

We will be getting both 10Y and 15Y SGS auctions in 1Q 23, therefore cheapness in the belly of the SGS curve may persist in the short term. Nonetheless, we think that 2022's robust primary demand for the 10Y segment could extend into next year based on valuation as well as investors positioning for a lower growth and inflation environment going forward.

Summary of Our Views

For the front end, upside potential for yields remain in effect into the end of the year and 1Q 23. That said, the magnitude of future increase ought to be lesser than what we have experienced thus far in 2022.

From a medium-term holding period perspective; we prefer an opportunistic and positive stance on duration. We expect to see bond yields drift lower across 2023, based on our expectation that Fed funds will peak in 1Q 23 as well as accounting for our view that the balance of risk will increasingly tilt in favour of slowing economic growth and richer safe haven premiums going forward.

For 1Q23 we see the 3M compounded in arrears SOFR and SORA at 4.30% and 3.99% respectively. At the same time, we have the 10Y UST and SGS yields at 4.20% and 3.55% respectively.

Summary of Our Views	
Outright Yield	Scope for the front end to probe higher, anchored on 5% peak Fed funds expectation.
Curve	Flatter yield curves with risk of deeper inversion. Lower for longer curvature to last until we get closer to a Fed easing cycle.
Spread	SG yield discount to US stay largely intact until conviction builds for a turn in monetary policy cycle.

Our Forecasts

Rates	28 Nov 22	Forecast	1Q23F	2Q23F	3Q23F	4Q23F
US Fed Funds Target	4.00	Current	5.00	5.00	5.00	5.00
		Previous	5.00	5.00	5.00	5.00
3M Compounded SOFR	3.06	Current	4.30	4.80	4.80	4.80
		Previous	4.62	4.87	4.90	4.90
3M USD LIBOR	4.73	Current	5.10	5.10		
		Previous	5.10	5.10		
10Y UST	3.68	Current	4.20	4.00	4.00	3.80
		Previous	4.40	4.10	4.00	4.00
3M Compounded SORA	2.87	Current	3.99	4.31	4.31	4.31
		Previous	4.21	4.45	4.48	4.48
3M SGD SOR	4.31	Current	4.70	4.70		
		Previous	4.70	4.70		
10Y SGS	2.98	Current	3.55	3.50	3.50	3.30
		Previous	3.80	3.60	3.50	3.50

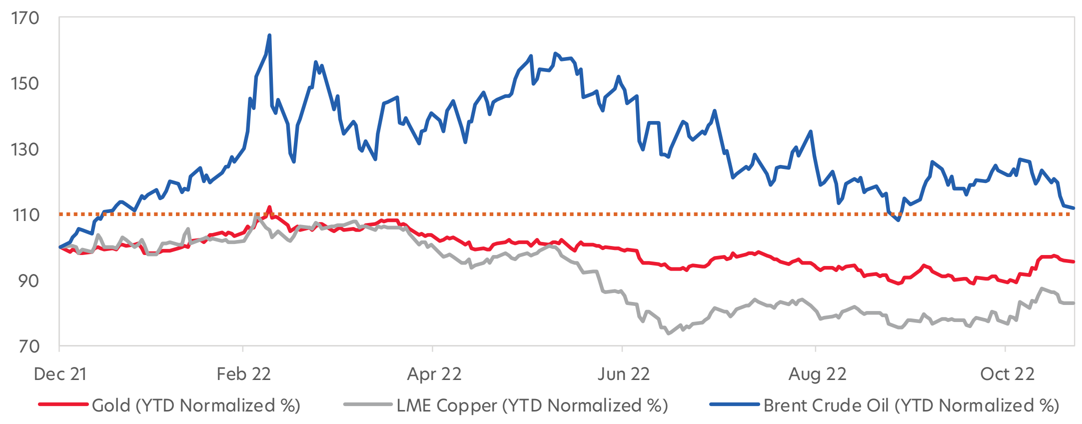
USD 3M LIBOR and SGD 3M SOR will be ceased by end-June 2023
Source: UOB Global Economics & Markets Research forecasts

Commodities Strategy
Stay Positive On Gold

Compared to the volatile swings across the first half of the year, the final quarter of 2022 has been a relative oasis of calm in the commodities space. Both Gold and LME Copper recovered slightly as the USD and longer-term yield eased following the softer-than-expected monthly inflation print from the US. On the flip side, Brent crude oil eased in line with persistent and growing fears of a global slowdown. It is important to note that all the price movements in gold, LME Copper and Brent crude oil were relatively modest across 4Q22 and remain well within the confines of much larger volatile trading ranges across the year.

Relatively muted 4th quarter for 2022 compared to volatile start to the year

Source: Bloomberg, UOB Global Economics & Markets Research



Gold prices have recovered from the low USD 1,600 / oz to the USD 1,750 / oz level. The softer USD and lower long-term yield, specifically the pullback in 10 year US Treasuries yield likely triggered this modest recovery in gold price. If our view that Federal Funds Target Rate will top out at 5% by the end of 1Q23 is correct, does this mean that the worst for gold prices is mostly over?

As for LME Copper, the industrial metal managed to sneak in a similar modest rebound in prices from USD 7,500 / MT to USD 8,200 / MT. However, global growth outlook continues to deteriorate and China's import demand for copper remains weak. As such, is this recovery in price amidst global growth slowdown a bit premature?

Finally, for Brent crude oil, prices slipped further below the USD 90 / bbl level after failing to recover back above the psychological USD 100 / bbl level. Does this mean that supply issues from the Ukraine conflict is over? Have crude oil prices fallen too fast and too much in the presence of lingering geopolitical risks?

Gold
Recovers in line with softer USD and lower 10Y Treasuries yield

UOB's Forecast	1Q23F	2Q23F	3Q23F	4Q23F
Gold (USD/oz)	1,800	1,900	2,000	2,000

In the previous quarterly report, we reiterated our positive view on gold, staying confident of gold's potential as a long term portfolio diversifier of risk. The view was that once various existing negative drivers dissipate, then gold price can recover more substantially.

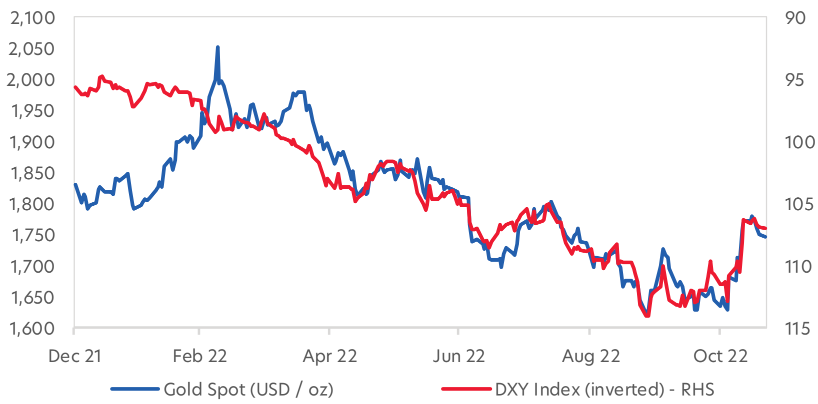
Indeed, since late October, two key negative drivers against gold have started to ease somewhat. Upon the release of the softer-than-expected monthly CPI print for the US, both the USD and 10Y US Treasuries yield retreated. Specifically, the USD Index (DXY) fell back from 112 to 107 as the 10Y US Treasuries yield retreated from 4.2% to 3.8%. As a result, gold recovered like clockwork USD 1,650 / oz to USD 1,750 / oz.

Worth noting as well was that the 3rd quarter of 2022 did see some renewed interest in gold jewellery from both China and India. Increasing depreciation of key regional currencies like CNY and INR have reignited the interest by retail investors to diversify back into gold as a safe haven hedge. Concurrently, it is not surprising to see an increase in net long positioning for gold on COMEX as well.

Overall, we reiterate our confidence in gold as a portfolio diversifier of risk as well as a long-term safe haven asset to own. Once Federal Funds Target Rates start to peak out after 1Q23, gold will then have a more meaningful recovery. We maintain our point forecasts for gold at USD 1,800 / oz in 1Q23, USD 1,900 / oz in 2Q23 and USD 2,000 / oz across 2H23.

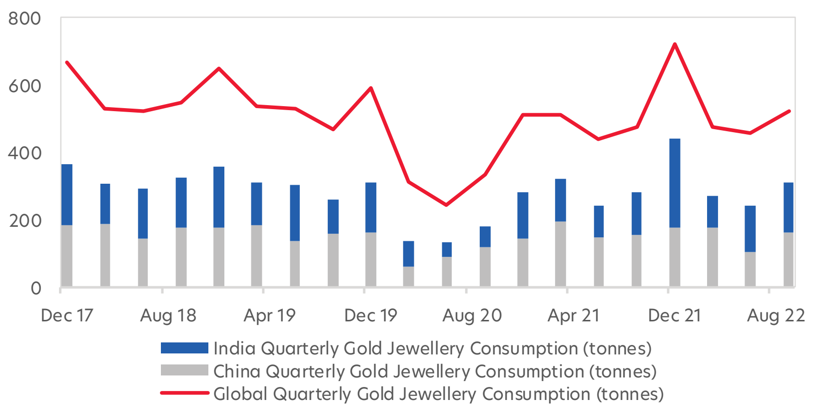
Gold recovers slightly in tandem with recent USD softness

Source: Bloomberg, UOB Global Economics & Markets Research



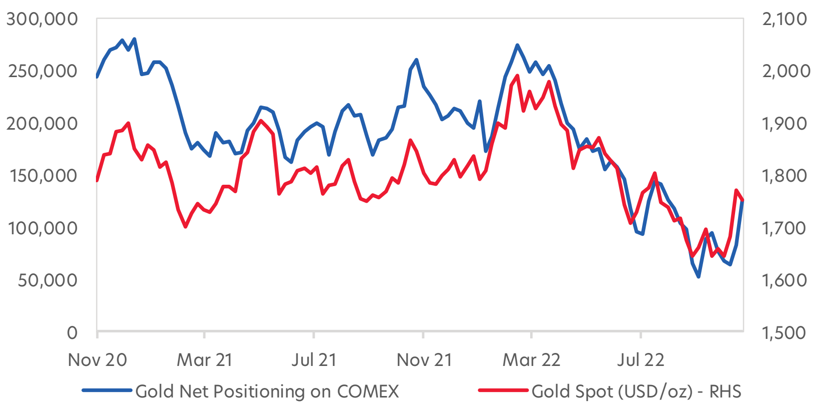
Some slight increase in global gold jewellery demand across 3Q22

Source: Bloomberg, UOB Global Economics & Markets Research



Gold recovers in line with increase in net positioning on COMEX

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil
Persistent recession fears weigh down temporarily on oil price

UOB's Forecast	1Q23F	2Q23F	3Q23F	4Q23F
Brent Crude Oil (USD/bbl)	90	90	100	100

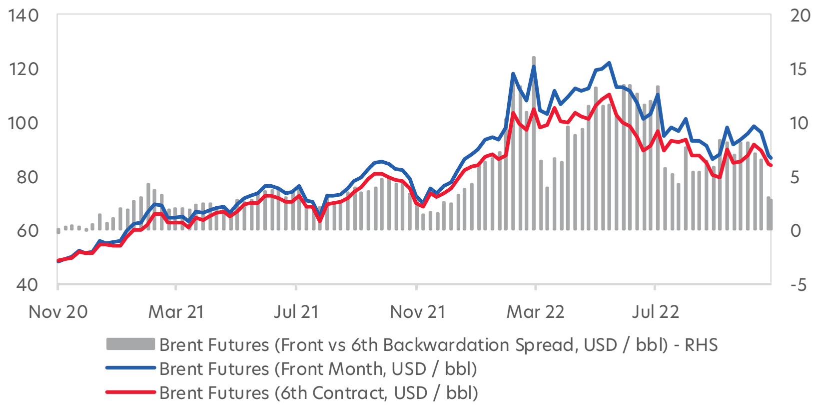
In the previous quarterly report, we noted that increasing fears of US and global recession contributed to the pullback in Brent crude oil prices from USD 115 / bbl to USD 90 / bbl across 3Q22. Unfortunately, this fear of recession has persisted and Brent crude oil not only failed to recover the USD 100 / bbl handle, but retreated further below USD 90 / bbl as well.

More signs of a global growth slowdown have emerged across 4Q22. European economies are weighed down by the on-going conflict in Ukraine. Manufacturing PMI indicators for key economies, including the US ISM have all started to fall. In Asia, electronics and semiconductor exports have started to contract as well. In China, the Covid-19 related curbs weighed down on growth. The latest sell-off in Brent crude oil price is likely triggered by fears of weakening demand for crude oil from Chinese refineries as we head into the year end. As demand slows down, OECD oil stocks start to pick up. Hence, the strong backwardation in crude oil prices that we saw since the start of Russia's invasion of Ukraine is now mostly erased.

However, the various background supply issues persist. In particular, drawdowns in US Strategic Petroleum Reserves (SPR) are coming to an end and the sanctions against Russian export of crude oil are only just been implemented. At the moment of writing, there was also uncertainty over OPEC's production decision after Saudi Arabia denied latest news report that OPEC is considering production increases instead. On balance, we forecast Brent crude oil at USD 90 / bbl in 1H22 and USD 100 / bbl in 2H22, with rising risks of elevated volatility.

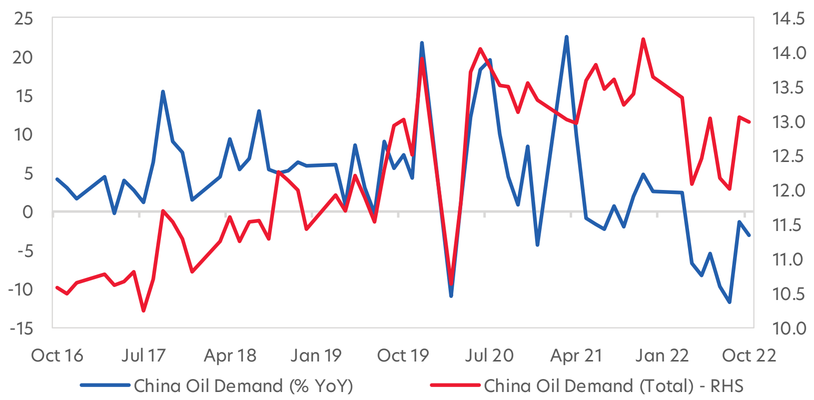
Brent crude oil falls below USD 90 / bbl as backwardation eases

Source: Bloomberg, UOB Global Economics & Markets Research



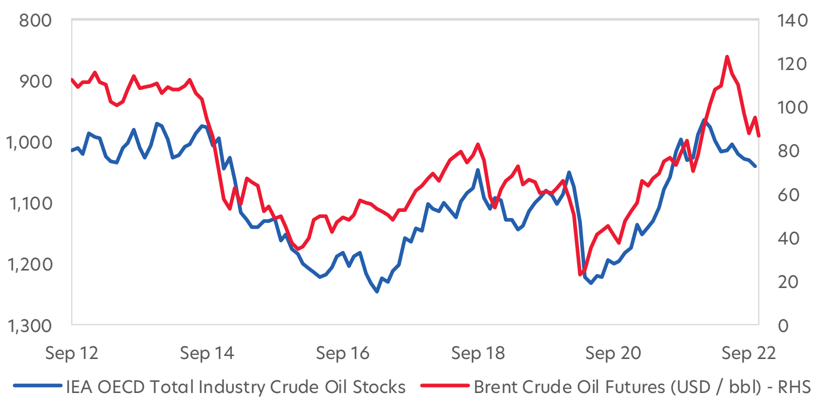
China's oil demand has been contracting since 2Q22

Source: Bloomberg, UOB Global Economics & Markets Research



Bottoming of OECD oil stocks weigh down on crude oil

Source: Bloomberg, UOB Global Economics & Markets Research



LME Copper
Growth slowdown to cap any meaningful price rebound

UOB's Forecast	1Q23F	2Q23F	3Q23F	4Q23F
LME Copper (USD/mt)	7,000	7,000	7,000	7,000

Throughout most of 2022, LME Copper has been trading rather closely in tandem together with Gold. Of particular interest is the concurrent upswing in both gold and LME Copper prices across November, from USD 1,650 / oz to USD 1,750 / oz and from USD 7,500 / MT to USD 8,200 / MT respectively. If one applies a casual lens, it would appear that LME Copper is indeed recovering due to the weaker USD and lower long term yield. Lower global inventories have also helped copper prices to a certain extent.

However, it is important to note that because of the various important industrial uses for copper, the industrial metal has traditionally been very sensitive to global growth outlook (and rightfully so).

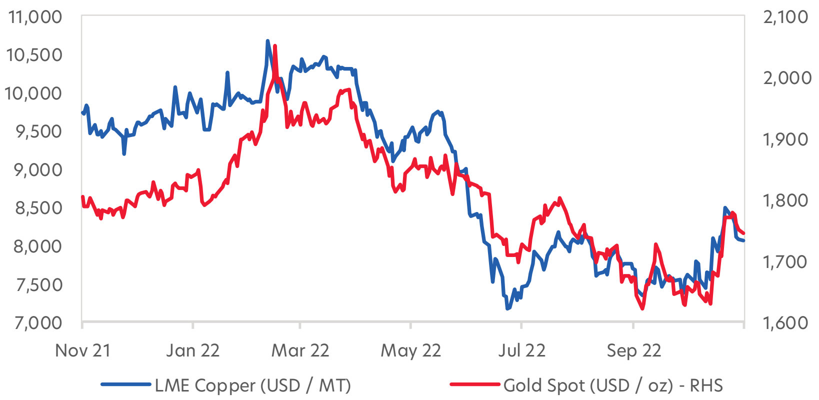
The concern here is that long term economic growth related drivers are weakening noticeably and these will likely result in weaker industrial demand for copper. Specifically, growth in China's import demand for copper have started to contract yet again as the start-stop nature of Covid-19 restrictions weigh down further on China manufacturing and industrial activity.

The slowdown in demand is also evident in the pullback in the cash vs 3m price spread for LME Copper. Objectively, the pullback in this important price spread implies an easing of demand for copper for immediate delivery.

As such, given the backdrop of global growth slowdown and weak demand from China, it is difficult to expect any meaningful rebound in LME Copper price. Therefore, we maintain our forecast of USD 7,000 / MT and continue to be weary of intermittent price volatility.

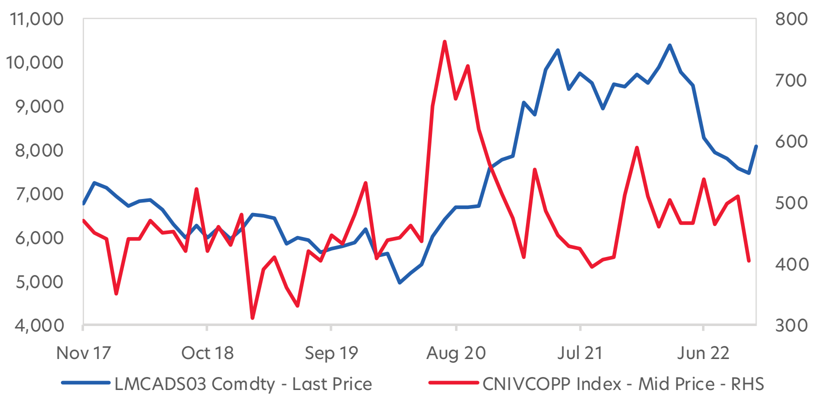
This year, Copper has been trading closely in line with gold

Source: Bloomberg, UOB Global Economics & Markets Research



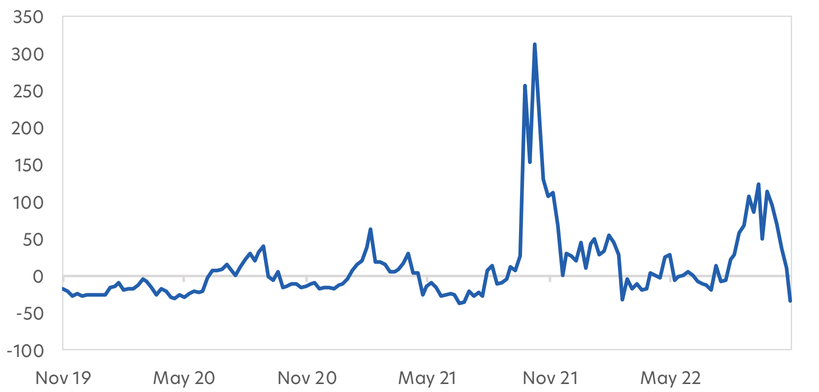
Weak demand from China to limit recovery in Copper price

Source: Bloomberg, UOB Global Economics & Markets Research



Immediate cash premium for LME Copper has eased (for now)

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/CNY	7.18	7.24	7.28	7.30
CNY 1Y Loan Prime Rate	3.55	3.55	3.55	3.60
Economic Indicator	**2020**	**2021**	**2022F**	**2023F**
GDP (%)	2.2	8.1	3.3	4.8
CPI (avg y/y %)	2.5	0.9	2.0	2.8
Unemployment Rate (%)	5.2	5.1	5.5	5.2
Current Account (% of GDP)	1.7	1.8	2.1	1.4
Fiscal Balance (% of GDP)	-8.6	-5.2	-8.0	-5.5

ECONOMY

Held Hostage By Zero-COVID Policy

China's economic data had printed largely below expectation in Oct, with a surprise contraction in retail sales for the first time since May. Industrial production also moderated while urban fixed asset investment (FAI) continued to be weighed by a larger decline in property investment which more than offset stronger infrastructure investment growth. The slide in residential property price and sales have continued. Property sales fell by 28.2% y/y in Jan-Oct period while decline in new home prices accelerated in Oct, led by larger falls in the 2nd and 3rd tier cities. The surveyed jobless rate remained at 5.5% while the 31 major cities jobless rate worsened as it rose to a 5-month high of 6.0% in Oct.

In line with expectation, the government started to signal it was ready to adopt a more targeted approach to its zero-COVID policy and stepped up support for the real estate market after the 20th Party Congress ended in Oct. Despite showing more tolerance for rising cases, there is no plan yet to exit its zero-COVID policy while China's recovery prospects were dimmed by a record surge in COVID-19 infections in late Nov. It is also becoming clearer that global demand is turning lower with risks of recessions in the US and Europe

China's economy expanded by 3.9% y/y in 3Q22, or 3.0% YTD. Growth in 4Q22 will be supported by a low comparison base, but given increasing domestic and external headwinds, we now see 4Q22 GDP at 3.9% y/y instead of our earlier forecast of 4.5% y/y. For the full-year 2022 GDP, our forecast remains at 3.3%, after incorporating the stronger than expected 3Q22 data.

We are also maintaining our 2023 GDP forecast for China at 4.8% as we anticipate further gradual easing of its COVID-19 measures next year (which may quicken as the government plans to accelerate elderly vaccination) as well as flow-through of the stimulus measures to be positive for the economy. Other than the monetary policy accommodation, China will also need to boost support to consumption demand when the COVID-19 situation in the country stabilizes. We think the outlook for China will improve more materially in 2H23.

The government has implemented various measures to boost its economy including cuts to the 1Y medium-term lending facility (MLF) rate by 20bps YTD, increase relending quota and usage, lowering of banks' reserve requirement ratio (RRR), tax and fee cuts, liquidity support to developers and easing of home-buying requirements. The most recent support measures were announced in Nov which included the recalibration of China's COVID-19 measures as well as a 16-point support package for the real estate market. This is in addition to earlier measures which guide the banking sector to increase funding for the property sector by CNY1 tn by the end of this year. The liquidity support to developers will help to stabilize the property market and prevent systemic risks but home sales recovery may take longer in a more uncertain environment.

Meanwhile, the downside risks will come from a deeper downturn in global demand, a more prolonged and severe domestic COVID-19 wave and persistent declines in the property demand as confidence fails to recover.

The disinflation pressure will likely stay in place until China starts to ease its strict zero-COVID policy. Core inflation has been modest while the producer prices dipped into deflation in Oct for the first time since Dec 2020.

Headline inflation averaged 2.0% y/y in Jan-Oct. We are lowering our 2022 inflation forecast to 2.0% from 2.2% but expect it to head higher to 2.8% in 2023 as pent-up demand is likely to drive up price pressures as we had seen in other economies that have opened up.

CENTRAL BANK

Further Monetary Policy Easing In 1Q23

The People's Bank of China (PBoC) has in late Nov lowered banks' RRR by 25 bps, effective from 5 Dec. This is the second RRR cut this year, following a previous 25bps reduction in Apr.

Coming on the back of the 16-point support package for the real estate market, the RRR cut could contribute to the additional credit support to the country's developers by reducing the amount of reserves that banks need to hold.

The PBoC is likely not done with its monetary policy easing yet considering the headwinds facing the economy, and there remains the possibility of another cut to the RRR and/or the interest rate in 1Q23. We now expect the 1Y LPR to fall to 3.55% by end-1Q23 from current 3.65% and the 5Y LPR to 4.20% from current 4.30%. A larger than expected cut to the 5Y LPR will signal stronger support for the property market as this is the rate that mortgages are benchmarked to. Year-to-date as of Nov, the 1Y and 5Y LPR have fallen by 15bps and 35bps respectively. Any further monetary policy easing will remain very measured and calibrated, keeping in line with PBoC's view not to over-stimulate the economy, particularly given the elevated global inflation outlook.

CURRENCY

CNY To Weaken Further

There is no let-up of the pressure on the CNY though the currency has posted the first monthly gain since Feb in Nov. Markets are concerned that the disruption to businesses and trade flows would intensify given the latest surge of COVID-19 infections. This has shown up in the underperformance of CNY regionally in Nov where the CNY only gained 3% while other Asian peers such as KRW, THB and MYR jumped as much as 8%. In addition, latest data laid bare to the cost of China's zero-Covid strategy and keeps economic risks skewed to the downside.

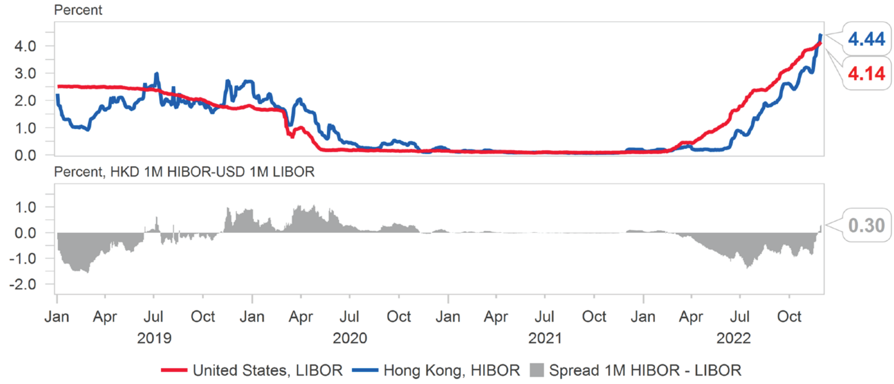
Another pressure point for the CNY is the sustained negative yield spread between China Government Bonds and US Treasuries, spurring further portfolio outflows from China. It remains to be seen how China will pivot to a "new stage" in its fight against the pandemic and engineer a smooth economic recovery. As such, the economic and policy uncertainties will be with us for a while longer and will reinforce two-way volatility in the CNY.

Overall, we keep to the upward trajectory of USD/CNY until clear signs of stabilization of the Chinese economy. Our updated USD/CNY forecasts are 7.18 in 1Q23, 7.24 in 2Q23, 7.28 in 3Q23 and 7.30 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	5.25	5.25	5.25	5.25
Economic Indicator	**2020**	**2021**	**2022F**	**2023F**
GDP (%)	-6.5	6.3	-3.1	3.5
CPI (avg y/y %)	0.3	1.6	1.9	2.9
Unemployment Rate (%)	6.6	4.0	3.9	3.6
Current Account (% of GDP)	7.0	11.3	7.5	7.0
Fiscal Balance (% of GDP)	-8.7	1.0	-5.5	-1.0

1M Hibor-Libor spread flipped over in late-Nov

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

On Track For Another Contraction In 2022

Hong Kong's economy is deeper into contraction this year after the unexpected slump in 3Q22 GDP. The GDP contracted for the third straight quarter, by -4.5% y/y in 3Q22, the worst contraction since 2Q20 when the GDP fell by a record -9.4% y/y at the onset of the COVID pandemic.

The data disappointment largely stemmed from a weaker external environment and an increase in uncertainties due to higher interest rate and China's zero-COVID policy. Exports were also affected by continued disruptions to cross-boundary land cargo flows. These factors contributed to double-digit contractions in goods export (-15.6% y/y) and gross domestic fixed capital formation (-14.3% y/y). Private consumption recovery has also stalled as it remained flat for the second consecutive quarter despite the disbursement of Phase II consumption vouchers and an improvement in the labour market and nominal median household income growth of 5.0% in the quarter. Government spending was the only positive expenditure component in 3Q22 but the growth pace moderated (+5.1% y/y) compared to 2Q22 (+13.0% y/y).

The relaxation of its COVID-19 quarantine measures for visitors to the "0+3" policy since late-Sep could provide a smaller than expected boost to its tourism industry as dine-in restrictions and testing requirements may still hold back some foreign visitors. More importantly, its largest source of tourists from the mainland which accounted for more than three quarters of arrivals pre-pandemic, continue to be under a zero-COVID policy while higher infections and economic downturn in the mainland will also affect their services demand.

Stronger economic headwinds include the tightening of financial conditions as US remained on track to keep raising interest rates until 1Q23 and a recession in the developed markets. The downturn in Hong Kong's property market is yet another indication that sentiment is souring due to the increase in financing costs as well as an exodus of expatriates. Private residential prices fell 8.1% YTD as of Sep, on track for first full-year decline since the Global Financial Crisis in 2008.

Factoring in 3.3% y/y GDP contraction in 1Q-3Q this year, we now expect Hong Kong's economy to post a larger decline of -3.1% in 2022 compared to our earlier forecast of -0.7%. Even with a decent rebound in activities, we still expect real GDP at -2.5% y/y in 4Q22. The government's revised forecast for this year is at -3.2% from -0.5% to +0.5%.

We remain positive on the recovery prospects in Hong Kong next year given signals that the mainland is preparing to gradually ease its zero-COVID policy and has issued stronger measures to stabilise its property market. The Hong Kong government is also expected to maintain an accommodative fiscal policy to support the recovery next year, centring on private consumption. We are keeping our GDP growth forecast for Hong Kong at 3.5% in 2023. Having said that, Hong Kong's real GDP will not return to 2018 levels (prior to its prolonged downturn from the social unrests and pandemic) until the second half of 2024.

Inflation has been contained despite higher import prices. Domestic cost pressures are alleviated by weak demand and falling rents while larger price increases are seen particularly in utilities. The composite CPI and underlying CPI (after netting out the effects of all government's one-off relief measures) averaged 1.9% and 1.7% respectively in Jan-Oct. Our headline CPI forecast remains at 1.9% for this year and 2.9% for 2023 with the higher inflation next year likely underpinned by stronger demand as COVID-19 measures in Hong Kong and China are further eased.

CENTRAL BANK

Hibor Caught Up With Libor As HKMA Drains Liquidity

HKMA's intervention to cap USD/HKD under 7.85, has continued to shrink its aggregate balance. As a measure of interbank liquidity, the aggregate balance reached HKD96.5 bn in late-Nov (from HKD377.5 bn end-2021), its lowest since Jun 2020. The resultant rise in 1- and 3-month Hibor rates above corresponding Libor rates for the first time since Feb, has helped to slow outflows and ease depreciation pressure on the HKD. There is further room for the aggregate balance to fall as domestic liquidity tightens. A good gauge could be around the HKD54 bn level back in 2019 following US rate hikes in 2015-18.

CURRENCY

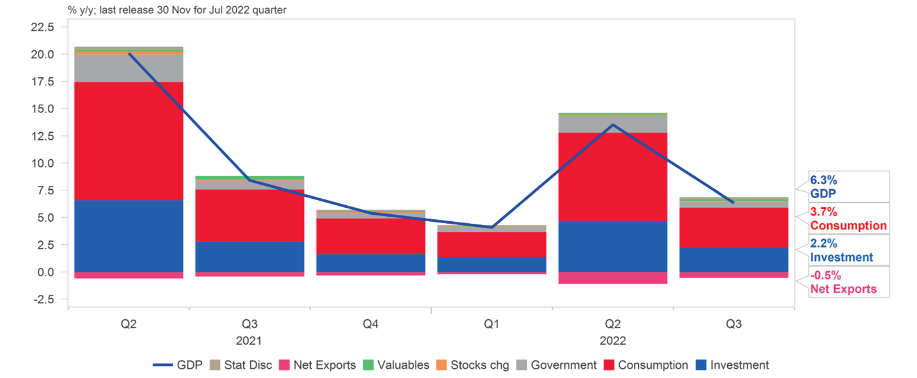
HKD Firms On Tighter Liquidity

USD/HKD has broken the leash of 7.85 and tumbled to 7.81 in Nov, the lowest level since Mar. Spurring the move was the 3-month Hibor-Libor spread which has flipped into positive territory, favouring the HKD over the USD on a carry-trade basis. The spread is also likely to drop further as HKD liquidity is tightened further. Overall, we see a good likelihood that USD/HKD will return to the middle of its 7.75 to 7.85 trading band. Our updated USD/HKD forecasts are at 7.80 through 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/INR	84.5	85.0	85.5	86.0
INR Repo Rate	6.50	6.50	6.50	6.50
Economic Indicator	**2020**	**2021**	**2022F**	**2023F**
GDP (FY, %)	-6.6	8.7	7.0	6.5
CPI (avg y/y %)	6.2	5.5	7.0	6.1
Current Account (% of GDP)	1.3	-1.1	-3.0	-2.5
Fiscal Balance (% of GDP)	-9.3	-6.7	-6.0	-5.5

India: GDP growth contribution % points; by Expenditure

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Growth Pace To Slow Further Into 2023

India's real GDP in the Jul-Sep quarter (2QFY22-23) moderated to 6.3% y/y, from the 13.5% pace in the Apr-Jun quarter (1QFY22-23). The outcome was in line with our expectation and marginally higher than consensus view of 6.2%. In the first half of FY22, India's economy grew by 9.7% y/y due to the strong performance in 1QFY22.

Private spending and investment were the two key growth drivers, collectively contributing 5.9pts to the 6.3% expansion. Both components contributed positively to the topline for the 8th consecutive quarter.

From the supply side, gross value added (GVA), which excludes taxes and subsidy transfer payments, slowed markedly to 5.6% y/y in the Jul-Sep quarter, from 12.7% in the Apr-Jun quarter and 8.3% in the same quarter in 2021.

Overall, the performance for 2QFY22-23 did not surprise and was in line with other Asian economies, as external oriented sectors such as exports waned while domestic sectors took over the lead.

Available data so far suggest that India's economic growth momentum is likely to soften ahead. Merchandise export value fell to a 20-month low at USD29.78bn in Oct 2022, registering its first y/y contraction since Feb 2021. Companies' profit margins have been compressed to 8% in 2QFY22-23 from 12% a year ago, as cost increases outpaced revenue growth, according to the RBI (Reserve Bank of India)'s report that was released in Nov.

Considering tightened monetary policy domestically and globally, as well as risks of recession in the developed markets, we maintain our view that India's GDP growth pace will soften further in the quarters ahead, to 4.5% in the Oct-Dec quarter (3QFY22-23), and 4.8% in Jan-Mar 2023. As such, we are keeping our growth forecast of 7.0% for FY22-23 (from 8.7% in FY21-22). On a calendar year basis, this will be 6.9% in 2022 (vs. 8.3% in CY2021). For FY23-24, we are trimming India's GDP growth to 6.5% (previous forecast: 7.5%), and calendar year basis at 5.9% (previous forecast: 6.7%).

In the Sep policy statement, RBI lowered its GDP growth forecast for FY22-23 to 7.0%, from 7.2% (after having downgraded earlier from 7.8% in Apr), while noting headwinds from protracted geopolitical tensions, rising global financial market volatility, tightening global financial conditions, and global recession risks. RBI's quarterly GDP growth projections were 4.6% y/y for 3QFY22-23 and 4.6% for 4QFY22-23.

On the inflation front, the latest CPI report was a relief as headline CPI growth slowed to 6.77% y/y in Oct, from 7.41% in Sep, inching closer to RBI's upper tolerance band of 6.0%. While pressures from fuel and energy prices have dissipated somewhat, the food & beverages (F&B) component continued to be the main inflation driver, responsible for about 40% of the headline inflation rate since Feb after global commodities surged in response to the Russia-Ukraine conflict erupted in Feb 2022.

Of note is that RBI's forecasts kept its inflation forecast at 6.7% in FY22-23 (which was last raised from prior projection of 5.7% at the Jun MPC), with 2Q at 7.1%; 3Q at 6.5%; and 4Q at 5.8%. Risks are seen evenly balanced. As YTD inflation has hit 7.1% y/y, we are adjusting higher our FY22-23 inflation projection to 7.0% (from 6.75% previously) and expect prices to moderate to 6.1% (previous forecast: 6.0%) in FY23-24.

CENTRAL BANK

Rate Hikes To Continue For The Rest Of FY22-23

The next RBI's Monetary Policy Committee (MPC) meeting is scheduled for 5-7 Dec 2022. In the two remaining MPC meetings in FY22-23 (Dec 2022 and Feb 2023), we anticipate that the RBI will bias towards raising the repo rate to 6.50% to match the level last seen in Jan 2019, just before the start of accommodative policy phase. For the Dec MPC meeting, we look for RBI to hike by 35bps to bring the repo rate from 5.90% to 6.25%. The latest survey by Bloomberg indicates that majority of analysts are having similar expectation for the Dec meeting.

CURRENCY

Stay Cautious On INR

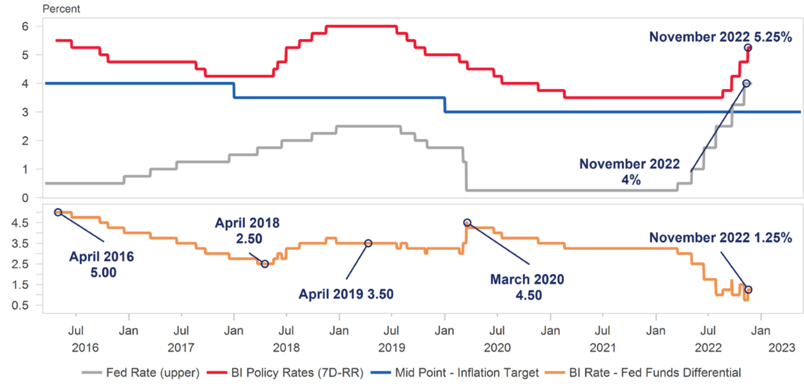
On expectations of a slower Fed rate hike pace and a relaxation of China's COVID curbs, the INR capped its first monthly gain (+1.7% vs USD) this year in Nov. That said, it lagged most other Asian peers in the rebound which saw KRW and THB soaring 8% against the USD. Gains in INR were also modest relative to 10-year government bonds which posted the biggest monthly gain in over two years.

Going forward, we continue to keep a cautious outlook on INR. Further weakness in domestic growth, India's twin deficits and potential spillover from recessions in the US, UK and EU cast doubts of a return of foreign capital flows in 2023. Overall, we reiterate our current set of USD/INR forecasts which are at 84.5 in 1Q23, 85.0 in 2Q23, 85.5 in 3Q23 and 86.0 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/IDR	15,900	16,000	16,100	16,200
IDR 7D Reverse Repo	6.00	6.00	6.00	6.00
Economic Indicator	**2020**	**2021**	**2022F**	**2023F**
GDP (%)	-2.1	3.7	5.4	4.9
CPI (avg y/y %)	2.0	1.6	4.4	4.0
Unemployment Rate (%)	7.1	6.3	6.0	5.8
Current Account (% of GDP)	-0.5	0.3	0.8	-0.5
Fiscal Balance (% of GDP)	-6.1	-4.6	-3.2	-3.0

Stronger external balance allowing narrower rates differential

Source: Bank Indonesia, Macrobond, UOB Global Economics & Markets Research



ECONOMY

Stronger Growth In 2022 Is Unlikely To Continue In 2023 Amid Rising Uncertainty

Indonesian economy grew even faster at 5.7% y/y in 3Q22 (5.4% in 2Q22 and 5.0% in 1Q22), underpinned by a steady reopening that continued to stimulate domestic economic activities and persistently strong commodity exports. 3Q22 expenditure breakdown showed private consumption rose 5.4% y/y, slightly decelerating from 5.5% pace in 2Q22 but investment spending grew strongly at 5% vs. 3.1% in the prior quarter. Government spending recorded its third consecutive contraction in a row, albeit at a slower pace since the start of 2022 at -2.9% y/y ahead of the fiscal consolidation back to the 3% fiscal deficit cap in 2023. Exports' growth was stronger in 3Q22 at 21.6% y/y viz. 20% previously while imports' growth stood at 23% y/y, significantly higher than 2Q22's 12.4%. We have revised our 2022 full year growth to 5.4% from 4.8% previously. We continue to expect strong exports performance to contribute into headline growth in 4Q22 but likely to continue at slower pace as global commodity prices are expected to ease going forward amidst rising uncertainty. However, this will likely be offset by stronger fiscal expenditure as government will typically hasten the expenditure nearing the end of the year. The coming year of 2023 may bring about more uncertainty with impact from higher food and fuel prices to be felt more by household and businesses added by external risks such as escalating risks of recession in the developed economies and weaker than expected recovery in the Chinese economy. Therefore, we keep our growth forecast of 4.8-5.0% for next year. On Indonesia's external sector, its 3Q22 current account balance recorded a surplus of USD4.4bn (equivalent to 1.3% of GDP), higher than 2Q22's USD4bn (1.2% of GDP). However, the capital and financial account recorded a deficit of USD6.1bn (1.8% of GDP), increasing by more than five-fold from a deficit of USD1.2bn (0.3% of GDP) in 2Q22. Overall, Indonesia's balance of payments (BOP) position in 3Q22 remained generally resilient with a slight deficit of USD1.3bn. Strong demand for exports from Indonesia's key trading partners and high global commodity prices have resulted in a much-improved goods trade performance which has in turn underpinned an even stronger surplus in current account (CA) position in the last quarter. The performance of the capital and financial account in 3Q22 was supported by direct investment despite increasing uncertainty in global financial markets. We expect Indonesia to record a CA surplus amounting to 0.8% of GDP in 2022 before waning commodity prices, higher imports, higher services deficit, and higher primary deficit to turn the CA position into a deficit of circa 0.5% of GDP in 2023. Reserves last stood at USD130.2bn, a relatively healthy level with an import cover ratio of close to 6 months, significantly above international adequacy threshold of 3 months.

On the inflation front, Indonesia's headline inflation rate decelerated to 5.7% y/y in Oct from 6% in Sep (market expectation was also at 6% for Oct). Adjustment of higher fuel prices has yet to result in higher second-round impact on broader consumption basket such as food and other services, though it has immediately translated into higher transportation prices. As such, this will mean that inflation would stay elevated in months to come on account of possible lag effects. However, we revise slightly lower our 2022 average inflation forecast to 4.4% from 4.9% previously due to a slower secondary impact from fuel price adjustments onto other parts of CPI baskets. We continue to expect inflation to grind slightly lower to average 4% next year and to be in the sub 4% range in 2024.

CENTRAL BANK

End Of Hiking Cycle Is Imminent, To Reach 6% In 1Q23

Bank Indonesia (BI) has hiked by a cumulative of 175bps since Aug. The need to anchor inflation expectations in a pre-emptive and forward looking way has precipitated BI to frontload its hiking cycle from Sep-Nov. However, we reckon that such pace will slow to a lower gear from Dec onwards. We have revised and brought forward our BI rate forecast to 5.50% (previously 5.25%) by the end of 2022 and revised higher the terminal rate to 6.00% (previously 5.75%) that is likely to occur in Feb 23. This will give a reasonably comfortable yet historically tighter spread of circa 100bps with the expected terminal rate of the Fed funds rate of 5.00% by 1Q23. Much stronger external balance as depicted by two consecutive years of current account surplus has allowed for this narrower gain to take place, a much-needed tailwind amidst the global rising interest rates environment.

CURRENCY

IDR To Weaken Further

The IDR was the standout underperformer in Nov, closing marginally lower on the month at 15,700 /USD while other Asian peers surged on prospects of a slower Fed. The relatively poor price action means that once external risks such as recession in western economies and China slowdown concerns start to build again, IDR will still be vulnerable to further declines. As such, we reiterate our expectations of higher USD/IDR ahead, with point forecasts unchanged at 15,900 in 1Q23, 16,000 in 2Q23, 16,100 in 3Q23 and 16,200 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/JPY	142	137	134	132
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-4.6	1.7	1.5	1.0
CPI (avg y/y %)	0.0	-0.2	2.5	2.8
Unemployment Rate (%)	3.0	2.8	2.7	2.9
Current Account (% of GDP)	3.3	2.9	1.5	1.3
Fiscal Balance (% of GDP)	-17.3	-12.2	-8.0	-6.0

ECONOMY

An Uncertain Path In 2023

Japan's 1st preliminary estimate of 3Q 2022 GDP unexpectedly contracted by -0.3% q/q, -1.2% q/q SAAR while the growth in 2Q was revised higher to 1.1% q/q, 4.6% q/q SAAR (versus previous estimate of a 0.9% q/q, 3.5% q/q SAAR expansion). When compared to the same period one year ago, Japan's GDP growth picked up pace slightly to 1.8% y/y in 3Q (from 1.7% y/y in 2Q and 0.6% y/y in 1Q), fastest pace since 2Q 2021 (7.1%). This was the sixth straight quarter of y/y expansion following 6 quarters of y/y declines between 4Q 2019 and 1Q 2021.

The q/q contraction in 3Q was a surprise as we underestimated the impact of stronger inflation, the wave of COVID-19 infections in summer and a significant weakening of the yen that amplified the already ballooning import bill. Both private consumption and business spending expanded in 3Q but at a slower pace from 2Q, while the main drags were net external demand and to a lesser extent, private inventories and residential investments.

Looking ahead, we expect GDP to rebound on a sequential basis in 4Q (by 0.7% q/q, 2.8% q/q SAAR) as the economy could find support from a surge in inbound tourism after Japan finally reopened borders and relaxed travel restrictions in Oct (2022), and from the latest economic stimulus package from the Kishida administration that included measures to reduce energy costs for households and businesses, and domestic travel subsidies. That said, elevated inflation and waning external demand will remain key downside risks.

Although domestic industrial production data has been encouraging on a y/y basis in Aug (5.8% y/y) and Sep (9.6% y/y), weaker growth outlook in Japan's key trading partners (especially Eurozone and China) will imply softer demand for Japan's exports. And if import growth stays elevated due to the lethal combination of high commodity prices and a weak Japanese currency, then the negative impact from the trade deficit will stay significant. We expect Japan to run a wider trade deficit of JPY16.5 trillion in 2022 (previous: -JPY 15 trillion) but should narrow to sub-JPY 5 trillion deficit in 2023.

We expect Japan to continue its growth trajectory but are mindful of the external risks. With a 0.7% q/q rebound projected for 4Q, we keep our full-year 2022 GDP growth forecast unchanged at 1.5% (easing from 1.6% in 2021), and at a softer pace of 1.0% for 2023, due to the waning external demand and uncertainties which include 1) the on-going Russia-Ukraine conflict, 2) aggressive monetary policy tightening stance in the advanced economies, 3) geopolitical risks, and 4) COVID-19 risk of potential new variants.

Japan's headline CPI inflation rose to 3.7% y/y in Oct (from 3.0% in Sep). Excluding fresh food, core inflation was up by 3.6% y/y (from 3.0% in Sep) the fastest price growth in 40 years, since 1982. That said, if we further exclude energy items, the core-core inflation rose by 2.5% (from 1.8% in Sep). While both CPI headline and core inflation are now well above the Bank of Japan's (BOJ) 2% inflation target, the drivers are mainly the commodity price surge, worsening trade factors and dissipating 2021 drag from plunging mobile charge fees, which is seen as temporary and not for the desired reason as wage driven inflation remains largely absent. We lowered our 2022 headline CPI inflation forecast to average 2.5% (previous: 3.5%) while core CPI will likely average 2.3% (previous: 2.8%). Inflation, while still far lower compared to the US and Europe, is likely to rise further as activity picks up further as the economy reopens more broadly which will most likely add to inflationary pressures. Our forecast for headline CPI inflation will average higher at 2.8% while core inflation will average 2.5% for 2023.

CENTRAL BANK

Kuroda's Apr Exit

With Japan's moderate economic recovery and the challenging external growth outlook while demand driven inflation still absent, Bank of Japan (BOJ) Governor Kuroda clearly spelt out (during the Oct MPM) that exit from easy policy or rate hikes are not imminent. In addition, Kuroda said on 14 Nov the central bank would stick to monetary easing to support the economy for the present in order to achieve sustainable and stable inflation accompanied by wage growth. He re-emphasized this on 18 Nov after the Oct CPI report. That likely confirms no imminent change to policy until the next round of Shunto which is the annual wage negotiations between unions and the employers in Japan, likely taking place in Feb or Mar 2023. It means that we should continue to expect the BOJ to keep its current easy monetary policy intact and maintain its massive stimulus for the rest of 2022 and 1Q 2023, at least until Kuroda, "the man who can't be moved", exits the BOJ on 8 Apr 2023. In the upcoming weeks, we expect PM Kishida to name a new BOJ governor to succeed Kuroda who will also potentially herald the start of a shift in BOJ policy.

CURRENCY

JPY To Recover

Due to the stark monetary policy divergence between the Fed and BOJ, USD/JPY has a high sensitivity to US-Japan interest rates differential, thus attributing to the sharp move in the currency pair this year. USD/JPY rose as much as 32% on the year to 151.95 in Oct, a historic move with records dating back to 1970. This came as the 10-year rates gap widened to close to 4% from 1.4% at the start of 2022. Now, markets pricing for an eventual Fed pivot and a smaller USD rate advantage over the JPY has started to turn USD/JPY on its head. Furthermore, the outsized move in USD/JPY also lends scope for a respectable normalization going forth. However, the expected path lower for USD/JPY is unlikely to be a straightforward one. If markets extend pricing for a higher terminal Fed Funds rate on sticky US inflation, there is likely sustained two-way volatility for the USD/JPY pair. Overall, we update USD/JPY forecasts to 142 in 1Q23, 137 in 2Q23, 134 in 3Q23 and 132 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/MYR	4.55	4.60	4.65	4.65
MYR O/N Policy Rate	3.25	3.25	3.25	3.25
Economic Indicator	**2020**	**2021**	**2022F**	**2023F**
GDP (%)	-5.5	3.1	8.3	4.0
CPI (avg y/y %)	-1.2	2.5	3.5	2.8
Unemployment Rate (%)	4.8	4.2	3.5	3.2
Current Account (% of GDP)	4.2	3.8	2.0	2.5
Fiscal Balance (% of GDP)	-6.2	-6.4	-5.8	-5.5

Largest post-election gain for MYR

Source: Macrobond, UOB Global Economics & Markets Research

ECONOMY

Slower Growth Ahead

The economy recorded a robust growth of 14.2% y/y in 3Q22 (vs 8.9% in 2Q22), bringing the expansion to 9.3% in Jan-Sep this year. The strong momentum was led by higher private consumption, investments, and exports. The economic recovery also gained more traction amid the ongoing transition to endemicity since April this year, continued government subsidies, higher wages and export revenue in light of higher commodity prices and strong global demand for Malaysia's electrical & electronics (E&E) products.

We project growth to normalize to 5.5% in 4Q22 on the back of higher base effects and slower trade momentum. With that, full-year growth is projected at 8.3% in 2022. For 2023, we anticipate real GDP growth to slow to 4.0% as global headwinds take centre stage while potential domestic policy changes and the new government's pledge to further consolidate fiscal position post elections may weigh on consumption.

Malaysia's 15th General Election (GE15) ended with its first-ever hung Parliament. Despite the record voter turnout of 15.6mn, no single alliance managed to secure a simple majority of 112 seats out of the 221 parliamentary seats contested on 19 Nov. By law, the King will then appoint a Prime Minister that He believes can command a majority. It was announced that Anwar Ibrahim, leader of Pakatan Harapan (PH), that won the most seats in GE15 is appointed as the country's 10th Prime Minister.

As the manifestos of the parties converge on several key economic issues including managing cost of living, economic opportunities, and addressing corruption, we think this new coalition government will remain pro-growth though more populist. Nevertheless, a coalition government could infer more challenges to push-through key reforms that tackle fiscal weaknesses and improving governance in the short term.

The next key event to watch for will be resuming Parliament to re-table Budget 2023. Prior to the dissolution of Parliament, the previous government presented a pro-growth budget for 2023 which targeted GDP growth of 4.0%-5.0% and expenditure plans worth MYR372.3bn (or 20.5% of GDP). With higher projections for tax revenue collected, the fiscal deficit is projected to narrow slightly to 5.5% of GDP in 2023 (from an estimated 5.8% in 2022). The budget forecasts are subject to minor changes as more actual data points and new developments will be reflected towards the re-tabling date. The fund allocation will also depend on the new government's priorities.

CENTRAL BANK

Rate Hike Remains On The Table

Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) by 25bps to 2.75% in Nov, marking the fourth back-to-back rate hike since May which brings cumulative hikes to 100bps this year. BNM emphasized that its pre-emptive moves were necessary to manage elevated price pressures and anchor inflation expectations.

Although BNM sounded cautious on the global outlook in the Nov monetary policy statement, the central bank also alluded a potentially higher terminal Fed Funds rate and remained positive on domestic growth prospects. The continued optimism on domestic outlook and pre-emptive moves to anchor inflation expectations by BNM would suggest that rates could rise further.

Pending the re-tabling of Budget 2023 and a clear policy direction from the new coalition government, we keep our call for two more 25bps OPR hikes in 1Q23 (+25bps in Jan, +25bps in Mar 2023) and thereafter holding at 3.25% in the remaining quarters of 2023. The next monetary policy meeting is scheduled on 18-19 Jan 2023.

CURRENCY

MYR Weighed By CNY

The MYR gained over 5% in Nov to 4.47 /USD, the biggest monthly gain since 2016. The outsized move was due to broad USD weakness on slower Fed rate hike expectations, relaxation of China's COVID-19 measures and overcoming the recent political impasse. We noted that this is the only and biggest post-election MYR gain dating back to the last four elections, after the MYR de-pegged.

Hence, potential domestic catalysts for MYR include political resolution that paves the way for pro-growth policies, domestic reforms, and further OPR hikes. A key external factor that could impact MYR is the trend of the CNY. We note that the MYR is highly correlated to movements of the CNY against the USD since Apr till about mid-Nov. At this juncture, it remains to be seen if returning confidence in Malaysia's markets will be enough to overcome the drag of a weakening CNY.

For now, we maintain an upward trajectory for USD/MYR, similar to that of USD/CNY. Our updated USD/MYR forecasts at 4.55 in 1Q23, 4.60 in 2Q23 and 4.65 in both 3Q23 and 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/PHP	57.5	57.8	58.0	58.0
PHP O/N Reverse Repo	6.00	6.00	6.00	6.00
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-9.5	5.7	7.4	5.0
CPI (avg y/y %)	2.4	3.9	5.5	4.5
Unemployment Rate (%)	10.4	8.0	5.6	5.0
Current Account (% of GDP)	3.2	-1.8	-5.5	-4.5
Fiscal Balance (% of GDP)	-7.6	-8.6	-7.6	-6.1

ECONOMY

Gloomy Outlook For 2023

The Philippines' real GDP growth kept its uptrend to 7.6% y/y in 3Q22 (2Q22: + 7.5%) as a result of further reopening of economic and social activities, higher minimum wages from 16 Jul, and improving job opportunities. All sectors recorded positive growth, led by services, construction, and manufacturing sectors. Sustained domestic demand and increasing stock replenishment activities also helped to cushion the drag from external demand.

This brought economic growth up to an average of 7.7% in the first nine months of 2022 (Jan-Sep 2021: +4.9%), prompting us to tweak our 2022 full-year GDP growth estimate higher to 7.4% (from 7.0% previously, official est: 6.5%-7.5%). We impute a slower growth of 6.5% for 4Q22, considering potential impacts of adverse weather and natural disasters striking the country at the end of the year as well as diminishing purchasing power.

The growth momentum is set to weaken further as we head into 2023. Heightened global headwinds such as prolonged Russia-Ukraine war, tighter monetary and financial conditions, as well as China's zero-COVID policy have further raised the risk of a global recession next year. Domestically, the inevitable knock-on effects of restrictive monetary policy and expectations for more permanent inflationary pressures on household consumption will become more apparent. The government is also expected to continue undertaking fiscal consolidation by gradually unwinding COVID-related stimulus measures as the country and the world transition into endemicity. All these events will pull the Philippines' GDP growth down to 5.0% next year, in our view (official est: 6.5%-8.0%).

CENTRAL BANK

More Hikes To Come But At A Slower Pace

Bangko Sentral ng Pilipinas (BSP) on 17 Nov officiated its second 75bps rate hike this year, raising the overnight reverse repurchase (RRP) rate to 5.00%, the highest level since Feb 2009. This move was pre-announced by Governor Felipe Medalla on 3 Nov, hours after the US Fed delivered the fourth 75bps hike in the Fed Funds Target Rate (FFTR). The same goes for BSP's first 75bps hike that was announced in an unscheduled Monetary Board (MB) meeting on 14 Jul when the US Fed unleashed its first outsized 75bps increase in the FFTR.

BSP stressed that its second outsized interest rate hike is necessary given the increased likelihood of further second-round effects, persistent inflationary pressures, and the predominance of upside risks to the inflation outlook. Upside risks arise from (i) elevated global food prices due to higher fertilizer costs, trade restrictions, and adverse weather conditions; (ii) prolonged supply disruptions in key food commodities such as sugar, meat, and fish; (iii) possibility of a further hike in public transport fares; (iv) volatile global energy prices; and (v) FX fluctuation. We project the nation's inflation rate to continuously surpass BSP's 2.0%-4.0% medium-term target range until mid-2023, averaging 4.5% for the entire year of 2023 (vs an estimated 5.5% for 2022, BSP est: 5.8% for 2022 and 4.3% for 2023).

In the Nov monetary policy statement, BSP added that a sizeable adjustment in the policy rates would also help to insulate the economy from external headwinds and FX fluctuations that could further entrench price pressures and potentially dislodge inflation expectations. It will continue to take all necessary actions to bring inflation back within the target band over the medium term, fulfilling its primary mandate of keeping price and financial stability. This indicates that BSP still stays in a rate hike mode even after a cumulative 300bps rate hike this year.

Given that the US Fed's rate hike trajectory also matters to BSP in deciding its own monetary policy stance over the next couple of months, we expect BSP to continue its rate hike path into 1Q23 but at a gradual pace just as the US Fed will transit into slower rate hikes. We reiterate our BSP call for a 50bps hike in Dec 2022, followed by a 25bps increase each in Feb and Mar 2023. This will take the RRP rate to 6.00% by 1Q23 and holding at this 6.00% terminal rate thereafter until the end of 2023.

CURRENCY

USD/PHP Capped At 58.0

The USD/PHP has reverted lower to 56.6 in late Nov after breaching a high of 59.3 on 10 Oct. It was primarily credited to a retreat in USD, BSP's monetary policy moves in lockstep with the US Fed, BSP's intervention in FX market, as well as milder losses in CNY following the country's rescue package for the property market and easing of zero-COVID measures in mid-Nov.

In 2023, the PHP is expected to be weighed by external uncertainties such as China's latest surge in COVID-19 infections and potential spill overs from recessions in the US, UK and EU. Meanwhile, BSP is projected to unleash more rate hikes into 1Q23, which will help to cap excessive move in PHP. BSP Governor also said on 22 Nov that BPS is unlikely to change its foreign-exchange position limits and risk weights for non-deliverable forwards, and that it will stick to "moral suasion" and tweaking reporting requirements to manage currency volatility in the near term.

Overall, we believe that the USD/PHP will be range-bound and capped at the 58.0 level over the next 6-12 months. We tweak our USD/PHP forecasts lower to 57.5 in 1Q23, 57.8 in 2Q23 and 58.0 in both 3Q23 and 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/SGD	1.38	1.39	1.40	1.40
SGD 3M SIBOR	4.45	4.55	4.55	4.55
Economic Indicator	**2020**	**2021**	**2022F**	**2023F**
GDP (%)	-4.1	7.6	3.5	0.7
CPI (avg y/y %)	-0.2	2.3	6.0	5.0
Unemployment Rate (%)	3.3	2.4	2.1	2.3
Current Account (% of GDP)	14	18.1	17.0	15.0
Fiscal Balance (% of GDP)	-10.8	-1.0	-0.5	0.8

ECONOMY

Markedly Slower 2023

Singapore's final 3Q22 GDP growth was revised lower to 4.1% y/y (versus prelim print of 4.4%) from 4.5% growth in 2Q22. On a seasonally adjusted basis, 3Q GDP rebounded by 1.1% q/q, from -0.1% in 2Q. Manufacturing sector slowed as anticipated to 0.8% y/y from 5.6% in 2Q22. Construction sector saw steady progress with a 7.8% y/y expansion in 3Q from 4.8% in 2Q while services sector outperformed with a 5.8% y/y gain compared to 5.0% in 2Q. All major services clusters expanded on a y/y basis except for accommodation.

Both construction and services sectors supported the sequential increase in GDP with 3.9% q/q and 2.1% q/q respectively. Only manufacturing sector contracted by 3.8% q/q SA in 3Q after a small 0.4% q/q rise in 2Q. Within services, the wholesale trade (5.4% y/y from 1.6% in 2Q), retail trade (8.9% y/y from 12.3%), transportation & storage (6.8% y/y from 5.0%) and food & beverage services (30.5% y/y from 23.4%) sectors which benefitted from low base effects and relaxation of domestic and travel restrictions, with the flurry of Meetings, Incentives, Conferences and Exhibitions (MICE) events and the success of the F1 Grand Prix event a reflection of the pent-up demand.

Overall, services sector contributed the lion's share of headline growth in the last three quarters, accounting for 93% of the 4.1% headline in 3Q, 73% share in 2Q and 82% share in 1Q just as contributions from manufacturing tapered. With the external environment under significant challenges due to the Russia-Ukraine conflict, ongoing policy tightening by major central banks and risks of recession in advanced economies, domestic services sector will play an increasingly important role.

With the 3Q GDP outcome largely within our expectations, we keep our GDP growth outlook for Singapore at 3.5% for 2022. This implies that GDP growth will slow to around 1.7% y/y (-0.2% q/q) in 4Q22 as we factor in the first quarter of manufacturing contraction (of -0.5% y/y) since 2Q20. Growth in the last three months of 2022 is expected to be anchored by services (2.5% y/y) and to a lesser extent, construction activity (9%).

Our 2023 outlook is largely premised on broad moderation in external economies next year, and we project the US and European economies (which are key end markets for Singapore) to enter into a recession in the next 6-12 months amidst aggressive monetary policy tightening stance among these advanced economies. This will directly impact the manufacturing and external-oriented services sectors (such as wholesale trade, transport and finance & insurance).

We expect manufacturing sector to contract by 5.4% in 2023 (from +2.8% projected for 2022) due to the faltering electronics outlook and weaker external demand. Upside growth factors could be attributed to the continued recovery in leisure and business air travel and inbound tourism, which will benefit many in-person services sectors while within manufacturing, there are still pockets of growth in transport & precision engineering and general manufacturing.

Barring external risk events (such as an escalating war in Europe or a deadlier variant of COVID-19), we keep our 2023 GDP growth forecast of 0.7% (close to lower end of the official forecast range of 0.5-2.5%). China's potential rebound from its COVID-19 challenges in 2023 could be a positive factor offsetting some of the downside drivers next year.

Despite downtick in Oct inflation, the central bank (MAS) maintained its core inflation outlook "to stay elevated in the next few quarters before slowing more discernibly in H2 2023..." and forecasts unchanged from the Sep CPI report. We keep our 2022 forecasts unchanged, 6% for headline (or CPI-All Items) and 4.2% for core, and next year, we expect headline inflation to average 5.0% and core inflation to average 4.0% in 2023. Excluding the 2023 GST impact, we expect headline inflation to average 4.0% and core inflation average 3.0% in 2023.

CENTRAL BANK

MAS To Stay On Tightening Path In Apr 2023

Singapore's monetary policy has moved further into a restrictive stance after five rounds of tightening since Oct 2021, nonetheless it may be still too early to call a stop at this time. One major worry is the pass through to domestic inflation arising from the cost pressures in the supply chains (imported inflation) as well as wage increases due to a tight labour market just as domestic activities pick up. The MAS expects inflation to ease "more discernibly" in the latter half of 2023, while noting that there is "considerable uncertainty" around the outlook for both inflation and growth.

The MAS policy stance is expected to continue to be data driven (the monthly CPI reports being the key along business/growth prospects surveys) as well as along the broad policy trends of major central banks, particularly the US Federal Reserve, which we expect the Fed funds rate to peak by 1Q23. With the MAS pulling only one lever in its Oct 2022 decision, we think there is still room for further tightening into 2023, especially if core inflation does not show meaningful signs of moderation (i.e. some ways below 5%). While we believe off-cycle MAS decisions are likely done for the remainder of 2022, it may still be a possibility especially in early 2023.

CURRENCY

SGD Weighed By CNY

The SGD is one of the most resilient Asian FX in this Fed tightening cycle. Cushioned by the five rounds of tightening by MAS since Oct 2021, the SGD has fallen less than 1% this year to 1.36 /USD and has risen against most of its Asian peers. Given our expectations of further tightening from the MAS next year, the outperformance of the SGD versus its Asian peers is likely to persist. That said, we note that the extent of SGD's outperformance is starting to wane given the recent softness in Singapore's inflation, non-oil domestic exports and industrial production. Tethered by a weakening CNY, the SGD is still expected to lag against the USD and we maintain an upward trajectory in USD/SGD. Our updated USD/SGD forecasts are 1.38 in 1Q23, 1.39 in 2Q23 and 1.40 in both 3Q23 and 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/KRW	1,350	1,360	1,370	1,380
KRW Base Rate	3.50	3.50	3.50	3.50
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-0.7	4.1	2.7	1.7
CPI (avg y/y %)	0.5	2.5	5.1	3.5
Unemployment Rate (%)	4.5	3.8	3.0	3.5
Current Account (% of GDP)	4.6	4.9	1.6	2.7
Fiscal Balance (% of GDP)	-5.8	-4.4	-3.3	-1.2

ECONOMY

Growth To Ease

South Korea's economy rose sequentially for the 9th straight quarter in 3Q22 with all the major components including private consumption, government consumption, fixed investment and exports of goods & services recording a positive growth momentum. The GDP expanded by a seasonally adjusted 0.3% q/q in 3Q22 compared to 0.7% q/q in 2Q22.

The stronger-than-expected GDP in 3Q22 has not changed our more cautious economic outlook. South Korea's exports and investments face the double whammy of a weakening external demand and down-cycle in the semiconductor industry where a rapid capacity expansion in the past year to plug shortages is now leading to high inventory for certain product segments. A poorer economic prognosis for its largest trading partner – China – due to a record surge in the COVID-19 infections further dampened demand expectation in the near term, though we still expect China's gradual reopening in 2023 to be the main catalyst for South Korea's recovery in 2H23.

Private consumption will continue to benefit from the normalisation of domestic activities and recovery in tourism but there are also risks that the recovery could be weaker than expected as interest rates rise to a decade high. Given its household debt is one of the highest in the world at 105% of GDP, a surge in borrowing costs will have a significant impact on households' disposable income. Meanwhile, the Korean government signaled fiscal discipline to manage the rise in government debt, which will likely see more constraints for stimulus spending ahead.

High frequency data for the latest month including the manufacturing PMI, exports and consumer confidence all painted a softer outlook. Meanwhile, the trade deficits are expected to be more persistent as exports turned lower but higher import prices continue to support import growth. South Korea had been in trade deficit for most of the months this year, including a record deficit of USD9.40bn in Aug.

Our GDP growth forecast for 2022 remains at 2.7% as we factor in a moderation in growth to 1.6% y/y in 4Q from 3.0% y/y in 1Q-3Q. Thereafter, we expect further slowdown in growth next year, weighed by weaker external demand, impact of domestic monetary policy tightening and weaker government spending. We estimate GDP growth of around 1.2% y/y in 1H23 and to recover to 2.2% y/y in 2H23. Bank of Korea's (BOK) growth revision for 2023 (from 2.1%) brings it in line with our forecast of 1.7%.

Despite the markdown in growth outlook, BOK flagged that inflation will remain elevated due to accumulated cost pressures from higher utilities and items in the core inflation that offset most of the impact from weakening of the demand pressure. Uncertainties remain high due to the currency and oil price movements. Pass-through from high imported prices and wage gains remain key risks to the inflation outlook.

Headline inflation has remained off its two-decade high in Jul (6.3% y/y) but core inflation continued to rise and stayed at 4.8% y/y in Oct-Nov. We expect the headline inflation to remain at the 5.0% level until Feb 2023 before a high base effect sets in. We estimate inflation to average 5.1% for 2022 and 3.5% for 2023. BOK has factored in CPI inflation of 4.2% in 1H23 and a moderation to 3.1% y/y in 2H23, averaging 3.6% in 2023.

CENTRAL BANK

Expected To Reach Terminal Rate In Jan 2023

BOK reverted to a smaller rate hike in Nov as it raised the benchmark rate by 25bps to 3.25%, dialing down from 50bps hike in Oct. This is due to a less hawkish Fed, higher growth risks, a more stable KRW and credit market stress after a local developer missed payment in early-Oct.

Since Aug 2021, the BOK has raised its 7-day repo rate by a cumulative 275 bps and the current interest rate is slightly above the neutral level. Despite increasing downside risks to growth, the BOK said that its "policy response to ensure price stability should be continued as inflation has remained high".

We continue to see the "terminal rate" at around 3.50%. Forecasts from the policy board members (excluding Governor Rhee's) are fairly divided in the range of 3.25% to 3.75%. Besides domestic inflation and growth outlook, there are a number of external factors that will also affect the BOK's rate view including China's COVID-19 policy, US Fed rate trajectory and the Japanese yen movement.

The next meeting will be on 13 Jan 2023 where we now expect the central bank to hike for a final time by 25bps to 3.50% before staying on pause throughout 2023.

CURRENCY

KRW To Pare Recent Strong Gains

Gaining close to 8.0% in the 4Q-till-date, the KRW is on track for the biggest quarterly gain since 2009. Expectations of a slower pace of Fed rate hikes and an easing of COVID-19 restrictions in China triggered the big turnaround in sentiment in Nov.

That said, there are still significant risks that can derail the recovery of the KRW. The dimming global growth outlook, which the KRW is highly sensitive to, will likely keep KRW on a defensive stance. Regional FX sentiment is likely to be dented by recent surge in China's COVID-19 cases.

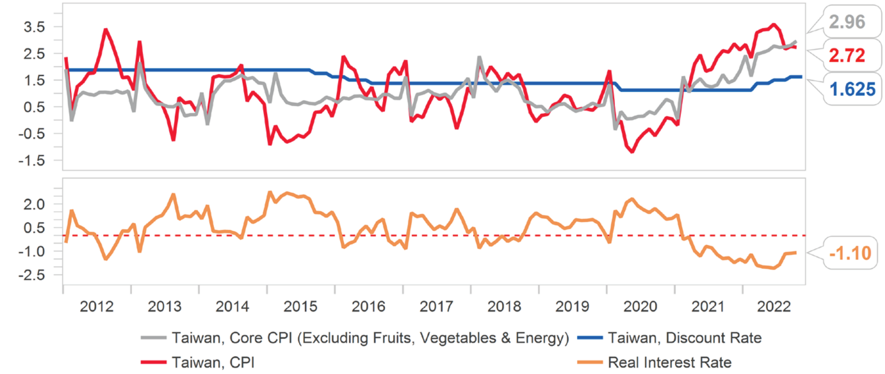
Overall, we keep to a cautious outlook for KRW alongside a weakening CNY. Our updated USD/KRW forecasts are at 1350 in 1Q23, 1360 in 2Q23, 1370 in 3Q23 and 1380 in 4Q23.

TAIWAN

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/TWD	31.3	31.5	31.8	32.0
TWD Official Discount Rate	1.88	1.88	1.88	1.88
Economic Indicator	**2020**	**2021**	**2022F**	**2023F**
GDP (%)	3.4	6.5	3.0	2.3
CPI (avg y/y %)	-0.2	2.0	3.0	2.0
Unemployment Rate (%)	3.7	3.7	3.7	3.7
Current Account (% of GDP)	14.1	14.7	13.1	12.2
Fiscal Balance (% of GDP)	-1.0	-0.2	-1.0	-1.0

Negative real interest rate likely to persist through 2023

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Outlook Moderating

Taiwan's economy strengthened to grow at its fastest quarterly pace this year, by 4.01% y/y in 3Q22. In 1Q-3Q, real GDP expanded by 3.6% y/y.

The key growth driver in 3Q22 was private final consumption which contributed 75% of the growth while the largest drag came from inventories drawdown. Private consumption growth more than doubled to 6.95% y/y from 3.14% y/y in 2Q22 as the government eased COVID-19 restrictions and this led to a recovery in consumption such as retail, dining out, recreation and transportation. Private consumption was also boosted by a low comparison base in 2021. In contrast, growth of gross fixed capital formation and exports of goods & services slowed visibly to 4.97% y/y (from 11.27% in 2Q22) and 2.75% y/y (from 4.78% in 2Q22) respectively, underlining the risks from higher global inflation and an aggressive monetary policy tightening across the major economies.

The outlook for Taiwan's economy is vulnerable to weaker demand from China and the developed markets as well as a cyclical downturn in the semiconductor industry. Mainland China and Hong Kong account for nearly 40% of its exports while by products, semiconductors also made up 40% of its total exports. Recent economic data including the manufacturing PMI, export, export orders and industrial production pointed to a deteriorating external demand. Inventories are also expected to continue to decline through at least 1H23. However, the stronger than expected private consumption in 3Q22 may signal the start of a more sustained domestic recovery as COVID-19 measures were lifted since mid-Oct and this will be an immediate boost to the services sector in 4Q22. Consumption recovery will also be backed by the stable labour market condition in Taiwan but higher interest rates and recession risks in the developed markets may still warrant a more cautious domestic sentiment.

Accounting for the latest GDP data revision, we are downgrading our growth forecast for 2022 to 3.0% from 3.3% which factors in a slowdown to 1.4% y/y in 4Q22 and this is partly due to a high comparison base. We continue to expect a more moderate growth in 2023 of 2.3%. The government has lowered its GDP outlook to 3.06% in 2022 (from 3.76%) and 2.75% in 2023 (from 3.05%).

Headline inflation continued to creep lower to 2.72% y/y in Oct, as it remained below Jun's high of 3.59%. However, core inflation has risen to reach its highest in 14 years at 2.96% y/y in Oct. Costs pressure is still biased to the upside due to supply chain bottlenecks, elevated food and energy prices as well as imported inflation. We maintain our forecast for headline inflation to average 3% in 2022 before moderating to 2% in 2023.

The local elections in Nov have introduced more uncertainty into the political landscape after President Tsai Ing-wen resigned as ruling Democratic Progressive Party (DPP) chairwoman following a poor showing. She will also not be able to stand for the presidential election in early-2024 due to the term limits. Ahead of that, there will likely be more attention given to domestic concerns on jobs and inflation to regain public support.

CENTRAL BANK
Imminent Peak In Interest Rate

The Central Bank of the Republic of China (Taiwan) (CBC) has raised its benchmark discount rate by 50 bps so far this year, reverting to 12.5 bps increase in Jun and Sep after a more hawkish than expected 25 bps hike in Mar. CBC also lifted the reserve requirement ratios (RRR) by 25 bps at both the Jun and Sep meetings to tighten liquidity.

Given a more negative prognosis of growth and with inflation topping out, we see an imminent end to the rate hike cycle soon. We expect a 12.5 bps hike in Dec 2022 to bring the discount rate to 1.75%. Thereafter, CBC may further hike by 12.5 bps in Mar 2023 to bring the rate to a terminal level of 1.875%, subject to the economic environment then. Thus, the negative real interest rate in Taiwan is likely to persist through 2023.

CURRENCY
TWD Still Biased Weaker

The TWD is on track for the biggest annual decline since 1998, dropping over 11% to about 31.0/USD. This comes despite an outsized 4% rebound in TWD across Nov.

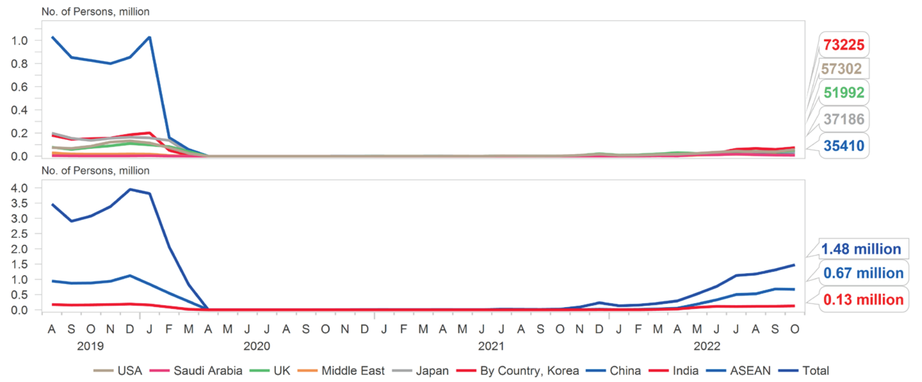
In 2023, the TWD is unlikely to turn around just yet. Slower domestic and China's growth, downturn in global semiconductor cycle, uncertainty over China's zero-COVID policy and global recession worries are some of the reasons to stay cautious on TWD.

Overall, we maintain an upward trajectory for USD/TWD with updated forecasts at 31.3 in 1Q23, 31.5 in 2Q23, 31.8 in 3Q23 and 32.0 in 4Q23. We note that Oct's high of 32.38 in USD/TWD is likely to be a strong resistance going forth.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/THB	35.6	35.8	36.0	36.2
THB 1D Repo	1.75	1.75	1.75	1.75
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-6.2	1.6	3.2	3.7
CPI (avg y/y %)	-0.8	1.2	6.0	2.7
Unemployment Rate (%)	1.9	1.6	1.4	1.2
Current Account (% of GDP)	0.3	-1.6	-0.8	2.8
Fiscal Balance (% of GDP)	-3.0	-3.7	-4.6	-3.8

Incoming tourist arrivals so far still unable to plug the Chinese tourists gap

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Return to Potential Growth Likely in 2023

Growth rebounded much higher in 3Q22, marking a good start for the Thai economy to return to its potential GDP growth rate of circa 3-4% in recent episodes. GDP accelerated to 4.5% y/y in 3Q22, from an average of 2.4% in 1H22 driven by higher private consumption expenditures, investment, and most notably the export of services (tourism revenue).

Household consumption expenditures expanded by 9.0% y/y, up from 3.5% and 7.1% in 1Q22 and 2Q22 respectively. This was the highest growth rate in 39 quarters. Expenditure in services increased by 15.8% y/y, accelerating from a 14.1% growth in the previous quarter amid the strong growth of spending on hotels & restaurants and recreation & culture. Expenditure in durable goods increased by 18.2%, accelerating from a 3.5% expansion in 2Q22, in line with an expansion of purchase of vehicles. Expenditure in non-durable goods increased by 3.2%, slightly higher than 2.7% in the preceding quarter, amidst a pickup in the growth pace on food & non-alcoholic beverages. Meanwhile, expenditure in semi-durable goods increased by 3.6%, up from 1.9% in 2Q22, in line with an expansion of spending on furnishings & households' equipment and clothing & footwear. The stronger growth was in line with the general uptrend in the consumer confidence index.

Total investment increased by 5.2% y/y in 3Q22, a marked turnaround from the 1% contraction in the preceding quarter. Higher total investment last quarter was mainly underpinned by a robust 11% y/y growth in the private investment (2.3% in 2Q22) on the back of strong and steady investment in machinery and equipment that increased by 13.9% while investment in construction returned to growth of 2.0% (-1.3% in 2Q22).

We keep our forecast for the Thai economy to grow by 3.2% for 2022, double the growth rate seen in 2021. We expect another strong growth of around 3.5-4% in 4Q22 on the back of continued recovery in the inbound tourists to Thailand and its associated domestic trade-stimulating impacts brought about from it.

For next year, we continue to remain sanguine and expect the Thai economy to grow circa 3.7% on expectations of higher and steadier tourism income that will continue to boost domestic trade activities coupled with stronger exports performance.

CENTRAL BANK

Negative Real Rates to Narrow In 2023

Thai inflation has shown indication of peaking and has continued to decelerate, though still remaining elevated in the past couple of months, precipitated by falling producer price index (PPI). Oct's headline inflation decelerated to 6% y/y, a marked downshift from the peak of close to 8% in Aug this year. Lower energy prices and improvements in supply chain and distribution for some key imported food items have eased the recent inflationary pressures. This has been alluded as well by BOT that inflation is likely to have peaked in 3Q22 and projected to average more than 6% this year.

Our forecasts are for inflation to average 6.0% this year before normalizing back to around 2.7% next year. This is in line with BOT's view, which does not expect inflation to return to the target until 2023. BOT forecasts average inflation to hover around the middle of its 2-3% range. With stronger growth expected in some quarters ahead underpinned by sustained recovery in its services exports (tourism revenue), BOT is in position to deliver more rate hikes. However, we believe that with inflationary pressures abating, the BOT will likely adopt a gradual pace of policy tightening to continue to support towards the Thai economic recovery. This would mean that the negative real rates will remain, though it is expected to narrow from a high of around 700bps to currently around 450bps and is expected to decline further to reach around 300-350bps. We have revised our forecast and now expect BOT to reach its peak benchmark 1D-Repo Rate of 1.75% (1.50% previously) in 1Q23.

CURRENCY

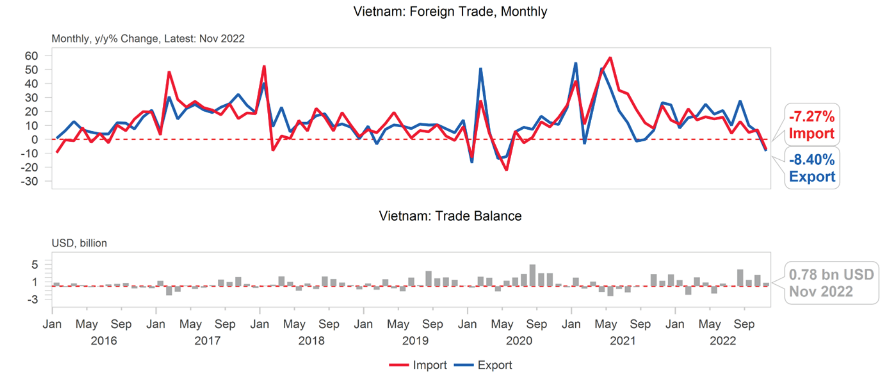
Not At Inflexion Yet

The THB jumped closed to 8% against the USD in Nov, registering its biggest monthly advance since 1998. Covering of extended short-THB positioning as markets recalibrated towards smaller Fed rate increments and a surge in inflows into the local bond market are likely catalysts for the outsized currency move. However, it is unlikely to be much awaited inflexion point for the THB given the uncertain global environment, dovish Bank of Thailand (relative to Fed and Asian peers) and still-wide negative real rates. While the THB is expected to fall alongside Asian peers against the USD, we have factored the THB to outperform on a relative basis to its peers as its tourism recovery gains traction. Our updated USD/THB are at 35.6 in 1Q23, 35.8 in 2Q23, 36.0 in 3Q23 and 36.2 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
USD/VND	25,200	25,400	25,600	25,800
VND Refinancing Rate	7.00	7.00	7.00	7.00
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	2.9	2.6	8.2	6.6
CPI (avg y/y %)	3.2	1.8	3.6	4.9
Unemployment Rate (%)	2.4	3.6	2.2	2.2
Current Account (% of GDP)	4.4	-0.3	0.3	0.9
Fiscal Balance (% of GDP)	-4.0	-4.1	-4.2	-4.0

Vietnam foreign trade

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Growth Momentum To Normalize Ahead

Vietnam's real GDP growth surged 13.7% y/y in 3Q22, against 7.8% in 2Q22 and just slightly below consensus survey of 14.4%. The key factors for the biggest surge on record were due to the low comparison base last year, which shrank by a record 6% y/y as the country locked down during the quarter in response to the Omicron wave, as well as the reopening and easing mobility restrictions since early part of this year which helped spur business activities from 2Q22.

In the first 3 quarters of 2022, Vietnam's GDP rose 8.8% y/y YTD, against 6.4% in the first 2 quarters of the year. Activities accelerated across the main sectors in the 1Q-3Q period, including construction (8.6% y/y YTD vs. 3.7% in 2Q), manufacturing (10.7% vs. 9.7% in 2Q), and services (10.6% vs. 6.6% in 2Q).

With 8.8% y/y YTD locked in, we are keeping our forecast for full year GDP at 8.2% for 2022, factoring in a moderation of headline GDP growth to 6.8% y/y in 4Q22 on the back of both domestic and external headwinds. Domestic concerns include the ongoing developments in the property sector as some developers come under pressure just as central bank hiked interest rates aggressively. While the authorities are taking actions to manage the situation, this negative development is likely to take some time to resolve.

Data for Oct-Nov are showing signs of softening activities. Both exports and imports declined in Nov, with exports seeing the first drop after 13 months of expansion. The pace of industrial production slowed for the third month and expanded at the slowest in 10 months. However domestic demand remained healthy, as retail sales registered its 8th consecutive month of double-digit gains, rising 17.5% y/y in Nov, on the back of reopening of borders and pent up demand.

However, overall growth momentum is likely to moderate further in 2023 as policy tightening from major central banks weigh on external demand, particularly from the US and Europe, which account for 41% share of Vietnam's exports. As such, we are keeping our 2023 GDP growth projection for Vietnam at 6.6%.

Several external risks continue to weigh on this outlook: 1) Russia-Ukraine conflict and its impact on energy, food and commodity prices (and the resulting inflation risks on domestic and external demand), 2) global supply chain disruptions, and 3) global monetary policy tightening.

Consumer prices are showing signs of upward pressures in Vietnam as inflation rate has been trending higher for 3 straight months since Sep and running above the 4% target for the second month in Nov, despite the deployment of administrative measures to offset price increases. YTD to Nov, headline CPI rose 3.0% y/y against 1.8% in the same period in 2021. Core inflation is another concern as it rose 4.8% y/y in Nov, vs. overall inflation rate of 4.4%. Against this backdrop, we maintain our full year inflation projection of 3.6%, and a further increase of 4.9% in 2023, as domestic demand continues to gain momentum along with stronger GDP growth.

CENTRAL BANK
Staying Vigilant

Over the period of Sep-Nov, the State Bank of Vietnam (SBV) has embarked on a flurry of policy moves in view of an aggressive US Fed, USD strength, and inflation pressures. SBV unexpectedly raised its key interest rates by 100 bps on 22 Sep, then followed by another round of 100 bps hike a month later (24 Oct). In between, the SBV on 17 Oct announced the widening of the USD/VND trading bands to +/-5% from +/-3%, to allow for greater flexibility for the VND in view of a strong USD. With rate hikes in quick succession, SBV has room to take a breather for the rest of 2022 to assess the impact of these actions. However, SBV still needs to balance economic growth while ensuring price stability. As such, we are factoring in another round of 100bps rate hike in early 2023, and then pause from there, in line with our view on the US Fed's policy trajectory.

CURRENCY
VND Still Likely To Weaken

The VND appeared to have stabilized in Nov at around 24,800 /USD after weakening close to 1,000 dongs in Oct. Underpinning the stability is the reduction of broad USD strength as the Fed signalled for a slower pace of rate hikes. The VND also benefited from a strong rebound in other Asian peers in Nov.

Looking ahead, there are still significant uncertainties that may trouble the VND. External risks particularly the recent surge in China's COVID-19 and potential spill over from recessions in western economies (US, UK and EU) continues to put an upward bias to USD/VND. Also, we note an increasing correlation of VND with CNY this year which may extend into 2023. Relative underperformance in the CNY in Nov probably limit VND's participation in the broad Asia FX rebound in the month. Overall, we reiterate our current set of USD/VND forecasts which are at 25,200 in 1Q23, 25400 in 2Q23, 25,600 in 3Q23 and 25,800 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
AUD/USD	0.65	0.68	0.70	0.70
AUD Official Cash Rate	3.10	3.10	3.10	3.10
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-2.1	5.0	3.8	1.9
CPI (avg y/y %)	0.9	2.9	6.5	4.8
Unemployment Rate (%)	6.5	5.1	3.7	3.9
Current Account (% of GDP)	2.4	3.2	1.9	1.0
Fiscal Balance (% of GDP)	-12.3	-6.7	-1.5	-1.7

ECONOMY

Growth To Slow Materially

Australia's economy has grown steadily over the second half of 2022, as household spending on services remained firm alongside a further pick-up in education and travel services exports. Economic activity, however, is expected to slow as we head into 2023, as the recovery in household spending from pandemic-related restrictions is expected to have mostly run its course.

While consumer spending has been supported by past gains in incomes, asset prices and accumulated savings during the pandemic; rising inflation alongside higher interest rates have started to weigh. House prices have fallen over 5% from their peak in May. The sharpest falls have been felt in Sydney and Melbourne, but prices are now declining in almost every state.

Consumer sentiment tumbled to the lowest levels in 2½ years and business confidence has also weakened as well. The Westpac-MI Consumer Sentiment index was down 6.9% m/m in Nov. At 78.0, the headline index has declined significantly, suggesting that households' cost-of-living pressures are increasing. The National Australia Bank's (NAB) business confidence was down 5pts in Oct to a below-average reading of 0, reflecting a slowing domestic economy.

The labour market has tightened considerably, with the unemployment rate at 3.4% in Oct, a historically low level. Labour shortages are rife, with employment and participation rates near all-time highs, in part due to a fall in immigration since the beginning of the pandemic. As a result, wage growth picked up significantly to 3.1% y/y in 3Q22, up from 2.6% y/y in 2Q22. It was the highest record since 1Q13. This was primarily driven by private sector wages which rose by 1.2% m/m or 3.4% y/y. Still, given the 7.3% rise in inflation over the past year, wages in real terms fell 3.9%, the biggest fall on record.

Indeed, both headline and underlying inflation for 3Q22 came in higher than expectations. CPI came in at 1.8% q/q for 3Q22, matching the reading in 2Q22, and higher than the estimate of 1.6% q/q. Compared to the same period a year ago, CPI advanced 7.3% y/y, higher than the 7.0% y/y estimate, and the 6.1% y/y print in the previous quarter.

Annual trimmed mean inflation rose to 6.1% from 4.9% in 2Q22. The trimmed mean measure rose 1.8% q/q, compared to an upwardly revised 1.6% q/q reading (from 1.5% q/q previously). The strength in underlying inflation was also evident in the RBA's weighted median CPI, which was up 1.4% q/q, similar to 2Q22. Compared to the same period one year ago, it rose 5.0% y/y, higher than the revised 4.3% y/y (from 4.2% y/y previously) reading in the previous quarter, and above estimates of 4.8% y/y.

Inflation will likely moderate, aided by lower commodity prices, easing supply disruptions and slowing wage growth into 2023. We see inflation falling back towards 4.8% by end-2023. We also see economic growth slowing to 1.9% in 2023 and a rise in the unemployment rate towards 3.9%.

CENTRAL BANK

RBA Can Afford To Slow Down Rate Hikes

To fight inflation, the RBA has been lifting the offical cash rate (OCR) since May when it was 0.10%. At its Nov meeting, the RBA decided to increase the OCR by 25bps to 2.85%. It also increased the interest rate on Exchange Settlement balances by 25bps to 2.75%. At 2.85%, the OCR is 205bps above pre-pandemic levels.

There were no surprises in the accompanying statement. In the minutes, members opened the door to a rate hike breather to give its earlier interest rate hikes a chance to take effect. "The board is prepared to keep rates unchanged for a period while it assesses the state of the economy and the inflation outlook". But the RBA noted that inflation was still well above its target range of 2.0% -3.0% and "expects to increase interest rates further over the period ahead" to bring demand and supply back into balance. In fact, the RBA was the first developed-world central bank to downshift the pace of interest rate increases to a quarter-percentage point at its past two meetings. At the same time, it has also emphasized flexibility to maneuver in the current cycle by saying they are open to resuming half-point rate increases or even pause for an extended period to assess the economy.

The next RBA meeting is on 6 Dec, and that will be the final meeting of 2022. We are penciling in another 25bps hike, which will take the OCR to 3.10%. Thereafter, we look for a pause in the current rate hiking cycle.

Apart from the OCR already at neutral levels, our view is largely due to the expected slowdown in the economy, and the cumulative impact of higher interest rates which is seen dampening construction activity as well as the housing sector. Furthermore, Australia's wage growth is running at a weaker pace than most of its peers. On the external front, how the ongoing Russia-Ukraine conflict evolves; a slowing Chinese economy (Australia's top trading partner is China); as well as the deepening global growth slowdown are key uncertainties for monetary policy.

CURRENCY

Cautiously Optimistic On AUD

AUD/USD remains highly correlated to global risk sentiment as it rebounded from 2-year lows of 0.6170 alongside equities after global central banks led by the Fed started to signal a shift away from jumbo interest rate hikes. While the outlook for AUD/USD has improved from our last quarterly report, it worth noting that there are considerable uncertainties ahead including expected recessions in US, UK and the EU. A recent surge in China's virus cases is likely to weigh on AUD/USD, at least in the immediate quarter (1Q23). Overall, we keep to our cautiously optimistic outlook for AUD/USD and update the point forecasts to 0.65 in 1Q23, 0.68 in 2Q23 and 0.70 in both 3Q23 and 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
EUR/USD	1.01	1.04	1.06	1.08
EUR Refinancing Rate	2.75	2.75	2.75	2.75
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-6.4	5.4	3.1	-0.5
CPI (avg y/y %)	0.3	2.6	8.5	5.6
Unemployment Rate (%)	8.0	7.7	6.9	7.0
Current Account (% of GDP)	1.7	2.4	0.2	0.9
Fiscal Balance (% of GDP)	-7	-5.1	-3.9	-3.5

ECONOMY

Inflation May Have Eased, But Eurozone Still Not Yet Out Of The Woods

In somewhat welcoming news for the European Central Bank (ECB), preliminary figures on 30 Nov showed Eurozone inflation easing slightly in Nov, raising hopes that inflation is now past its peak. Headline CPI fell to 10.0% y/y from 10.6% y/y in Oct, below consensus expectations for 10.4% y/y. However, core CPI was unchanged at a record high of 5.0% y/y, in line with expectations. This suggests that higher prices are being embedded in other areas of the economy.

Energy and food continued to contribute to the still-elevated double digit figures, but with a noticeable drop in the former. Looking at the main components, energy is expected to have the highest annual rate in Nov (34.9 %, compared with 41.5 % in Oct), followed by food, alcohol & tobacco (13.6 %, compared with 13.1 % in Oct), non-energy industrial goods (6.1 %, stable compared with Oct) and services (4.2 %, compared with 4.3 % in Oct).

The ECB estimated in Sep that annual headline inflation will reach 8.1% for 2022 and 5.5% in 2023. These figures are expected to be revised upwards when the central bank meets in Dec. For now, our average CPI forecast for this year is at around 8.5%, while the annual average CPI next year is seen over 5.5%.

As far as economic activity is concerned, according to preliminary estimates released on 31 Oct, Eurozone GDP rose 0.2% q/q in 3Q22, weaker than a reading of 0.8% q/q in 2Q22. From a year ago, GDP increased by 2.1% y/y in 3Q22, compared to a reading of 4.1% y/y in 2Q22. While our assumption is that the conflict in Ukraine does not escalate and that the sanctions on Russia will remain in place till end-2023, we had pencilled in that the winter energy squeeze will cause a slump in economic activity.

While European gas prices have plunged on reports of high storage volumes and a mild fall in temperatures, implying some possible upside to the economy slumping this winter; we think it is too early to take recession out of our forecasts. The winter could yet be cold and sentiment may still weaken. The lagged impact from tighter monetary conditions and a global economic slowdown could also weigh on economic activity. We are maintaining our view for a contraction in the Eurozone economy in 2H22, with annual 2022 GDP growth at 3.1%. Thereafter, GDP is expected to contract by 0.5% in 2023.

CENTRAL BANK

Further Rate Rises Likely

At its Oct meeting, the ECB raised the three key ECB interest rates by 75bps, taking the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility to 2.00%, 2.25% and 1.50% respectively. It also announced a change in the terms and conditions of its targeted longer-term refinancing operations (TLTROs).

In the accompanying press release, the ECB stated that "with this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation", adding that it "expects to raise interest rates further, to ensure the timely return of inflation to its 2% medium-term inflation target" but "will base the future policy rate path on the evolving outlook for inflation and the economy, following its meeting-by-meeting approach".

Although ECB President Christine Lagarde did bring back the "several" guidance during the press conference's Q&A, the removal of the reference to rate hikes continuing at the next "several" meetings from the official statement is a strong indication that the end of tightening may be in sight. In fact, Lagarde listed three key factors that the ECB will be looking at in determining the pace and number of interest rate increases ahead: 1) the inflation outlook; 2) the measures taken so far; and 3) the transmission lag of monetary policy. On the first point, she mentioned that the ECB takes into account the evolution of the economy, including the higher likelihood of a recession. On the second point, Lagarde made reference to the fact that the ECB has hiked rates by 200bps to date. And on the last point, she acknowledged that any decision is not going to have an immediate impact on inflation, but will be subject to the time lag that always affects monetary policy decisions. A broad interpretation of her comments on these factors highlights the ECB's cautious view of overtightening risks, and thus, is consistent with a slowdown in the pace of rate increases ahead.

The ECB has raised rates three times this year. With ECB officials having highlighted that data remains crucial for their judgment over whether to raise interest rates by 75bps for a third straight time; this outcome may now be less probable following the slightly softer Eurozone inflation data in Nov. That said, at 10.0%, CPI remains far too high above the ECB's target and projections, and the ECB is unlikely to take its foot of the gas just yet. We are thus keeping to our view of a cumulative 75bps (50bps at its next and final meeting for this year on 15 Dec, followed by 25bps at its 2 Feb meeting) before pausing. This will bring the refinancing rate to 2.50% and the deposit rate to 2.00% by year-end; and to 2.75% and 2.25%, respectively, by end of 1Q23.

CURRENCY

A Gradual Recovery In EUR

Since touching a 20-year low of 0.9536 in late Sep, EUR/USD has rebounded to 1.04, highest level since late Jun. Fuelling the breakout above the parity level is probably position recalibration to a slower Fed. We believe that the currency move may have gone ahead of fundamentals in the Euro-area. The Eurozone growth (for 2023) downgrade cycle is showing little signs of turning around while business and investor sentiment remained close to the lowest levels since the onset of the pandemic. As such there is scope for a pullback in EUR/USD in 1Q23 before a sustained move higher for the rest of 2023 as Fed's rate pause becomes clearer. Our updated EUR/USD forecasts are at 1.01 in 1Q23, 1.04 in 2Q23, 1.06 in 3Q23 and 1.08 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
NZD/USD	0.61	0.63	0.65	0.65
NZD Official Cash Rate	4.75	5.00	5.00	5.00
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-1.0	5.3	1.8	1.5
CPI (avg y/y %)	1.7	3.9	6.9	4.0
Unemployment Rate (%)	4.6	3.8	3.3	3.9
Current Account (% of GDP)	-1.0	-4.0	-7.3	-5.0
Fiscal Balance (% of GDP)	-5.3	-4.1	-3.9	-1.8

ECONOMY

Growth To Soften Considerably

Inflation in New Zealand remains very strong, with CPI surging 2.2% q/q (7.2% y/y) in 3Q22 versus 1.7% q/q (7.3%y/y) in 2Q22. While there were some big movements in volatile components of the CPI, prices across the CPI components generally lifted by more than expected, which was reflected in core inflation measures continuing to rise. This was followed by a sharp rise in surveyed expectations of inflation, particularly for two years ahead which is essentially the medium-term horizon for monetary policy. Respondents to the Reserve Bank of New Zealand (RBNZ)'s 4Q22 survey of expectations saw inflation averaging 3.62% over the next two years, a 31-year high, up from 3.07% in the 3Q22 survey.

This adds to the slew of broader measures of inflation expectations that have remained worryingly high in recent months. The ANZ-Roy Morgan Consumer Confidence survey inflation expectations for Oct was little changed at 5.0% (5.1% previously). Although this is down from the peak in 2021, the level remains well above pre-pandemic ranges of 3%-4%. In the ANZ Business Outlook survey, inflation expectations bounced to 6.1% in Oct (6.0% previously), remaining close to their recent-highs.

All these are indicative that the strong inflation backdrop is not dissipating any time soon. While we do expect CPI inflation to slow from here, there are still significant upside risks to the domestic inflation outlook. Our CPI forecast for 2022 has been lifted to 6.9% from 6.4% previously. For 2023, our forecast is now at 4.0% compared to 3.2% previously.

Meanwhile, the labour market has ended up tighter than before the pandemic. The unemployment rate remained flat at 3.3%, but details pointed to a strong growth in employment, participation, hours worked, and wages over the third quarter. This is why the RBNZ emphasized that "core consumer price inflation is too high, employment is beyond its maximum sustainable level, and near-term inflation expectations have risen".

Whether or not New Zealand avoids recession in 2023 remains a tough call. Economic growth is absolutely going to slow as the high cost of living, falling housing market, and higher interest rates outweigh a still-tight labour market, as well as the return of international tourism and weaker demand for imports. Our GDP growth forecast for 2022 remains unchanged at 1.8% but we have lowered our forecast for 2023 to 1.5%, from 2.0% previously.

Immediate focus will turn to 3Q22 GDP figures (due on 15 Dec) though tepid retail spending suggests that may underwhelm. Retail trade volumes rose 0.4% q/q in 3Q22, following an upwardly-revised 2.2% q/q decline in 2Q22. The outcome was slightly weaker than the consensus forecast for a 0.5% gain. The return of international tourists boosted spending on accommodations and hospitality. However, gains were offset by weakness elsewhere, with higher prices damping demand.

CENTRAL BANK

Historic Hike By RBNZ, Yet Tightening Is Far From Over

The challenge, indeed, remains for the RBNZ. In fact, the RBNZ's monetary policy decision at its final meeting of the year (23 Nov) certainly dominated headlines, after it decided to raise its official cash rate (OCR) by 75bps to 4.25%. This hike was the biggest since the central bank introduced the OCR in 1999, and came after five consecutive 50bps rate hikes, taking the benchmark interest rate to its highest level since 2008.

More importantly, the RBNZ still signalled further tightening ahead. In its accompanying press release, the RBNZ stated that the "Committee agreed that the OCR needs to reach a higher level, and sooner than previously indicated, to ensure inflation returns to within its target range over the medium term". This is in contrast to most of its peers, whom by comparison, are becoming more cautious about interest rate increases amid global recession risks.

The RBNZ's OCR forecasts in its Monetary Policy Statement revealed a likely peak of 5.5% in 3Q23, up from its previous peak of 4.1%, before falling in 4Q24, even as it forecasted a recession next year. According to the RBNZ, the economy will contract for four straight quarters starting from 2Q23. Meanwhile, it sees annual inflation climbing to 7.5% in the final quarter of this year, up from 7.2% currently. Inflation is then expected to ease to 5% by the end of 2023 and is not seen returning to the midpoint of the 1%-3% target band until late-2025.

Clearly, the RBNZ is very determined to contain inflation, more than the ramifications of higher interest rates on growth, the state of the labour market, house prices, or financial stability, at least for now. Besides, there is a three-month gap between the Nov meeting and the next monetary policy decision on 22 Feb. The RBNZ typically is pre-emptive in nature and front-loading would be more ideal than waiting till Feb next year.

The latest move matched consensus, but was above our expectation for a 50bps hike. That said, we had previously highlighted the skewed risks towards more rate hikes. We now think that rates will peak closer to 5.0%, before the RBNZ pauses in the current tightening cycle. We see the RBNZ's OCR forecasts as overshooting given that slower growth will become a more pressing issue next year and could force the central bank to be more cautious as far as rate hikes are concerned.

CURRENCY

NZD's Outsized Gains In 4Q22 To Moderate Going Forth

The NZD was the best performing currency within G-10 so far this year, rising over 10% against the USD to 0.62. With the latest 75 bps move by the RBNZ, the OCR is now above the Fed Funds' upper bound rate of 4.0%. Being the highest yielder within G-10 now, NZD will be underpinned by carry trade flows.

After the outsized move in 4Q22, we expect some consolidation in NZD/USD. Domestic and external growth uncertainties are likely to keep further gains in NZD/USD modest. Overall, our updated NZD/USD forecasts are at 0.61 in 1Q23, 0.63 in 2Q23 and 0.65 in both 3Q23 and 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
GBP/USD	1.16	1.20	1.23	1.25
GBP Repo Rate	4.00	4.00	4.00	4.00
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-11.0	8.5	4.4	-0.5
CPI (avg y/y %)	0.9	2.6	9.2	7.0
Unemployment Rate (%)	4.5	4.6	3.7	4.4
Current Account (% of GDP)	-2.3	-3.4	-5.3	-4.0
Fiscal Balance (% of GDP)	-13.0	-7.5	-7.2	-5.2

ECONOMY

A Deeper Recession

The UK economy contracted by 0.6% m/m in Sep, a bigger contraction than expectation of -0.4% m/m. This leaves output at about 0.2% below pre-pandemic levels. GDP numbers were revised up for Aug from -0.3% m/m to -0.1% m/m, and up 0.2ppt to 0.3% m/m for Jul. In the details, the contraction in Sep was led by services, down 0.8% m/m. That reflected material falls in information and communication, as well as wholesale and retail sale sectors. Consumer-facing services posted another monthly drop of 1.7%, as retailers report the impact from rising prices. Consumer-facing services are now 10% below their pre-pandemic levels. Construction and industrial production helped offset the services drop. Construction was up by 0.4% m/m, the third straight month of growth, while industrial production increased by 0.2% m/m.

Employment fell by 52,000 in the three months to Sep against consensus of -25,000. That saw the unemployment rate edging higher to 3.6%. Regular wage growth rose to 5.7% y/y in the three months to Sep, from a revised 5.5% y/y reading in Aug (5.4% y/y previously). Wage growth including bonuses slowed to 6.0% y/y from 6.1% y/y in the previous month. The combination of a real income squeeze, slower growth and monetary tightening should lead to a higher unemployment rate in 2023.

We believe the UK economy is already in a consumer-led recession. The economic backdrop for 2023 is a fragile one, as restrictive monetary policy, fiscal tightening and a global slowdown weigh further on the cost-of-living crisis. Following a 4.4% expansion in 2022, GDP is projected to contract by 0.5% in 2023.

As for inflation, CPI rose to 11.1% y/y in Oct from 10.1% y/y in Sep. The reading was above consensus expectation for 10.7%. The main driver was the rise in utility bills, with the price of electricity, gas and other fuels up by 24.7% on the month. Food prices continued to post unusually strong monthly gains, rising 2% in Oct (compared with 0.5% over the same period in 2021). Food prices are now 16.2% higher than a year ago. Core CPI was unchanged at 6.5% y/y in Oct, largely because annual price gains in services were offset by a fall in core goods inflation to 6.7% from 7.0% in the previous month.

To protect households and businesses from high energy prices, the government introduced the Energy Price Guarantee and the Energy Bill Relief Scheme –both effective from Oct 2022 until end-Mar 2023. We believe that inflation will peak in the current quarter, with a full-year forecast of 9.2% for 2022, as government policies limit the impact of energy price rises on household utility bills.

CENTRAL BANK

BOE Still Has Some Way To Go

The Bank of England (BOE) has responded to rising inflation with monetary tightening, raising the Bank Rate from 0.10% in Dec 2021 to 3.00% currently. It has also continued with quantitative tightening by no longer reinvesting the proceeds of gilt redemptions in new gilt purchases and gradually reducing its holdings of sterling corporate bonds until end-2023. From Nov 2022, the BOE started to sell government bonds to gradually reduce the GBP838bn stock that was built up since the 2008 global financial crisis.

According to the Monetary Policy Summary and Minutes in Nov, majority of the MPC members judged that "further increases in Bank Rate may be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets". The MPC, however, highlighted that "there are uncertainties around the outlook, adding that "the MPC will take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit…and will, as always, consider and decide the appropriate level of Bank Rate at each meeting".

Meanwhile, the projections reflected in the latest Monetary Policy Report see the UK economy tipping into a long-lasting recession, beginning in 3Q22 and ending in 2Q24 with a peak-to-trough fall in GDP of 3%. On the inflation front, the MPC's forecast sees annual CPI at 1.4% in two years' time and 0% in three years' time.

Following the release of the Autumn Statement on 17 Nov, we maintain our view of a 50bps move at the upcoming 15 Dec monetary policy meeting. But we think the BOE still has a little way to go, given that Hunt as decided to delay much of the pain from the fiscal consolidation, which means that fiscal policy will do little to fight inflation.

Note that the BOE had made no assumptions about the path of fiscal consolidation in its Nov forecasts. As we highlighted then, what the government ultimately decides to do with its energy support policy will also play an important role. It was assumed that households on average would pay about GBP3400 a year from Apr to Oct 2024. However, the government's announcement is significantly more generous than that in the near term, limiting a typical household's annualised energy bill to GBP2500 this winter and GBP3000 next winter. The aforementioned factors do increase the pressure on the BOE to do more. For now, we have pencilled in 25bps hikes in Feb and Mar next year, seeing the Bank Rate peak at 4.00%.

CURRENCY

GBP Gains To Slow

The GBP was one of the best performing G-10 currencies in 4Q22. From the record low of 1.0350 inflicted by the "mini budget" crisis in Sep, GBP/USD has since recovered above 1.20. The recovery in spot due to fiscal sustainability headwinds abate also coincided with a rebound off critical lows in the GBP trade-weighted index that was put in place during previous major UK crises such as Brexit (2015), Global Financial Crisis (2008) and European Exchange Rate Mechanism Crisis (1992). While value-buying of GBP remains a valid proposition, the pace of gains from here is likely to be checked by economic realities. According to BoE, UK has entered a recession in 4Q22 and is expected to worsen in 2023 as the cost of living crisis – brought about by runaway inflation and rising rates – bites. We also expect UK growth to underperform within G-10 in 2023. The intensifying economic headwinds are likely to weigh on the GBP in the near term. Overall, our updated GBP/USD forecasts are at 1.16 in 1Q23, 1.20 in 2Q23, 1.23 in 3Q23 and 1.25 in 4Q23.

FX & Rates	1Q23F	2Q23F	3Q23F	4Q23F
DXY	109.0	105.9	103.8	102.0
US Fed Funds Rate	5.00	5.00	5.00	5.00
Economic Indicator	2020	2021	2022F	2023F
GDP (%)	-2.8	5.9	1.6	-0.5
CPI (avg y/y %)	1.4	4.7	8.2	3.0
Unemployment Rate (%)	6.7	3.9	3.9	4.5
Current Account (% of GDP)	-3.1	-3.6	-3.5	-3.9
Fiscal Balance (% of GDP)	-18.7	-12.5	-6.0	-4.0

ECONOMY

2023 Recession Ahead

After two back-to-back q/q contractions 1H 2022, 3Q 2022 GDP surprised on the upside with a 2.9% q/q SAAR expansion, the first positive q/q print for this year, from an unchanged 0.6% decline in 2Q. Compared to one year ago, the US GDP grew by +1.9% y/y in 3Q, up from 1.8% in 2Q. The employment situation (as of Oct) was still tight with strong job creation and wage growth, although there was a slight uptick of unemployment rate to 3.7% in Oct (from the record low of 3.5% in Sep).

The rebound in 3Q GDP was attributed to resilient private consumption expenditure, a continued gain in net exports, a rebound in non-residential fixed investment (business spending) as well as federal government spending, state and local government spending, offsetting the continued decrease in private inventories and a deeper plunge in residential fixed investment.

Even as the amount of disposable personal income increased by 5.2% higher in 3Q (versus 5.7% decrease in 2Q), US personal saving continued to head lower to US$520.6 bn in 3Q from US$ 629 bn in 2Q (and well below the nearly US$1.4 trillion in 4Q 2021). The personal saving rate —personal saving as a percentage of disposable personal income— moderated further to just 2.8% in 3Q (from 3.4% in 2Q and 4.3% in 1Q). Just last year, it was at 7.3% in 4Q 2021. Coupled with the lower than expected PCE increases in 2022 to date, the downward trending savings rates this year was seen as a sign of how the accelerating inflation is clearly impairing on American household's spending, especially discretionary spending.

Despite the better than expected bounce in GDP expansion for 3Q, we continue to factor in a significant downward shift in the US growth outlook. The main tenet to our weaker US growth projection is the aggressive pace of monetary policy tightening led by the US Federal Reserve & major central banks to tame multi-decade high inflation.

The higher interest rates are already having a clear negative impact on the US housing market, as residential fixed investments plunged -26.8% in 3Q, the largest fall since the onset of the pandemic while monthly housing market data continued flashing red, signalling further erosion in housing demand as mortgage rates exceeded 7% in late Oct from the record low of 2.65% just in Jan 2021 (the current average rate for the benchmark 30-year fixed mortgage is 7.32% as of 27 Nov).

Additional downside risks to growth will be the uncertain export outlook as global growth slows while elevated inflation will continue to eat into demand, and more Fed hikes will further soften consumer and business spending, lowering aggregate demand. Even as US households still have significant excess savings (thanks to the various rounds of COVID-19 fiscal stimulus packages), real disposable income is eroded by rising prices while US saving rates have dipped back to multi-year lows.

Bolstered by the 2.9% bounce in 3Q growth, and even as we factor in a sizeable 3.6% contraction for 4Q, our full year 2022 GDP growth forecast will be higher at 1.6% (from 1.0% projected in the previous quarterly report). However, for 2023, we continue to expect the US economy to fall into a shallow recession by early or mid-2023 due to the combination of elevated inflation, global growth slowdown with a European recession and importantly, the impact from the aggressive Fed rate hikes. We keep our projection for US GDP to contract by 0.5% in 2023. That said, the risk of a deeper recession will rise in tandem with a more protracted and sharper Fed tightening cycle. Interestingly, in the Nov FOMC minutes, Fed staff economists assessed the US "economy would enter a recession sometime over the next year as almost as likely as the baseline", the first such warning since the Fed started raising rates in Mar (2022) but in comparison, FOMC policymakers did not provide a US recession outlook in 2023.

With the Oct US headline inflation printing further below the 9.1% y/y recorded in Jun, and core inflation (excluding food and energy) easing from its recent high of 6.6% y/y (in Sep), we adjusted our forecasts for 2022 accordingly, with headline CPI inflation forecast to average 8.2% and our core CPI inflation forecast to average 6.3% for 2022. Subsequently, we still expect both headline and core inflation to ease in 2023, at an average of 3.0%, and above the Fed's 2% objective. The balance of risk on inflation remains on the upside and the US cost of living is still materially high, largely driven by the persistent rise of food and shelter costs, while services inflation remains elevated amidst ample demand. We remain wary of risks from several potential inflation shocks including rising labour tensions, a new round of global energy price increases, renewed disruptions in supply chains, on-going impact from the Russian-Ukraine conflict, and a larger-than-expected pass-through of wage increases into price increases.

CENTRAL BANK

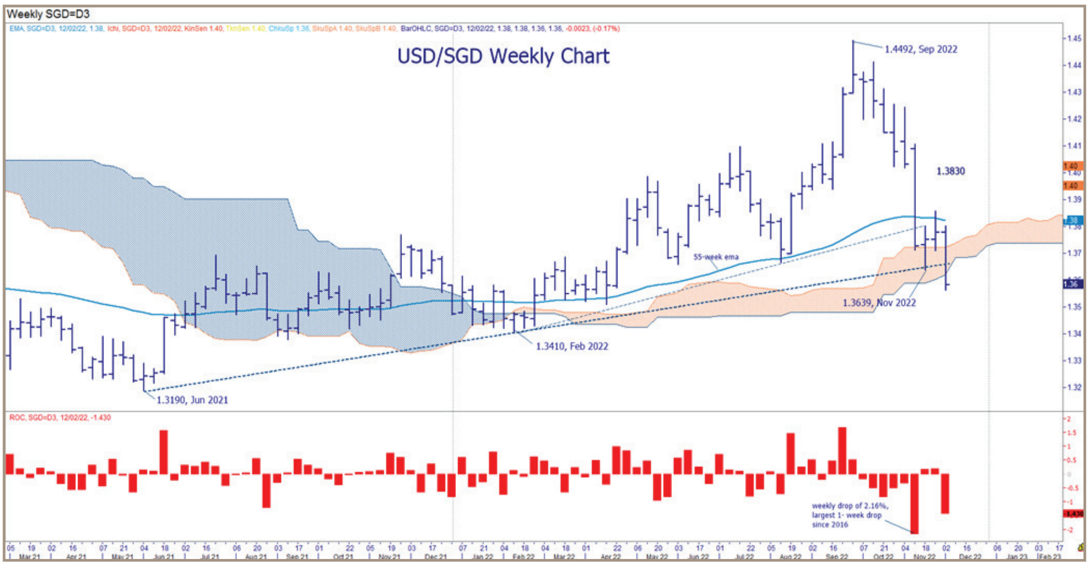
Pivoting, But Not Terminating Yet

The latest Nov FOMC minutes and Fed commentary (from Fed Chair Powell, and FOMC voters Williams and Bullard) continued to give us a combination of a more hawkish trajectory (in the form of a higher terminal rate) and the dovish possibility of smaller rate hikes as soon as the upcoming Dec FOMC. Admittedly, while we are more confident about a downshift in rate hike magnitude this Dec, we are less certain of the terminal point in 2023, based on our understanding of the FOMC minutes. As such, we keep our existing forecast for a 50bps hike in Dec. For 2023, we retain our forecasts of two more 25bps rate hikes, one in Feb 2023 FOMC and another in Mar 2023 FOMC, bringing our terminal FFTR forecast higher to 4.75-5.00% by end 1Q-2023, then a pause to the current rate hike cycle until 1Q 2024.

FX Technicals

USD/SGD: 1.3600

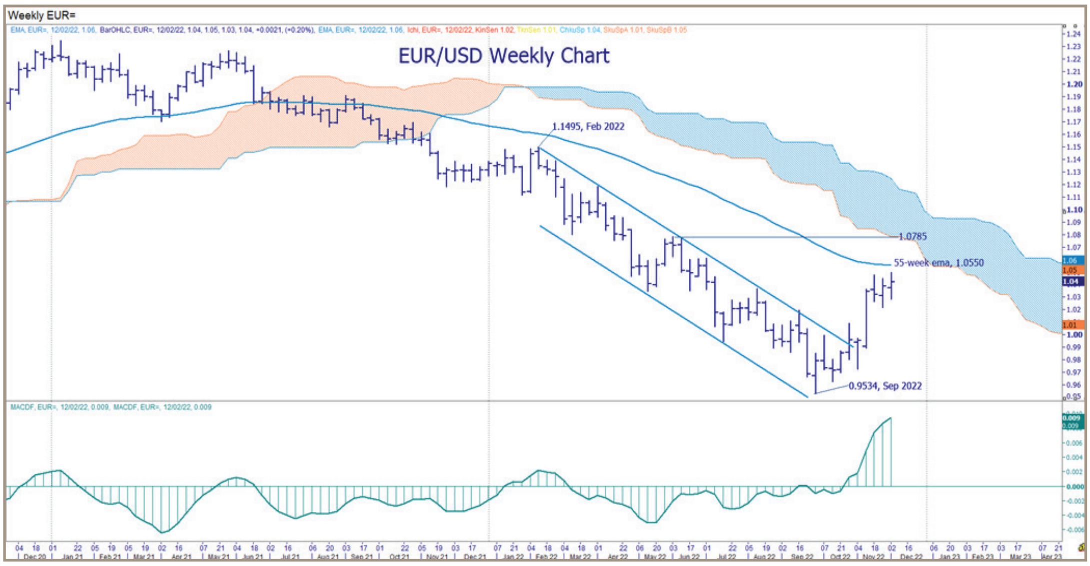
Breach of critical support levels suggests USD/SGD is likely to weaken to 1.3510, as low as 1.3410.



At the time of writing in early Dec 2022, USD/SGD has clearly broken below the 1-1/2 year rising trend line connecting the lows of Feb 2021 and Feb 2022. More importantly, it also broke below the bottom of the weekly Ichimoku cloud. The breach of the two critical support levels suggests USD/SGD is likely to continue to weaken to 1.3510, as low as 1.3410. The downside risk is intact as long as USD/SGD does not move above 1.3850.

EUR/USD: 1.0420

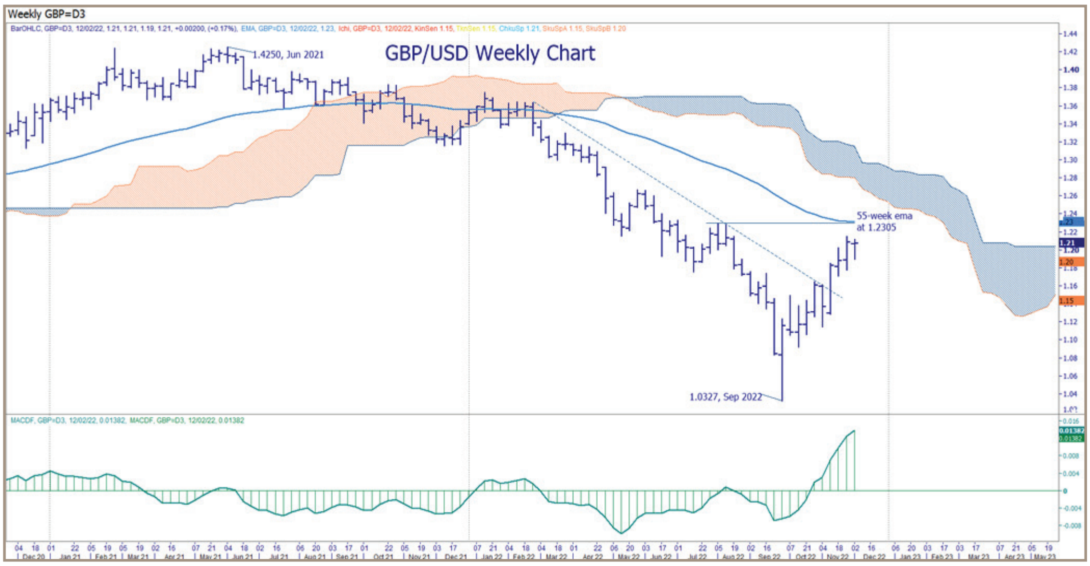
EUR/USD is likely to break above the 55-week exponential moving average resistance at 1.0550; the next resistance at 1.0785 may be difficult to overcome.



EUR/USD broke above the descending channel in late Oct 2022 and quickly raced higher. The strong upward momentum suggests EUR/USD is likely to break above the strong resistance at 1.0550 (55-week exponential moving average). Further gains are not ruled out, but the next major resistance at 1.0785 may be difficult to overcome. On the downside, a breach of 1.0090 would indicate that EUR/USD is not ready to advance further.

GBP/USD: 1.2070

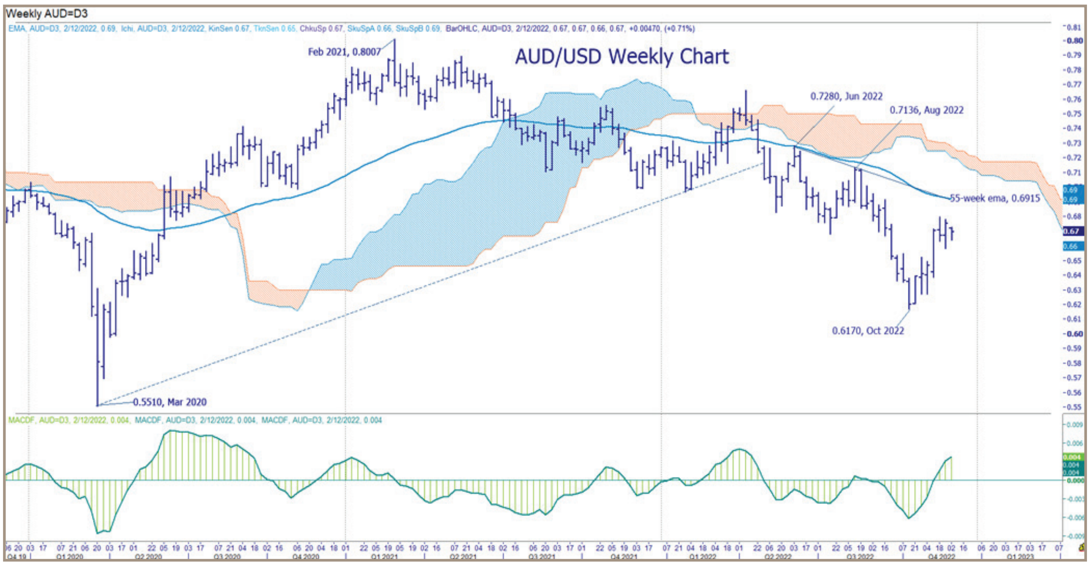
Massive rebound in GBP/USD could rise above the major resistance at 1.2305; the next resistance at 1.2670 is unlikely to come into view.



GBP/USD briefly plunged to a low of 1.0327 in late Sep before staging a massive rebound. The sharp and rapid advance is approaching the major resistance near 1.2305. Note that both the 55-week exponential moving average and the high in Aug 2022 are near this level. A break of this major resistance would not be surprising but the advance appears to be overextended and it remains to be seen if GBP/USD can maintain a foothold above this level. The next resistance at 1.2670 is unlikely to come into view, at least not in the first part of 1Q23.

AUD/USD: 0.6800

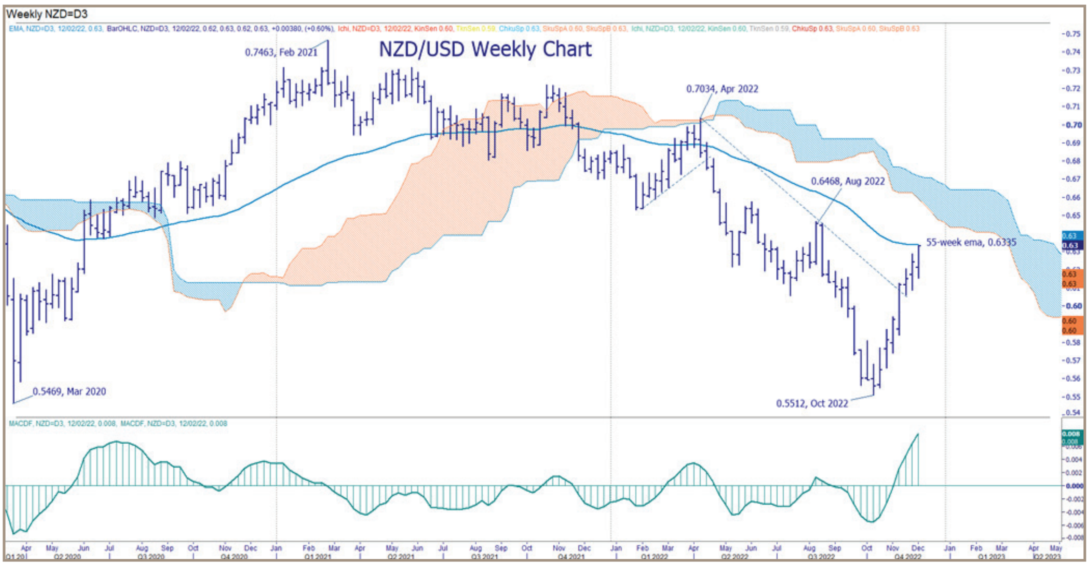
Strong rebound in AUD/USD is likely to extend but any advance is expected to face solid resistance near 0.6915.



AUD/USD dropped to a low of 0.6170 in late Oct 2022 before rebounding strongly. While overbought, the rebound has room to extend but any further advance is expected to face solid resistance near 0.6915. It is worth noting that both the 55-week exponential moving average and the declining trend line connecting the highs of Jun 2022 and Aug 2022 are near 0.6915. If AUD/USD breaks clearly above this major resistance, it would advance further to 0.7040. Support-wise, a break of 0.6400 would indicate that AUD/USD is not ready to test 0.6915.

NZD/USD: 0.6320

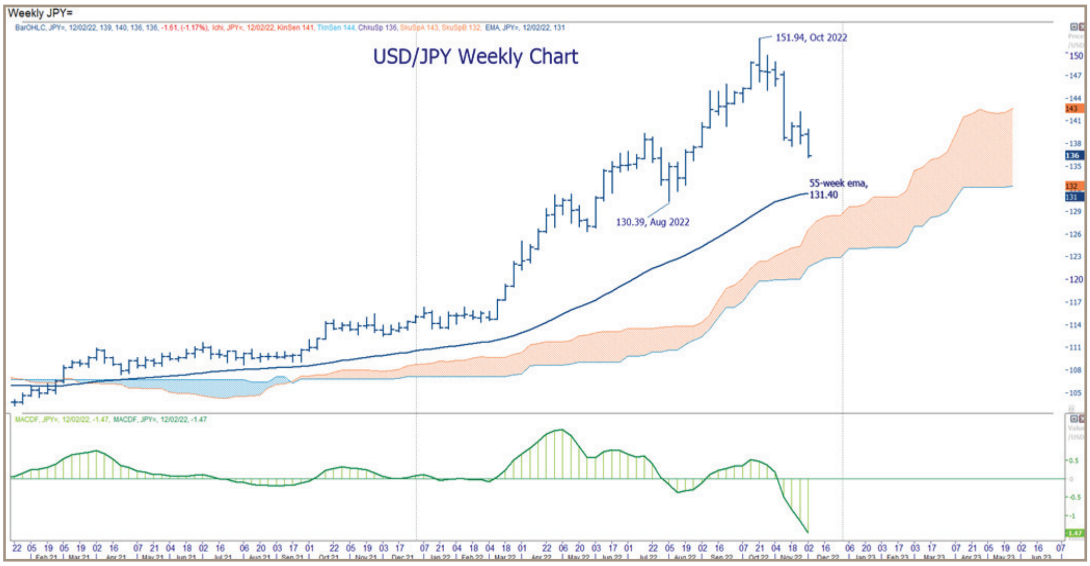
NZD/USD is likely to break the 55-week exponential moving average and head higher toward 0.6470.



NZD/USD dropped to a low of 0.5512 in Oct 2022 before reversing sharply. The strong advance from the low is being accompanied by strong upward momentum. At the time of writing in early Dec, NZD/USD is trading just below the 55-week exponential moving average. NZD/USD is likely to break this resistance and head toward Aug's high near 0.6470. Support is at 0.6150, followed by 0.6060.

USD/JPY: 136.50

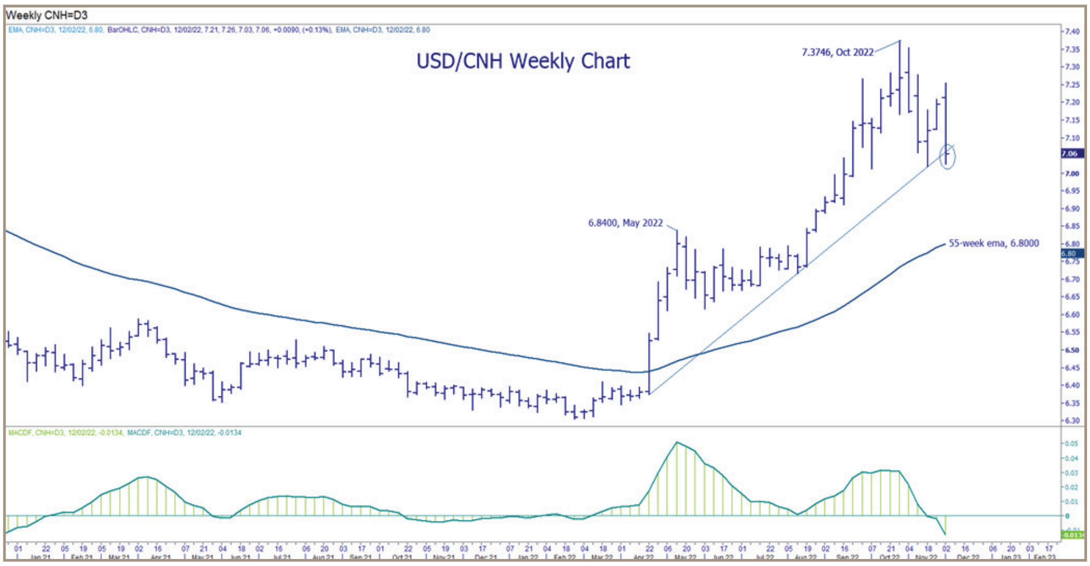
Sharp pullback in USD/JPY is likely to extend to the 55-week exponential moving average near 131.40.



The sharp and outsized pullback from Oct 2022 high of 151.94 has room to extend, likely toward the 55-week exponential moving average, currently at 131.40. Below this major support, there is another near 130.40, the August 2022 low. On the upside, a breach of 142.50 would indicate that the sharp drop in USD/JPY has stabilized.

USD/CNH: 7.0550

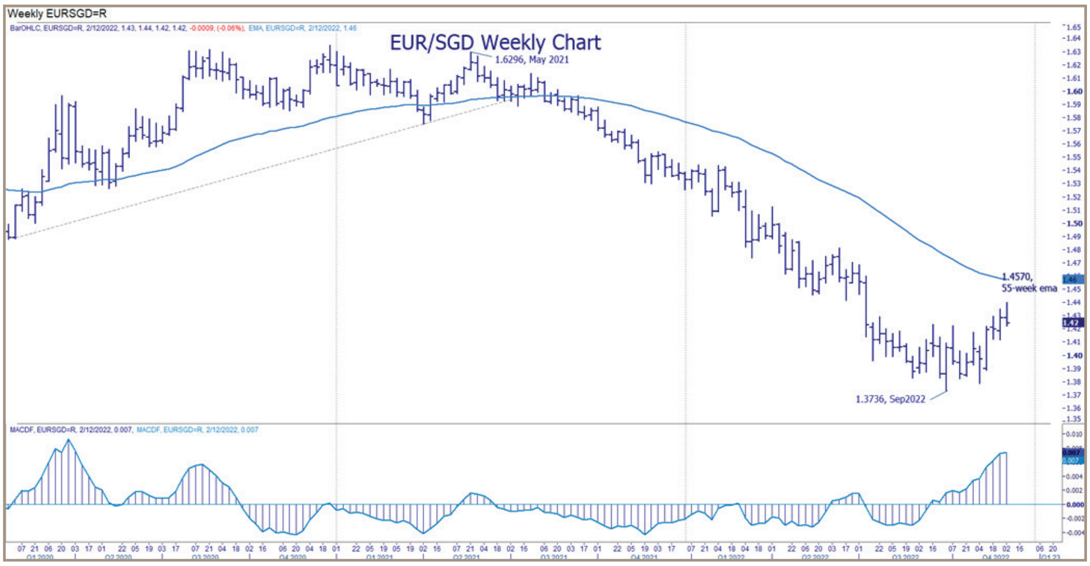
USD/CNH could break 7.0000; the next support at 6.8400 may not come into view.



At the time of writing in early Dec, USD/CNH has taken out the 6-month rising trend line from Apr's low. The breach of the trend line support combined with negative weekly MACD suggests further downside in USD/CNH. A break of 7.0000 would not be surprising but the next support at 6.8400 may not come into view in 1Q23.

EUR/SGD: 1.4200

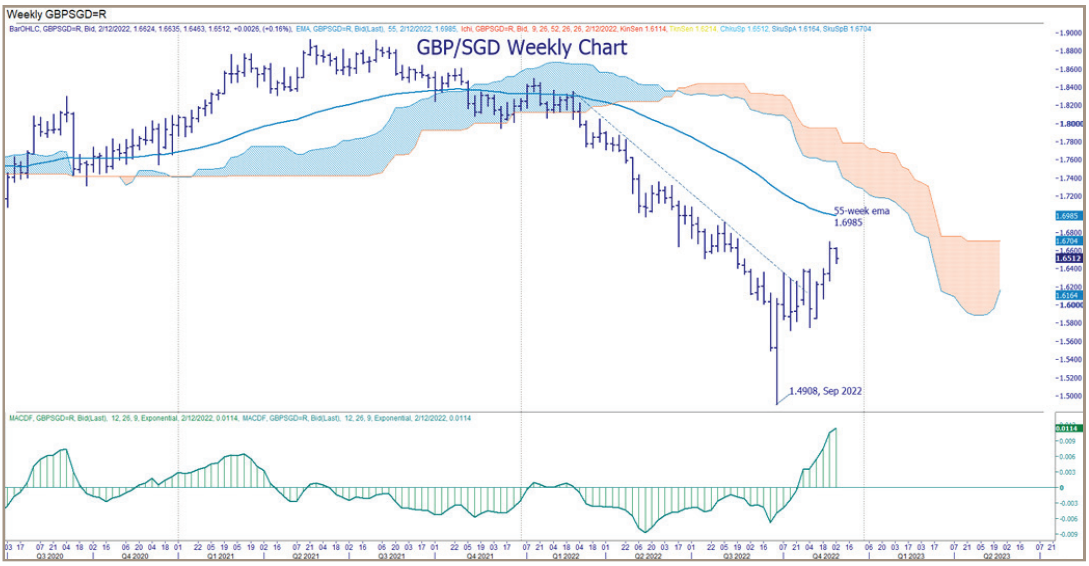
Bias for EUR/SGD is on the upside but any advance is unlikely to break 1.4570.



Despite the relatively strong rebound in EUR/SGD from the Sep 2022 record low of 1.3736, upward momentum has not improved much. However, the bias for EUR/SGD in 1Q23 remains on the upside, but any further advance is unlikely to break 1.4570 (the 55-week exponential moving average). On the downside, a breach of 1.3940 would indicate that the current upward pressure has eased.

GBP/SGD: 1.6450

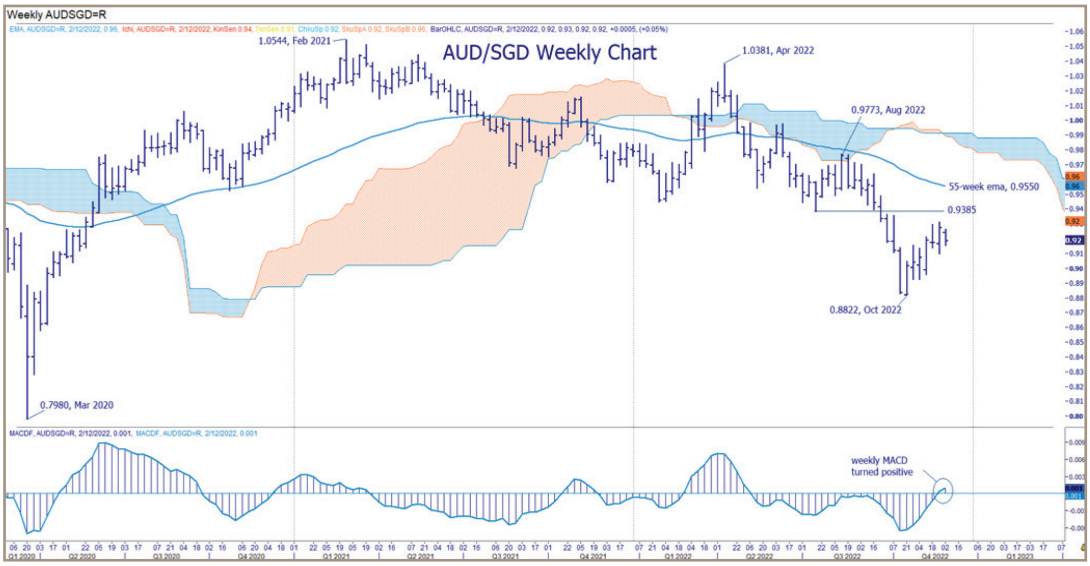
GBP/SGD is likely to advance further but a sustained rise above 1.6985 is unlikely.



While the sharp and swift reversal from Oct 2022 low near 1.4910 is in overbought territory, the rapid rise is not showing any signs of weakness yet. In other words, GBP/SGD is likely to advance further in the first few months of 2023. In view of the overbought conditions, a sustained rise above 1.6985 (55-week moving average resistance) is unlikely. On the downside, support is at 1.6380, followed by 1.6270.

AUD/SGD: 0.9250

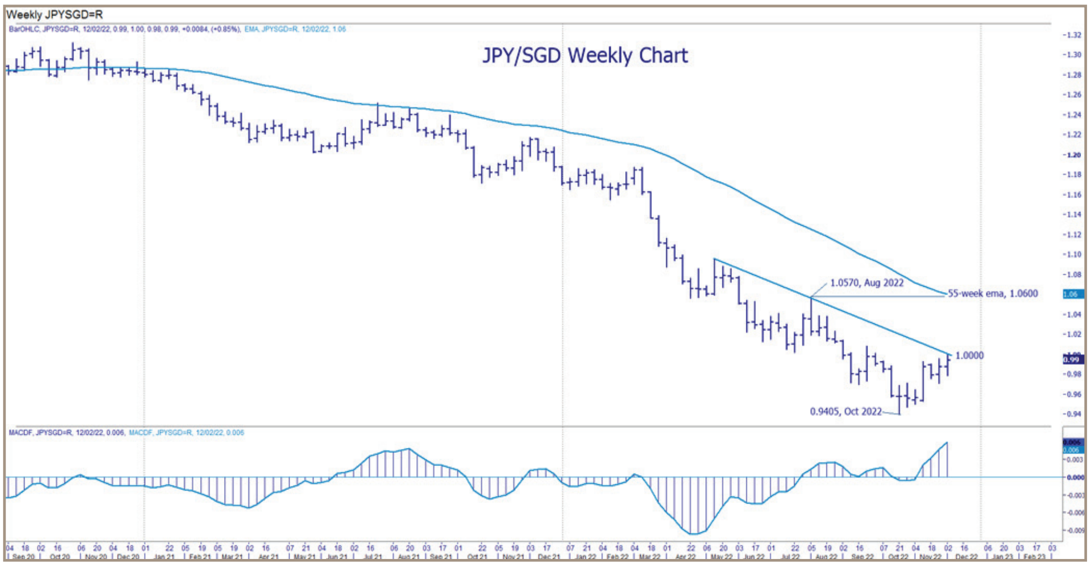
Recovery in AUD/SGD has room to extend above 0.9385.



AUD/SGD plummeted to a low of 0.8822 in Oct before rebounding strongly. Weekly MACD has turned positive and the recovery from the low has room to extend above the resistance at 0.9385. At the time of writing in early Dec 2022, it is premature to expect a break of the major resistance at 0.9550 (55-week exponential moving average). Support is at 0.9070; a breach of 0.8930 would indicate that AUD/SGD is unlikely to recover further.

JPY/SGD: 0.9930

JPY/SGD is likely in the early stages of a recovery phase.

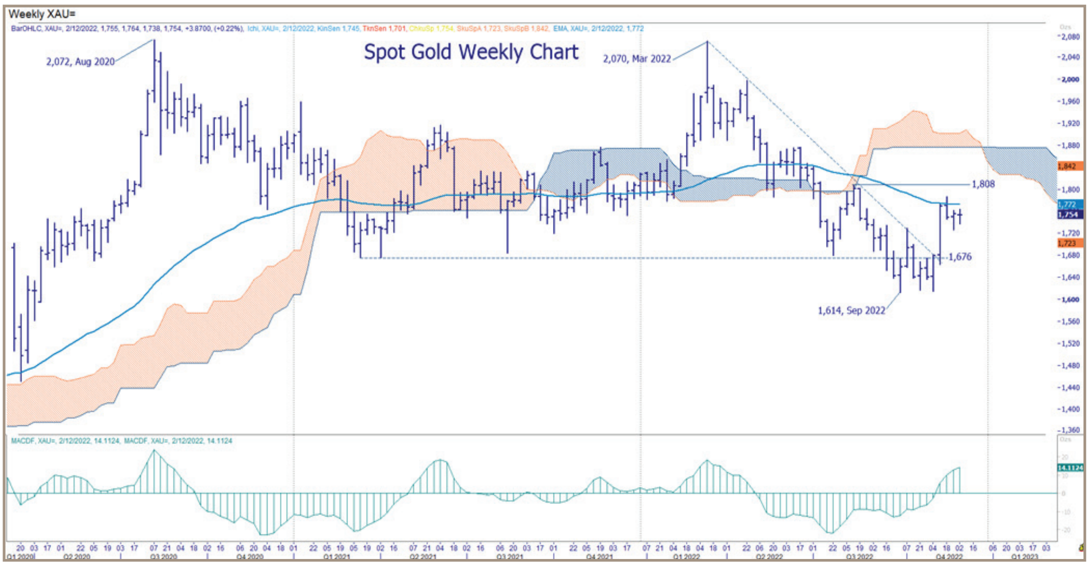


At the time of writing in early Dec 2022, JPY/SGD is trading not far below 1.0000, a major resistance level. Note that both the 21-week exponential moving average and the declining trend line resistance are near 1.0000. A break of this resistance level would not be surprising. Overall, we view the price movements as the early stages of a recovery phase even though JPY/SGD is unlikely to challenge the major resistance at 1.0570 in 1Q23. On the downside, the Oct 2022 low near 0.9405 is not expected to come back into view, at least for the early parts of 1Q23. On a short-term note, 0.9600 is already a strong support level.

Commodities Technicals

Spot Gold
$1,780/oz

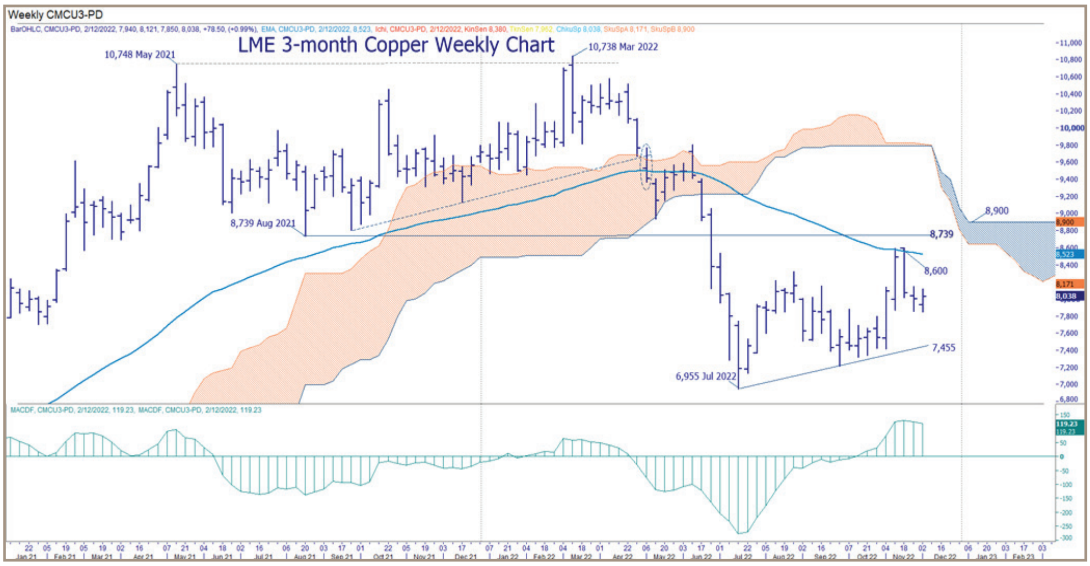
The rebound in spot gold is likely to continue but $1,808 is expected to offer solid resistance.



While spot gold broke below a key support level at $1,676 in Sep 2022, it struggled to extend its decline below $1,615 (spot gold came close but did not break this support level a few times). Since then, spot gold has recovered and broken through the declining trend line resistance from Mar 2022. Weekly MACD has turned positive and this coupled with the break of the trend line resistance has led to a sharp rebound in early Nov. The rebound is likely to continue even though any further advance is likely to face solid resistance at $1,808. Support-wise, a break of $1,670 would suggest spot gold is not ready to challenge $1,808.

LME 3-mth Copper
$8,240/mt

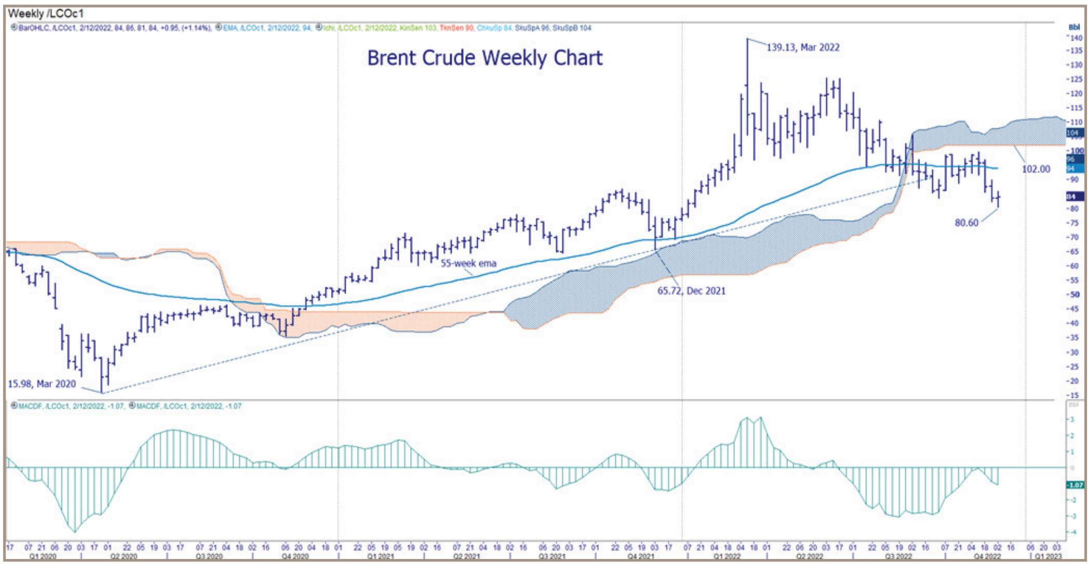
Copper is likely to trade between the two major levels of $7,455 and $8,739.



Copper surged to a high of $8,600 in mid-Nov before pulling back sharply. Despite the sharp rise, upward momentum has not improved much and copper is unlikely to advance much further. Going into the first quarter of 2023, copper is likely to trade between the two major levels of $7,455 and $8,739.

Brent Crude
$86.00/bbl

Brent is likely to trade with a downward bias toward $75.00.



While Brent crude broke below the 2-1/2-year rising trend line in Sep 2022, there was hardly any follow-through on the downside. That said, downward momentum appears to be building again, albeit tentatively. Going into the first few months of 2023, Brent is likely to trade with a downward bias toward $75.00. Resistance is at $98.00; the bottom of the weekly Ichimoku at $102.00 is unlikely to come under threat.

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