Quarterly Global Outlook 1Q 2021

“Global Vaccine Reflation”

UOB

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“Almost all the vaccines will work and with very high efficacy rates … I’m optimistic that by February it’s very likely that they will all prove very efficacious and safe”

Bill Gates when asked about COVID-19 vaccine efficacy at a TV interview in late November 2020

After a very difficult and rather “forgettable” 2020, some light can finally be observed at the end of the tunnel as investors look forward to a more hopeful 2021. News on the fast paced development of COVID-19 vaccines across November raised investor hopes that global health and the global economy will have much to look forward to in 2021. It is encouraging to note that quite a handful of vaccines have made it past the three phases of clinical testing, with many more in the works in the pre-clinical phase. At the moment of writing, one vaccine has already obtained fast-tracked UK government approval !

While there remains much uncertainties over the eventual effectiveness and efficacy of the vaccines, our Conservative Base Case (with 60% probability) see a containment of the COVID-19 pandemic by 4Q21, with gradual removal of social distancing measures across 2H21. Under such a scenario, the global economy will return to growth with an overall GDP of 5.2% YoY, albeit with growth differentiated across different economies and different sectors.

Whereas, our Optimistic “Bill Gates” Scenario (with 25% probability) see an accelerated pace of vaccine approval and effective distribution, speeding up COVID-19 containment by mid-2021, leading to a quicker global recovery of 6.5% YoY. At the other end of the spectrum, our Pessimistic “Zombie” Scenario (with 15% probability) see delays in vaccine approval and rollout, leading to delayed containment only by 2H22. Under such a scenario, growth will slip back to a sub-par rate of 2.5% YoY.

Each of the scenarios will have different implications for the respective economies and will influence the trajectories of their respective currencies, rates and commodities differently as well. We note that as 2020 draws to an end, there is much to be hopeful about 2021. On top of the excitement in the COVID-19 vaccines, Joe Biden takes over as the 46th US President in January, possibly signaling the much welcomed return of more constructive and enduring US leadership on the global stage. We are confident that our Conservative Base Case will pan out and we hope to be pleasantly surprised by an even stronger global recovery. On that note, our entire UOB Global Economics and Markets Research team wishes all readers a very healthy, safe, successful and prosperous 2021 ! Let us all welcome the Year of the Ox with wide open (socially distanced) arms !

Content

Information as of 04 December 2020

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Executive Summary

"Global Vaccine Reflation"

"Almost all the vaccines will work and with very high efficacy rates … I'm optimistic that by February it's very likely that they will all prove very efficacious and safe"

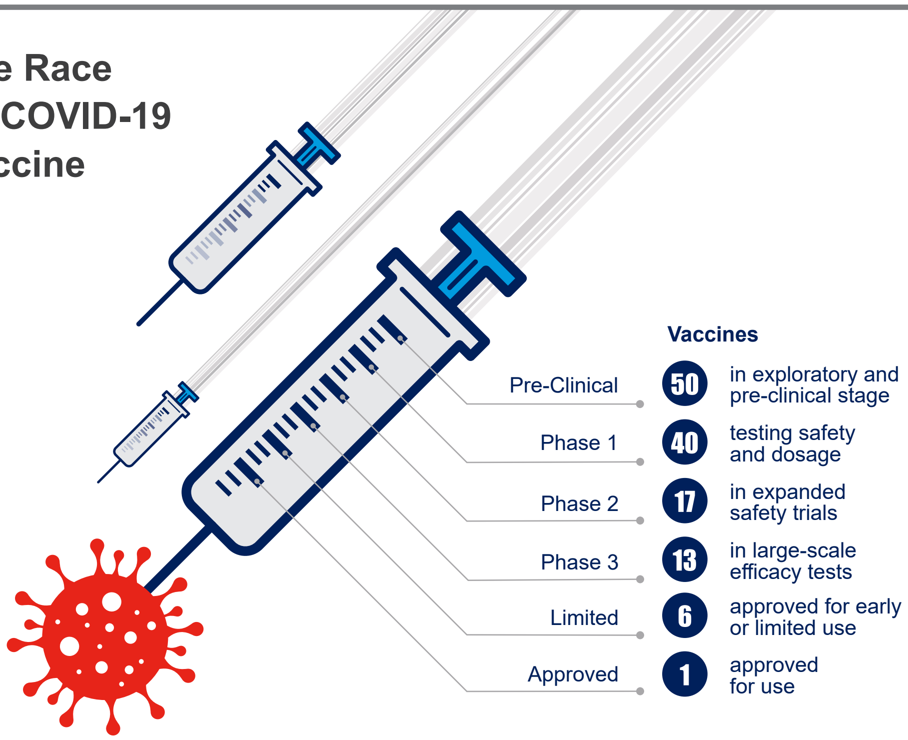
Bill Gates when asked about COVID-19 vaccine efficacy at a TV interview in late November 2020

A series of news on the fast paced development of COVID-19 vaccines across November raised investor hopes that global health and the global economy will have much to look forward to in 2021.

After a very difficult and rather "forgettable" 2020, some light can finally be observed at the end of the tunnel as investors look forward to a more hopeful 2021. A series of news on the fast paced development of COVID-19 vaccines across November raised investor hopes that global health and the global economy will have much to look forward to in 2021. Specifically, when news first broke of the progress in COVID-19 vaccine on 09 Nov, that triggered off a "Vaccine Reflation" trade that saw risk assets being snapped up and lifted the MSCI All Country World Index (ACWI) by a massive 12% across the month of November alone.

According to various pharmaceutical updates, there are many potential COVID-19 vaccines that have progressed way beyond the pre-clinical trials. Out of which, there are currently around 70 "Top" COVID-19 vaccines racing through the three important phases of clinical trials, from Phase 1 testing in small scale groups, to Phase 2 testing in larger groups and finally Phase 3 large scale efficacy and safety trials. The latest news headlines across November focused on the promising results of the top few vaccines under Phase 3 testing with a handful of around 6 vaccines having achieved regulatory approval for limited use.

The Race To COVID-19 Vaccine



Source: Various news reports, UOB Global Economics & Markets Research

While there is much optimism to look forward to for 2021, there remains much uncertainty with regards to the effective use, distribution and eventual success of COVID-19 vaccines.

Indeed, renowned medical philanthropist billionaire Bill Gates has expressed his optimism regarding the efficacy of COVID-19 vaccines. However, Gates has also cautioned that the "next big question" is that once the vaccines are available, how do we distribute the vaccines equitably to people and nations in need. Specifically, he warned that vaccines availability "should not be just rich countries winning a bidding war".

Bill Gates is correct. While there is much optimism to look forward to for 2021, there remains much uncertainty with regards to the effective use, distribution and eventual success of COVID-19 vaccines. Will there be enough vaccines for the world's population? How do nations co-ordinate a global vaccination effort to ensure that the world achieve herd immunity at roughly the same time? Will the vaccine be equitably accessible to both Developed Market nations as well as Emerging Market nations? Will the vaccine come soon enough to help reinforce the nascent global recovery that we saw in 2H20? How soon can global travel return to normalcy following the vaccinations? The list of questions goes on and on. There is so much variability and uncertainty.

With respect to the global economy, we envision three broad scenarios with respect to the vaccine progress and the pace that the COVID-19 outbreak will be brought under control. These will have their respective impact on the macroeconomic outlook for the world's economy and key global economic blocks (the US, Eurozone and China) and translate into divergent outlooks in the FX, Interest Rates and Commodities spaces.

We envision three broad scenarios with respect to the vaccine progress and the pace that the COVID-19 outbreak will be brought under control.

Optimistic "Bill Gates"

Our Optimistic "Bill Gates" scenario, with a 25% probability sees a much quicker multiple vaccine rollout by early 2021 with mass vaccination. This is similar to Bill Gates optimistic assessment of a Feb 2021 timeline of a vaccine rollout. This results in COVID-19 containment by mid-2021 resulting in more optimistic global growth rate of 6.5% YoY for 2021.

This is a more positive outcome, resulting in a further entrenchment of the Risk-On environment that will push Commodities-linked FX and Asian FX to further strong gains against the USD. Yield curves will be repriced significantly higher as policy rate normalisation expectations get upgraded and brought forward.

Conservative Base Case

Our Conservative Base Case scenario, which we ascribe a 60% probability calls for approvals of vaccines and effective rollout across 1H21 with social distancing measures gradually reduced across 2H21, cumulating in COVID-19 containment by 4Q21.

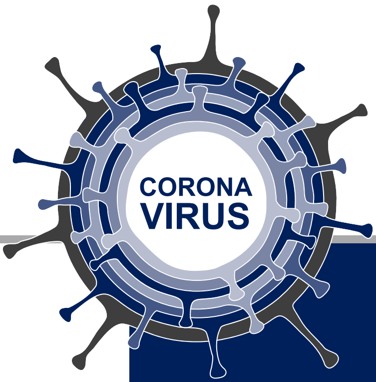
The global economy returns gradually to growth, albeit with an uneven recovery differentiated across sectors. Specifically, the world's economic growth is expected to recover to 5.2% YoY in 2021, from -4.4% YoY in 2020. As a result, there is no change to the current trajectory for gradual USD weakness. Concurrently, reflation expectations will help yield curve steepen gradually.

Pessimistic "Zombie"

Our Pessimistic "Zombie" scenario, which we assign the lowest probability of 15% sees delay in vaccine approval, amidst worries of vaccine safety and efficacy with little willingness for vaccination. Unfortunately, in this case, there is no COVID-19 containment until end of 2021 and this will result in sub-par global growth of 2.5% YoY with on-going supply chain disruption, asset impairment and financial market stress.

The flight to quality will spur broad USD gains and yield curves will flatten yet again as the reflation narrative gets extinguished.

The State Of COVID-19 In 2021



A "Moderate COVID-19 4Q20-1Q21" – The surge of infections is difficult to contain unless stricter restrictions and social distancing measures are imposed. Hospitalisation rates rise but does not overwhelm the healthcare system. No country-wide lockdown but services-related industries deeply impacted. Manufacturing stay open while online economic activity thrives.

	Optimistic "Bill Gates"	Conservative Base Case	Pessimistic "Zombie"
Probability	25%	60%	15%
Vaccine Approval & Effectiveness In Rollout And Adoption	Multiple vaccines are effective and approved in late 2020/ early 2021, with quick efficient rollout and adoption. To rollout first in developed economies and followed by developing economies. Widespread willingness to receive the vaccination. Most of the social distancing measures to end by mid-2021.	Some vaccines proved to be effective and approved within 1H-2021. Relatively efficient rollout for developed economies but delayed availability for developing economies by 2H-2021. Acceptable level of willingness to receive vaccination. Most social distancing measures end only gradually in 2H-2021.	Delays in vaccine approvals due to safety concerns, and an effective approved vaccine is only available in 2H-2021. The widespread concerns about vaccine safety, resulting in low willingness to receive vaccination in the early part of the rollout. Intermittent lockdown and social distancing measures persist till 2022.
COVID-19 Containment Timeline	By Mid-2021	By 4Q-2021	By 2H-2022
Global Economic Outlook	Growth is more positive than previous projection, with services previously impacted materially by COVID-19 seeing meaningful rebound (tourism-related, F&B, travel-related, entertainment)	Return to growth but rebound is more subdued. Uneven recovery, differentiated between economies, and within economies differentiated between sectors. (manufacturing, e-commerce vs in-person services)	Sub-par growth for full year, some supply chain disruption and demand destruction, an intermittent financial stress environment
2021 Economic Growth (%) — Global / US / Eurozone / China	6.5 / 4.0 / 6.5 / 10.0	5.2 / 2.8 / 5.2 / 8.2	2.5 / 0.5 / 2.3 / 5.5
Rates Outlook	Widespread optimism will be reflected as higher longer term yields. Policy rate normalization expectations will be upgraded. But 2021 rate hike probability remains remote. Yield curves can reprice significantly higher.	Hopes for reflation will mitigate downside in yields. Policy rate normalization expectations fluctuates between 2-3 years' time. Yield curve gradually steeper with episodes of retracement driven by uneven economic recovery.	Reflation narrative extinguished and replaced by aggressive and front loaded fiscal and monetary responses. More QE and perhaps yield curve control will drive longer term yields lower and flatten the yield curve.
FX Outlook	Asian EM currencies gained strongly vs USD as a result of portfolio inflows. Commodity-linked FX such as AUD to benefit from strong risk appetite and commodity upswing.	Our gradual USD weakness intact – most G-10 and Asian FX gained modestly against the USD.	Flight-to-quality spurred broad-based USD gains, particularly against Asian EM which relied on investors flows.

Source: IMF, UOB Global Economics & Markets Research

Global Economic Outlook

China And Asia To Lead US And Europe In Global Reflation

Specifically, within our Base Case Scenario, there are several noteworthy themes that may play out across 2021:

First, in terms of global economic outlook, China and Asia appear to be the safest bet in terms of a clear and consistent growth recovery path. China has controlled the COVID-19 outbreak much better than the US and Europe. Not only will China's economy be the ONLY major economy in the world to register positive growth in 2020, its economic recovery is expected to strengthen further in 2021 with a forecasted above trend GDP growth rate of 8.2% YoY. China's long term plan to double its nominal GDP in the coming 15 years would imply that GDP needs to grow an average of 4.5% per year for the next 15 years. It is important to note that across all our three scenarios, China fares the best in growth outlook and is expected to perform better than the US and the Eurozone.

On the other hand, the US economy is still being held hostage by a raging COVID-19 pandemic amidst a difficult transition for President-elect Joe Biden. A further delay in fiscal stimulus also risks extending the 4Q20 growth malaise into 1Q21. Eurozone is not faring any better as its major economies are gripped by deflation with the weaker economies weighed down by significantly elevated fiscal debt load as a result of the COVID-19 stimulus efforts. 2021 will also present much uncertainty politically for the Eurozone given that German Chancellor Angela Merkel will be due for retirement. The absence of her steady and understated leadership will be sorely missed at a time of intense economic stress across the Eurozone.

FX Strategy

Stay Negative On The USD for 2021 But Watch Upside Risks

Second, in the FX space, we maintain the course for the on-going backdrop of gradual US Dollar weakness. The global reflation trade in 2021 is positive for risk assets and a clear negative on the USD, adding to the prevailing drivers of USD weakness in 2020. On-going ultra-easy monetary policy and extended quantitative easing from the US Federal Reserve will keep US money supply elevated and continue to depress the US Dollar. In fact, over the past month, the USD has weakened considerably further.

Most G-10 and Asian FX will continue to gain against the USD and the DXY will slide lower to test the psychological support at 90. Specifically, we see EUR/USD climbing further to 1.24 by 3Q21. Similarly, we see further strength in CNY to 6.35 against the USD by 3Q21 as well. The SGD will track the CNY in terms of gradual strength against the USD and rise modestly to 1.30 by 3Q21.

However, the pace of the USD weakness would likely moderate as the strong V-shaped economic recovery across 2Q and 3Q of 2020 may not be sustainable. As US Federal Reserve Chair Jerome Powell warned, the outlook for the US economy remains "extraordinarily uncertain".

While our base case remains that of gradual USD weakness, this uncertainty in the US economy may well translate into tail risks for US Dollar strength instead. Should vaccine reflation fail and we relapse into a similar 2Q20 style sharp growth contraction and intense risk aversion, the sell-off in global assets may well trigger an unwelcomed spike in USD. This outcome is possible as envisioned under our pessimistic "Zombie" scenario.

Rates Strategy Translating Reflation Themes Into Rates Markets

Third, in the Rates space, while forward money market implied rate expectations were somewhat buoyed by recent series of vaccine news, there is no immediate risk of monetary policy tightening. Existing forward curve only implies the first FED rate hike in about three years. Stopping short of an unexpected surge in inflation outlook, the FED's Average Inflation Targeting regime will ensure that short term rates stay glued to zero for the foreseeable future. As such, we see 3M US Libor, 3M SG Sibor and 3M SG SOR staying anchored just above zero at 0.25%, 0.35% and 0.25% respectively across 2021. While the runway for full cessation for Libor is now extended from Dec 2021 to Jun 2023, we continue to see the central tendency for new risk free rates SOFR and SORA to be anchored around 0.10% across 2021.

In the longer dated Treasuries, the reflation of the global economy across 2021 is supportive of steeper yield curves. The challenging US fiscal outlook also supports the case for gradual rise in longer dated US Treasuries yields, translating as well to a steeper yield curve. Specifically, we see 10Y UST yield rising to 1.00% by 1Q21 and to 1.20% by end 2021.

Further traction in reflationary themes benefits SGS performance over UST across the medium term resulting in a gradual narrowing of yield spread between SGS and UST. As such, we see 10Y SGS yield rising to 1.10% by 1Q21 and catching up with 10Y UST yield at 1.20% by end 2021.

Commodities Strategy Gold's Rally Stalls On Vaccine News As Copper And Brent Play Catch-Up

Not all assets react positively to news of progress in COVID-19 vaccines. Gold and other precious metals reacted rather negatively and encountered heavy selling across November as the vaccine news broke. After briefly popping above USD 2,000 / oz in August, gold stumbled and subsequently even got sold off below USD 1,800 / oz by late Nov. A resurgent bitcoin which rallied strongly towards a new record high just under USD 20,000 appeared to have stolen the thunder from gold as the preferred "anti-Dollar" hedge. While on-going near term liquidation of extended ETF positioning may weigh down on gold, the medium term prospects for gold remain unchanged. Specifically, the FED is not in a hurry to raise rates in the immediate few years and until the COVID-19 pandemic is brought firmly under control, the FED is expected to maintain and even enhance its QE. As such, we stay positive in our medium term outlook for gold but we adjust our point forecasts lower given the set-back in price action. Overall, we now forecast gold to rise to USD 2,000 / oz by end 2021, versus the previous mid 2021 forecast of USD 2,200 / oz made in the Sep 2020 quarterly.

In the industrial metals space, copper continued to surprise us with further strength across 4Q. After trading above USD 7,000 / MT in early November, LME Copper continued its strong rally to rise further towards USD 7,700 / MT. The expectations of global economic reflation as a result of vaccines has greatly benefited copper. Objectively, recent strong price action appears supported by large drawdowns in inventory as well as strong imports of unwrought Copper by China. However, looking ahead in 2021, the COVID-19 production disruption will likely ease and copper mining production is projected to rebound by a massive 4.6% in 2021. As such, LME Copper prices may have run ahead of the vaccine reflation expectations and we see consolidation around the USD 7,000 / MT level in 1H21 before gravitating back towards USD 7,500 / MT in 2H21.

Finally, in the energy space, Brent crude oil was the clear laggard as it remains hostage to a fractious OPEC. US rig counts have dropped to decade lows as the slump in energy price across 2Q20 forced the shut down in shale oil production. However, with energy prices recovering towards the USD 50 / bbl handle, the possible return in shale oil production also weighs down on crude oil. The lack of consensus within OPEC as well as with Russia and its key allies is a key negative for Brent crude especially now that they have compromised with a controlled production hike of 500k bpd in Jan 2021. Overall, despite the expected global economic reflation, we see limited gains in Brent crude oil ahead. Our updated forecast for Brent crude oil calls for USD 50 by 1Q21 and 2Q21, followed by USD 55 by 3Q21 and 4Q21.

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

Asia Focus
RCEP To Drive Further Economic Cooperation

The aim of the RCEP is to lower tariffs, open up trade in services, facilitate the flow of foreign investments, and enhance protections in areas such as e-commerce and intellectual property with the broadening and deepening of economic and trade linkages among its members.

The RCEP countries would need to ratify the Agreement for it to come into force, including six ASEAN countries and three non-ASEAN countries. This is expected by next year, 2021.

Malaysia Focus
Budget 2021, Spending Big To Revitalise The Economy

This is the first budget under the 12th Malaysia Plan (12MP) 2021-2025, comprising of measures aligned to the medium-term development of the country under the new normal.

Budget 2021 will see the Malaysian government allocate an unprecedented expenditure of MYR322.5bn (20.6% of GDP) for next year. This alongside a projected higher revenue collection of MYR236.9bn (15.1% of GDP) will result in a budget shortfall of MYR84.8bn (5.4% of GDP) in 2021.

Indonesia Focus
Opportunities And Challenges Of Indonesia's Omnibus Law

The House of Representatives of the Republic of Indonesia and the Indonesian government passed the Omnibus Law on 5th October 2020, after spending approximately 8 months of deliberation. The law is by far the most ambitious and complicated piece of legislation in Indonesia.

The law provides new provision and amendments to the 76 existing sectoral laws aimed to enhance investment ecosystems to draw more foreign direct investment (FDI) and much improve the ease of doing business in Indonesia, which may in turn create more job opportunities.

The bill was delivered to the President Joko Widodo on 16th October who signed the bill into Law No. 11/2020 on 2nd November.

Global FX

USD/JPY: This year saw USD/JPY's sensitivity to risk assets and US Treasury yields fade. Instead, the currency pair had a stronger correlation to the US Dollar Index (DXY). We expect broad USD weakness to persist in 2021, and USD/JPY will grind lower. We reiterate our existing set of forecasts, which are at 104 in 1Q21, 103 in 2Q21, and 102 in both 3Q and 4Q21.

EUR/USD: The global reflationary tailwind is likely to continue to bid up the EUR/USD in 2021 but gains may be limited by rate differentials which are now closer to neutral levels after closing aggressively in favor of EUR in 2020. Overall, our updated EUR/USD forecasts are lifted from the previous review, at 1.22 in 1Q21, 1.23 in 2Q21, and 1.24 in both 3Q and 4Q21.

GBP/USD: With our expectation for an eleventh-hour Brexit deal, our previously cautious stance on GBP/USD has now been upgraded to a moderately bullish view. While the fog of Brexit can finally clear, at the same time, we also curb our enthusiasm on the GBP. The economic outlook remains highly uncertain depending on the virus situation in the UK and the specter of negative rates is a lingering headwinds for the currency. Overall, our GBP/USD forecasts are updated to 1.35 in 1H21 followed by 1.36 in 2H21.

Global FX

AUD/USD: Against a backdrop of surging global risk appetite and a robust China recovery which spurred demand for Australia's commodity exports, the AUD is still unbeatable. Even renewed easing by the RBA in early November only had a short-lived effect on the currency. AUD/USD rebounded strongly off 0.70 and is trading closer to 0.74 as at early December. In 2021, the global reflationary theme is a key positive driver for the AUD/USD and we lift our forecasts by 100 pips across the next 4 quarters. Our updated point forecasts are now 0.74 in 1Q21, 0.75 in 2Q21, and 0.76 in both 3Q and 4Q21.

NZD/USD: Going forward, as long as the global reflation theme stays intact, a buoyant risk appetite and broad USD weakness are likely to continue to support the NZD. Our updated forecasts for NZD/USD are 0.71 for 1Q21, 0.72 for 2Q21, and 0.73 for both 3Q and 4Q21.

Asian FX

USD/CNY: While China's macroeconomic advantage over its global peers may extend into 2021, a narrowing of its growth differential may see gains in CNY moderate. Also, PBoC's moves in October to cut its FX risk reserve ratio to 0% from 20% and the phasing out of its Counter Cyclical Factor (CCF) in quotation model of the CNY central parity rate were seen as signs that authorities are getting uncomfortable with one-sided CNY gains. As such, the almost 8% jump of the CNY against the USD in 2H20 is unlikely to be repeated. Overall, our USD/CNY forecasts are updated to 6.50 in 1Q21, 6.45 in 2Q21, and 6.35 in both 3Q and 4Q21. From a medium to long term point of view, USD/CNY is now heading back to the middle of the broad 6.0 to 7.0 trading range.

USD/SGD: In the coming year, the global reflation theme is likely to underpin risk appetite which in turn would weigh on the USD. So, we reiterate our view of further modest SGD gains against the USD. Our updated USD/SGD forecasts are at 1.32 in 1Q21, 1.31 in 2Q21 and 1.30 in both 3Q and 4Q21.

USD/HKD: With the closing of the 3M Hibor-Libor spread in November, a key driver of HKD strength – the HKD carry trade – has faded away. While USD/HKD has lifted off slightly from the lower bound of its Convertibility Undertaking (CU) at 7.75 in November, the normalization of USD/HKD higher may not come just yet. Inflows into Hong Kong equity markets remain strong and are likely to underpin further demand for the HKD. As such, we reiterate our view that USD/HKD would stay glued to 7.75 for the next 4 quarters in 2021.

USD/TWD: Into 2021, expectations of a global reflation add to the prevailing strong tailwinds in favor of the TWD. As such, the risk is still to the downside of USD/TWD, albeit in more moderate fashion. Our updated forecasts are at 28.50 in 1Q21, 28.20 in 2Q21, and 28.00 in both 3Q21 and 4Q21. A key risk to the outlook is a significant deterioration of the global COVID-19 situation in 2021 which may trigger a normalization of the "over-valued" TWD.

USD/KRW: In 2021, the global reflation trade together with an expected rebound of the South Korean economy are likely to support further gains of the KRW against the USD. Our updated USD/KRW forecasts are 1,080 in 1Q21, 1,060 in 2Q21, and 1,050 in both 3Q and 4Q21. A key risk to the outlook is a more severe-than-expected third (or subsequent) wave of virus infections which would quash the nascent economic recovery and dent sentiments on the KRW.

USD/MYR: Going into 2021, the MYR continues to draw strength from Asia's robust growth recovery particularly in China. Expectations of higher crude oil prices could also reinforce the positive sentiment towards MYR. Meanwhile renewed monetary policy easing across the developed markets and positive interest-rate differentials further underpins foreign portfolio funds entering emerging markets, including Malaysia. We project USD/MYR at 4.00 by end-2Q21 and 3.95 by end-4Q21.

ASIAN FX

USD/IDR: With the domestic economic outlook still uncertain and further rate cut expected, sustained gains in the IDR beyond 14,000 appears unlikely. However, broad USD weakness would mean any rebound in USD/IDR is likely to be confined within familiar ranges. Our updated USD/IDR forecasts are at 14,300 in 1Q21, 14,350 in 2Q21, 14,400 in both 3Q and 4Q21.

USD/THB: With the authorities' clear emphasis to slow THB's gains in the near term, a sustained appreciation beyond its key psychological level at 30 /USD appears unlikely. As such, we continue to be cautious on the THB, weighed by a fragile economic recovery. Our updated USD/THB point forecasts are 30.00 for 1Q21, 30.30 in 2Q21 and 30.50 for both 3Q and 4Q21.

USD/PHP: Looking at the year ahead, we think PHP will maintain its short-term resiliency as broad dollar weakness is expected to continue into 2021. The country's net external creditor position, low foreign holdings of local currency debt, ample foreign reserves, and solid fundamentals will also likely temper expectations for a reversal in the current account to deficit as consumer demand and import activities pick up with the further reopening of the economy. Hence, we project USD/PHP to edge down gradually to 47.50 by mid-2021 and 47.00 by end-2021.

USD/VND: Underpinned by its resilient economy which is expected to register an almost pre-pandemic growth rate of 7.1% next year, we see further scope for VND gains. Also, given increased scrutiny from the US Treasury, Hanoi is less likely to intervene directly in the markets to temper with the VND's strength. Overall, we reiterate a modestly lower trajectory for USD/VND, with point forecasts at 23,000 in 1Q21, 22,800 in 2Q21, and 22,600 in both 3Q and 4Q21.

USD/MMK: With the USD expected to continuously weaken broadly in 2021, MMK is likely to stay strong but further gains may be capped as we approach the key 1,300 level. Our updated point forecasts for USD/MMK are 1,325 in 1Q21, followed by 1,300 for the remainder of 2021.

USD/INR: As before, domestic growth headwinds would continue to be a key negative factor weighing on the INR. While India's growth is expected to rebound in FY2021/22, it is still subject to downside risks as its COVID-19 outbreak is still not under control. As such, we keep to our higher trajectory in USD/INR. Our updated forecasts are 74.30 in 1Q21, 74.50 in 2Q21, 75.00 in 3Q21 and 75.50 in 4Q21.

CENTRAL BANK OUTLOOK

FED
United States

15/16 December 2020 Next Meeting	**0.25%** Current Rate	
-150bps YTD Change	**0.25%** End-1Q 2021	

Potentially smaller (or no) fiscal stimulus and expiration of some emergency lending facilities on 31 Dec are likely to lead the Fed to lower its 2021 growth projection and expand easing via adjusting the asset purchase program, either shifting purchases to longer-maturities or extending QE program period.

BOJ
Japan

17/18 December 2020 Next Meeting	**-0.10%** Current Rate
0 YTD Change	**-0.10%** End-1Q 2021

The BOJ will continue its part to support the recovery. We expect monetary policy to ease further, most likely through increasing JGB purchases and expanding lending facilities to corporates and SMEs. The ETF and corporate bond buying program could also be enhanced (at a later date).

ECB
Eurozone

10 December 2020 Next Meeting	**0.00%** Current Rate
0 YTD Change	**0.00%** End-1Q 2021

The ECB is likely to extend and increase the PEPP – with an additional EUR450bn to EUR1.8tn, and the implementation period could stretch beyond the current guidance that purchases will be made until at least June 2021, with reinvestment "at least" to the end of 2022.

Central Bank	Next Meeting	Current Rate	Outlook
BOE United Kingdom	**17 December 2020** Next Meeting **-65bps** YTD Change	**0.10%** Current Rate **0.10%** End-1Q 2021	We think the BOE may hold the QE target at its current level of GBP895bn for now. Whilst negative rates remain an available monetary tool and possible choice, we think a fall in the Bank Rate to zero will be the preferred option first.
RBA Australia	**2 February 2021** Next Meeting **-65bps** YTD Change	**0.10%** Current Rate **0.10%** End-1Q 2021	Our view remains for the RBA to hold off bringing the policy rate into negative territory. If the need for further monetary easing arises, more QE and yield curve control are likely to be considered first.
RBNZ New Zealand	**24 February 2021** Next Meeting **-75bps** YTD Change	**0.25%** Current Rate **0.25%** End-1Q 2021	The introduction of the FLP is seen as a key step towards the RBNZ cutting the OCR into negative territory next year. However, in our view, the odds of a negative OCR have reduced for now.
PBOC China	**21 December 2020** Next Meeting **-30bps** YTD Change	**3.85%** Current Rate **3.85%** End-1Q 2021	Calls for an eventual monetary policy normalisation and refocus on deleveraging will only get louder in 2021 when the Chinese economy gains momentum. However, there should be no surprises there as policymakers have signalled that the timing and exit strategy will be carefully deliberated.
CBC Taiwan	**17 December 2020** Next Meeting **-25bps** YTD Change	**1.125%** Current Rate **1.125%** End-1Q 2021	Taiwan's growth has rebounded strongly while there are now risks of overheating from the capital inflows and rising investments and credit. However, interest rate normalization is not expected to come into the picture yet given the fragile state of the global recovery while domestic price pressure has remained tame.
BOK South Korea	**15 January 2021** Next Meeting **-75bps** YTD Change	**0.50%** Current Rate **0.50%** End-1Q 2021	We maintain our call for BOK to remain on hold at 0.50% through 2021 to facilitate the economic recovery. Fiscal responses are preferred should the economic recovery stall, BOK has reiterated its readiness to purchase government bonds in case of market volatility.
BSP Philippines	**17 December 2020** Next Meeting **-200bps** YTD Change	**2.00%** Current Rate **2.00%** End-1Q 2021	BSP will likely maintain status quo after considering vaccine supply by 1H21, the enactment of larger 2021 budget, negative real interest rates, and narrowing interest rate differentials with other central banks. Fiscal support is deemed more effective in revitalising growth from the health crisis as compared to monetary policy.
MAS Singapore	**April 2021** Next Meeting **-0.5%** YTD Change	**0%** Current Policy Slope **No change** End-1Q 2021	MAS' tone in its October's MAS Monetary Policy Statement remains cautious at best. Despite a GDP contraction in 2020, Singapore's macroeconomic indicators so far have shown signs of recovery. Our base case is for the MAS to keep policy parameters unchanged in its upcoming April 2021 meeting.

BNM
Malaysia

19/20 January 2021
Next Meeting

-125bps
YTD Change

1.75%
Current Rate

1.75%
End-1Q 2021

BNM cut its policy rate by cumulative 125bps in 2020 as the effects of the pandemic and movement restrictions continued to weigh on the economy. Despite lingering downside risks to growth, we expect BNM to keep rates unchanged through 2021 as government steps up fiscal and stimulus policy support.

BI
Indonesia

16 December 2020
Next Meeting

-125bps
YTD Change

3.75%
Current Rate

3.50%
End-1Q 2021

We keep the view that BI may cut the BI 7 Day Reverse Repo rate by another 25bps in Q1 2021 to 3.50% as growth recovery could still be at best uncertain and thus require further monetary support while fiscal disbursement remains somewhat lagged in supporting the broader pace of the economic recovery.

BOT
Thailand

23 December 2020
Next Meeting

-75bps
YTD Change

0.50%
Current Rate

0.50%
End-1Q 2021

Coupled with the need to preserve policy space, the better-than-expected 3Q20 GDP performance suggests that Thailand is on the path to recovery. As such, we keep our call for BOT to leave its benchmark rate unchanged at 0.50% for the rest of 2020.

SBV
Vietnam

NA
Next Meeting

-200bps
YTD Change

4.00%
Current Rate

3.50%
End-1Q 2021

Unevenness of Vietnam's recovery is clouding the near term outlook of domestic sectors such as tourism businesses. We look for SBV to cut 50bps by end-2020, to bring the refinancing rate to new record low of 3.50% and rediscount rate to 2.0%.

CBM
Myanmar

NA
Next Meeting

-300bps
YTD Change

7.00%
Current Rate

7.00%
End-1Q 2021

An uptick in inflation (despite weak domestic demand) and the view that fiscal policy is more effective in combatting a pandemic as compared to the incremental easing of monetary policy, are likely factors for the CBM to stay on pause until end-2021.

RBI
India

25 February 2021
Next Meeting

-115bps
YTD Change

4.00%
Current Rate

3.75%
End-1Q 2021

With India's first technical recession in history amid softer high-frequency data of late, further policy accommodation could still be on the cards especially if the COVID-19 pandemic worsens in 4Q and into early 2021. This could persuade policy-makers to cut its policy repo rate by 25bps at its next meeting.

Real GDP Growth Trajectory

y/y% change	2019	2020F	2021F	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20F
China	6.1	1.9	8.2	6.4	6.2	6.0	6.0	-6.8	3.2	4.9	6.2
Hong Kong	-1.2	-6.1	6.5	0.7	0.4	-2.8	-3.0	-9.1	-9.0	-3.5	-2.9
India	4.2	-9.0	8.5	5.7	5.2	4.4	4.1	3.1	-23.9	-7.5	-7.5
Indonesia	5.0	-1.5	4.3	5.1	5.1	5.0	5.0	3.0	-5.3	-3.5	-0.3
Japan	0.7	-5.5	2.8	0.8	0.9	1.7	-0.7	-1.8	-10.8	-5.8	-3.7
Malaysia	4.3	-5.5	6.0	4.5	4.8	4.4	3.6	0.7	-17.1	-2.7	-3.0
Philippines	6.0	-9.5	7.0	5.7	5.4	6.3	6.7	-0.7	-16.9	-11.5	-8.2
Singapore	0.7	-6.0	5.0	1.0	0.2	0.7	1.0	-0.3	-13.3	-5.8	-4.5
South Korea	2.0	-0.9	3.3	1.8	2.1	2.0	2.3	1.4	-2.7	-1.1	-1.3
Taiwan	3.0	2.6	3.7	1.9	2.9	3.3	3.7	2.5	0.3	3.9	3.3
Thailand	2.4	-6.5	6.0	2.9	2.4	2.6	1.5	-2.0	-12.1	-6.4	-5.6
Vietnam	7.0	2.7	7.1	6.9	6.7	7.5	7.0	3.7	0.4	2.6	4.0
Australia	1.9	-3.0	2.8	1.7	1.6	1.8	2.3	1.6	-6.3	-3.8	-3.5
Eurozone	1.3	-8.0	5.2	1.3	1.2	1.3	1.0	-3.3	-14.8	-4.4	-9.6
New Zealand	2.3	-5.0	4.5	2.9	2.2	2.3	1.6	-0.1	-10.1	-6.1	-3.5
United Kingdom	1.3	-11.1	3.8	2.1	1.3	1.3	1.1	-2.1	-21.5	-9.6	-11.2
United States (q/q SAAR)	2.2	-3.8	2.8	2.9	1.5	2.6	2.4	-5.0	-31.4	33.1	0.0

Note that India's annual growth refers to its fiscal year print
Source: CEIC, UOB Global Economics & Markets Research

Heat Map Of Key Macro Indicators In The Region

Macroeconomic Indicator (Latest Data)	Indonesia	Malaysia	Philippines	Thailand	Vietnam	Singapore	China	India
Real GDP Growth (%): 3Q20	-3.5	-2.7	-11.5	-6.4	2.6	-5.8	4.9	-7.5
Inflation (%): Oct 20 (*Nov 20)	1.6 *	-1.5	3.3 *	-0.5	1.5	-0.2	0.5	7.6
Merchandise Trade Balance (USD bn): Oct 20 (*Sep 20)	3.6	5.4	-1.7 *	3.2	2.9	3.3	58.4	-8.7
Manufacturing PMI (Index): Nov 20	50.6	48.4	49.9	50.4	49.9	50.4	54.9	56.3
Unemployment Rate (%): Sep 20 (*Oct 20, ^Aug 20)	7.1	4.6	8.7 *	1.9 ^	2.5	3.6	5.3 *	7.0 *
Foreign Direct Investment (Annual, USD bn): 2019	24.5	7.7	5.0	4.1	16.1	92.1	141.2	50.6
Current Account (Annual, % Of GDP): 2019	-2.7	3.3	-0.9	6.8	4.8	17.0	1.0	-1.0
Fiscal Balance (Annual, % Of GDP): 2019	-2.2	-3.4	-3.4	-1.9	-3.3	-0.2	-4.9	-4.4
Color Code (Definition)	Weakest							Strongest

Source: Bloomberg, UOB Global Economics & Markets Research

FX, Interest Rates & Commodities

FX	03 Dec 20	1Q21F	2Q21F	3Q21F	4Q21F
USD/JPY	104	104	103	102	102
EUR/USD	1.21	1.22	1.23	1.24	1.24
GBP/USD	1.35	1.35	1.35	1.36	1.36
AUD/USD	0.74	0.74	0.75	0.76	0.76
NZD/USD	0.71	0.71	0.72	0.73	0.73
DXY	90.7	90.6	89.9	89.2	89.1
USD/CNY	6.54	6.50	6.45	6.35	6.35
USD/HKD	7.75	7.75	7.75	7.75	7.75
USD/TWD	28.29	28.50	28.20	28.00	28.00
USD/KRW	1,084	1,080	1,060	1,050	1,050
USD/PHP	48.03	48.00	47.50	47.00	47.00
USD/MYR	4.06	4.03	4.00	3.95	3.95
USD/IDR	14,132	14,300	14,350	14,400	14,400
USD/THB	30.16	30.00	30.30	30.50	30.50
USD/MMK	1,325	1,325	1,300	1,300	1,300
USD/VND	23,133	23,000	22,800	22,600	22,600
USD/INR	73.93	74.30	74.50	75.00	75.50
USD/SGD	1.33	1.32	1.31	1.30	1.30
EUR/SGD	1.62	1.61	1.61	1.61	1.61
GBP/SGD	1.79	1.78	1.77	1.77	1.77
AUD/SGD	0.99	0.98	0.98	0.99	0.99
SGD/MYR	3.05	3.05	3.05	3.04	3.04
SGD/CNY	4.91	4.92	4.92	4.88	4.88
JPY/SGDx100	1.28	1.27	1.27	1.27	1.27

RATES	03 Dec 20	1Q21F	2Q21F	3Q21F	4Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD SOFR	0.08	0.10	0.10	0.10	0.10
USD 3M LIBOR	0.23	0.25	0.25	0.25	0.25
US 10Y Treasuries Yield	0.90	1.00	1.10	1.15	1.20
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.10	0.10	0.10	0.10	0.10
AUD Official Cash Rate	0.10	0.10	0.10	0.10	0.10
NZD Official Cash Rate	0.25	0.25	0.25	0.25	0.25
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.85	3.85
HKD Base Rate	0.50	0.50	0.50	0.50	0.50
TWD Official Discount Rate	1.13	1.13	1.13	1.13	1.13
KRW Base Rate	0.50	0.50	0.50	0.50	0.50
PHP O/N Reverse Repo	2.00	2.00	2.00	2.00	2.00
SGD SORA	0.14	0.12	0.12	0.12	0.12
SGD 3M SIBOR	0.41	0.35	0.35	0.35	0.35
SGD 3M SOR	0.19	0.25	0.25	0.25	0.25
SGD 10Y SGS	0.88	1.10	1.15	1.15	1.20
MYR O/N Policy Rate	1.75	1.75	1.75	1.75	1.75
IDR 7D Reverse Repo	3.75	3.50	3.50	3.50	3.50
THB 1D Repo	0.50	0.50	0.50	0.50	0.50
VND Refinancing Rate	4.00	3.50	3.50	3.50	3.50
INR Repo Rate	4.00	3.75	3.75	3.75	3.75
MMK Central Bank Rate	7.00	7.00	7.00	7.00	7.00

COMMODITIES	03 Dec 20	1Q21F	2Q21F	3Q21F	4Q21F
Gold (USD/oz)	1,843	1,850	1,900	1,950	2,000
Brent Crude Oil (USD/bbl)	50	50	50	55	55
LME Copper (USD/mt)	7,675	7,000	7,000	7,500	7,500

Asia Focus
RCEP

To Drive Further Economic Cooperation

About RCEP

Regional Comprehensive Economic Partnership (RCEP) is the world's largest free trade agreement (FTA).

accounts for 30% of the world's GDP

makes up 30% of the world's population

accounts for 27% of the world's total trade in 2019

accounts for more than 32% of China's total trade

Members of RCEP

The agreement comprises of 15 members in the Asia Pacific region.

India withdraw in November 2019 although there is still a possibility it could rejoin at a later date.

Purpose of RCEP

The aim of the RCEP is to lower tariffs, open up trade in services, facilitate the flow of foreign investments, and enhance protection in areas such as e-commerce and intellectual property with the broadening and deepening of economic and trade linkages among its members.

The RCEP will increase the ease for many Chinese companies to invest in the regional markets, while the other member countries will also benefit from having access to opportunities in the large and growing Chinese market.

Under the agreement, there will be further market access into China, Japan and South Korea.

Simplified customs procedures and enhanced trade facilitation measures will allow efficient administration of procedures and expeditious clearance of goods.

This includes the release of express consignments and perishable goods within six hours of arrival, thus lowering transaction time and costs for all parties.

Supply chains and value chains will be further integrated into the RCEP platform, as regional cumulation allows businesses to include the use of raw materials and parts sourced from any of the other 14 RCEP markets as originating content.

RCEP And China

RCEP is China's largest trade partner accounting for more than 32% of China's total trade.

China's Belt & Road Initiative (BRI) will also be entrenched further with the conclusion of RCEP, as many member states are also connected via BRI.

With China's retail market set to overtake the US to become the world's largest within the next few years, it is important that businesses have access opportunities in such sizeable market and in the most efficient manner.

Coupled with the rising affluence in ASEAN itself, the RCEP will help attract investors beyond the region as the Chinese and regional markets will be seen as an "integrated market".

What Is Next For RCEP?

The RCEP countries would need to ratify the Agreement for it to come into force, including six ASEAN countries and three non-ASEAN countries. This is expected by next year, 2021.

With RCEP showing the way forward, it remains to be seen whether the US will rejoin CPTPP (The Comprehensive and Progressive Agreement for Trans-Pacific Partnership) to exert its influence in global trade.

For further insight on RCEP:
English Report
Chinese Report

Malaysia Focus
Budget 2021

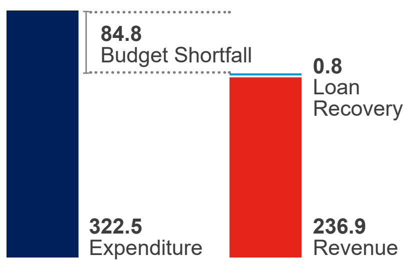
Spending Big To Revitalise The Economy

Budget 2021

- is the fifth stage (Revitalise) in the government's 6R Strategy to revitalize post-crisis economic growth at a resilient and sustainable pace.
- is the first budget under the 12th Malaysia Plan (12MP) 2021-2025, comprising of the measures aligned to the medium-term development of the country under the new normal.

In order to extend more expansionary and inclusive measures to revitalize the economy to achieve growth range of 6.5%-7.5% in 2021, the Malaysian government allocates an unprecedented expenditure of MYR322.5bn (20.6% of GDP) for next year.

Budget 2021
MYR billion



This alongside a projected higher revenue collection of MYR236.9bn (15.1% of GDP) will result in a budget shortfall of MYR84.8bn (5.4% of GDP) in 2021.

Who Gets What

Top 5 measures announced by the government in Budget 2021. For further insights, please refer to our full report.

For Individual/Households

- One-off Bantuan Prihatin Rakyat of MYR350-1,800
- 2% cut in employees' EPF contribution rate to 9.0%
- Six months of cash advance from EPF's Account 1 savings
- 1% cut in personal income tax rate for chargeable income band of MYR50k-70k
- Targeted loan repayment assistance for B40/M40 groups

For Businesses

- New tax incentives to attract investment from global corporations in Malaysia
- Extension of the existing tax incentives for 2-5 years
- Extend wage subsidy program for another 3 months for tourism and retail sectors
- Hiring incentives for six months, estimated to be worth MYR2.0bn
- Targeted loan repayment assistance for micro enterprises

What Are The Implications?

Economy

Stimulus measures are expected to contribute 4%-point to next year's GDP, underpinning official GDP growth target of 6.5%-7.5% for 2021.

Fiscal Deficit

Budget shortfall is expected to narrow, albeit slightly, to 5.4% of GDP in 2021 from an estimated 6.0% of GDP in 2020.

This is partly aided by a projected GDP growth rebound and an estimated marginal net revenue loss of MYR8mn after taking into account all unveiled tax measures for 2021.

Public Debt

Federal government debt will increase to 61.0% of GDP (from an estimated 60.7% in 2020) while the statutory debt level is projected to edge up to 58.0% in 2021 (from an estimated 57.0% in 2020).

How To Finance 2021's Budget Shortfall

Parliament has passed the **Temporary Measures for Government Financing (COVID-19) Act 2020.**

- To provide a temporary reprieve from fiscal discipline and ensure that the financing and execution of the fiscal stimulus packages through government borrowings are done within existing legislations
- The Act allows the government to raise its statutory debt limit from 55.0% of GDP to 60.0% of GDP until end-2022
- Rely on local borrowings to finance the budget deficit, with gross borrowing requirement projected to be around MYR172.0bn (or 11.0% of GDP)

What Is The Medium-Term Strategy To Consolidate Public Finances

- Government is currently engaging and discussing with key domestic and international agencies to explore various options in the formulation of the Fiscal Responsibility Act, which is targeted to be legislated in 2021
- Enhance revenue by exploring new sources, widening the revenue base, improving tax administration and adopting the Medium-Term Revenue Strategy
- Continue rationalization exercise to increase operating efficiency and improve cost management
- Overall fiscal deficit is targeted to average 4.5% of GDP for 2021-2023 with real GDP growth assumption of 4.5%-5.5% and crude oil price assumption of USD45-55 per barrel

Potential Downside Risks To Government's Financial Positions In 2021

- The resurgence of COVID-19 infections prolongs into 2021 that slows the global and domestic recovery, thus warranting additional stimulus support
- Limited availability and efficacy of COVID-19 vaccine
- Slower budget execution particularly on the MYR69.0bn of development expenditure allocation that is targeted to enhance investments and multiplier effects to the economy
- Domestic political landscape remains fluid

INDONESIA FOCUS

Opportunities And Challenges Of Indonesia's Omnibus Law

The House of Representatives of the Republic of Indonesia and the Indonesian government passed the Omnibus Law on 5th October 2020, after spending approximately 8 months period of deliberation. The law is by far the most ambitious and complicated piece of legislation in Indonesia.

The law provides new provision and amendments to the 76 existing sectoral laws aimed to enhance investment ecosystems to draw more foreign direct investment (FDI) and much improve the ease of doing business in Indonesia, which may in turn create more job opportunities.

The bill, which consists of 1,187 pages, had been delivered to the President Joko Widodo on 16th October; who has signed the bill into Law No. 11/2020 on 2nd November. The law would cover and streamline 10 critical areas shown below.

10 Important Points Covered In Omnibus Law

1. Investment growth and licensing leniency
2. Protection and enforcement of small-medium scale enterprises and cooperative
3. Investment growth and licensing leniency
4. Research and Innovation Support
5. Ease of Doing Business
6. Land procurement
7. Economic Area
8. Central government investment and national strategic projects
9. Government administration
10. Sanctions

Source: The House of Representatives (Indonesia), UOB Global Economics & Markets Research

The Omnibus Law is to enable and empower the central government to set robust regulation standards and criteria for local and ministerial-level regulations that are likely to improve the Indonesian investment landscape.

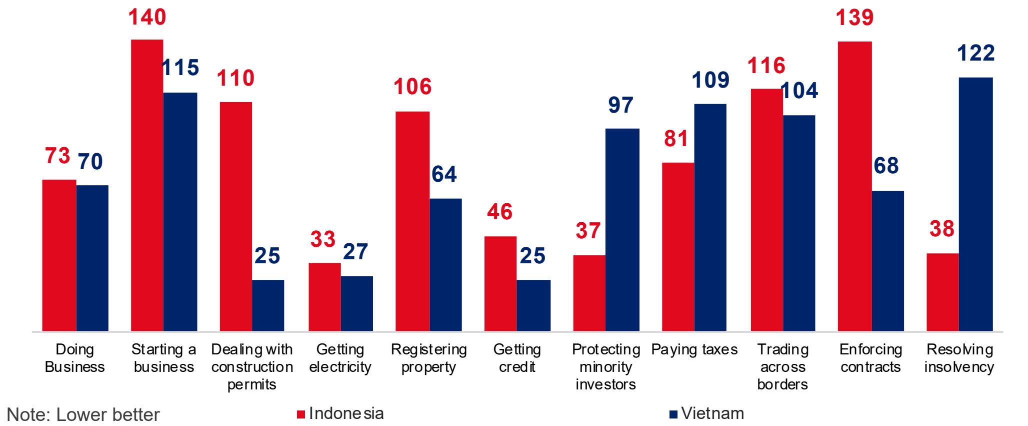
To realize the vision of becoming one of the top 5 world economies in 2045, the Indonesian government realize that it must address the problem of over-regulation to improve the ease of doing business and boost the country's investment climate.

Under the "doing business" category, Indonesia is currently ranked #73 out of 190 countries in 2020, which is close to its ASEAN peer, Vietnam, at #70 (Figure 1) who has been enjoying the global supply chain relocation in the past few years. While both countries are comparable to some extent, Vietnam seems to have gained more advantage in earlier stage of doing business which are (i) starting a business, (ii) dealing with construction permits.

Hence, Omnibus Law seeks to address the early investment stage and doing business issue, among others, through several key points. Therefore, the major idea of passing the Omnibus Law is to enabling and empowering the central government to set robust regulation standards and criteria for local and ministerial-level regulations that are likely to improve the Indonesian investment landscape. As such, it also means that a local regulation cannot be inconsistent with the regulations above it.

Figure 1. Indonesia vs. Vietnam Doing Business 2020 Rank Comparison

Source: Doing Business 2020 Report, UOB Global Economics & Markets Research



Enhancement Of Investment Ecosystem (Early Stage) Under Omnibus Law

Risk-Based Business Licensing

It introduces a new concept of business license called "Perizinan Berusaha" which should accelerate the process of establishing business activities, particularly business under low and medium risk category.

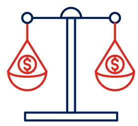
This new approach of "Perizinan Berusaha" also amends the previous approach to business licensing in which each 15 different sectors was regulated under separate laws.

Required Business License

Low Risk	Business Identification Number ("Nomor Induk Berusaha" – NIB)
Medium Risk	NIB and a standard certification (sertifikat standar)
High Risk	NIB and specific business license (from relevant government institution)

Amendment To Spatial Planning Law

The Omnibus Law amends the Spatial Planning Law and replace the need to obtain location permit with the confirmation of conformity issued by the central government. It requires the spatial plan prepared by local governments to be integrated with the Online Single Submission (OSS) system. This will grant business players easier access to the plan and enable them to apply for suitability of space utilization approval through the system. By using this integrated system, the law will centralize the control over regional spatial plan to prevent misuse of power and bribery at regional level.



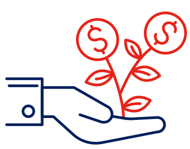
Environmental Permit Is No Longer Needed

Retains the environmental assessment of

a. "Analisis Mengenai Dampak Lingkungan" (AMDAL)

b. "Upaya Pengelolaan Lingkungan Hidup dan Upaya Pemantauan Lingkungan Hidup" (UKL-UPL)

c. "Surat Pernyataan Pengelolaan Lingkungan" (SPPL)



Businesses have one less document to process in order to meet its environmental licensing requirement.

Land Procurement Acceleration

Increases the number of types of public facilities that may be developed with public land procurement scheme to 24 (from 18 previously). In addition, to the accelerated land acquisition process, the government also establishes a land bank*, as stipulated in Omnibus Law.

* is a special agency that manages land and carries out planning, acquisition, procurement, management, utilization, and distribution of land.

Open New Business Sectors To Foreign Investment

To open new business sectors to foreign investment except for that are stipulated otherwise or activities that are reserve only for the Central Government.

The central government will introduce a priority list through a presidential decree to replace the existing negative list.

Source: Law No. 11/2020 (Indonesia), UOB Global Economics & Markets Research

Why Is This Law Contentious?

The Omnibus Law has attracted criticisms due to its controversial deliberation process. While the Omnibus Law address multiple aspects with regards to Indonesia investment climate, the most contentious issue is the revision of labour law No. 13/2003.

The opposition came mostly from labour groups and unions whom had expressed their rejection through a series of mass rallies and filed a judicial review to the Constitutional Court. From the employer perspective, both domestic and foreign, Indonesia's previous labour law was considered to be one of the most rigid employment regulations among the lower-middle-income economies. Among others, key amendments that received the most critical feedback are related to (a) reduction of severance payment for permanent employee, (b) the removal of the limitation for fixed- term contracts, and (c) the removal of the limitation on the type of work that may be outsourced.

Key Contentious Changes In Omnibus Law From Labour Law No. 13/2003

Severance Payment For Permanent Employee

Under Omnibus Law, the maximum severance package for workers who works more than 24 years is a total of around 25 months' salary (previously 32 months of salary) - plus unused leave and repatriation cost).

Calculation:

- 1 x maximum severance payment (1 x 9) = 9
- 1 x service pay (1 x 10) = 10
- Unused leave and repatriation cost (if any)
- 6 months salary benefit of a new social security program i.e. job loss security / "BPJS Jaminan Kehilangan Pekerjaan" ➡ newly added

Fixed-Term Employment Contracts

The Omnibus Law revoked the maximum time limits on fixed-term contracts. The Law stated that the government to regulate the type and nature of work activity, the period of time, and the deadline for the extension of fixed-term contract via separate Government Regulation.

Outsourcing

The Omnibus Law removed the prohibition of using outsourced workers to carry out the main business activities or activities directly related to the production process. This might provide additional flexibility to employers but not so much for the employees.

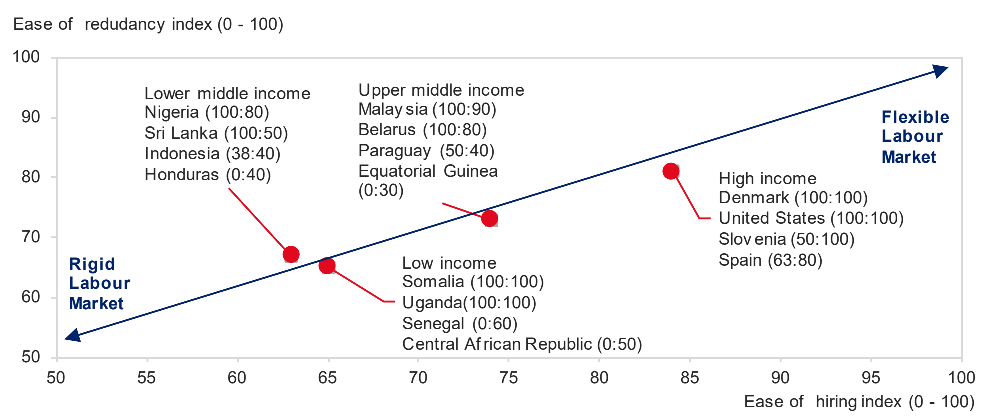
Nevertheless, It was stated in Omnibus Law that outsourcing companies are required to protect the rights of the employees. The details will be set out in a separate Government Regulation.

The Positive Side Of Amended Labour Law

Governments face challenges when it comes to balance worker protection and labour market flexibility. While it might not be the only problem, rigid employment regulation has arguably been one of the Achilles' heels faced by Indonesia and other low- and lower-middle-income economies. Figure 2 shows comparison of the rigidity of employment regulation between countries. This is true for Indonesia as the labour market experiences clear obstacles in hiring new employees or in making legal redundancies (Indonesia does not allow employer to terminate employment unilaterally). In the previous Indonesia Labour Law, it stated that there are limitations for fixed-term employment in terms of time limits and kind of work or activity to do, in comparison to 124 economies which allowed fixed-term employment for permanent tasks (according to doing business database).

Figure 2. Labour Market Flexibility Comparison

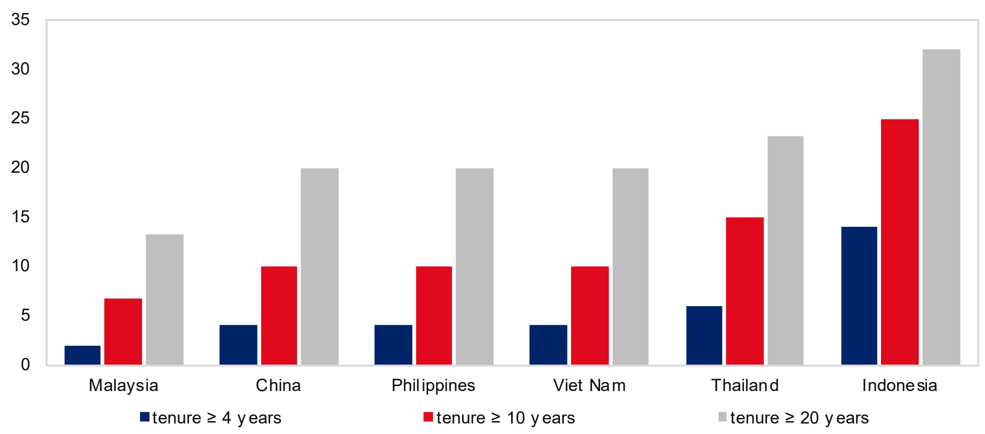
Source: Doing Business 2020 Report, UOB Global Economics & Markets Research



Another variable such as severance pay also showed that Indonesia's is considered high compared to its peers. Vietnam, which has been seen as the leader in attracting foreign direct investment (FDI) within the region, provides severance payment of half a month pay for every year of service. It means, Vietnamese workers would have to work more than 60 years to get around 30 months of severance pay while Indonesian could get those by working around only 20 years (Figure 3).

Figure 3. Severance Pay in No. of Monthly Wages Comparison

Source: ILOSTAT, UOB Global Economics & Markets Research



The rigid Indonesia labour law might result in higher unemployment.

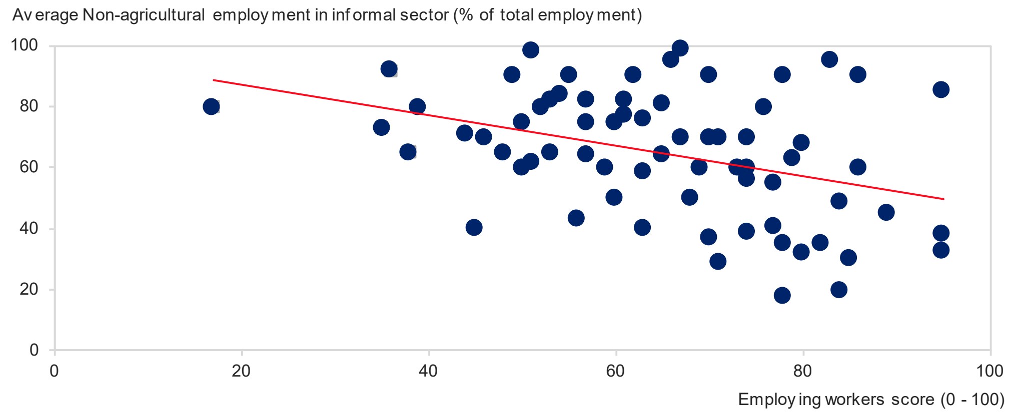
While the protection to labour is important for their welfare, we believe that there should be a better balance between protection and labour market flexibility. According to doing business data base, when companies encounter a rigid employment law, they lose some of the ability to conduct business efficiently. The alternative way to return the loss in efficiency is often hiring workers informally (Figure 4). These large informal sectors, reduced productivity and economic development. If left unchanged, the rigid Indonesia labour law might result in higher unemployment or leave out the younger and less experienced worker to informal sector with no social protection.

Omnibus Law is essential and an important step to increase the labour market flexibility and in turn drawing in much higher FDI, especially for Indonesia which currently has high informal employment share.

Therefore, we are in the view that Omnibus Law is essential and an important step to increase the labour market flexibility and in turn drawing in much higher FDI, especially for Indonesia which currently has high informal employment share (Figure 5); and to be able create more job opportunities, taking advantage of the demographic bonus, while other countries i.e. Japan, China, Korea, Thailand and Singapore wrestle with a different challenge of an ageing population (Figure 6).

Figure 4. Economies With Flexible Labour Regulation Tend To Have Smaller Informal Sector

Source: Doing Business 2020, UOB Global Economics & Markets Research



Note: the dots are the sample comprises of 68 countries (2003-2018 average data).
The higher employing worker score represent more flexible employment regulation.

Figure 5. Indonesia Currently Has High Share Of Informal Employment Compared To Peers

Source: ILOSTAT, UOB Global Economics & Markets Research

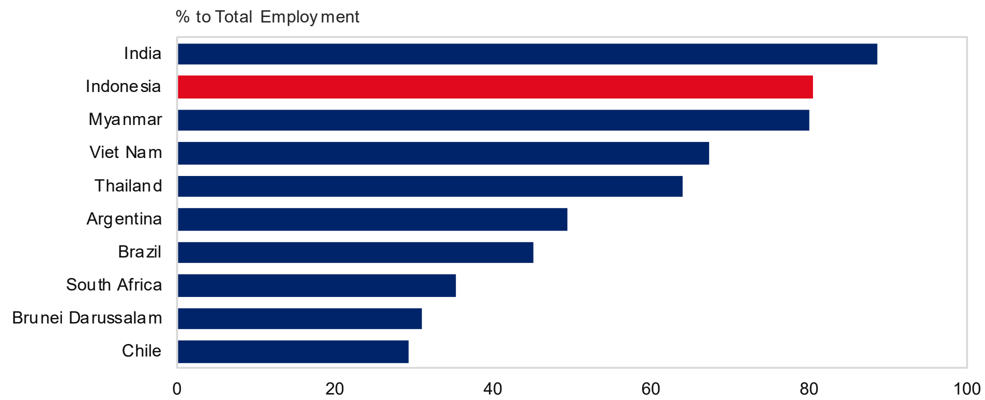
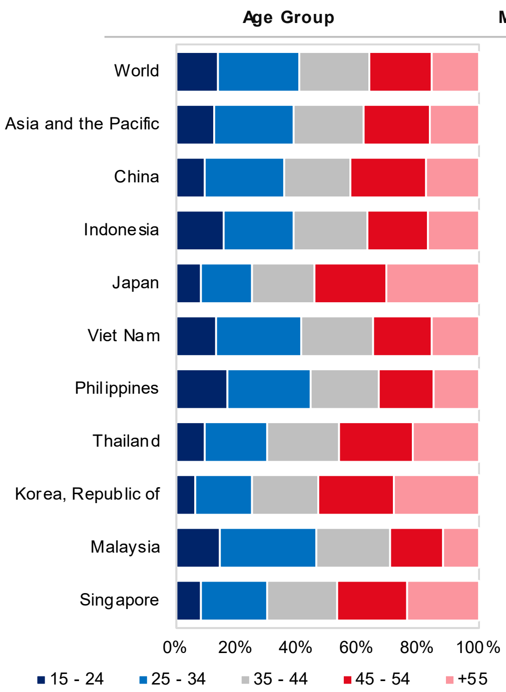


Figure 6. Labour Supply: Indonesia Must Be Able To Take Advantage Of Demographic Bonus

Source: ILOSTAT, UOB Global Economics & Markets Research



	Median age of labour force	Total labour force (mn)
World	38.9	3,482
Asia and the Pacific	39.6	1,989
China	41.6	801
Indonesia	39.6	135
Japan	46.5	68
Viet Nam	38.4	57
Philippines	37.3	45
Thailand	43.4	39
Korea, Republic of	46.1	28
Malaysia	36.3	16
Singapore	43.5	4

Omnibus Law May Considerably Grow Net FDI: What Does It Mean For Indonesia External Stability

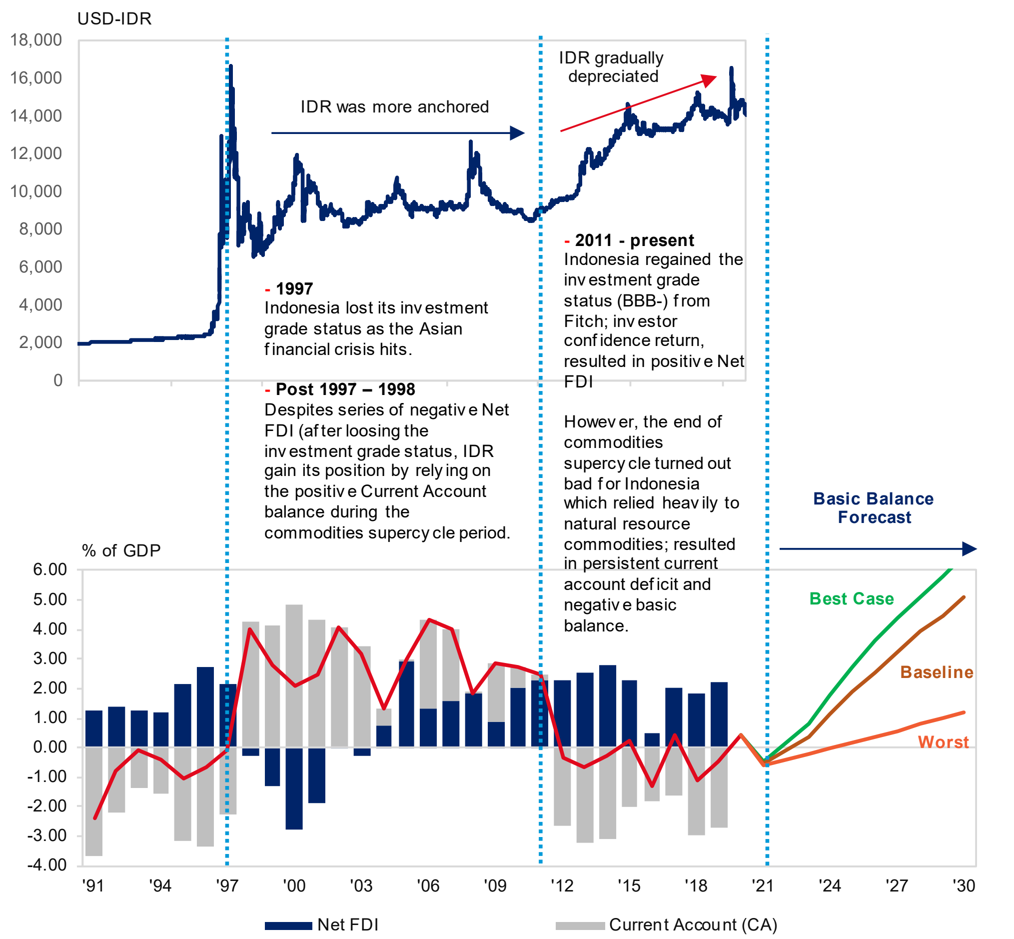
If implemented consistently, we believe that Omnibus Law would be able to bear fruit of higher FDI inflows as many would expect. This would bring Indonesia at least comparable to Vietnam in terms of net FDI as a percentage of Gross Domestic Product (GDP) in the future. We expect, through our simulation exercises that in our baseline to best-case scenarios, net FDI could eventually reach around the 4.7% to 5.7% of GDP levels in the medium- to long-term (Figure 7). This is a very important outcome that Indonesia would like to achieve, especially considering its current external position of having the so-called persistent current account deficit (CAD)

For the past decade, the country's (CAD), while not at unsustainable levels, has added to Indonesia's gross external financing needs. This could be one of the key fundamental issues over the medium to long-term if Indonesia does not begin its consistent structural reforms as early as possible because the country insofar has been importing much of the goods and services to grow the economy. While it takes arguably longer time for the country to turn its external position from an import-driven economy into an export-oriented one, it is well hoped that as Indonesia can draw in more FDI with the passing of the Omnibus Law, our gross external financing needs can be offset to some degree from the drawing in of more FDI.

Furthermore, ever since the end of commodities' super-cycle, IDR has been gradually and structurally depreciating even until now, leaving the currency to remain a hostage of volatile portfolio investment flows. By riding on the positive prospects that is highly hoped to be brought about by the Omnibus Law in attracting the much needed FDI , which is also seen as a reliable source of long-term financing, that eventuality will render Indonesia's external stability to be stronger and for the exchange rate to behave less volatile–a very crucial element in reducing business uncertainty.

Figure 7. Indonesia Basic Balance Going Forward

Source: ILOSTAT, UOB Global Economics & Markets Research



Challenges And Opportunities Ahead

In general, we view that Omnibus Law should improve the ease of doing business and investment climate in Indonesia (to a certain degree). Nevertheless, challenges remain such as the need for substantial additional regulation and of course the ground implementation that is currently yet can be seen. In addition, Indonesia's incremental capital output ratio (ICOR – which explains the relationship between the level of investment made in the economy and the consequent increase in GDP) remains high at around 6.8x according to the data by Statistics Indonesia; which means to increase an output by 1, it requires 6.8 investment.

> We are cautiously optimistic that with the passing of the Omnibus Law, the better prospects of Indonesian investment climate and environment may be able to draw in higher FDI and in turn bring about higher labour productivity and increase its GDP growth near its sustainable potential.

This is understandable, considering the country's labour productivity is low compared to peers. Hence, further reform in education and its collaboration with industrial needs is essential. On the other hand, Indonesia also need to balance the allocation of its investment fund, both into (a) priority sector that could produce higher labour employment as well as (b) to machinery/technology that further enhance business productivity. Therefore, we are cautiously optimistic that with the passing of the Omnibus Law and soon after its implementing regulations, the better prospects of Indonesian investment climate and environment may be able to draw in higher FDI and in turn bring about higher labour productivity and increase its GDP growth near its sustainable potential.

FX STRATEGY

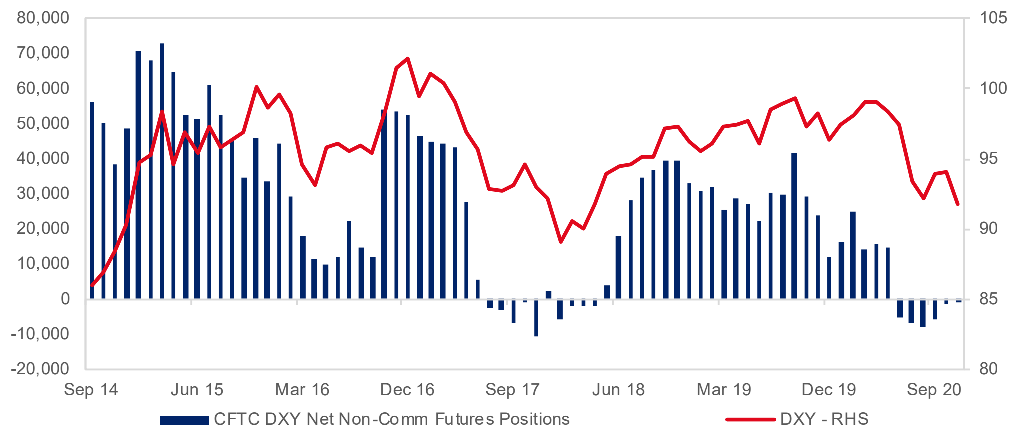
Stay Negative On The USD For 2021 But Watch Upside Risks

- The global reflation trade in 2021 is positive for risk assets and a clear negative on the USD, adding to the prevailing drivers of USD weakness in 2020.
- Most G-10 and Asian FX will continue to gain against the USD and the DXY will slide lower to test the psychological support at 90.
- However, the pace of the USD weakness would moderate as the strong V-shaped economic recovery across 2Q and 3Q may not be sustainable.

The USD depreciation trend remains intact as the USD slid for a third straight quarter in the 4Q20 and lost ground against most G-10 and Asian peers. The prevailing drivers for USD weakness have not changed at all - namely the Fed's unlimited quantitative easing (QE), elevated US money supply, weakening US interest rate differential and a persistent risk-on environment.

Chart 1: USD Continued Its Decline Post US Elections; Short Positioning Not Extreme Yet

Source: Bloomberg, UOB Global Economics & Markets Research

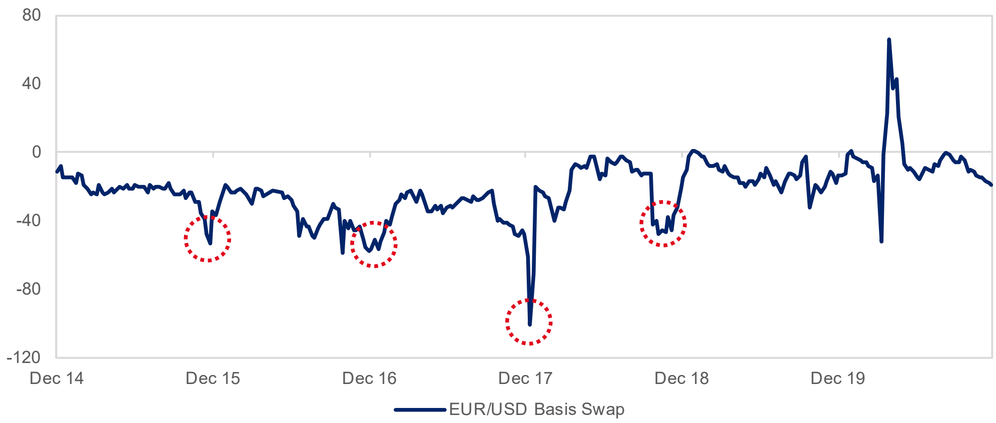


A normalization of FX implied volatility lower post US elections towards the lowest levels since February suggests little to upset the prevailing USD downtrend.

As expected, the US elections was not a game-changer for the USD. A clear victory from Biden and positive vaccine news in November sent stocks to new highs which was a clear negative for the USD as safe haven demand receded. As such, the US Dollar Index (DXY) fell back to fresh 20-month lows just under 91. A normalization of FX implied volatility lower post US elections towards the lowest levels since February suggests little to upset the prevailing USD downtrend. Also, as we approach the year end, there are little signs of USD funding stress emanating from the cross-currency basis.

Chart 2: Year-end USD Funding Stress Appears Moderate At This Juncture

Source: Bloomberg, UOB Global Economics & Markets Research



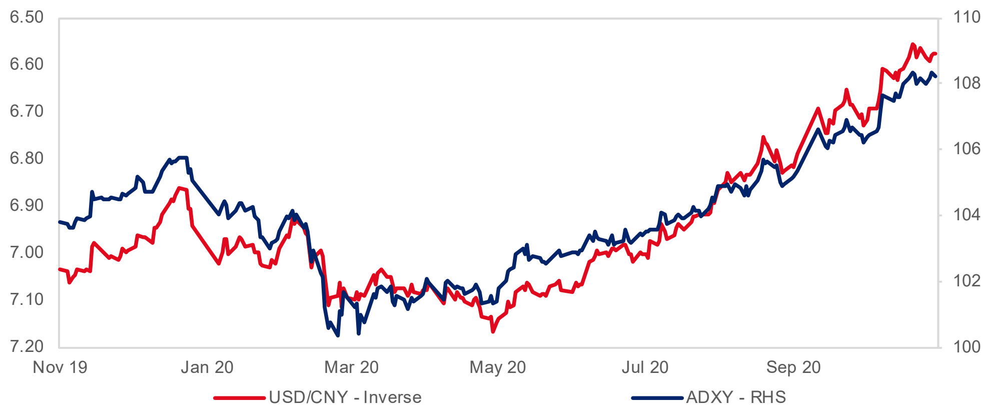
We maintain expectations of a modest slide of the DXY to 89.1 by end-4Q21. Against that backdrop, most G-10 Majors will continue to advance against the USD in the coming quarters.

Positioning wise, the net short-USD positioning as implied by futures has persisted for a sixth straight month in November. As such, the short term tactical short in the USD that started in June is increasingly becoming a longer term secular short. At the same time, while short-USD looks set to be a consensus view into 2021, positioning is far from extreme levels at this juncture. Overall, we maintain expectations of a modest slide of the DXY to 89.1 by end-4Q21. Against that backdrop, most G-10 Majors will continue to advance against the USD in the coming quarters.

Asian FX gained broadly against the USD in the 4Q20 as strong global risk appetite spurred further inflows into regional emerging markets (EM). The gains were also broad based as laggards in the 3Q20 which include THB (+5.0%) and IDR (+5.3%) caught up with regional peers and outperformed this quarter. The CNY ceded leadership within the region as Chinese authorities signaled its concern for further strong gains of the CNY by tweaking two of its FX measures in October. The KRW outperformed with an over 7% jump to 1,085 /USD in the quarter-to-date, underpinned by a strong 11% rise in preliminary November exports, a bellwether for global demand. Collectively, the Asia Dollar Index (ADXY) which have recovered all of its losses sustained due to the coronavirus outbreak in 3Q20 has gained further to 108.80 this quarter, now close to recouping all the losses sustained during the 2018/19 US-China trade conflict.

Chart 3: The Asian Dollar Index Drew Strength From A Strong CNY In 2H20

Source: Bloomberg, UOB Global Economics & Markets Research



Reflation Of The Global Economy Is The Key Driver For USD Weakness In 2021

An extension of the reflation theme which emerged in November after a slew of positive vaccine results – is the key driver for USD weakness in 2021. However, while the vaccine developments look promising, a more realistic timeline for a widespread availability of the vaccine is in 2H 2021, at the earliest. This means a return to pre-pandemic way of living or output levels remains quite some distance away. So the v-shaped, stimulus-fueled global economic recovery that happened across 2Q to 3Q20 could well transit into a more gradual trajectory in 2021. As such, the vigorous USD weakness that we witnessed in 2020 would correspondingly moderate in intensity.

Look Out For Potential Upside Risks To USD

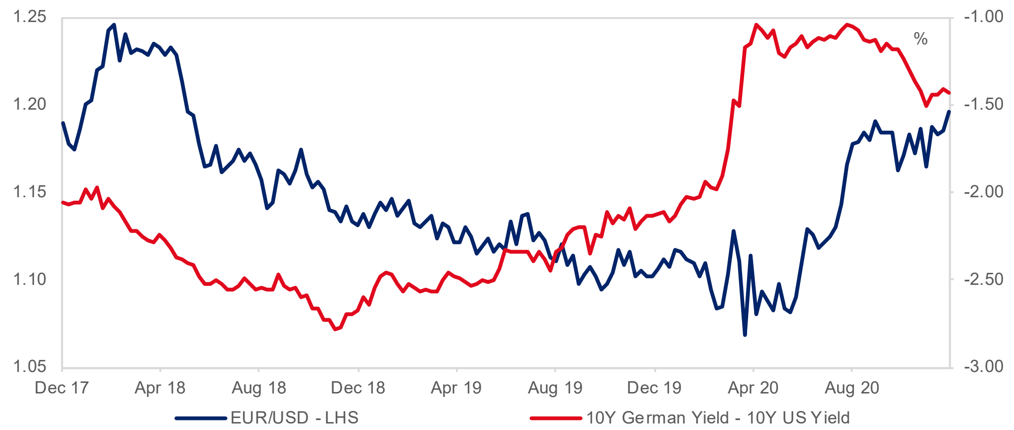
While we expect further weakness in the USD, there are emerging upside risks to our forecasts. First and foremost, the outlook for the US economy remains "extraordinarily uncertain" due to worsening virus outbreak and the pace of economic recovery appears to be moderating. Our macro team sees US GDP stagnate (0%) in 4Q20 followed by 1.7% q/q SAAR growth in 1Q21, down from the blockbuster 33.1% q/q SAAR jump in 3Q20. If US growth unexpectedly contract in the coming quarters and extends the US recession, together with the prospect of a divided Congress delivering a smaller than expected fiscal stimulus, there may be a flight-to-quality towards the USD. Also, a steeper-than-expected backup of US yields particularly in latter half of 2021 could also help to put a bottom for USD across the year.

Majors FX Outlook: Room For Modest Gains Against The USD

Punctuated by resurging waves of virus infections in the US and Europe, the strong economic rebound in the 3Q20 is showing clear signs of moderating. In order to secure the recovery trajectory, some G-10 central banks such as the Reserve Bank of Australia (RBA) and the Bank of England (BOE) have started to ease again in November - and the European Central Bank (ECB) is poised to join in December with yet a further hike to its PEPP QE quantum. However, as G-10 central banks' interest rates have already converged to zero and begun some form of asset purchases, these incremental easing had little impact on their respective currencies. As long as the reflation theme stays intact, most Major FX are still expected to gain against the USD in 2021, albeit in a moderated fashion, as a large part of the strong economic recovery which underpinned the steep USD depreciation in 2H20 is probably behind us.

Chart 4: Rate Differentials May Be Closer To Neutral Levels After Closing Aggressively In Favor Of EUR In 2020

Source: Bloomberg, UOB Global Economics & Markets Research

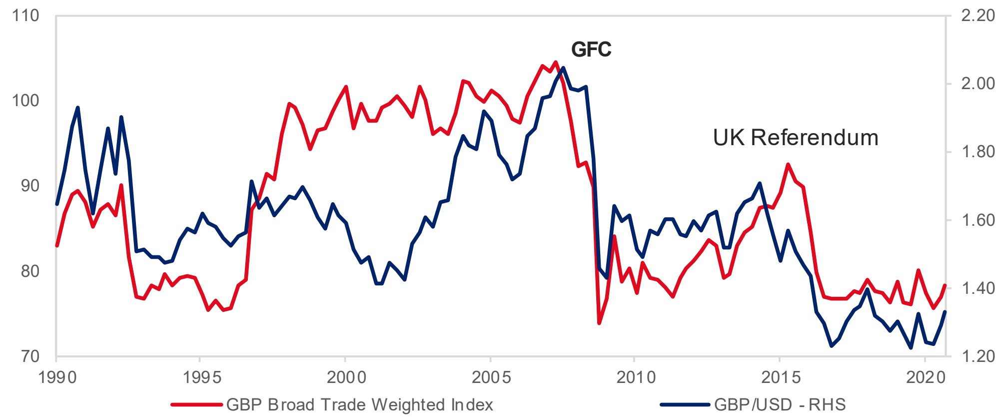


Tweaking asset purchases or lending programs are unlikely to have a lasting dampening effect on the EUR.

Gains in the EUR slowed in the 4Q20 after gaining over 4% in the prior quarter against the USD. Jawboning on the single-bloc currency by the ECB, record futures positioning, a second wave of COVID-19 cases in Europe dented sentiment on the EUR/USD, just as the currency pair transited into a consolidative pattern between 1.16 and 1.20 across Oct /Nov. This was followed by a breakout to 1.21 in early December. The expected easing from ECB in December may cast a near term overhang on the EUR. However, short of bringing benchmark rates more negative, tweaking asset purchases or lending programs are unlikely to have a lasting dampening effect on the EUR. Beyond that, the global reflationary tailwind is likely to continue to bid up the EUR/USD but gains may be limited by rate differentials which are now closer to neutral levels after closing aggressively in favor of EUR in 2020. Overall, our updated EUR/USD forecasts are lifted from the previous review, at 1.22 in 1Q21, 1.23 in 2Q21, and 1.24 in both 3Q and 4Q21.

Chart 5: A Brexit Deal May Be The Trigger For GBP To Recover From Its Multi-Decade Lows

Source: Bloomberg, UOB Global Economics & Markets Research



With our macro team updating its base case for an eleventh-hour Brexit deal in the coming days (as at 4-Dec), the multi-year malaise in GBP could finally be over. Since UK's surprise decision to leave the EU in June 2016, GBP/USD was mired in three-decade low trading range between 1.14 and 1.43. The underperformance of the GBP was also broad-based as its trade-weighted index was stuck in the lowest quartile in the last 4 years. As such, a Brexit deal, shall it comes to pass, could be the trigger the GBP needs to break through those ranges.

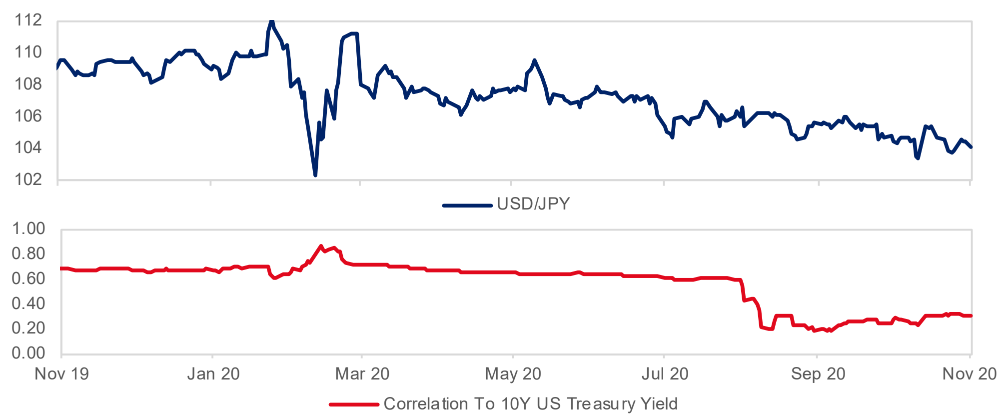
Our previously cautious stance on GBP/USD has now been upgraded to a cautiously constructive view.

As such, our previously cautious stance on GBP/USD has now been upgraded to a cautiously constructive view. While the fog of Brexit may finally clear, at the same time, we also curb our enthusiasm on the GBP. The economic outlook remains highly uncertain depending on the virus situation in the UK and the specter of negative rates is a lingering headwind for the currency. Overall, our GBP/USD forecasts are updated to 1.35 in 1H21 followed by 1.36 in 2H21.

Against a backdrop of surging global risk appetite and a robust China recovery which spurred demand for Australia's commodity exports, the AUD is still unbeatable. Even the potent combination of a rate cut to the benchmark rate and yield-curve target, and a new A$100 billion bond buying program by the RBA in early November only had a short-lived effect on the currency. AUD/USD rebounded strongly off 0.70 and is trading closer to 0.74 as at early December. In 2021, the global reflationary theme is a key positive driver for the AUD/USD and we lift our forecasts by 100 pips across the next 4 quarters. Our updated point forecasts are now 0.74 in 1Q21, 0.75 in 2Q21, and 0.76 in both 3Q and 4Q21.

Chart 6: USD/JPY's Correlation To 10-year US Treasury Yield Faded This Year

Source: Macrobond, UOB Global Economics & Markets Research



USD/JPY had a strong correlation to the DXY, particularly after March as the USD weakness broadened.

This year saw USD/JPY's sensitivity to risk assets and US Treasury yields fade. Nominal rate spreads between the 10-year US Treasury and the 10-year Japan Government Bond has crashed to the lowest in 3 decades in August, watering down its impact on the currency pair. Instead, the currency pair had a stronger correlation to the DXY, particularly after March as the USD weakness broadened. To a certain extent, due to the aggressive rate cuts by the Fed this year, the USD is becoming a more prominent funding currency as compared to the JPY. A recent example is when global equities surged in November, USD/JPY slid instead of rallying as it did pre-COVID.

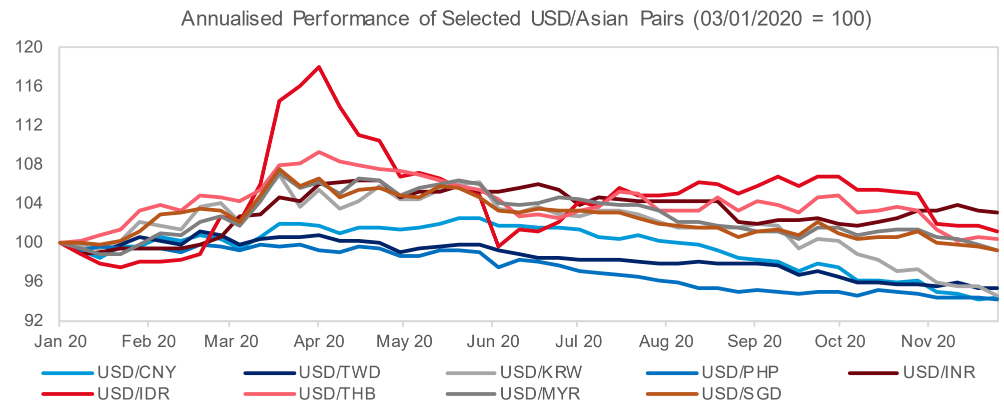
In 2021, as we expect broad USD weakness to persist, USD/JPY would still grind lower. We reiterate our existing set of point forecasts, which are at 104 in 1Q21, 103 in 2Q21, and 102 in both 3Q and 4Q21.

Asian FX Outlook: "K-Shaped" Recovery Bifurcates Leaders From Laggards

Asian currencies broadly gained in 4Q20 against the USD, benefitting from a stronger global risk appetite particularly in November after the passing of the US elections' risks and breakthroughs in COVID-19 vaccines. In the backdrop, the bellwether effect of a strong CNY also helped anchor sentiment of the region as a whole. There was also a catch-up by the laggards of the prior quarter, with IDR and THB outperforming regional peers.

Chart 7: Asian FX Performance Bifurcated By Dual-Track "K-Shaped" Recovery

Source: Bloomberg, UOB Global Economics & Markets Research



Economies such as India, Indonesia and Thailand that may experience a bumpier economic rebound may see modest weakness in their currencies in the coming quarters.

In 2021, the global reflation theme is broadly supportive of most Asian FX making further gains against the USD. However, the respective currency performance is bifurcated by expectations of a dual-track "K-shaped" recovery in the region. China, South Korea and Taiwan are examples of economies that will experience a smoother economic rebound in 2021, hence reinforcing further gains of their respective currencies against the USD. On the other hand, economies such as India, Indonesia and Thailand that may experience a bumpier economic rebound may see modest weakness in their currencies in the coming quarters.

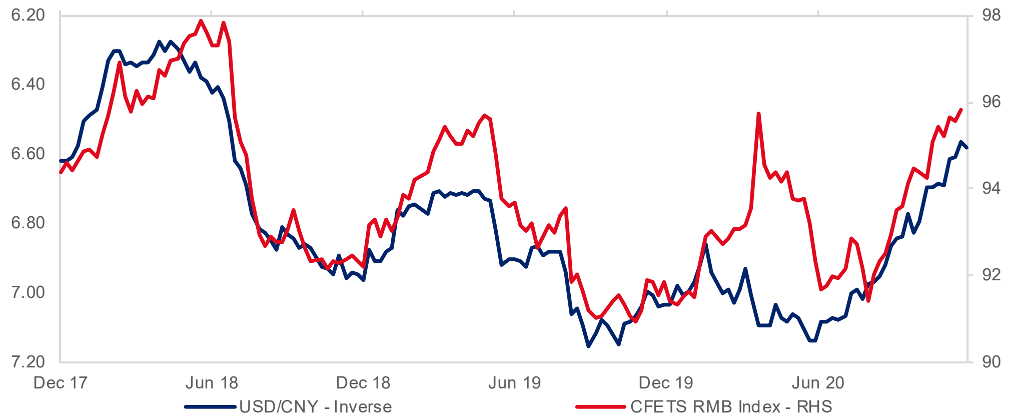
The key risk to our bullish Asian FX view is a sudden unexpected deceleration of the region's growth expectations, perhaps triggered by an uncontrolled flare-up of virus infections across the region. In such a case, risk aversion and flight to quality towards the USD could see losses in Asian FX build.

CNY Strength To Extend Into 2021

By now, it is clear that growth differential was one of the key factors behind CNY's outperformance this year. China is the only major economy to still post a positive growth this year while other key economies will experience unprecedented contractions despite the 3Q robust recovery. As such, the CNY is not only on track for its first yearly gain against the USD in three years, but also the best performing Asian currency (+6.3% vs USD) this year. Other factors underpinning the CNY strength include attractive yield advantage of China Government Bonds (CGBs) over US Treasuries, stable policy making from the People's Bank of China (PBoC) and broad USD weakness.

Chart 8: CNY To Gain Further In 2021, But Gains May Be Checked By Narrowing Growth Differential With US

Source: Bloomberg, UOB Global Economics & Markets Research



While China's macroeconomic advantage over its global peers may extend into 2021, a narrowing of its growth differential may see gains in CNY moderate.

While China's macroeconomic advantage over its global peers may extend into 2021, a narrowing of its growth differential may see gains in CNY moderate. Also, PBoC's moves in October to cut its FX risk reserve ratio to 0% from 20% and the phasing out of its Counter Cyclical Factor (CCF) in quotation model of the CNY central parity rate were seen as signs that authorities are getting uncomfortable with one-sided CNY gains. As such, the almost 8% jump of the CNY against the USD in 2H20 is unlikely to be repeated. Overall, our USD/CNY forecasts are updated to 6.50 in 1Q21, 6.45 in 2Q21, and 6.35 in both 3Q and 4Q21. From a medium to long term point of view, USD/CNY is now heading back to the middle of the broad 6.0 to 7.0 trading range.

Still A Mixed Outlook For ASEAN Currencies

After a tumultuous year which saw SGD drop as much as 9% to a 10-year low of 1.4646 /USD at the peak of the pandemic in March, the SGD looks set to finish the year 1% firmer at around 1.33. The stability of the S$NEER in a small range around the policy midpoint is consistent with the zero appreciation stance from the MAS and also the cautious domestic growth and inflation outlook. This also meant that the SGD is keeping pace broad-based gains of its trade partners against the USD.

In the coming year, the global reflation theme is likely to underpin risk appetite which in turn would weigh on the USD. So, we reiterate our view of further modest SGD gains against the USD. Our updated USD/SGD forecasts are at 1.32 in 1Q21, 1.31 in 2Q21 and 1.30 in both 3Q and 4Q21.

Expectations of higher crude oil prices could also reinforce the positive sentiment towards MYR.

Going into 2021, the MYR continues to draw strength from Asia's robust growth recovery particularly in China. Expectations of higher crude oil prices could also reinforce the positive sentiment towards MYR. Meanwhile renewed monetary policy easing across the developed markets and positive interest-rate differentials further underpins foreign portfolio funds entering emerging markets, including Malaysia.

These positive external factors are expected to buoy MYR. Other domestic drivers include the positive growth outlook, sustained current account surplus, and steady interest rates. Key risks to watch include the next FTSE Russell review of Malaysia's WGBI index weight in Mar 2021, upcoming sovereign rating reviews by the international rating agencies, and domestic political events. We project USD/MYR at 4.00 by end-2Q21 and 3.95 by end-4Q21.

We continue to be cautious on the THB, weighed by a fragile economic recovery.

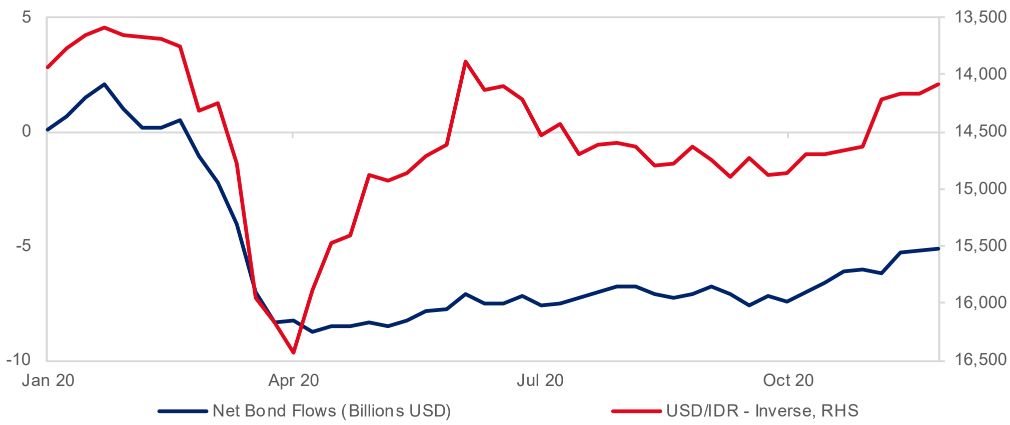
Underpinned by capital inflows, the THB rebounded in the 4Q after dropping 2.4% against the USD in the 3Q. The move came predominantly in early November as an expected US elections outcome together with positive vaccine news spurred a return to regional emerging markets assets. USD/THB broke past its key support at 31 and traded to a 10-month low of 30.13 by 16-Nov.

Concerned that the strength of THB could derail Thailand's fragile economic recovery, the Bank of Thailand (BOT) brought forward relaxed capital outflow measures which were supposed to begin early next year to end-Nov, and will also increase scrutiny of fund inflows in the local bond markets.

With the authorities' clear emphasis to slow THB's gains in the near term, a sustained appreciation beyond its key psychological level at 30 /USD appears unlikely. As such, we continue to be cautious on the THB, weighed by a fragile economic recovery. Our updated USD/THB point forecasts are 30.00 for 1Q21, 30.30 in 2Q21 and 30.50 for both 3Q and 4Q21.

Chart 9: IDR Rebounded Strongly in 4Q20 On Bond Inflows

Source: Bloomberg, UOB Global Economics & Markets Research



After lagging in the 3Q, the IDR has caught up with Asian FX rally and rebounded by a strong 5% to 14,150 /USD. A large part of IDR gains happened in early November where the IDR gained from 14,500 to 14,000 in the span of a week. This coincided with risk-on sentiment post US elections together with positive news on vaccine which spurred a flight towards riskier emerging currencies such as the IDR.

With the domestic economic outlook still uncertain and further rate cut expected, sustained gains in the IDR beyond 14,000 appears unlikely.

With the domestic economic outlook still uncertain and further rate cut expected, sustained gains in the IDR beyond 14,000 appears unlikely. However, broad USD weakness would mean any rebound in USD/IDR is likely to be confined within familiar ranges. Our updated USD/IDR forecasts are at 14,300 in 1Q21, 14,350 in 2Q21, 14,400 in both 3Q and 4Q21.

After a knee-jerk selloff to about 23,600 /USD in March at the peak of the global pandemic, VND has since pared back all of its losses and looks set to finish flat on the year at about 23,160 / USD. Underpinned by its resilient economy which is expected to register an almost pre-pandemic growth rate of 7.1% next year, we see further scope for VND gains. Further FDI flows into Vietnam together with potential opportunities from the recently-inked Regional Comprehensive Economic Partnership (RCEP) are also medium term tailwinds for the VND. Also, given increased scrutiny from the US Treasury, Hanoi is less likely to intervene directly in the markets to temper with the VND's strength. Overall, we reiterate a modestly lower trajectory for USD/VND, with point forecasts at 23,000 in 1Q21, 22,800 in 2Q21, and 22,600 in both 3Q and 4Q21.

Translating Reflation Themes Into Rates Markets

- Forward market implied rate expectations buoyed by vaccine but there is still no immediate risk of monetary policy tightening. Existing forward curve implies the first FED rate hike in about three years.
- Economic environment remains supportive of steeper yield curves, in particular the challenging US fiscal outlook.
- Further traction in reflationary themes benefits SGS performance over UST over the medium term, i.e. a narrowing of yield spread between SGD and UST.

Money Markets

Table A: Short Term Money Market Rates Heatmap

	27 Nov 20	-1 Week	-1 Month	-3 Month	-6 Month	-1 Year
SOFR	0.08	0.05	0.09	0.09	0.07	1.55
US 3M Libor	0.23	0.20	0.22	0.25	0.33	1.89
SORA	0.18	0.09	0.31	0.13	0.04	1.25
SG 3M Sibor	0.41	0.41	0.41	0.41	0.56	1.77
SG 3M Sor	0.19	0.16	0.19	0.21	0.19	1.52

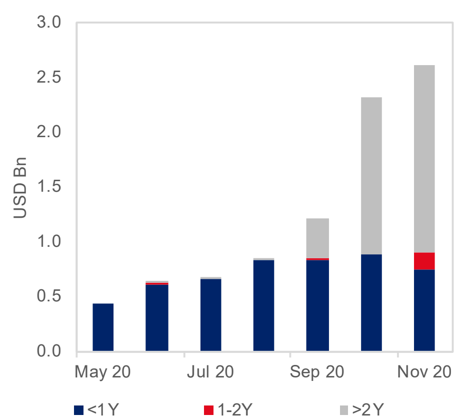
Source: UOB Global Economics & Markets Research

Funding markets in the US and locally have largely remained stable between the end of 3Q (30 Sep) to 1 Dec.

Funding markets in the US and locally have largely remained stable between the end of 3Q (30 Sep) to 1 Dec. 3M US Libor and 3M Sibor have been relatively unchanged while the 3M Sor inched higher by 1bps. Meanwhile, Sora has ranged between 0.05% and 0.31%, clustering at around 0.12%. Liquidity for Sora derivatives continues to improve; as of end November, the notional outstanding cleared by the London Clearing House (LCH) reached USD 2.6bn. In addition, the average bid-ask spreads for the longer tenors have also narrowed (e.g. 10Y from 21bps in Sep to 16bps in Nov).

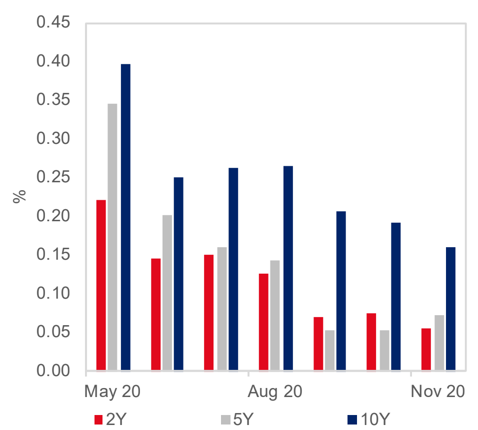
LCH Cleared SORA Derivatives (Notional Outstanding)

Source: Bloomberg, UOB Global Economics & Markets Research



SORA Swap Tenors (Bid-Ask Spreads)

Source: Bloomberg, UOB Global Economics & Markets Research



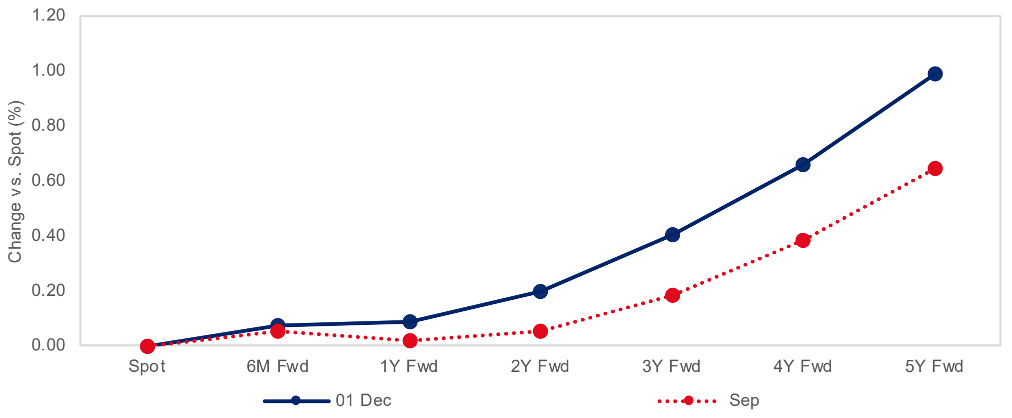
Heading into the new quarter, and year, we continue to hold the conviction that US and SG monetary policies will remain accommodative.

Heading into the new quarter, and year, we continue to hold the conviction that US and SG monetary policies will remain accommodative. In other words, aside from periodic episodes of liquidity driven volatility, money market rates in both countries can be expected to extend their range bound price action.

Forwards markets in the US have repriced steeper since the end of 3Q. Most of the upgrade can be seen from the 4-year forward tenors while the more immediate tenors have experienced a lesser uptick in their yields. This price action has been underpinned mainly by reflation optimism after positive developments were announced in the search for COVID-19 vaccines.

Forward Market Expectation Of US Short Rates

Source: Bloomberg, UOB Global Economics & Markets arch



Based on the prevailing levels in the forward rate swaps, a full 25bps Fed rate hike is priced in three years (2023) time. Market implied policy expectations are also consistent with our own forecasts for the Fed to begin tightening monetary policy in early 2024. In regards to the possibility for a significant shortening of the rate hike runway, this scenario is still premature in our opinion given the uncertainties that still surrounds the issue of when we will achieve herd immunity for COVID-19 and the consequential drag that this creates for certain sectors of the economy in the interim.

Overall, based on the likelihood that monetary policies will have to remain accommodative for an extended period of time, we think that there is limited downside for rate receivers out to the 5-year tenor and we are biased towards fading yield spikes in this region should we encounter a bout of reflation euphoria driving yields higher in 1Q21.

Our views on US and SG money markets

- Central tendency for US SOFR and SG SORA is anchored around 10bps and 12bps across 2021.
- 3M US Libor forecast at 0.25% for 1Q21 and remains at 0.25% by end 2021.
- 3M SG Sibor forecast at 0.35% for 1Q21 and remains at 0.35% by end 2021.
- 3M SG Sor forecast at 0.25% for 1Q21 and remains at 0.25% by end 2021.

Bond Markets

Table B: Longer Term Bond Yield Heatmap						
	27 Nov 20	-1 Week	-1 Month	-3 Month	-6 Month	-1 Year
10Y UST	0.93	0.82	0.87	0.67	0.69	1.72
10Y SGS	0.85	0.92	0.81	0.98	0.84	1.76
2s10s UST Curve	0.76	0.67	0.72	0.54	0.52	0.18
2s10s SGS Curve	0.60	0.68	0.60	0.72	0.61	0.25

Source: UOB Global Economics & Markets Research

The scope for yields and curvatures to reprice higher alongside investors' improving optimism remains far from exhausted.

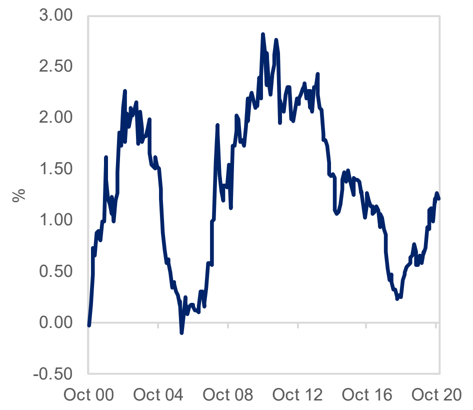
Between the end of 3Q to 1 Dec, 10Y US Treasuries (UST) yield have risen by 24bps, while the 10Y Singapore Government Securities (SGS) yield has dipped lower by 1bps. The 2-year versus 10-year (2s10s) curve has also steepened by 20bps in UST and flattened by 4bps in SGS. These developments have been in line with our expectation for steeper curves driven by higher bond yields.

We believe that momentum remains in favour of continuation in the aforementioned. Outlook for the US fiscal deficit is challenging and will weigh on the market in the near term by manifesting itself through concessions during UST supply. Also bearing in mind that inflation expectations have not yet been offered the opportunity to probe the Fed's tolerance under its new Average Inflation Targeting (AIT) regime. Thus the scope for yields and curvatures to reprice higher alongside investors' improving optimism remains far from exhausted.

In addition, news of COVID-19 vaccine breakthroughs and any improved clarity on their distribution strategies will help to anchor expectations for an eventual return to a scenario of economic "normalcy". In which case, the prevailing levels in the US real yields (nominal less inflation) appears to us as being rather depressed and is instead discounting a much bleaker future.

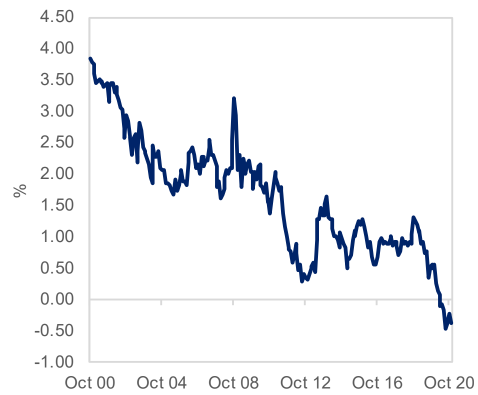
5Y vs 30Y UST Curve

Source: Bloomberg, UOB Global Economics & Markets Research



30Y US TIPS

Source: Bloomberg, UOB Global Economics & Markets Research



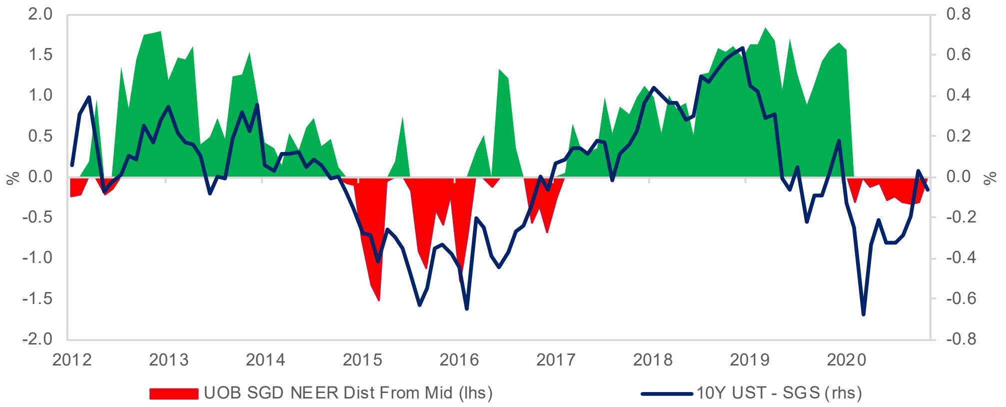
We are very much still in the camp for a gradual steepening of the US and SG yield curves led by measured increases in longer maturity yields.

Given that reflationary themes are only in their early stages of taking root, as well as our conviction that policy makers' reaction functions in both fiscal and monetary sphere will continue to be asymmetric (i.e. aggressive in negative shocks and lagging in positive shocks), ongoing developments augur well for steeper yield curves. This leaves us very much still in the camp for a gradual steepening of the US and SG yield curves led by measured increases in longer maturity yields.

We also note that the 10Y SGS has outperformed UST thus far in 4Q, and the magnitude of narrowing in the yield spread between SGS and UST has been slightly larger than what is suggested by historical correlations accounting for the back drop of a weaker trade weighted currency (SGD NEER).

Yield Spreads Between SGS And UST Fair vs SGD NEER

Source: Bloomberg, UOB Global Economics & Markets Research



We are neutral on the 10Y yield spread between UST and SGS in the short term and are biased towards tighter, and eventually a SGS yield discount to UST, over the medium term.

Looking ahead, increased traction by reflationary themes which encompasses higher US yields and a weaker US dollar would translate to further SGS outperformance (or narrowing of the yield spread between SGS and UST). Pitted against this, we have a 30Y SGS re-opening auction at the end of January 2021 which could weigh on the potential for SGS prices to appreciate in the short term. Furthermore, given the reliance of Singapore on global trade, the resumption in economic activity needs to be further accelerated before it becomes more consistent with a trend shift in the SGD NEER.

On balance, we are neutral on the 10Y yield spread between UST and SGS in the short term and are biased towards tighter, and eventually a SGS yield discount to UST, over the medium term.

Our views on US and SG bond markets

- 10Y UST forecast at 1.00% for 1Q21 and 1.20% by end 2021.
- 10Y SGS forecast at 1.10% for 1Q21 and 1.20% by end 2021.
- Reflation theme and AIT regime is supportive of a steeper yield curve.

COMMODITIES STRATEGY

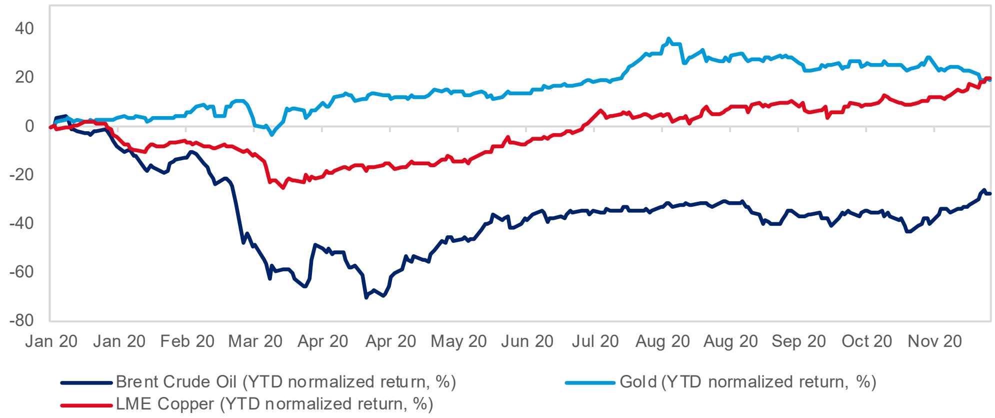
Gold's Rally Stalls On Vaccine News As Copper And Brent Play Catch-Up

Will the "Vaccine Reflation" trade pull commodities even higher in 2021?

News of tangible progress in COVID-19 vaccine research injected further volatility into the commodities space in the final quarter of 2020. What looked like a "sure bet" for a further rally in gold price turned out to be frustrating price action as gold encountered heavy selling instead. As gold's rally stalled, copper continues to rally ahead and is now head-to-head with gold in terms of its year-to-date normalized return in USD. Brent crude oil was left behind as usual in the broader commodities rally, but nonetheless put up a good fight with a last minute rally from USD 42 / bbl to USD 48 / bbl across November. Will the "Vaccine Reflation" trade pull commodities even higher in 2021?

Gold's Rally Stalls On Vaccine News As Copper And Brent Play Catch-Up

Source: Bloomberg, UOB Global Economics & Markets Research

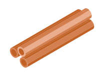


Gold

After briefly popping above USD 2,000 / oz in Aug, gold's rally stalled in 4Q20. Heavy ETF redemption across November triggered profit taking in gold and pushed it back down below USD 1,800 / oz. Have investors' love affair with gold soured? Will existing and potentially more Quantitative Easing (QE) from the US Federal Reserve and global central banks be able to offer renewed support to gold price?

Crude Oil

Even after the latest rally from USD 42 / bbl to USD 48 / bbl across Nov, Brent crude oil price remains down by about ¼ for the year. After a very difficult week of meetings fraught with disagreements, OPEC+ finally compromised with a new deal for a "small" production hike of 500,000 bpd beginning in Jan. Should the global economic reflation take root next year, there will be more calls from various OPEC+ members for further production hikes. Will OPEC+ be able to keep its act together to support Brent crude oil price?



Copper

Copper continued to surprise us with further strength across 4Q to date. After trading above USD 7,000 / MT in early November, the London Metal Exchange (LME) Copper continued its strong rally to rise further towards USD 7,700 / MT. Has "Dr Copper's" rally ran way ahead of fundamentals or is this a strong forward looking signal that the world's economy will rebound strongly in 2021?

Gold

Price Rally Stalls As ETF In-Flows Reverse

In our previous quarterly, we discussed in detail the shift in the sources of gold demand, whereby investment demand from ETFs overtook the traditional jewelry demand. Given the ultra-easy monetary policy pursued by DM central banks, investment demand from ETFs was expected to remain strong. Meanwhile, pent-up demand from traditional jewelry purchases is seen rebounding as activity resumes in EM economies after the lockdown eased.

However, after gold price briefly popped above USD 2,000 / oz in early Aug, the investment demand from ETFs dried up. Gold subsequently suffered a gut wrenching intra-day sell-off from USD 1,950 / oz to USD 1,880 / oz on 9 Nov as the “Reflation Trade” roared back upon the news of a significant COVID-19 vaccine breakthrough. Since then, ETF flows have reversed instead and across the month of November, gold ETFs lost a net tonnage of about 3 mio ounces. As a result, gold price fell to struggle at the current USD 1,800 / oz level.

In addition, it is possible that the very strong rally in Bitcoin and other cryptocurrencies over the past quarter had “stolen the thunder” away from gold and resulted in some allocation away from gold ETFs. Typically, Bitcoin tends to outperform gold on the way up as the Bitcoin versus Gold Ratio jump illustrates.

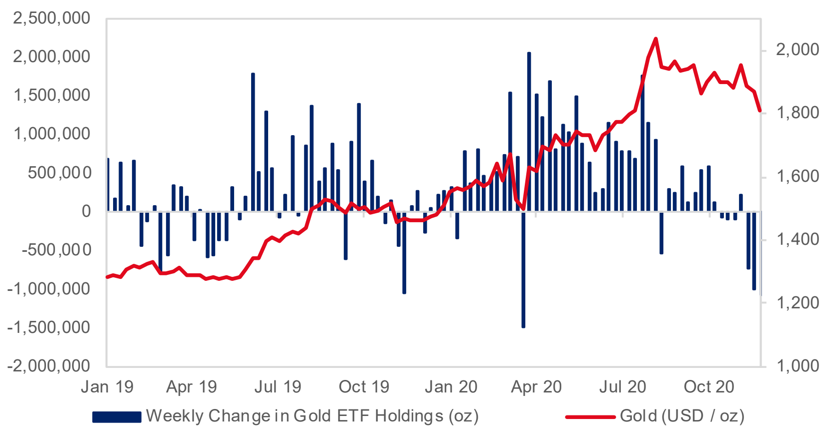
Over the medium term, little has changed in terms of the fundamental driver for gold. In particular, DM central banks continue to ramp up their QE and this is a very positive driver for gold. Nonetheless, we need to be cognizant of the near term price weakness for gold. At the moment of writing, gold is at risk of further price weakness should the USD 1,800 / oz support level fail.

Overall, we stay positive in our medium term outlook for gold. But we adjust our point forecasts lower given the set-back in price action. Our gold forecasts are now USD 1,850 / oz for 1Q21, USD 1,900 / oz for 2Q21, USD 1,950 / oz for 3Q21 and USD 2,000 / oz for 4Q21. Previous forecasts were USD 2,100 / oz for 1Q21 and USD 2,200 / oz for 2Q and 3Q21.

UOB’s Forecast	1Q21F	2Q21F	3Q21F	4Q21F
Gold (USD/oz)	1,850	1,900	1,950	2,000

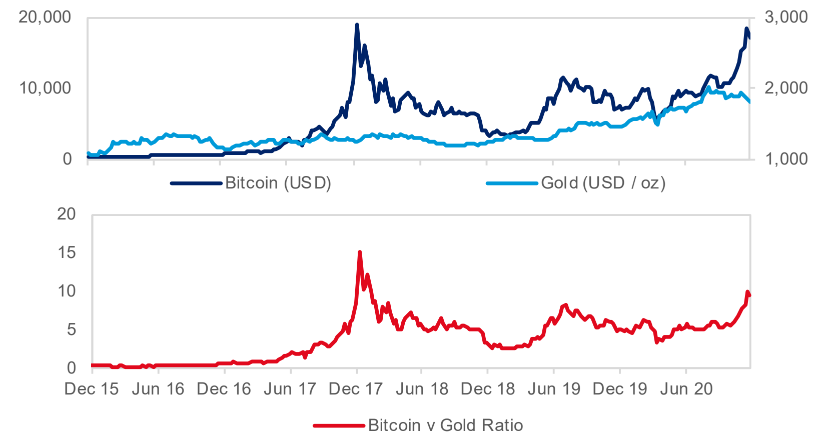
Gold 1: Gold’s Rally Stalls As ETFs Get Hit By Redemption Wave

Source: Bloomberg, UOB Global Economics & Markets Research



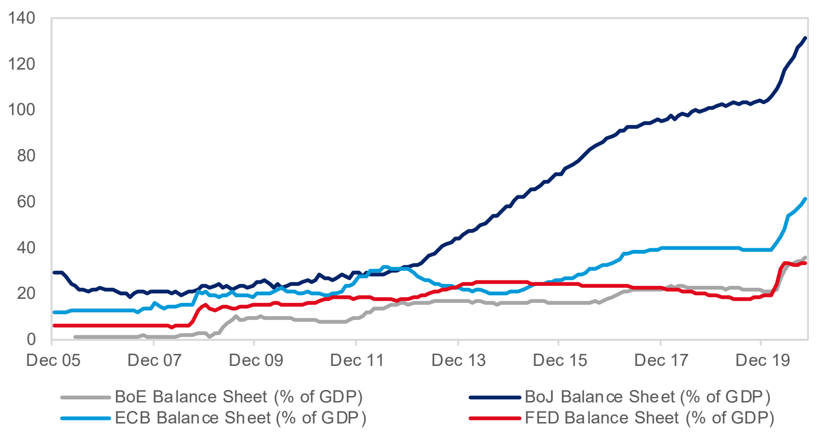
Gold 2: Bitcoin Tends To Outperform Gold On The Way Up

Source: Bloomberg, UOB Global Economics & Markets Research



Gold 3: FED And DM Central Banks Have Ramped Up Their QE

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil

OPEC+ Compromise Limits Strong Gains In Brent

After a difficult and frustrating round of week-long talks, OPEC+ finally compromised with a controlled production hike of “just” 500k bpd from Jan 2021. This is not an ideal outcome given that previous consensus is for a further extension of production cuts. But this is not a negative outcome either as well given that the 500k bpd hike is likely to be absorbed by gradual recovery of energy demand next year.

Brent crude oil price was previously given a boost recently in early Nov by the “Vaccine Reflation” trade, as risk assets that are sensitive global growth were snapped up. After consolidating around USD 40 / bbl since Jun, Brent crude oil made a leap higher from USD 40 to 43 / bbl on 9 Nov and rallied further to the late Nov high of about USD 48 / bbl.

Over the near term, there are encouraging signs of recovery in the dynamics for crude oil. The persistent contango across the futures curve has now been more or less whittled away. The 1s v 5s timespread for Brent crude oil is now almost flat after being in steep discount for most of the year following the steep sell-off in March. In addition, net short positioning appears to have stabilized and is gradually being scaled back.

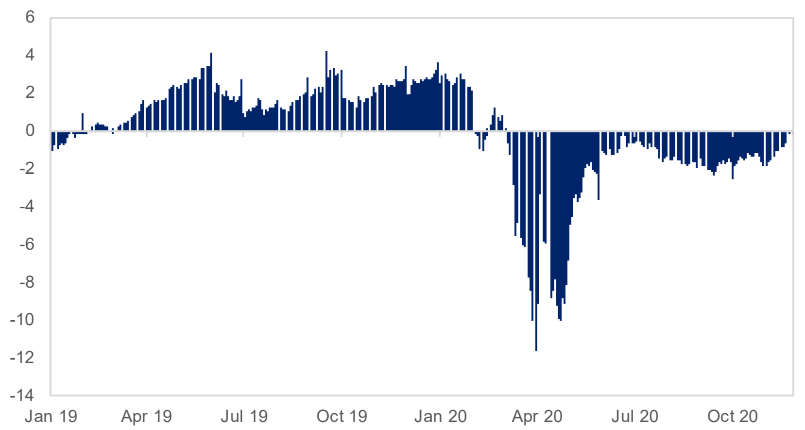
However, over the medium to longer term, much uncertainty still remains. While the Energy Information Administration (EIA) now expects global oil demand to rebound strongly to 98.8 mio bpd in 2021 from 92.9 mio bpd in 2020, this is still lower than the pre-COVID demand of 101.5 mio bpd in 2019. Fortuitously, the EIA sees a further drop in US oil production from the “drillers’ massive capital spending cuts” and see further drawdown in inventory. Indeed, US shale oil production continues to be the wild card as witnessed by the drop in US rig count which is supportive for crude oil price.

On one hand, hopes of vaccine reflation will support the gradual recovery in global energy demand into 2021. On the other hand, the OPEC+ compromise has now opened the door to a controlled production hike. Overall, we believe that Brent crude oil will have limited upside from here on and we forecast USD 50 / bbl in 1Q21 and 2Q21, followed by USD 55 / bbl in 3Q21 and 4Q21.

UOB’s Forecast	1Q21F	2Q21F	3Q21F	4Q21F
Brent Crude Oil (USD/bbl)	50	50	55	55

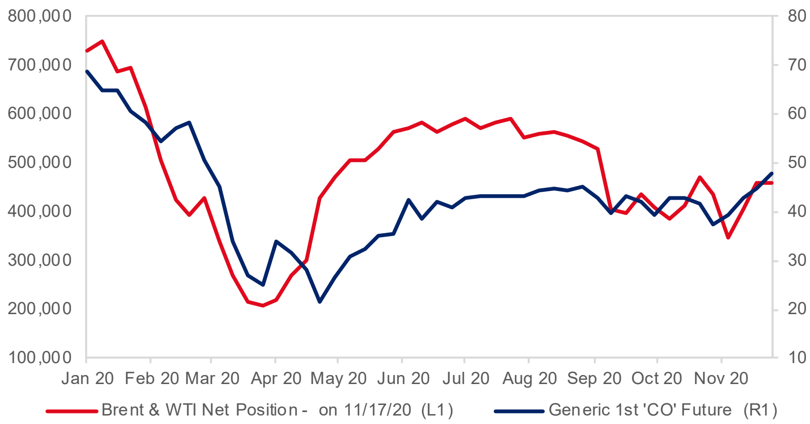
Brent 1: Brent Has Recovered Almost All Of Its Negative Timespread

Source: Bloomberg, UOB Global Economics & Markets Research



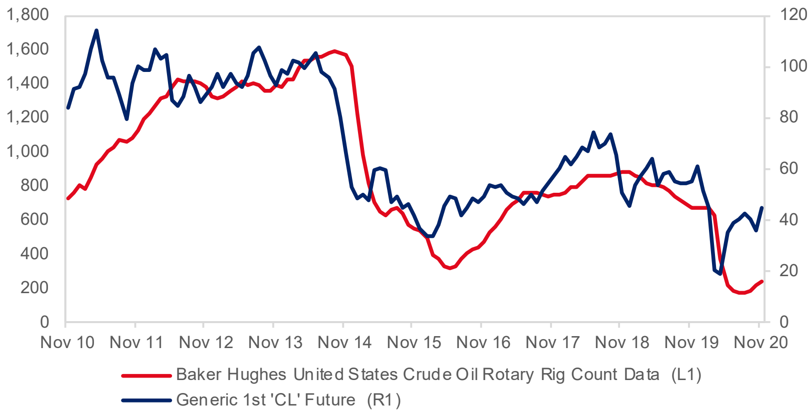
Brent 2: Brent Crude Oil Price Creeps Higher As Net Position Stabilizes

Source: Bloomberg, UOB Global Economics & Markets Research



Brent 3: US Rig Count Is Now Down To Decade Low

Source: Bloomberg, UOB Global Economics & Markets Research



Copper
China Restocking Extends Price Rally Further

The strong price action in copper continues to surprise us. LME Copper rallied further across 3Q. From about USD 6,500 / MT at the start of Jul, LME Copper rose to around USD 6,800 / MT by end of Sep. While the rally appears to be supported by the strong V-shaped rebound in industrial activity and PMI figures across 3Q, we warned that it would be difficult for LME Copper to rally further. Instead, LME Copper got caught up in the "Vaccine Reflation" trade across Nov and prices rallied further past USD 7,000 / MT to as high as USD 7,700 / MT. From its year's low of about USD 4,400 / MT in early March, prices have rallied by a whopping 2/3.

Objectively, there are some valid reasons for the on-going strong rally in copper prices. Global production and trade figures continue to improve across 3Q. This resulted in the on-going drawdown in LME inventory. After a brief increase in inventory across Oct, LME inventory have started to drop again. In addition, there was also strong restocking demand from China, as witnessed by the jump in unwrought copper imports into China.

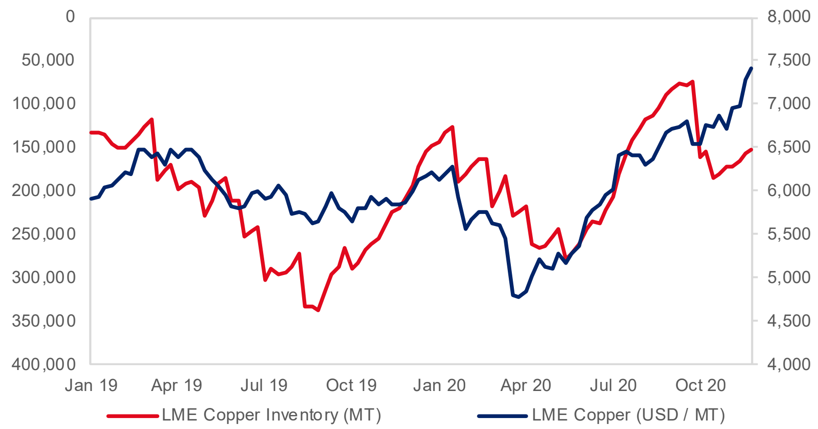
In its latest update in Oct, the International Copper Study Group (ICSG) forecasted that global copper mine production is expected to slump by 1.5% in 2020 after the 0.2% contraction in 2019. This is "principally a consequence of the COVID-19 related lockdowns that resulted in temporary mine closures". However, the ICSG warned that global production will jump by 4.6% in 2021 as production disruption dissipate. As such, it will be difficult to extrapolate the current strong rally in copper prices. In fact, since LME copper rallied past USD 6,800 / MT in Oct, the cash premium over 3M dissipated and flipped into discount. This return to a cash vs 3M price contango may be a sign that copper prices have ran ahead of fundamentals.

Overall, while there may be valid reasons to support the strong rally over the past few months, we reiterate that copper prices may have ran ahead of fundamentals. As such, our updated forecast for LME Copper sees possible consolidation around the USD 7,000 / MT level for 1Q and 2Q21, before climbing back to USD 7.500 for 3Q and 4Q21.

UOB's Forecast	1Q21F	2Q21F	3Q21F	3Q21F
LME Copper (USD/mt)	7,000	7,000	7,500	7,500

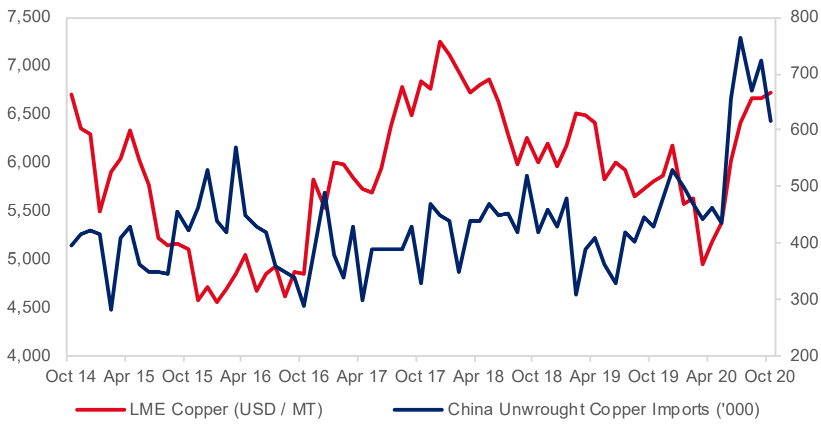
Copper 1: LME Copper Price Rallies As Inventory Gets Drawn Down

Source: Bloomberg, UOB Global Economics & Markets Research



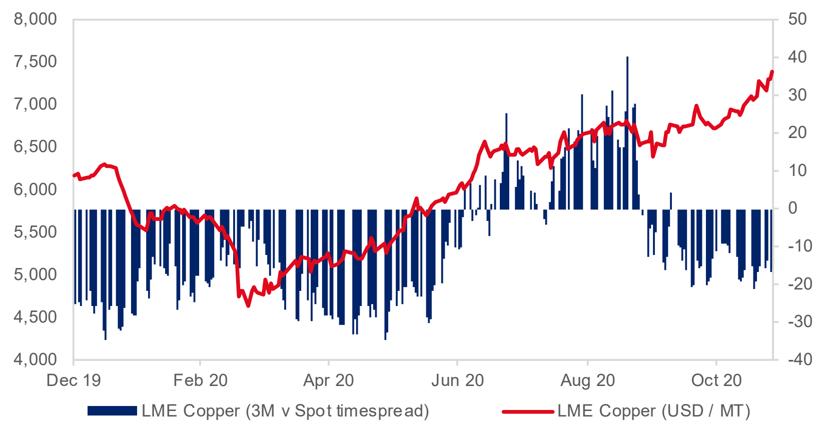
Copper 2: Restocking By China Pushes Copper Price Higher

Source: Bloomberg, UOB Global Economics & Markets Research



Copper 3: Copper Price Rally Oblivious To Unwinding Of Cash Premium

Source: Bloomberg, UOB Global Economics & Markets Research



CHINA

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/CNY	6.50	6.45	6.35	6.35
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.85

Economic Indicators	2018	2019	2020F	2021F
GDP	6.7	6.1	1.9	8.2
CPI (average, y/y %)	2.1	2.9	2.6	3.0
Unemployment rate (%)	4.9	5.2	5.3	5.2
Current account (% of GDP)	0.2	1.0	1.4	1.3
Fiscal balance (% of GDP)	-4.1	-4.9	-5.0	-4.0

ECONOMY: Positive Start To 4Q20 As Data Improves Further

The macroeconomic data confirmed that China's recovery from COVID-19 is continuing in 4Q20 as activity converges to levels prior to the pandemic. Meanwhile, Chinese authorities maintain a tight grip on the pandemic with rigorous control measures and mass testing even as it relaxes domestic travel restrictions. The domestic tourism market estimated to be worth 6% of GDP, is expected to fully recover by year-end.

Industrial production and exports have already recovered losses sustained earlier in the year, helped by a faster resumption in manufacturing activities while fixed asset investment rebound was led mainly by real estate and infrastructure investment. Meanwhile, Oct restaurant sales registered its first year-on-year growth this year, signalling that outlook for private consumption/retail sales has also brightened. The recovery in domestic tourism to pre-COVID levels is likely to provide further momentum to consumer demand improvement which will also be underpinned by recovery in the labour market. The surveyed jobless rate eased further to 5.3% in Oct from as high as 6.2% in Feb. This was almost back to Dec 2019 jobless rate of 5.2%.

We maintain our expectation for China's GDP growth to accelerate and normalise to its potential level in 4Q20 as the economic recovery broadens out to private consumption and investment. Our forecast for 4Q20 GDP is at 6.2% y/y compared to 4.9% y/y in 3Q20 with full-year 2020 GDP growth at 1.9%. Growth will rebound sharply to around 8.2% in 2021 from this year's low comparison base while key risks include US-China tensions and another pandemic outbreak.

The "dual circulation" strategy will be one of the key guiding principles in China's next-stage of development. Going forward, greater emphasis will be placed on domestic economic activities of internal consumption, production and distribution, and thus reducing China's vulnerability to external uncertainties.

While there was no explicit growth target set for the 14th Five-Year Plan (2021-25) in the official document, President Xi Jinping had said that the Chinese economy can double in size by 2035 which implies an annual growth rate of around 4.5% for the next 15 years. More details on the economic outlook and implementation of the new Five-Year Plan are expected at next year's National People's Congress (NPC) in March 2021.

CENTRAL BANK: Monetary Policy Will Be More Flexible

Calls for an eventual monetary policy normalisation and refocus on deleveraging will only get louder in 2021 as the Chinese economy continues to gain momentum. However, there should be no surprises there as policymakers have signalled that the timing and exit strategy will be carefully deliberated.

The People's Bank of China (PBoC) is likely to maintain room for its monetary policy manoeuvres given an expected easing of fiscal support, risk from rising bond defaults and COVID-19 uncertainty. Measures to support market liquidity and targeted economic segments such as temporary purchase of uncollateralized SME loans that was introduced in June may continue but the overall credit expansion is likely to slow next year. New renminbi loans have exceeded the total in 2019, at nearly CNY17 tn in Jan-Oct, up 18.6%y/y.

After 30bps cut in the benchmark 1Y Loan Prime Rate (LPR) and three reductions to banks' reserve requirement ratio (RRR) earlier this year, we do not expect further rate move with both the LPR and RRR likely to stay flat through 2021.

The domestic inflationary outlook remains benign in the near-term. China's headline inflation eased sharply to 11-year low at 0.5% y/y in October as food prices came off further while core inflation has remained steady. Given a high base of comparison, the headline inflation will remain subdued in 4Q20 with 2020 inflation averaging 2.6% and is expected to pick up to 3.0% in 2021 on stronger global economic recovery.

CURRENCY: CNY Strength To Extend Into 2021

By now, it is clear that growth differential was one of the key factors behind CNY's outperformance this year. China is the only major economy to still post a positive growth this year while other key economies will experience unprecedented contractions despite the 3Q robust recovery. As such, the CNY is not only on track for its first yearly gain against the USD in three years, but also the best performing Asian currency (+6.3% vs USD) this year. Other factors underpinning the CNY strength include attractive yield advantage of China Government Bonds (CGBs) over US Treasuries, stable policy making from the People's Bank of China (PBoC) and broad USD weakness.

While China's macroeconomic advantage over its global peers may extend into 2021, a narrowing of its growth differential may see gains in CNY moderate. Also, PBoC's moves in October to cut its FX risk reserve ratio to 0% from 20% and the phasing out of its Counter Cyclical Factor (CCF) in quotation model of the CNY central parity rate were seen as signs that authorities are getting uncomfortable with one-sided CNY gains. As such, the almost 8% jump of the CNY against the USD in 2H20 is unlikely to be repeated. Overall, our USD/CNY forecasts are updated to 6.50 in 1Q21, 6.45 in 2Q21, and 6.35 in both 3Q and 4Q21. From a medium to long term point of view, USD/CNY is now heading back to the middle of the broad 6.0 to 7.0 trading range.

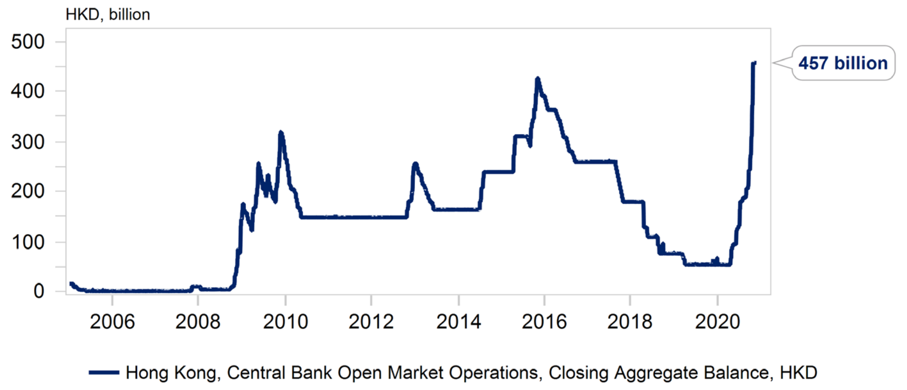
HONG KONG

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/HKD	7.75	7.75	7.75	7.75
HKD Base Rate	0.50	0.50	0.50	0.50

Economic Indicators	2018	2019	2020F	2021F
GDP	2.8	-1.2	-6.1	6.5
CPI (average, y/y %)	2.4	2.9	0.4	1.6
Unemployment rate (%)	2.7	3.1	6.4	4.3
Current account (% of GDP)	3.7	6.1	3.7	4.5
Fiscal balance (% of GDP)	2.4	-0.4	-11.0	-2.0

Hong Kong: Aggregate Balance Surges To Record High

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Low Base Effect Kicks In

The contraction in Hong Kong's GDP narrowed to -3.5% y/y in 3Q20 from -9.0% y/y in 2Q20 as the economy entered into its fifth straight quarterly decline resulting from the domestic unrest in the second half of 2019 and the COVID-19 pandemic this year.

The improvement in 3Q20 was led by higher government spending as well as a low base of comparison, particularly for fixed investment which entered into its 8th straight quarterly contraction. Private consumption which accounts for two-thirds of the economy also continued to fall, albeit at a more moderate pace. The unemployment rate has risen to its highest in close to 16 years with lower-skilled workers bearing the brunt while nominal median household income declined by 8.2% y/y in 3Q20. Although both goods exports and imports turned in positive growth in 3Q20, this was overshadowed by the continued large contractions in services trade due to global travel restrictions.

The uncertainties have continued to keep the labour market and retail sector depressed. Retail sales barely picked up in 3Q20 and remained well below the monthly average in 2018 (HK$40.4 bn) and 2019 (HKD$35.9 bn). The fourth wave of COVID-19 hitting Hong Kong in late-Nov is another blow to the recovery as it leads to more stringent social-distancing measures and sets back the resumption of leisure travel. Prior to the pandemic, tourism had contributed to a third of retail sales. An important step could be the relaxation of travel within the Greater Bay Area (GBA) which would signal increasing confidence to contain COVID-19 in the region.

There are measures to cushion the coronavirus impact, including additional relief measures of $600 million for the tourism industry, extension of public transport fare support, GBA youth employment scheme and employee training program which were announced at Chief Executive Carrie Lam's policy address in Nov. The stimulus packages announced so far have totaled HK$311.5 billion (>11% of GDP). Despite the decline in fiscal reserves, we believe 2021/22 Budget to be tabled in Feb 2021 will remain substantial to facilitate the economic recovery next year. The fiscal reserves have fallen sharply to HK$0.88 tn end-Sep from HK$1.20 tn in Jan, but is still substantial compared to lows of HK$0.43 tn and HK$0.27 tn during the Global Financial Crisis and SARS crisis respectively, providing room for more stimulus measures if needed.

We have revised higher our forecast for Hong Kong economy to -6.1% for 2020 (previously -6.5%) to account for better-than-expected 3Q20 data and to 6.5% for 2021 (previously 7.0%). The economy is likely to remain in contraction of around -2.9% y/y in 4Q20 before rebounding into positive growth next year. While our forecast assumes a viable vaccine will become widely available by 2H21, near-term risk from rising infections both at home and in other parts of the world or the easing of fiscal measures would be major headwinds. Conversely, upside risks could come from the spillovers of a stronger recovery in the mainland and improving global demand as well as faster rollout of a vaccine.

Meanwhile, inflation has eased across all major segments with government's relief measures also contributing to the downward pressure. We expect the headline inflation to average 0.4% in 2020 and 1.6% in 2020 and 2021 respectively.

CENTRAL BANK: Flushed Domestic Liquidity Sees Hibor-Libor Spread Closing

The 3M Hibor-Libor spread has closed in 4Q20 as flushed domestic interbank liquidity from equities inflows drove down the HKD interbank rates. Interbank liquidity, reflected in the aggregate balance surged to a record high of HKD$457 bn as of 25 Nov from just HK$54 bn in mid-April and eclipsing previous high of HK$424 bn in Nov 2015. Overall, the loose global monetary policy will continue to underpin a low Hibor but geopolitical concerns and weaker economic fundamentals remain on investors' radar which could see Hibor edging up once the massive inflows into the equities ease.

CURRENCY: USD/HKD Stays Glued To 7.75

With the closing of the 3M Hibor-Libor in November, a key driver of HKD strength – the HKD carry trade – has faded away. While USD/HKD has lifted off slightly from the lower bound of its Convertibility Undertaking (CU) at 7.75 in November, the normalization of USD/HKD higher may not come just yet. Inflows into Hong Kong equity markets remain strong and are likely to underpin further demand for the HKD. As such, we reiterate our view that USD/HKD would stay glued to 7.75 for the next 4 quarters in 2021.

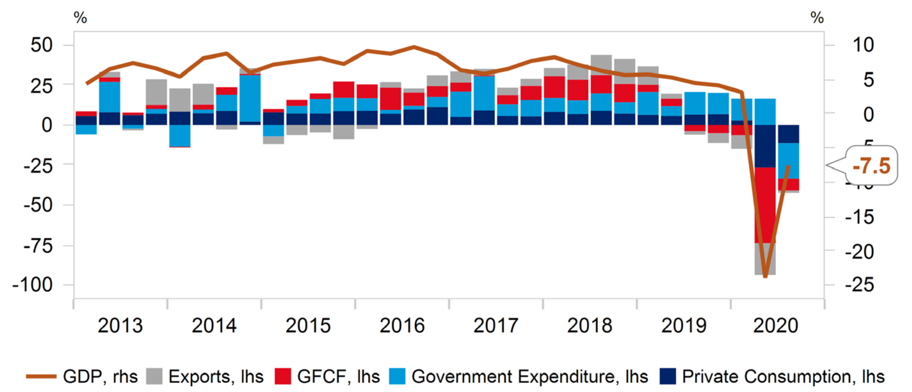
INDIA

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/INR	74.30	74.50	75.00	75.50
INR Repo Rate	3.75	3.75	3.75	3.75

Economic Indicators	2018	2019	2020F	2021F
GDP	6.1	4.2	-9.0	8.5
CPI (average, y/y %)	3.4	4.8	6.0	4.5
Current account (% of GDP)	-2.4	-1.0	-1.5	-1.0
Fiscal balance (% of GDP)	-3.6	-4.4	-7.0	-6.0

India's GDP Contraction Moderated To -7.5% Y/Y In 2QFY2020/21

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: The First Technical Recession In History

India's GDP contracted 7.5% y/y in the second quarter of its fiscal year (2QFY2020/21: July – September 2020). This was better than market expectations of a deeper decline of 8.2% y/y. With two consecutive quarters of GDP contraction, India officially enters a technical recession for the first time since public data was made available in 1997. Gross Value Added (GVA) growth also declined by 7.0% y/y in the same period, against market estimate of -7.7% y/y.

Notwithstanding the contraction in India's GDP in 2QFY2020/21, we recognise that it is still a positive indication. GDP contraction pace had moderated from its deepest y/y contraction of 23.9% seen in the previous quarter, underpinned by the slower pace of decline in India's key GDP components under the expenditure approach. GVA also highlighted the expansion in India's agriculture sector (14.6% of total GVA in FY2019/2020), as well as potential green shoot recovery in the manufacturing sector (17.4% of GVA).

India's growth prospect will likely be governed by how COVID-19 evolves in the coming fiscal year. India's aggregate COVID-19 infections recently rose above 9.3 million, with renewed resurgence of cases especially in New Delhi where new daily cases had surpassed those in other states. The pace of COVID-19 infection in India is particularly alarming given its second-highest number of COVID-19 infections in the world, behind the US and compared to merely being in the seventh position six months ago (June 2020).

Overall, India's GDP contracted 15.7% y/y in the first two quarters of its fiscal year. We pencil in a 9.0% full-year GDP contraction for India in FY2020/21, slightly better than the Reserve Bank of India (RBI)'s call for -9.5%. We remain bearish on India's macroeconomic conditions over the short and medium term, but expect growth prospects to improve in the longer term, driven by vaccine hopes which can potentially lead to a meaningful turnaround in India's COVID-19 infection rates.

CENTRAL BANK: One More Rate Cut In Next Meeting

The RBI kept its policy repo rate unchanged at 4.00% in Nov, in line with market estimates. This is the third consecutive meeting RBI has kept its rates unchanged, following a 40bps cut in an unscheduled meeting on 22 May 2020. RBI has also kept its reverse repo rate and cash reserve ratio rate unchanged at 3.35% and 3.00%, respectively. Year to date (YTD), India has cut its policy repo rate by a total of 115bps.

Despite the surge in COVID-19 cases and expectations of a GDP contraction in FY2020/21, elevated inflation kept RBI on pause again. Governor Shaktikanta Das said in a statement that RBI "decided to continue with the accommodative stance of monetary policy as long as necessary — at least through the current financial year and into the next year" and RBI is keeping its stance which is "to revive growth on a durable basis, and mitigate the impact of Covid-19, while ensuring that inflation remains within the target going forward."

With India's first technical recession in history amid softer high-frequency data of late, further policy accommodation could still be on the cards especially if the COVID-19 pandemic worsens in 4Q and into early 2021. This could persuade policy-makers to cut its policy repo rate by 25bps at its next meeting on 5th February 2021.

CURRENCY: INR May Still Underperform In 2021

The INR is the worst performing currency in Asia this year. YTD, the INR depreciated by 3.6% to about 74 /USD while most of its Asian peers appreciated against the USD, tracking a revival of global risk appetite and CNY strength.

The RBI is also on a reserve accumulation spree this year as the USD slid. YTD, India's FX reserves swelled by USD118bn to USD575bn. This came amidst portfolio flows roughly flat on the year as bond outflows were balanced by equity inflows.

As before, domestic growth headwinds would continue to be a key negative factor weighing on the INR. While India's growth is expected to rebound in FY2021/22, it is still subject to downside risks as its COVID-19 outbreak is still not under control. As such, we keep to our higher trajectory in USD/INR. Our updated forecasts are 74.30 in 1Q21, 74.50 in 2Q21, 75.00 in 3Q21 and 75.50 in 4Q21.

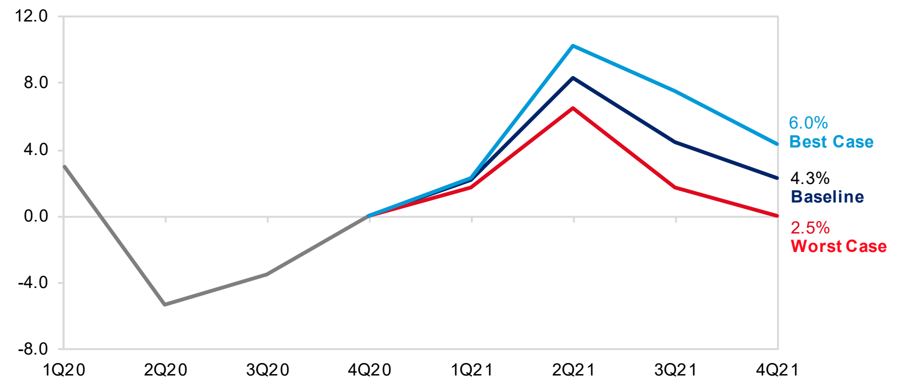
INDONESIA

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/IDR	14,300	14,350	14,400	14,400
IDR 7D Reverse Repo	3.50	3.50	3.50	3.50

Economic Indicators	2018	2019	2020F	2021F
GDP	5.2	5.0	-1.5	4.3
CPI (average, y/y %)	3.2	3.0	2.0	2.2
Unemployment rate (%)	5.3	5.3	7.0	6.3
Current account (% of GDP)	-3.0	-2.7	-0.7	-2.0
Fiscal balance (% of GDP)	-1.8	-2.2	-7.0	-6.0

The Trajectory of Indonesia 2021 GDP

Source: UOB Global Economics & Markets Research



ECONOMY: Full Recovery In 2021?

Indonesia's economy is set to post its first annual contraction in 2020 since the Asian Financial Crisis amidst the COVID-19 pandemic. The containment measure had significantly reduced economic activities, resulting in Gross Domestic Product (GDP) contracting by -5.3% y/y in 2Q20. Since then, the economy has recovered with a narrower decline of -3.5% y/y or +5.1% q/q in 3Q20 suggesting that the worst is probably over for Indonesia but it is not out of the woods yet, as mobility levels remain below pre-pandemic levels and COVID-19 cases have yet to show signs of slowing down after 9 months. On balance, we expect an almost flat GDP growth at the end of 4Q20, leading to our forecast of 2020 full year contraction of -1.5%.

Despite hopes that vaccines will be available as early as December 2020 for emergency use authorization (EUA), we are of the view that Indonesia's economic recovery in 2021 may not be at full throttle, and is dependent on these factors:

1. **How fast the vaccine will be widely available** – Baseline: The vaccine might not be widely available until 2H21. It will also take time to know whether the vaccine is really safe and effective to use.

2. **When will mobility return to pre-pandemic levels** – Baseline: While waiting for full availability of vaccine(s), mobility will likely remain limited in 1H21 in order to contain the spread of the virus.

3. **3. How fast and effective the 2021 National Economic Recovery ("Progam Pemulihan Ekonomi Nasional" or PEN) fund disbursement** – Baseline: While improvement had been made thus far in 2020, operational, and administrative challenges remain in 2021, delaying the stimulus disbursement. For instance, as of 18 Nov 2020 the PEN realization only reached 58.7% of the total budget.

4. **The degree of "revenge" spending** – Baseline: Private consumption, which comprises of more than 50% of Indonesia's GDP might not fully rebound in 2021. While we expect there is going to be "revenge" in the non-essential spending category, the extent of recovery is likely to remain below its full potential given still high unemployment.

That said, we expect Indonesia's economy to return to positive growth territory in 2021 with baseline growth scenario of 4.3%. The two sectors, Information and communication, and human health-and-social work activities, that thrive during the pandemic in Indonesia will continue to grow strongly next year. We expect the sectors that were mildly and adversely impacted by the COVID-19 pandemic such as the financial, wholesale & retail trades, construction, manufacturing to recover first, followed by the more severely impacted sectors such as transport and accommodation which will likely return to near normal only in 2022.

CENTRAL BANK: 125bps Cut In 2020, Final 25bps Cut In 1Q21 Remains Possible

Bank Indonesia (BI) has trimmed the benchmark rate five times this year by a total of 125 bps to lend support towards the national economic recovery that has been hit by the pandemic; bringing the 7 Day Reverse Repo rate to an all-time low at 3.75%.

With growth recovery at best uncertain and requiring further monetary support, BI will likely be open to providing additional monetary stimulus in 2021. We keep the view that BI may cut its 7 Day Reverse Repo rate by another 25bps in 1Q21 to 3.50%. Meanwhile, BI remains adamant that burden sharing (direct buying of government debt through private placement) is a "one off" policy that will not be carried over to 2021. Nonetheless, BI continues to ensure that liquidity will remain ample in the domestic financial system to help accelerate the progress of economic recovery in years to follow.

CURRENCY: Recent Strong Gains In IDR To Fizzle Off

After lagging in the 3Q, the IDR has caught up with Asian FX rally and rebounded by a strong 5% to 14,150 / USD. A large part of IDR gains happened in early November where the IDR gained from 14,500 to 14,000 in the span of a week. This coincided with risk-on sentiment post US elections together with positive news on vaccine which spurred a flight towards riskier emerging currencies such as the IDR.

With the domestic economic outlook still uncertain and further rate cut expected, sustained gains in the IDR beyond 14,000 appears unlikely. However, broad USD weakness would mean any rebound in USD/IDR is likely to be confined within familiar ranges. Our updated USD/IDR forecasts are at 14,300 in 1Q21, 14,350 in 2Q21, 14,400 in both 3Q and 4Q21.

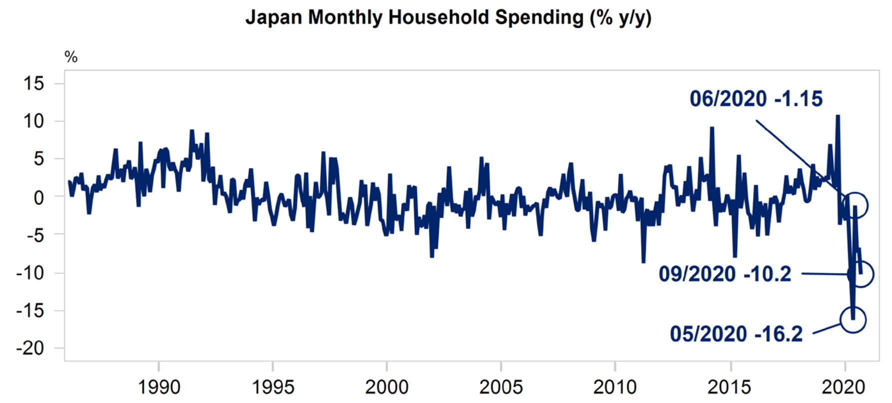
JAPAN

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/JPY	104	103	102	102
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10

Economic Indicators	2018	2019	2020F	2021F
GDP	0.3	0.7	-5.5	2.8
CPI (average, y/y %)	1.0	0.5	0.0	1.1
Unemployment Rate (%)	2.4	2.4	3.5	3.5
Current account (% of GDP)	3.5	3.6	2.0	2.5
Fiscal balance (% of GDP)	-3.2	-2.7	-8.5	-7.5

Household Spending Fell Back Into Deep Decline And May Be a Key Drag For Japan

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: A Tepid Recovery

Japan staged a strong 3Q rebound following the pandemic-ravaged trough in 2Q. Its 1st preliminary estimate of 3Q GDP recorded a significant rebound in growth at 5% q/q (+21.4% annualized rate), the strongest since 1980. Private consumption and external demand led the recovery but continued weakness in business spending and a drawdown in inventories damped the overall recovery.

Japan is likely to have seen the worst of the COVID-19 impact in 2Q. However, a sustained recovery post-3Q has been stifled by the resurgence of COVID-19 infections, in Japan globally. That has been especially negative for tourism and travel-related industries. And while major developed economies' manufacturing and services activities have returned to expansion since mid-year, both of Japan's PMI numbers are still below 50 (i.e. contraction in overall activity) up till Nov. Japan's trade collapsed sharply in 2Q followed by a 3Q recovery, but merchandise exports remained in contraction till Oct (-0.2% y/y), albeit at the slowest pace of decline in 2 years, helped by demand for cars. And despite the strong private consumption rebound in 3Q, household spending fell back into doldrums in recent months. The structural weakness of household spending has been exacerbated by the COVID-19 impact, with many projecting this as a key recovery drag for Japan.

The most important consideration for Japan's outlook is an effective COVID-19 vaccine which is key to normalisation of domestic activity and the resumption of air-travel and commercial tourism (we expect widespread availability of the vaccine in 2H 2021, at the earliest). And while the election of Biden as the next US president may not lead to an immediate improvement in the US-China relations, there will be a period of new negotiations, which may reduce the risk of new trade confrontation between them, and the status quo will be a win for global trade.

With the resurgence of COVID-19 in winter (Japan's 3rd wave), economic activity may take another temporary hit as some form of restrictions (or lockdown) are re-imposed in late 2020/early 2021 before the successful deployment of a vaccine against COVID-19 starting mid-2021. As such, accounting for the significant improvement in the 3Q GDP and a milder projection in 4Q, we expect **Japan's full-year GDP to contract by 5.5% in 2020** (from -6% previously). After the early 2021 dip in activity, we expect resumption to take place especially with the vaccine at hand. The successful deployment of the vaccine will also boost the chances of Japan hosting the Olympics/Paralympics in Tokyo next summer (23 Jul - 5 Sep). And despite the limited fiscal space for the government, PM Suga instructed his cabinet to come up with another third stimulus package which is likely around JPY 15-20 trillion and may be passed in early 2012, providing more support to the economy. **We expect GDP to grow at an above-potential rate of 2.8% in 2021** (down from our previous forecast of 3.0%).

Political stability could be in focus for Japan in 2021 as the next (49th) general election of members of House of Representatives is due by 22 Oct 2021. And PM Suga's fate will likely be intertwined with how successful Japan overcomes the COVID-19 challenge.

CENTRAL BANK: More Easing

The Bank of Japan (BOJ) will continue its part to prop up the economy and support the recovery. We expect the BOJ to enhance its monetary policy easing further, most likely through increasing its JGB purchases and expanding its lending facilities to Japanese corporates and SMEs while the ETF and corporate bond buying program may be enhanced (at a later date). With policy continuity under PM Suga, monetary policy will also enjoy the same continuity under Gov. Kuroda who is likely to remain in his post with political support until April 2023. Therefore, monetary policy will stay on course as the BOJ continues to return inflation back to the 2% objective (which remains close to 0% currently) and combat the negative effects of COVID-19 on businesses and households.

CURRENCY: Expect JPY Strength To Persist

This year saw USD/JPY's sensitivity to risk assets and US Treasury yields fade. Instead, the currency pair had a stronger correlation to the US Dollar Index (DXY), particularly after March as the USD weakness broadened. This may be due to the aggressive Fed rate cuts resulting in the USD becoming a more prominent funding currency as compared to the JPY. A recent example is when global equities surged in November, USD/JPY slid instead of rallying as it did pre-COVID.

We expect broad USD weakness to persist in 2021, and USD/JPY will grind lower. We reiterate our existing set of forecasts, which are at 104 in 1Q21, 103 in 2Q21, and 102 in both 3Q and 4Q21.

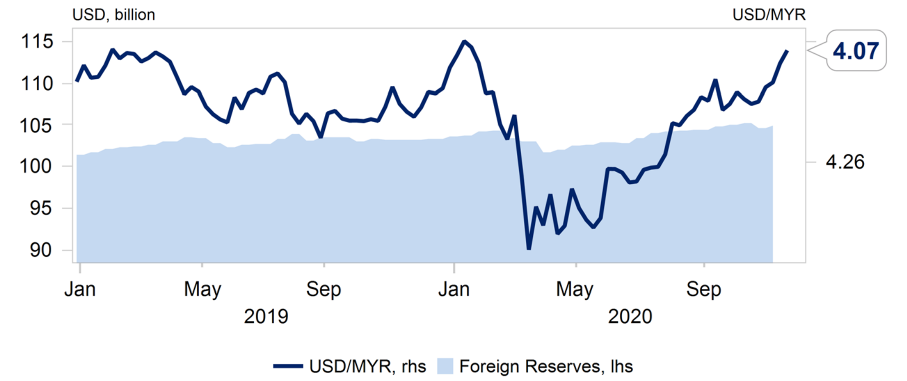
MALAYSIA

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/MYR	4.03	4.00	3.95	3.95
MYR O/N Policy Rate	1.75	1.75	1.75	1.75

Economic Indicators	2018	2019	2020F	2021F
GDP	4.7	4.3	-5.5	6.0
CPI (average, y/y %)	1.0	0.7	-1.0	2.1
Unemployment rate (%)	3.3	3.4	4.5	3.7
Current account (% of GDP)	2.2	3.4	4.1	2.6
Fiscal balance (% of GDP)	-3.7	-3.4	-6.0	-5.7

MYR Expected To Stay Firm

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Uneven Recovery

Despite the economy recovering significantly in 3Q20 (at -2.7% y/y vs. -17.1% y/y in 2Q20), the resurgence of COVID-19 infections and tighter restrictions under the Conditional Movement Control Order (CMCO) across wider parts of the country since mid-Oct have weighed on the recovery prospect in 4Q20. Businesses and consumers have turned more cautious in spending and investment even as the containment measures are less stringent and economic activities are allowed to continue.

Bank Negara Malaysia (BNM) estimates that the economic cost from the current CMCO is ~MYR0.2bn-0.3bn per day or MYR17bn-22bn (vs. ~MYR0.9bn-1.4bn per day or MYR30bn-45bn during the initial Enhanced MCO phase in Mar-Apr 2020).

Going forward, the recovery path will much depend on the extent of control of the pandemic. Efforts are underway to secure supplies of COVID-19 vaccines in 1H 2021. However, we remain cautious and have imputed modest upside from vaccine effects on domestic demand and consequently on GDP growth. The sizeable government spending plans of MYR322.5bn (or 20.6% of GDP) planned for 2021 coupled with ongoing stimulus measures would support the momentum of the ongoing recovery. Other growth enforcements include government's cash assistance, tax cuts and various tax relief measures, investment incentives and grants, targeted loan and repayment assistance, permitted withdrawal from Employee Provident Fund's (EPF) Account 1, lower EPF contribution rate by employees, extended wage subsidies, revival of large infrastructure projects, new development projects slated in the pipeline, and improving external demand. We expect the Malaysian economy to return to positive growth of 6.0% in 2021 (official forecast: 6.5%-7.5%) from an estimated contraction of -5.5% in 2020 (official forecast: -4.5%).

CENTRAL BANK: Rates On Hold

We expect Bank Negara Malaysia (BNM) to keep the Overnight Night Policy Rate (OPR) unchanged at 1.75% through 2021. BNM cut the OPR by cumulative 125bps in 2020 as the effects of the pandemic and movement restrictions continued to weigh on the economy. BNM said the introduction of targeted measures to contain the resurgence of COVID-19 in several states could affect the recovery momentum in 4Q20. However, BNM kept the OPR unchanged during the final two policy meetings in Sep and Nov as the government steps up fiscal and stimulus policy support. BNM Governor Nor Shamsiah also commented there was no need for unconventional monetary policy and large-scale asset purchases.

We expect inflation to turn positive and average 2.1% in 2021 (official forecast: 2.5%), following expectations for a deflation of 1.0% in 2020. This is likely to result in negative real interest rates for the greater part of next year should the OPR remain at 1.75%. As such, we think that there is narrower scope for BNM to cut OPR further particularly as we projected headline inflation to accelerate from 2Q21 onwards amid the low-base effect. Expectations for commodity prices to trace higher in line with the global recovery as well as the expiry of government relief measures (i.e. discount on electricity bills and sales tax exemption for passenger vehicles) would also exert upward pressure on inflation.

CURRENCY: MYR To Strengthen Further

Going into 2021, our baseline expectations of broad dollar weakness and Asia's robust growth recovery particularly in China will likely lead most Asian currencies to strengthen further, including the MYR. Expectations of higher crude oil prices could reinforce the positive sentiment towards MYR. Meanwhile renewed monetary policy easing across the developed markets and positive interest-rate differentials further underpins foreign portfolio funds entering emerging markets, including Malaysia.

These positive external factors are expected to buoy MYR. Other domestic drivers include the positive growth outlook, sustained current account surplus, and steady interest rates. Key risks to watch include the next FTSE Russell review of Malaysia's WGBI index weight in Mar 2021, upcoming sovereign rating reviews by the international rating agencies, and domestic political events. We project USD/MYR at 4.00 by end-2Q21 and 3.95 by end-4Q21.

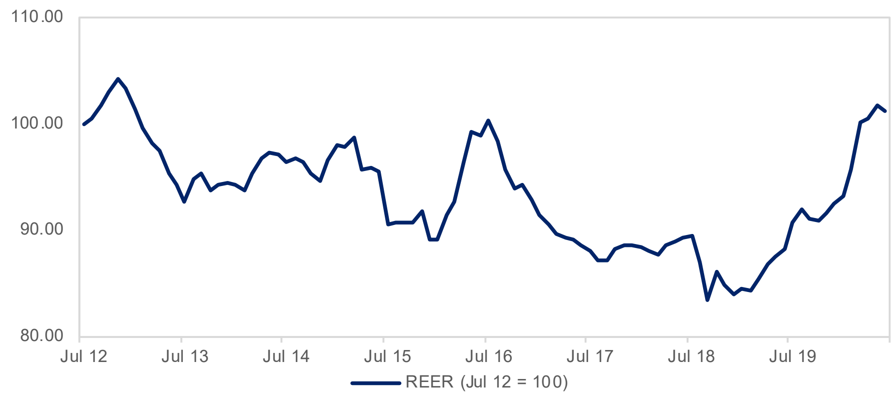
MYANMAR

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/MMK	1,325	1,300	1,300	1,300
MMK Central Bank Rate	7.00	7.00	7.00	7.00

Economic Indicators	2018	2019	2020F	2021F
GDP	6.4	6.5	-1.5	6.0
CPI (average, y/y %)	5.9	8.6	4.8	6.0
Unemployment Rate (%)	4.0	4.0	5.5	4.5
Current account (% of GDP)	-4.2	-2.0	-5.9	-4.5
Fiscal balance (% of GDP)	-3.0	-3.5	-5.5	-5.0

Myanmar Real Effective Exchange Rate (REER) Has Rebounded Strongly In The Last 2 Years, Now Closer To Record Highs

Source: Central Bank of Myanmar, UOB Global Economics & Markets Research



ECONOMY: COVID-19 Woes

Myanmar's government extended their COVID-19 preventive measures till 15 Dec 2020 (including stay-home orders from 21 Nov till 5 Dec) as the number of infections increased across the country. COVID-19 infection numbers have risen rapidly to above 90,000 (as of 01 Dec), exceeding China (of less than 87,000).

The negative impact from the COVID-19 pandemic is increasingly more severe for Myanmar as the initial low numbers have picked up rapidly in recent weeks especially post-election, and sentiment has turned decidedly weaker due to the extension of measures implemented to contain the pandemic. Looking at the manufacturing PMI surveys, Myanmar was on the path of recovery in 3Q but activity dived back into deep contraction in Sep/ Oct as COVID-19 infections surged and more restrictions were put in place. The PMI has improved subsequently to 43.2 in Nov, a marked improvement from the sub-40 readings in the preceding two months, but still represents a significant contraction in overall activity. Likewise, trade has been negatively impacted by COVID-19.

In the first 5 weeks of FY 2020/2021, Myanmar's exports were down by slightly over US$1bn to US$1.64bn, from US$2.69bn one year ago, with the industrial product exports being the worst hit (down by nearly 70%) followed by garment exports. In comparison, agriculture exports continued to rise within key markets of China, Thailand and Japan. Imports also fell to US$2.08bn (from US$2.55bn), as domestic demand was curbed by COVID-19 developments. This has resulted in a persistent trade deficit. That said, China's continued economic recovery and the growing demand for Myanmar's agriculture exports will continue to bode well for exports. The recently signed Regional Comprehensive Economic Partnership (RCEP) will provide Myanmar and other ASEAN countries opportunities to further attract foreign direct investment (FDI) and improve production and the long-term exports outlook. However, it will do little to address the immediate issue of the pandemic.

Tourism and related industries continued to be the biggest casualties of the pandemic as the country restricted all commercial international air travel services since 31 Mar while all domestic air flights have been suspended since 11 Sep due to a resurgence of COVID-19 infections. Like many countries, the immediate task for Myanmar is to secure a vaccine in order to return the country back to some form of normalcy. News reported (on 25 Nov) that Myanmar may get COVID-19 vaccine by Apr 2021 from the COVID-19 Vaccine Global Access Facility (COVAX Facility) although the supply is estimated to be enough for only 3% of its population.

With risks skewed to the downside due to COVID-19 cases and the uncertainty of when a vaccine will be widely available for Myanmar, **we now expect GDP to contract by a deeper 1.5% in 2020 (from -0.7% previously), before rebounding to +6.0% in 2021.**

CENTRAL BANK: Inertia In 3Q May Signal CBM On Pause

After implementing decisive rate cuts of 300bps in the aftermath of the pandemic, the Central Bank of Myanmar (CBM) has subsequently kept policy on hold in 3Q at 7.0% (as opposed to our expectation for a further cut of 50bps). The CBM also held the minimum the bank deposit rate at 5.0% while the maximum lending rate was kept at 10.0% for collateralized loans and 14.5% for non-collateralized loans.

After easing markedly to 1.7% y/y in July due to weak domestic demand as a result of the COVID-19 hit, inflation has resumed its upward trend to above 2.0% in Sep. We now project inflation to average higher at 4.8% in 2020 (previous forecast: 4.0%), from 8.6% in 2019. Inflation has been creeping higher despite depressed domestic demand during the quarter. This may put the CBM on the alert again about inflationary pressures. In addition, fiscal policy is deemed more effective in combatting the effects of a pandemic as compared to the incremental easing of monetary policy. Taking all factors into consideration, we now expect the CBM to stay on pause until end-2021.

CURRENCY: MMK Strength To Taper

After appreciating close to 12% in the first 3 quarters of 2020, the excessive strength of the MMK is finally showing signs of tapering. It provides some relief for local manufacturing businesses whose exports were getting squeezed by the strong MMK and also poor external demand due to the pandemic. USD/MMK was largely stable in a narrow range around 1,325 across Oct/Nov.

With the USD expected to continuously weaken broadly in 2021, MMK is likely to stay strong but further gains may be capped as we approach the key 1,300 level. Our updated point forecasts for USD/MMK are 1,325 in 1Q21, followed by 1,300 for the remainder of 2021.

PHILIPPINES

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/PHP	48.00	47.50	47.00	47.00
PHP O/N Reverse Repo	2.00	2.00	2.00	2.00

Economic Indicators	2018	2019	2020F	2021F
GDP	6.3	6.0	-9.5	7.0
CPI (average, y/y %)	5.2	2.5	2.6	2.5
Unemployment rate (%)	5.3	5.1	8.7	6.0
Current account (% of GDP)	-2.6	-0.9	1.5	-1.0
Fiscal balance (% of GDP)	-3.1	-3.4	-9.6	-8.5

ECONOMY: Pandemic Resurgence, Natural Disasters Make Recovery Uncertain

The Philippines' economic recovery is seen losing momentum and fragile, exacerbated by the resurgence of COVID-19 pandemic worldwide, natural calamities at home, as well as softening household and business sentiment. High frequency data (i.e. motor vehicle sales, overseas remittances, PMIs, and loan growth) suggests shallow activity in 4Q20 amid ongoing general community quarantine in the country.

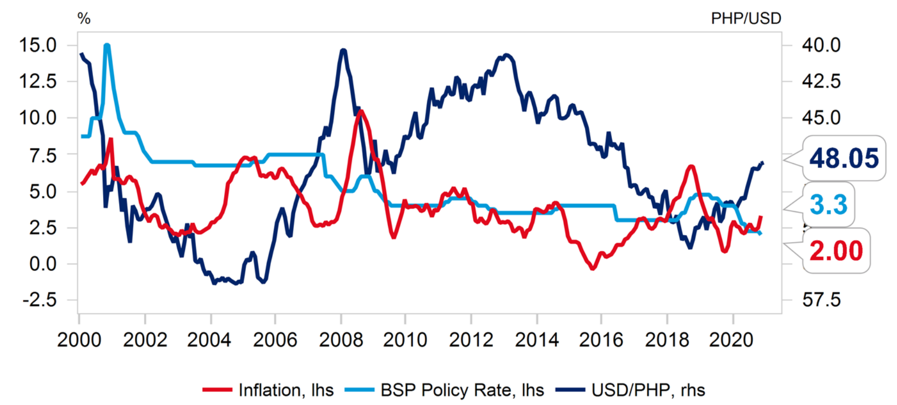
Three strong typhoons (Quinta, Rolly, and Ulysses) between Oct and Nov have damaged about PHP25bn (or 0.13% of GDP) of infrastructure and farm output in the main Luzon island, which makes up 70% of the economy. On this note, we project the Philippine economy to extend its decline into 4Q20 at -8.2% y/y after a worse-than-expected GDP contraction of -11.5% y/y in 3Q20. This will bring the entire year of 2020 to a record economic contraction of -9.5% (official target: -7.0% to -9.0%; 2019: +6.0%).

Going into 2021, growth prospects continue to hinge on when the pandemic can be resolved including the successful development and widespread distribution of COVID-19 vaccines and enhancement of public health system, as well as how households adjust in a post-pandemic environment. A positive strong growth rebound is expected to come in only from 2Q21 onwards, with the assumptions of a successful vaccine in place, favourable year-ago low-base effects, and external sectors improving along with global economic conditions.

The government said it plans to start buying vaccines in 1Q21 and begin mass vaccination by May 2021. Higher national budget of PHP4.506tr or 21.8% of projected GDP in 2021 would underpin the

BSP Likely To Stand Pat On Rates

Source: Macrobond, UOB Global Economics & Markets Research



commencement of mega projects, increase in investment, and help communities to slowly recover from the health crisis. Therefore, we envisage the Philippine economy to stage a growth rebound to 7.0% in 2021 (official target: 6.5%-7.5%).

CENTRAL BANK: Defending Growth At All Cost

Owing to the resurgence of COVID-19 infections globally, muted business and household sentiment, as well as natural calamities which could pose strong headwinds to the recovery of the domestic economy, Bangko Sentral ng Pilipinas (BSP) took a pre-emptive move to resume its rate cut by 25bps on 19 Nov. This brought the overnight reverse repurchase (RRP) rate to a new low of 2.00%. BSP also disseminated a dovish bias monetary policy statement, noting the central bank stands ready to deploy its full arsenal of instruments as needed to safeguard growth recovery and maintain price and financial stability.

Notwithstanding, we expect BSP to hold RRP rate steady at 2.00% through 2021, assuming the availability of vaccines by 1H21, the enactment of larger 2021 national budget by end-2020, negative real interest rate consideration, and narrowing interest rate differentials with other central banks. The inflation outlook is projected to remain benign and firmly anchored within BSP's target range of 2.0%-4.0% next year. Downside risks could stem from slower domestic economic activity, lower crude oil prices, and continued appreciation in the peso (PHP). Furthermore, fiscal support is deemed more effective in revitalising growth recovery from the health crisis as compared to monetary policy.

Meanwhile, domestic liquidity remains ample to support economic activities, but commercial banks' reserve requirement ratio (RRR) is also still high at 12.00% presently. Thus, we see a 50% chance for a 200bps reduction in RRR next year if there is a need to release additional liquidity without jeopardising the financial system and uplifting inflationary pressure.

CURRENCY: Peso To Stay Resilient

Despite a lacklustre growth recovery in 3Q20 and BSP recalibrating monetary policy in Nov, the PHP continued its slow and gradual appreciation against the USD. At 48.05, its 5.4% appreciation against the USD is the largest since 2012, largely driven by the improvement in current account as a consequence of falling imports, broad USD weakness, solid fundamentals, and sound banking system.

Looking at the year ahead, we think PHP will maintain its short-term resiliency as broad dollar weakness is expected to continue into 2021. The country's net external creditor position, low foreign holdings of local currency debt, ample foreign reserves, and solid fundamentals will also likely temper expectations for a reversal in the current account to deficit as consumer demand and import activities pick up with the further reopening of the economy. Hence, we project USD/PHP to edge down gradually to 47.50 by mid-2021 and 47.00 by end-2021.

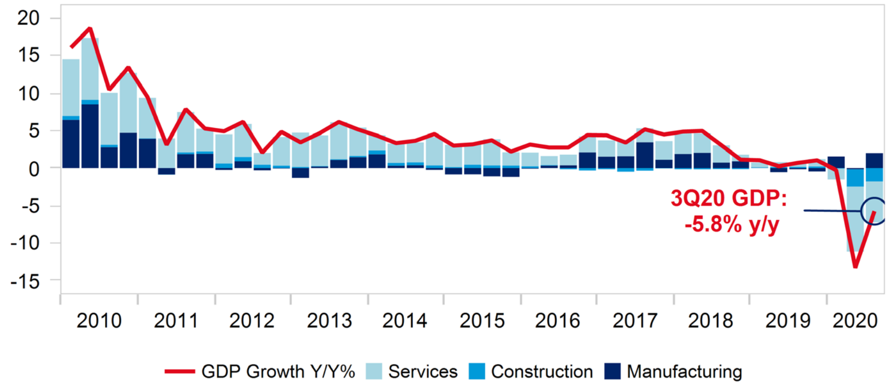
SINGAPORE

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/SGD	1.32	1.31	1.30	1.30
SGD 3M SIBOR	0.35	0.35	0.35	0.35

Economic Indicators	2018	2019	2020F	2021F
GDP	3.5	0.7	-6.0	5.0
CPI (average, y/y %)	0.4	0.6	-0.3	0.5
Unemployment Rate (%)	2.1	2.3	3.5	2.6
Current account (% of GDP)	17.2	17.0	15.6	16.5
Fiscal balance (% of GDP)	0.4	-0.2	-13.6	-1.8

Singapore's GDP Contracted But At A Lesser Margin In 3Q20 At -5.8% y/y

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Uneven Recovery Underway

Singapore's 3Q20 GDP fell 5.8% y/y (+9.2% q/q sa), which is better compared to MTI's advanced estimates at -7.0% y/y (+7.9% q/q sa). Given the better-than-estimated numbers, Singapore's economy contracted 6.5% in the first three quarters of 2020.

The improved 3Q20 GDP data was solely driven by a strong manufacturing momentum. Manufacturing advanced by 10.0% y/y in 3Q20, up from the previous advanced estimates of +2.0% y/y. Other key sectors however underperformed, with services falling 8.4% y/y (from advanced estimates of -8.0% y/y) and construction plunging 46.6% y/y (down from estimates of -44.7% y/y).

Being a trade-reliant economy, Singapore's overall economy has also benefited from the expansion in its non-oil domestic exports (NODX), which expanded 5.0% in the first 10 months of 2020. This is led by a surge in pharmaceutical exports (+18.2% y/y), telecommunication equipment (+9.4% y/y) and consumer electronics (+5.6% y/y). While a relatively low base in 2019 supported Singapore's electronic exports, its position in producing and supplying biomedical products and supplies especially during this COVID-19 pandemic will continue to lift overall manufacturing activities into 2021.

Despite the better 3Q GDP revision, we pencil a full-year GDP contraction of 6.0% in 2020, down from our previous estimate of -5.5%, as the construction and services sectors (which account for approximately 80% of Singapore's GDP) are likely to continue to underperform in 4Q20. Notwithstanding the growth downgrade in 2020, the latest GDP data in 3Q20 further confirms that Singapore's economy has been improving since the trough in 2Q20, led primarily by the manufacturing sector.

Overall, the global backdrop in 2021 will likely be favourable for Singapore's economy. This includes the signing of the RCEP which Singapore will likely benefit immensely, while US president-elect Joe Biden may take on a more constructive and multilateral approach in trade with other countries. As such, Singapore's economy should revert to positive growth, and comfortably clock an average growth of 5.0% in 2021.

Inflation has been soft for the most of 2020, led by lacklustre consumer demand, non-existent tourism spending and low oil prices. Note that consumer prices fell for its eighth straight month by 0.2% y/y (-0.4% m/m nsa) in October 2020, averaging -0.2% in the first ten months of 2020. Core prices also declined 0.2% y/y, down from -0.1% y/y in September.

Despite the deflation environment where official outlook for both headline and core CPI in 2020 are between -0.5% and 0.0% in 2020, we look for consumer prices to turn positive to average +0.5% in 2021.

CENTRAL BANK: Policy Decisions Will Centre On Growth & Inflation

The Monetary Authority of Singapore (MAS) has kept its SGD NEER policy-parameters unchanged in its October 2020 meeting as widely expected. This means keeping the rate of appreciation, band-width, and midpoint unchanged. Explicitly, the MAS has maintained a zero percent per annum rate of appreciation of the policy band, while the width is currently perceived at +/- 2.0%.

Note that the tone in October's MAS Monetary Policy Statement remains cautious at best – policy-makers cited that growth momentum is likely to be modest against a sluggish external backdrop, although it expects that the negative output gap will narrow slowly in the year ahead, with GDP likely to record an "above-trend" growth in 2021.

Given the improving macroeconomic indicators presented so far, our base case is for the MAS to keep policy parameters unchanged in its upcoming April 2021 meeting.

CURRENCY: SGD To Edge Higher Towards 1.30 /USD In 2021

After a tumultuous year which saw SGD drop as much as 9% to a 10-year low of 1.4646 /USD at the peak of the pandemic in March, the SGD looks set to finish the year 1% firmer at around 1.33. The stability of the S$NEER in a small range around the policy midpoint is consistent with the zero appreciation stance from the MAS and also the cautious domestic growth and inflation outlook. This also meant that the SGD is keeping pace with the broad-based gains of its trade partners against the USD.

In the coming year, the global reflation theme is likely to underpin risk appetite which in turn would weigh on the USD. So, we reiterate our view of further modest SGD gains against the USD. Our updated USD/SGD forecasts are at 1.32 in 1Q21, 1.31 in 2Q21 and 1.30 in both 3Q and 4Q21.

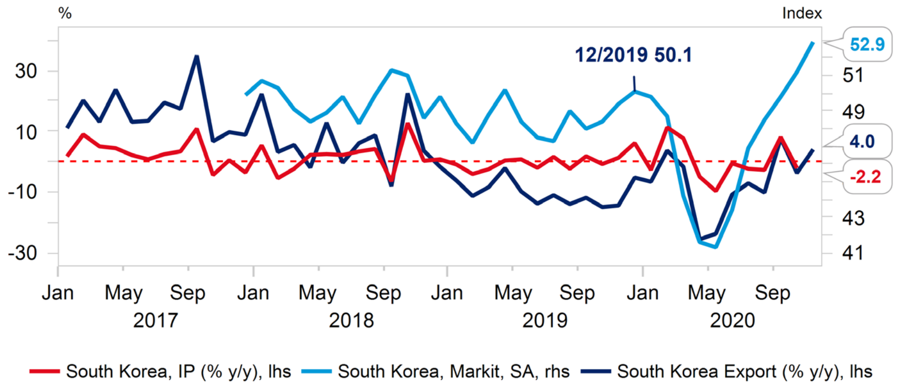
SOUTH KOREA

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/KRW	1,080	1,060	1,050	1,050
KRW Base Rate	0.50	0.50	0.50	0.50

Economic Indicators	2018	2019	2020F	2021F
GDP	2.9	2.0	-0.9	3.3
CPI (average, y/y %)	1.5	0.4	0.5	1.1
Unemployment rate (%)	3.8	3.7	4.2	3.8
Current account (% of GDP)	4.5	3.6	3.7	4.0
Fiscal balance (% of GDP)	-0.6	-2.8	-5.8	-5.4

South Korea: Manufacturing Outlook Improving

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Third Infection Wave Dampens 4Q Economic Recovery

South Korea's GDP contraction narrowed to -1.1% y/y in 3Q20 from -2.7% y/y in 2Q20. This was supported by the large fiscal response, including the fourth supplementary budget (KRW7.8 trillion) that was passed in late-Sep. The four supplementary budgets introduced since March have totalled KRW66.8 trillion (3.4% of GDP), on top of the financial support package and jobs programs.

While the economy might have seen its worst in 2Q20, recovery has been fraught with challenges amidst the resurgence of COVID-19 infections both domestically and abroad. The current third wave to hit South Korea could have an impact that is in between the first wave (March) and the second wave (August) while a more severe outbreak during the winter months will further dampen the outlook. The weak jobs market is also seen constraining the recovery. The unemployment rate has climbed back to 4.2% after initially falling from May's high of 4.5%, remaining elevated compared to 3.7% end-2019.

We expect the 4Q20 GDP to stay in year-on-year contraction. Semiconductor exports and facilities investments are expected to remain the dominant drivers but private consumption will continue to weigh. Factoring in some tightening of safe-distancing measures and on account of a higher base of comparison, we expect 4Q20 GDP to be -1.3% y/y, with full-year 2020 GDP at -0.9%, slightly ahead of Bank of Korea's (BOK) forecast of -1.1%. This will be the first annual GDP contraction since 1998 when it was at -5.1%. Thereafter, we expect GDP to rebound to 3.3% growth in 2021 given our base case assumption of a vaccine availability by 2H21.

Fiscal policy will remain proactive given the high degree of economic uncertainty. The government will accelerate plans to create 1.03 million jobs meant for 2021 and increase spending of its supplementary budget this year instead of bringing it into next year. The government's fiscal budget for 2021 is at a record KRW 555.8 trillion, as it targets to speed up the economic turnaround and prepare for the future. This places the fiscal deficit at an estimated 5.4% of GDP compared to 5.8% forecast for 2020 which also includes the supplementary budgets.

CENTRAL BANK: Accommodative Monetary Policy Stance To Stay

The BOK had cut interest rate twice this year, in March and May (totalling 75bps) with no further rate cut response to the second wave of virus outbreak in August. Fiscal responses are preferred should the economic recovery stall. The BOK has voiced support for a flexible fiscal policy and reiterated its readiness to purchase government bonds in case of market volatility.

The pace of increase in household debt is being exacerbated by the pandemic and this remains to be one of BOK's top concerns. The low interest rate will need to be normalized at some point when the economy recovers but this is unlikely to happen through 2021 due to the uncertainties. We maintain our call for BOK to remain on hold at 0.50% through 2021 to facilitate the economic recovery.

The government's subsidies provided in the stimulus measures have contributed to the weak inflationary pressure this year. The headline and core inflation (excluding changes in food and energy prices) averaged 0.5% y/y and 0.7% y/y respectively in Jan-Nov. Stronger demand and higher oil prices are expected to drive a rebound in headline inflation to 1.1% in 2021 from an estimated 0.5% this year.

CURRENCY: Bellwether KRW Sets For Further Gains

Being a proxy to the global trade outlook, the KRW outperformed Asian FX with an over 7% jump to about 1,085 /USD in the 4Q-to-date, underpinned by a strong 11% rise in preliminary November exports.

Trading at the strongest levels since June 2018, the KRW has already surpassed exporters' profit-or-loss threshold of 1,133 /USD, according to a trade association survey conducted early November. The exporters also cited currency volatility as one of their key concerns for next year.

The BOK also noted that the KRW has been appreciating faster than major currencies and signalled it is ready to intervene and stabilise the FX markets on any herd-like behaviour.

In 2021, the global reflation trade together with an expected rebound of the South Korean economy are likely to support further gains of the KRW against the USD. Our updated USD/KRW forecasts are 1,080 in 1Q21, 1,060 in 2Q21, and 1,050 in both 3Q and 4Q21. A key risk to the outlook is a more severe-than-expected third (or subsequent) wave of virus infections which would quash the nascent economic recovery and dent sentiments on the KRW.

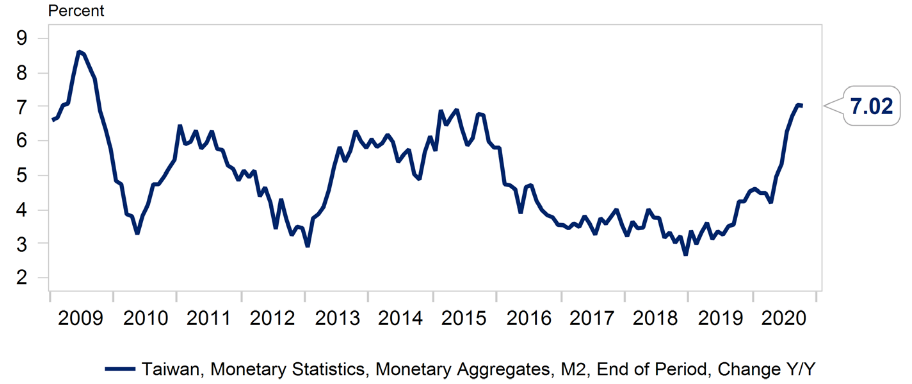
TAIWAN

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/TWD	28.50	28.20	28.00	28.00
TWD Official Discount Rate	1.13	1.13	1.13	1.13

Economic Indicators	2018	2019	2020F	2021F
GDP	2.8	3.0	2.6	3.7
CPI (average, y/y %)	1.3	0.6	-0.2	1.2
Unemployment Rate (%)	3.7	3.7	3.8	3.7
Current account (% of GDP)	11.6	10.6	12.9	12.0
Fiscal balance (% of GDP)	0.0	0.1	-2.2	-0.5

Taiwan: M2 Growth Accelerates

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Remarkable Export Strength Lifts Outlook

Taiwan's economy has gone through the year relatively unscathed with GDP up 2.3% y/y in the first three quarters. Growth accelerated to 3.92% y/y in 3Q20 (2Q20: 2.51%), the strongest pace since 4Q16, thanks to a surge in net exports which was led by stronger demand for electronics and infocomm products while the decline in imports also contributed to higher net exports. Concurrently, fixed investment and government consumption strengthened while the contraction in private consumption narrowed with support from the government's "Triple Stimulus Vouchers" (issued in mid-July), a resilient jobs market and stronger domestic spending which partly offset the loss from overseas spending.

Exports are likely to continue to benefit from an expected recovery in global trade, capacity expansion of the semiconductor manufacturing industry and businesses reshoring to Taiwan. The loss in tourist spending could keep private consumption in contraction in 4Q20 but the recovery will pick up momentum in 2021 on the assumption that a viable and safe vaccine for COVID-19 will become available.

Taking into consideration of the upward revisions to the data in the first three quarters and the sustained strength in recent economic indicators, we now expect full-year 2020 growth at 2.6% (up from 1.9% previously) as we factor in 3.3% y/y expansion in 4Q20. We maintain our forecast for a rebound of 3.7% in 2021.

Domestic prices have remained tame as a result of lower transport & communication and food prices. Headline CPI has been falling for most part of 2020 (-0.3% y/y in Jan-Oct) while core inflation (excluding fruit, vegetables, and energy) was marginally positive at an average of 0.3% y/y YTD. We expect the headline CPI to average -0.2% in 2020 before rebounding to 1.2% next year.

CENTRAL BANK: CBC Likely To Maintain Status Quo

The strong economic recovery in Taiwan has removed any need for further monetary policy easing, particularly given overheating risks from the capital inflows and rising investments and credit. The M2 growth has climbed to its highest since the Global Financial Crisis and is above the M2 growth reference range of 2.5% to 6.5%. The stronger economic growth and influx of investment from overseas Taiwanese businesses have thus led to fresh concerns of asset price inflation and financial imbalances. The Central Bank of the Republic of China (Taiwan) warned that selective credit controls could be implemented if property prices continue to rise.

However, interest rate normalisation is not expected to come into the picture yet given the fragile state of the global recovery while domestic price pressure has also remained tame. Notably, the real interest rate in Taiwan is still positive. As the CBC has cut its benchmark interest rate by only 25bps since the COVID-19 pandemic, there will be significantly less scope or pressure for it to start normalising monetary policy when activities return to pre-COVID levels, compared to the other regional central banks that have slashed rates aggressively. As such, we expect the CBC to maintain its benchmark rate at 1.125% into 2021.

CURRENCY: "Over-valued" TWD To Keep Going Strong In 2021

The TWD looks set to finish 2020 on a high note, trading to its strongest levels since the 1997/98 Asian Financial Crisis, at about 28.50 /USD. Its swift control of the coronavirus outbreak, a resilient economy and low currency volatility underpinned its role as a regional safe haven. Its strong performance also meant that the TWD is now the most "over-valued" currency in Asia, at about 2 standard deviations above the mean according to a broad measure of real effective exchange rate by the BIS. While the strong local dollar has yet to dent the country's exports, the CBC has regularly done "smoothing" operations to smooth out the strength of the TWD.

Into 2021, expectations of a global reflation add to the prevailing strong tailwinds in favor of the TWD. As such, the risk is still to the downside of USD/TWD, albeit in more moderate fashion. Our updated forecasts are at 28.50 in 1Q21, 28.20 in 2Q21, and 28.00 in both 3Q21 and 4Q21. A key risk to the outlook is a significant deterioration of the global COVID-19 situation in 2021 which may trigger a normalization of the "over-valued" TWD.

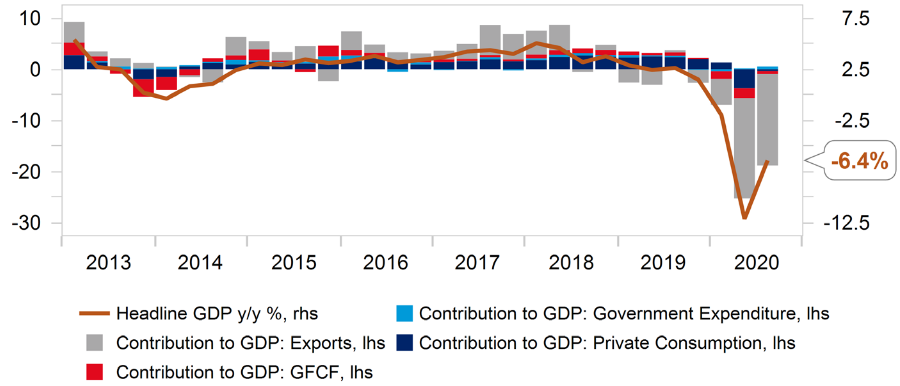
THAILAND

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/THB	30.00	30.30	30.50	30.50
THB 1D Repo	0.50	0.50	0.50	0.50

Economic Indicators	2018	2019	2020F	2021F
GDP	4.2	2.4	-6.5	6.0
CPI (average, y/y %)	1.1	0.7	-1.0	1.0
Unemployment rate (%)	0.9	1.0	2.0	1.5
Current account (% of GDP)	5.6	6.8	3.2	5.3
Fiscal balance (% of GDP)	-2.5	-1.9	-6.0	-5.0

Thailand's GDP Recovered In 3Q20, Given The Improving Global Macroeconomic Backdrop

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Recovery Is In Sight

In line with the recovery across most of Asia, Thailand's GDP declined less than market estimates at -6.4% y/y (+6.5% q/q sa) in 3Q20, beating market estimates for a deeper contraction of 8.8% y/y (+3.9% q/q sa). This is up from the previous quarter which registered a double-digit contraction of 12.2% y/y (-9.7% q.q sa) in 2Q20.

Thailand's high-frequency data has also recovered in 3Q20, albeit gradually. Custom Exports (Sept 2020: -3.9% y/y, smallest contraction in five months), manufacturing PMI (Oct 2020: 50.8, first expansion since December 2019) and consumer confidence (Oct 2020: 50.9, fourth consecutive expansion) also reinforced the fact that Thailand's recovery is gaining traction.

The upside surprise can be attributed to the improving global macroeconomic backdrop and government stimulus measures. Given the less-than-expected GDP contraction in 3Q20, the National Economic and Social Development Council raised its full-year GDP forecast to -6.0%, up from an earlier range outlook of between -7.3% and -7.8% in 2020.

Delving into the GDP data, it can be observed that stronger consumer confidence and manufacturing PMI has resulted in a recovery in both domestic consumption and Gross Fixed Capital Formation (GFCF), which expanded at their multi-year highs at 7.3% q/q sa and 6.3% q/q sa, respectively.

Given the gradual recovery seen in Thailand's macroeconomic environment, we keep our GDP outlook to -6.5% in 2020. Notwithstanding the uptick, Thailand still remains one of the Asian economies that is very dependent on trade and tourism.

Separately, Thailand is still facing deflationary pressures. Consumer prices fell its eighth straight month in October at -0.50% y/y (+0.09% m/m). While food prices had risen (+1.6% y/y) in October, lower oil prices continued to pressure transportation costs where vehicle & operation prices fell for its 9th straight month at -6.5% y/y. Non-existential tourism-led demand could have also capped leisure-related prices such as recreation and culture (-0.2% y/y, five consecutive months of contraction).

CENTRAL BANK: The Need To Preserve Policy Space

In its latest November monetary policy meeting, the Bank of Thailand (BOT) kept its one-day repurchase rate unchanged at 0.50%. The last time it made a move was in May when the benchmark rate was cut by 25 basis points. The decision to keep its policy rate unchanged was voted unanimously by all seven committee members.

Notwithstanding the better-than-expected economic performance in 3Q20, policy-makers assessed that the low policy rate is still needed to support economic recovery. The Bank of Thailand also views that keeping its benchmark rate unchanged will also serve to "preserve the limited policy space".

Coupled with the need to preserve policy space, the better-than-expected 3Q20 GDP performance suggests that Thailand is on the path to recovery. As such, we keep our call for BOT to leave its benchmark rate unchanged at 0.50% for the rest of 2020. The next (and last) meeting in 2020 will be on 23rd December 2020.

CURRENCY: Further Strong Gains In THB Unlikely

Underpinned by capital inflows, the THB rebounded in the 4Q after dropping 2.4% against the USD in the 3Q. The move came predominantly in early November as an expected US elections outcome together with positive vaccine news spurred a return to regional emerging markets assets. USD/THB broke past its key support at 31 and traded to a 10-month low of 30.13 by 16-Nov.

Concerned that the strength of THB could derail Thailand's fragile economic recovery, the BOT brought forward relaxed capital outflow measures which were supposed to begin early next year to end-Nov, and will also increase scrutiny of fund inflows in the local bond markets.

With the authorities' clear emphasis to slow THB's gains in the near term, a sustained appreciation beyond its key psychological level at 30 /USD appears unlikely. As such, we continue to be cautious on the THB, weighed by a fragile economic recovery. Our updated USD/THB point forecasts are 30.00 for 1Q21, 30.30 in 2Q21 and 30.50 for both 3Q and 4Q21.

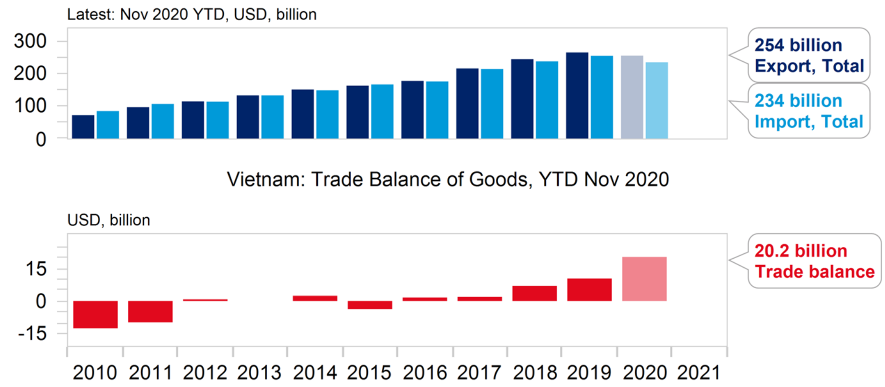
VIETNAM

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
USD/VND	23,000	22,800	22,600	22,600
VND Refinancing Rate	3.50	3.50	3.50	3.50

Economic Indicators	2018	2019	2020F	2021F
GDP	7.1	7.0	2.7	7.1
CPI (average, y/y %)	3.5	2.8	4.4	5.2
Unemployment Rate (%)	2.2	2.2	2.3	2.1
Current account (% of GDP)	2.4	2.8	2.3	1.6
Fiscal balance (% of GDP)	-3.5	-3.3	-5.2	-6.0

Vietnam: Foreign Trade (Monthly, YTD), Nov 2020

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Regaining Growth Momentum In 2021

Vietnam's real economic growth rebounded 2.62% y/y in 3Q20, accelerating further from the revised 0.39% pace in 2Q20 as business activities recovered partially from the earlier part of the year. This follows the slump in 1H20 caused by the global COVID-19 pandemic. For the first 3 quarters of 2020, headline GDP rose 2.12% y/y, with industrial sector contributing half of the gain, at 1.12% pts, while services sector rebuilt its momentum with a 0.55% pts contribution.

Recent trade and manufacturing data from Vietnam suggest that business activities are gradually getting back on recovery pace. However, like in many economies across the region, travel and tourism-related businesses continued to be hampered by border closures and social distancing, as well as the recurrent waves of COVID-19 infections in many parts of the world.

Following an initial slump in April and May due to the COVID-19 global pandemic, Vietnam's exports recorded its 6th straight month of expansion in November, rising 8.8% y/y and pacing the 12.1% gain in October, data from Stats office showed. Imports registered its fourth consecutive gain, rising 13.4% y/y in November. Year-to-date in November, exports rose 5.2% y/y to USD254.3bn, while imports increased 1% y/y, to USD234.1bn, resulting in a record trade surplus of USD20.2bn in the first 11 months of 2020, almost doubled the USD10.4bn recorded in all of 2019. The jump in trade surplus will bolster Vietnam's current account position which is expected to remain at a healthy level of around 2.3% of GDP this year. Assuming the current momentum continues in December, both exports and imports are on track to exceed record highs achieved in 2019.

Manufacturing output accelerated 9.2% y/y in November, extending the 5.4% y/y gain in October, for the third consecutive month of increase, though it is far below the double-digit pace in the past several years. Retail sales gained for the third month, rising 2.03% y/y YTD in November, from 1.3% in October, after 5 consecutive months of declines.

Overall, we still expect the resumption of business activities to take hold in 4Q20 but the pace is likely to be restrained against a backdrop of global COVID-19 pandemic. The unevenness of the recovery is likely to remain, i.e. favouring manufacturing and trade sectors, while people-intensive sectors like tourism, retail, entertainment continue to lag. While this uneven recovery is expected to improve, it depends heavily on the speed of deployment of COVID-19 vaccines globally. We are keeping our forecast for Vietnam's 4Q20 GDP growth at 4.0% y/y, as well as full year projections of 2.7% in 2020 and 7.1% in 2021. Official GDP growth targets for 2020 and 2021 have been set at 2%-3% and 6%, respectively.

CENTRAL BANK: Risks Of Another Cut Before End-2020

After the softer-than-expected 3Q20 GDP report, the State Bank of Vietnam (SBV) announced on 30 September a 50bps cut to its key policy rates, as we had expected. The latest reduction brought refinancing rate to a new record low of 4.0% and rediscounting rate to a historical low of 2.5%. All in, the SBV has slashed 200bps so far in 2020 in response to the global COVID-19 pandemic. While the domestic situation has stabilised and growth momentum moving in the right direction, the COVID-19 pandemic globally continues to keep borders shut. As such, the unevenness of the recovery pace is clouding near term outlook of domestic sectors such as retail and travel/tourism businesses. In addition, with the appointment of the first female governor to the central bank, Nguyen Thi Hong, there is a high likelihood of a rate cut in the works to spur credit growth ahead. We look for SBV to cut 50bps by end-2020, to bring the refinancing rate to new record low of 3.50% and rediscount rate to 2.0%.

CURRENCY: Scope For Modest VND Gains

After a knee-jerk selloff to about 23,600 /USD in March at the peak of the global pandemic, VND has since pared back all of its losses and looks set to finish flat on the year at about 23,160 /USD. When compared to its Asian peers, the VND has clearly lagged behind in the Asian FX rally against the USD. Furthermore, underpinned by its resilient economy which is expected to register an almost pre-pandemic growth rate of 7.1% next year, we see further scope for VND gains. Also, given increased scrutiny from the US Treasury, Hanoi is less likely to intervene directly in the markets to temper with the VND's strength. Overall, we reiterate a modestly lower trajectory for USD/VND, with point forecasts at 23,000 in 1Q21, 22,800 in 2Q21, and 22,600 in both 3Q and 4Q21.

AUSTRALIA

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
AUD/USD	0.74	0.75	0.76	0.76
AUD Offical Cash Rate	0.10	0.10	0.10	0.10

Economic Indicators	2018	2019	2020F	2021F
GDP	2.8	1.9	-3.0	2.8
CPI (average, y/y %)	1.9	1.6	0.7	1.5
Unemployment rate (%)	5.3	5.2	7.0	6.8
Current account (% of GDP)	-2.1	0.7	2.0	0.7
Fiscal balance (% of GDP)	0.1	0.2	-8.5	-10.2

ECONOMY: Recovery Underway

The Australian economy rose 3.3% q/q in the third quarter, as COVID-19 related restrictions eased across most states and territories. This follows the record 7.0% q/q decline in the second quarter. Whilst there was an improvement in 3Q20 GDP, the level of activity in the economy remained lower than prior to the pandemic, reflected in a 3.8% y/y decline. Still, this was an improvement from a revised 6.4% y/y decline in the second quarter (-6.3% y/y previously).

The end to Victoria's second lock-down and success in containing the virus domestically will likely support a further rebound in activity in 4Q20. We expect another sizeable increase in the December quarter (around 2.0% q/q, -3.8% y/y), which should take full-year 2020 GDP to -3.0%. The government has also implemented a range of supportive policies to assist the economic recovery. Combined, these support measures have led to a budget deficit equivalent to around 11% of GDP, an outcome not seen since the end of World War II.

In the 2020/2021 budget, released in October, measures include tax reductions for businesses, including temporary full expensing of eligible depreciable assets for businesses. This will be available to over 99% of businesses, which employ around 11.5 million workers. Personal income tax cuts have also been introduced, where around 11.6 million individuals will benefit in 2020/2021. Other notable stimulus policies include an increase in infrastructure construction, and the HomeBuilder scheme, which provides eligible owner-occupiers, including first home buyers, with a grant to build or renovate a home.

Whilst Australia may have escaped the worst of the economic impact, much of the rest of the world has not. Hence, there are key risks to the economic outlook. Weak income growth is likely to remain a constraint for households, whilst the rebound in business confidence has yet to be reflected in a pickup in investment. Many service industries, such as food services, arts and recreation, education and personal services, are anticipated to continue facing restrictions in an attempt to limit further COVID-19 outbreaks.

Clearly, unemployment has been recognized as the biggest policy and political domestic problem arising from the COVID-19 pandemic. Although the labour market continues to surprise on the upside, we still expect Australia's unemployment rate to rise over the next few months as JobKeeper and JobSeeker benefits fade. Further out, the labour market is then expected to improve slightly over 2021, with the unemployment rate falling to around 6.8%.

The recovery that we anticipate in 2021 will also be uneven across sectors. It will take time before foreign students once again enrol in Australian institutions, international tourists return, migration resumes, and overseas travel restarts. This period of the COVID-19 pandemic has also corresponded with a further deterioration in Australia's engagement with China, which could potentially lead to a negative impact on the Australian economy. Australia is preparing to take action against China at the World Trade Organization (WTO) over tariffs on barley imports, the latest salvo in a trade dispute that has disrupted the supply of commodities from coal to wine. Already, the larger trade tensions between the US and China has threatened trade and investment upon which Australia depends.

CENTRAL BANK: Negative Rates Are Unlikely

The Reserve Bank of Australia (RBA) decided to retain current policy settings in December, following the slew of easing measures unveiled in November.

The RBA has stated that the cash rate will remain at its minimum bound until both the unemployment rate and the inflation rate achieve a sustained recovery. This is unlikely to occur within the next two years, suggesting that a near-zero cash rate is likely to persist for an extended period.

Our view remains for the RBA to hold off dropping the cash rate to below 0%, as negative interest rates are unlikely to have a significant positive impact on the Australian economy. If the need for more monetary easing arises, unconventional measures through more bond purchases and yield curve control are likely to follow first. We also see fiscal policy continuing to play a key role in stimulating the economy and expect that the government will need to do more.

CURRENCY: AUD Supported By Strong Risk Appetite

Against a backdrop of surging global risk appetite and a robust China recovery which spurred demand for Australia's commodity exports, the AUD is still unbeatable. Even the potent combination of a rate cut to the benchmark rate and yield-curve target, and a new bond buying program by the RBA in early November only had a short-lived effect on the currency. AUD/USD rebounded strongly off 0.70 and is trading closer to 0.74 as at early December. In 2021, the global reflationary theme is a key positive driver for the AUD/USD and we lift our forecasts by 100 pips across the next 4 quarters. Our updated point forecasts are now 0.74 in 1Q21, 0.75 in 2Q21, and 0.76 in both 3Q and 4Q21.

EUROZONE

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
EUR/USD	1.22	1.23	1.24	1.24
EUR Refinancing Rate	0.00	0.00	0.00	0.00

Economic Indicators	2018	2019	2020F	2021F
GDP	1.9	1.3	-8.0	5.2
CPI (average, y/y %)	1.8	1.2	0.3	0.9
Unemployment Rate (%)	8.2	7.6	8.0	9.0
Current account (% of GDP)	2.9	2.3	2.1	2.4
Fiscal balance (% of GDP)	-0.5	-0.6	-9.6	-5.8

ECONOMY: A Long And Winding Recovery

After enjoying a largely carefree summer, when the easing of containment measures allowed households and businesses to resume activity, the seasonally adjusted GDP in the Eurozone increased by 12.6% q/q in 3Q20, the sharpest increase observed since the time series started in 1995, and a strong rebound from 2Q20, when GDP had decreased by 11.8% q/q. Compared with the same quarter of the previous year, seasonally adjusted GDP (advanced estimates), however, decreased by 4.4% y/y in the Eurozone, a partial recovery from the -14.8% y/y reading in 2Q20.

The economic outlook remains uncertain though, as Europe has been hit by another wave of COVID-19 infections and deaths since the start of autumn, forcing nations to re-impose economically crippling lockdowns. Although the pandemic has slowed in the continent, many nations continue to report alarmingly high numbers of cases and deaths. Germany, France, Italy, and Poland are each reporting hundreds of new deaths each day. Given this backdrop, the Eurozone recovery is likely to lose steam.

Policy measures nonetheless softened the impact on the labour market. In many European countries, short-time work schemes, financed by the state, were among the key instruments put forward to bridge shortfalls in activity in an effort to prevent mass unemployment whilst stabilizing demand. Going forward, how the COVID-19 pandemic evolves will drive both upside and downside risks to our growth outlook of -8% for this year, followed by 5.2% in 2021. The prompt discovery and distribution of a functional vaccine would bolster consumer and business confidence and strengthen domestic demand and growth prospects. However, if infections were to increase, requiring more stringent containment measures, then confidence would remain weak for a longer period and increase precautionary savings, thereby negatively affecting consumption and investment.

CENTRAL BANK: More Stimulus Ahead

The European Central Bank (ECB) continues to provide unprecedented monetary policy easing, and the Governing Council's forward guidance is now tied to movements in inflation instead of a date. On that front, the inflation backdrop remains stubbornly weak. Although much of the weakness stems from temporary factors, such as energy prices and a sales tax cut in Germany; weak demand, especially for travel-related services, and labour market slack are creating more persistent downside risks and raising concerns at the ECB about the inflation outlook. Market-based measures of inflation expectations have also highlighted the risk that the spread of the COVID-19 pandemic poses to price stability. The five-year/five-year breakeven inflation swap rate for the Euro area plunged to a record-low in March, although it has since recovered.

This probably explains why ECB President Christine Lagarde erred on the dovish side in October. She essentially not only pre-committed to easing in December (a meeting that will coincide with the next round of macroeconomic projections), but also clarified that the ECB is looking at all instruments, implying that all options remain on the table.

We continue to believe the bar for lower policy rates remain high. Meanwhile, we think the ECB is likely to extend and increase the PEPP – its primary tool for fighting the economic devastation by COVID-19. The PEPP could be expanded by EUR450bn to EUR1.8tn, and the implementation period could stretch further beyond the current guidance that purchases will be made until at least June 2021 with reinvestment "at least" to the end of 2022.

Note that weekly bond buying has averaged about EUR20bn, and at present, only around EUR617bn of the EUR1.35tn potential size of the PEPP is being utilized and spread across Eurozone members. If the ECB's latest round of bond buying last until December 2023, that would bring the stock of assets to about EUR5.5tn, including EUR120bn from the temporary envelope and the EUR1.8tn from the PEPP (after taking into account the EUR450bn expansion).

CURRENCY: EUR/USD Finds New Life Above 1.20

Gains in the EUR slowed in the 4Q20 after gaining over 4% in the prior quarter against the USD. Jawboning on the single-bloc currency by the ECB, record futures positioning, a second wave of COVID-19 cases in Europe dented sentiment on the EUR/USD, just as the currency pair transited into a consolidative pattern between 1.16 and 1.20 across October/November. This was followed by a breakout to 1.21 in early December. The expected easing from ECB in December may cast a near term overhang on the EUR. However, short of bringing benchmark rates more negative, tweaking asset purchases or lending programs are unlikely to have a lasting dampening effect on the EUR. Beyond that, the global reflationary tailwind is likely to continue to bid up the EUR/USD but gains may be limited by rate differentials which are now closer to neutral levels after closing aggressively in favor of EUR in 2020. Overall, our updated EUR/USD forecasts are lifted from the previous review, at 1.22 in 1Q21, 1.23 in 2Q21, and 1.24 in both 3Q and 4Q21.

NEW ZEALAND

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
NZD/USD	0.71	0.72	0.73	0.73
NZD Offical Cash Rate	0.25	0.25	0.25	0.25

Economic Indicators	2018	2019	2020F	2021F
GDP	3.2	2.3	-5.0	4.5
CPI (average, y/y %)	1.6	1.7	1.6	1.4
Unemployment rate (%)	4.3	4.1	5.5	6.9
Current account (% of GDP)	-3.6	-3.3	-1.8	-2.8
Fiscal balance (% of GDP)	1.2	-3.6	-7.7	-10.2

ECONOMY: Uneven Recovery

An extensive lockdown of the New Zealand economy earlier this year successfully achieved a near-elimination of COVID-19 infections across the country. Yet, New Zealand entered a recession in 2Q20 with a record GDP decline of 12.2% q/q, which saw the economy shrinking to the size it was in 4Q14. The contraction is likely to be followed by a record rebound in 3Q20 GDP (due for release on 17 December), notwithstanding the re-imposition of restrictions in August. Despite the recovery, ongoing restrictions on international travel will continue to place downward pressure on economic growth. Tourism exports account for around 5% of GDP, and the halt on tourist inflows since March has been a significant drag on earnings as well as employment, especially in sectors like hospitality and accommodation.

In October, Jacinda Ardern led the New Zealand Labour Party to a historic victory, achieving majority control of the parliament for the first time since 1996. The Ardern Government is expected to continue delivering several major stimulus measures. Labour has announced a range of policies targeted specifically towards SMEs, which account for around 28% of GDP and employ over 600,000 people. The centerpiece was the wage subsidy scheme, which helped to keep many workers in employment despite the economic downturn, and has led to the impact on jobs being less severe than was initially expected. The Household Labour Force Survey (HLFS) recorded an unemployment rate of 5.3% in the September quarter, compared to 4.0% in June. Three months ago, we were concerned about a fresh wave of job losses once the temporary wage subsidy scheme expired. But the evidence now suggests there was a very limited impact, supporting our view that the unemployment rate is likely to plateau somewhere near 7%.

The significant increases in monetary and fiscal stimulus since the start of the year have certainly supported the domestic economy. Helping to boost households' spending appetites has been the roaring strength of the housing sector, which has defied expectations for a significant downturn in the wake of the COVID-19 crisis. That said, rapid increases in house prices have rekindled concerns about affordability for first home buyers and longer-term concerns about financial stability. Consequently, the Reserve Bank of New Zealand (RBNZ) has signaled that restrictions on high loan to value lending (LVRs) are likely to be re-introduced from March next year.

Going forward, the main catalyst that will shape New Zealand's economic outlook is the sustainability of the recovery and how soon borders will re-open. That remains an open question, with uncertainty still remaining high, as the economy continues to navigate uncharted territory. Balancing the ongoing economic headwinds with the resilience of the domestic economy, we look for New Zealand's GDP to come in at -5.0% for this year before recovering to around 4.5% in 2021.

CENTRAL BANK: Further OCR Cuts Likely To Be Implemented Later Or More Gradually

The November meeting culminated with the RBNZ keeping its Overnight Cash Rate (OCR) unchanged at 0.25%, as expected, in accordance with the guidance issued earlier this year in March. The RBNZ also agreed to continue with its Large Scale Asset Programme (LSAP) up to NZD100bn.

However, the Monetary Policy Committee (MPC) agreed that additional stimulus would be required in order to meet its consumer price inflation and employment remit. This will be provided through a Funding for Lending Programme (FLP), commencing in December. The FLP will reduce banks' funding costs and lower interest rates.

The RBNZ also decided to further delay the start of increases in bank capital until 2022 to allow banks continued headroom to respond to the effects of the COVID-19 pandemic and to support the economic recovery. This delay complements other actions the Reserve Bank has taken to cushion the initial economic blow of COVID-19 by promoting cash flow and confidence in the financial system.

To avoid being tied down, the RBNZ has continued to refrain from extending its OCR forecasts until the February 2021 MPS – it stopped forecasting the OCR beyond March 2021, to which it has committed to holding the rate steady.

Whilst the introduction of the FLP is seen as a key step towards the RBNZ cutting the OCR into negative territory next year; in our view, the odds of a negative OCR have reduced given how the RBNZ has sounded less dovish and made an upbeat assessment of the economy. Even if a negative OCR were to be implemented, it is likely to be implemented later or more gradually. Our call remains for the OCR to remain at 0.25% for now.

CURRENCY: NZD To Gain Further

The NZD has been the best performing G-10 currency so far this quarter, gaining over 6% against the USD and traded above the psychological 0.70 level, its strongest level since June 2018. The NZD gains were supported by a strong revival in global risk appetite in November due to promising vaccine developments and also a paring back of markets' expectations of a negative OCR next year. Futures on the 3-month bill rate trade now closer to the OCR, at about 0.25% (as at 30-Nov) across the entire 2021, as compared to earlier pricing of a -0.10% rate as soon as June 2021.

Going forward, as long as the global reflation theme stays intact, a buoyant risk appetite and broad USD weakness are likely to continue to support the NZD. Our updated forecasts for NZD/USD are 0.71 for 1Q21, 0.72 for 2Q21, and 0.73 for both 3Q and 4Q21.

UNITED KINGDOM

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
GBP/USD	1.35	1.35	1.36	1.36
GBP Repo Rate	0.10	0.10	0.10	0.10

Economic Indicators	2018	2019	2020F	2021F
GDP	1.2	1.3	-11.1	3.8
CPI (average, y/y %)	2.5	1.8	0.9	1.4
Unemployment rate (%)	4.1	3.8	4.8	6.8
Current account (% of GDP)	-3.9	-4.3	-2.6	-3.4
Fiscal balance (% of GDP)	-2.1	-2.0	-16.0	-8.2

ECONOMY: Waning Recovery

In response to the continuing COVID-19 pandemic, the UK government on 31 October announced a new national lockdown for England, to run from 5 November until 2 December, subject to extension. Meanwhile, the pace of the UK's economic recovery continues to slow down. The economy grew by 15.5% q/q in 3Q20, the highest quarterly rise ever recorded, following two consecutive quarters of negative growth. This, however, hides a slowdown in the monthly rate of growth. Over the three months to September, month-on-month growth has gradually slowed from 6.3% in July, 2.2% in August, and 1.1% in September. This means more than 80% of the UK's recovery occurred in June and July.

The government's Job Retention Scheme (JRS) has been greatly effective in keeping unemployment down, and the decision to extend the JRS until the end of March 2021 will continue to forestall a sharp increase in unemployment in 4Q20. But unemployment is likely to gradually rise over 2021, as firms continue to adjust to lower levels of demand.

Consumer price inflation remains subdued at 0.7% in October, but saw a slight uptick in growth, up from 0.5% in September. April is set to see the end of the cut to VAT for hospitality businesses, which could translate into higher prices. In addition, the impact of the sharp drop in oil prices that took place earlier this year will no longer affect the year-on-year increases, which will likely help push up the headline rate of inflation.

But by and large, the broader economic recovery in the UK will hinge primarily on households, since the COVID-19-led-recession has so far been characterized by the significant damage to consumer-facing services, which account for the 14% fall in consumer spending this year. The risk, of course, is that the recovery next year could be hampered by rising unemployment and potentially weaker pay growth. This would affect consumers' ability, and willingness, to spend. We expect the England lockdown in November to cause GDP to weaken further in 4Q20 by -11.2% y/y. As a result, we have revised lower our 2020 GDP forecast to -11.1% (from -10.1% previously), nearly three times the magnitude of contraction experienced during the 2009 recession. A partial recovery in 2021 could see growth of 3.8% (also revised lower from 4.9% previously) next year.

BREXIT: The Final Hurdle

Brexit has undoubtedly cast a shadow for over four years now. Despite the impending end of the transition period on 31 December, a huge amount of uncertainty remains for the UK after it officially leaves the EU. Although we expect a Brexit deal in our main scenario, UK borders are likely to experience some frictions during at least part of next year, making the trade in goods less smooth. Exports of services will also be affected, as they will not be covered by a deal, and Foreign Direct Investment (FDI) may be lower as a result of reduced access to the EU market.

Brexit Timeline

- **31 Dec 2020**
  Transition period ends
- **01 Jan 2021**
  EU adds full border checks, UK partial
- **01 Apr 2021**
  UK starts requiring animal/plant documents
- **01 Jul 2021**
  UK switches to full border checks

Source: Various sources, UOB Global Economics & Markets Research

CENTRAL BANK: To Stay Focused On Supporting The Recovery

Since the onset of the COVID-19 pandemic in March, the BOE has cut its Bank Rate twice from 0.75% to 0.10%, and launched a bond-buying program. In November, the Monetary Policy Committee (MPC) voted unanimously to bring the total Quantitative Easing (QE) package to GBP895bn, including GBP875bn in gilts and GBP20bn in corporate bonds.

We think the BOE may hold the target at its current level for now. Meanwhile, there has been a lot of discussion about the pros and cons of negative rates, but the BOE is clearly still on the fence about how useful they might prove to be. As such, we think that QE remains the main monetary tool of choice. Whilst negative rates remain an available monetary tool and possible choice in 2021, particularly if the economic outlook were to worsen materially; we think the BoE will avoid a negative rates scenario due to the ramifications this can have. A fall in the Bank Rate to zero will be the preferred option first. This will provide an additional boost to the economy but would refrain from the untested policy of negative interest rates. Rates are therefore likely to stay at these records-lows, and for longer, until inflation reaches levels to warrant an increase.

CURRENCY: GBP Bearishness Priced In; Upgrade To Moderately Bullish

With our expectation for an eleventh-hour Brexit deal in the coming days (as at 4 December), the multi-year malaise in GBP could finally be over. Since UK's surprise decision to leave the EU in June 2016, GBP/USD was mired in three-decade low trading range between 1.14 and 1.43. The underperformance of the GBP was also broad-based as its trade-weighted index was stuck in the lowest quartile in the last 4 years. As such, a Brexit deal, shall it comes to pass, could be the trigger the GBP needs to break through those ranges.

As such, our previously cautious stance on GBP/USD has now been upgraded to a moderately bullish view. While the fog of Brexit can finally clear, at the same time, we also curb our enthusiasm on the GBP. The economic outlook remains highly uncertain depending on the virus situation in the UK and the specter of negative rates is a lingering headwinds for the currency. Overall, our GBP/USD forecasts are updated to 1.35 in 1H21 followed by 1.36 in 2H21.

UNITED STATES OF AMERICA

FX & Rates	1Q21F	2Q21F	3Q21F	4Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25

Economic Indicators	2018	2019	2020F	2021F
GDP	3.0	2.2	-3.8	2.8
CPI (average, y/y %)	2.4	1.8	0.9	1.2
Unemployment rate (%)	3.9	3.7	7.0	6.0
Current account (% of GDP)	-2.4	-2.3	-2.3	-2.1
Fiscal balance (% of GDP)	-3.8	-4.6	-11.9	-10.5

ECONOMY: Temporary Dip Preceding A Vaccine-Driven Recovery

After the deepest plunge in 2Q, US recorded its best growth in 3Q 2020 as GDP surged by 33.1% q/q SAAR (from -31.4% in 2Q and -5.0% in 1Q 2020), the largest output gain on record since data were made available in 1947. The previous record was a 16.7% jump in 1Q 1950. Private consumption expenditure accounted for the bulk of 3Q's growth surge (40.6%, 25.2ppts of headline growth) while business & residential investments and inventories added to the headline growth. Two components that were previously positive contributors to GDP in 2Q, turned negative in 3Q, namely government fiscal stimulus and net exports of goods and services. Corporate profits surged by a whopping US$495.3bn (27.1% q/q) in 3Q, in sharp contrast to a decrease of US$208.9bn (-10.2%) in 2Q, as the economy recovered strongly. Compared to one year ago, corporate profits rose +3.3% y/y in 3Q.

Sentiment has stayed optimistic in the US even though the recent resurgence kept the country with the highest number of COVID-19 infections. Forward looking US data like the consumer confidence & PMI surveys showed stabilization and further improvement while backward looking data like retail sales, IP and durable goods orders extended the rebounds from the record collapse in 2Q.

While the US exited its most severe technical recession in 3Q, the recovery remains uncertain and depends on:

1. the course of the COVID-19 infections,
2. the future of US fiscal stimulus, and
3. most importantly, the successful discovery and effective distribution of a COVID-19 vaccine.

If the pandemic resurgence worsens further in winter, then it may mean a repeat of some restrictive measures to contain it (but short of national lockdown), and thus, re-inflicting temporary damage to economy and the labor market.

But the important part of the message is the slowdown will be temporary, and **a more enduring positive will be the COVID-19 vaccine developments** which will eventually help the US return to some form of normalcy within the year. We project approval of vaccine in late 2020/ early 2021, while the effective distribution in US may only be reached by mid-2021. And even though a vaccine may not be immediately available, the prospect of an available vaccine in the near future, will make the temporary re-imposition of restrictions acceptable to the American public (because an end to the pandemic is in sight).

We now project flat growth in 4Q 2020 (0% q/q) and it is not ruled out that the malaise could be extended into 1Q 2021. The US full-year 2020 GDP is expected to contract by 3.8% (from -4.5%). After the temporary setback in 4Q possibly into early 1Q, **we expect growth to resume and the US GDP to rebound at an above-potential rate of 2.8% in 2021.** US inflation has been subdued, and we project headline inflation to average +0.9% in 2020, and edged up to +1.2% in 2021. And despite the Fed's Average Inflation Targeting (AIT), the strategy on its own does not boost inflation so the US is still beholden to COVID-19 developments to recovery and the lift to inflation expectations.

The immediate US political focus is the 11 Dec (2020) government funding deadline tied with a smaller US$900bn stimulus package. Despite the proximity to the deadline, it is still very uncertain how the appropriation and stimulus discussion will pan out. If the Congress fails to agree to a funding bill, the US government will face a partial shutdown. For 2021, the fiscal stimulus outlook is tied to the binary outcome who will control the Senate after the runoff election for the two Georgia Senate seats on 5 Jan 2021. Consensus is that Democrats are unlikely to win both seats in this historically Republican state. So it is likely to be a divided Congress where Republicans retain a slim majority in the Senate under President Biden and a Democrat-controlled House of Representatives. A divided Congress means limited or no fiscal stimulus next year.

CENTRAL BANK: Dec FOMC "Live"

While there was no indication in the Nov minutes that the Federal Open Market Committee (FOMC) will modify the bond buying at their Dec meeting, recent developments may have changed the course of action for Dec. The prospect of smaller (or even no) fiscal stimulus and the expiration of some of the emergency lending facilities on 31 Dec (a diminished "backstop in financial markets") are likely to lead the Fed to lower its 2021 growth estimates and add monetary easing.

We now expect more monetary easing by the Fed from its existing tool kits, and the first in line will be the asset purchase program. As was highlighted by the Fed in its minutes, we think it may come in the form of 1) shifting its UST purchases to those with longer-maturities (without increasing the overall purchases) or 2) keeping the current purchase composition but over a longer period. We expect the Fed to keep its near zero percent policy rate until at least 2023 but the Fed will not lower rates beyond zero, into negative territory. Re-visiting yield curve control is also a possibility but not in the immediate future.

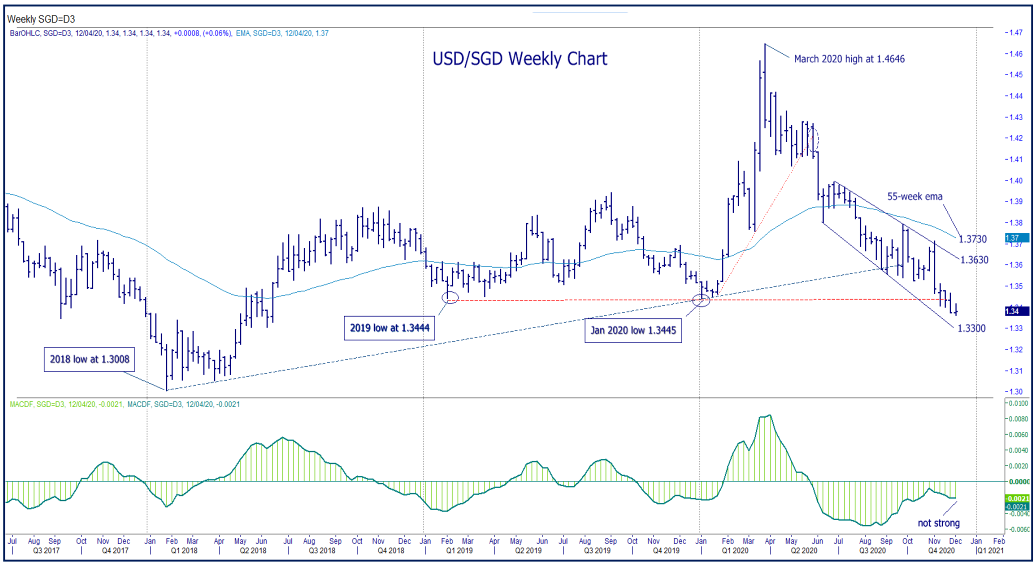
The composition of the FOMC will change in 2020 as Chicago Fed Evans, Atlanta Fed Bostic, San Francisco Fed Daly and Richmond Fed Barkin rotates into voting positions for 2021 FOMC while St Louis Fed Research director Christopher Waller (likely a policy dove) joins as a Fed Board Governor.

But the more impactful appointment would be former Fed Chair Yellen who is Biden's choice as the next Treasury Secretary. If appointed by Senate, Yellen (who was the first woman to lead the Fed Reserve) will be the first woman to be Treasury Secretary. Her wealth of monetary policy experience is expected to bring back coherent US dollar policy. She is also expected to have a strong working relationship with the Fed Reserve. And while expectations are for her to advocate for more expansive fiscal stimulus, it will inevitably be curbed by the Republican-controlled Senate.

FX Technicals

USD/SGD: 1.3375

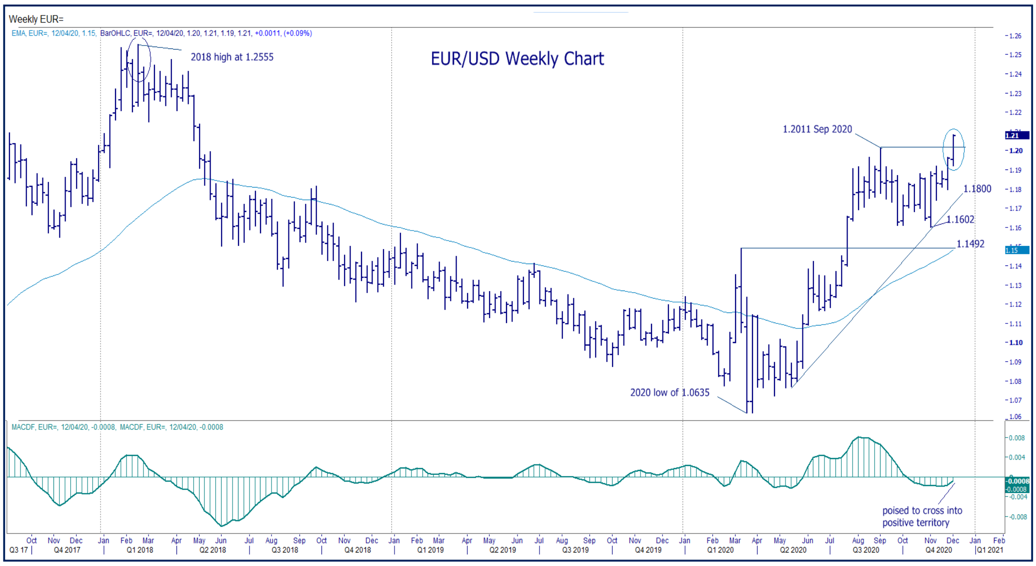
Bias is clearly on the downside but the pace of any decline in USD/SGD is likely to be slow and the 2018 low of 1.3008 is unlikely to come into the picture.



Despite breaking the rather crucial support near 1.3445 in early November (2019 low of 1.3444 and Jan 2020 low of 1.3445), the decline in USD/SGD has been relatively muted. Weekly MACD is pointing lower but is not strong. While the bias for the first quarter of 2021 is clearly on the downside, the pace of any decline is likely to be slow and the next long-term support at 1.3008 (low in 2018) is unlikely to come into the picture. Note that there is a support at 1.3300 followed by a stronger level at 1.3200. On the upside, the declining trend-line and 55-week exponential moving average (at 1.3630 and 1.3730 respectively) are acting as a solid resistance zone and only an unlikely break of this zone would indicate that the current weakness has run its course. Note that both of these levels are moving lower over time.

EUR/USD: 1.2065

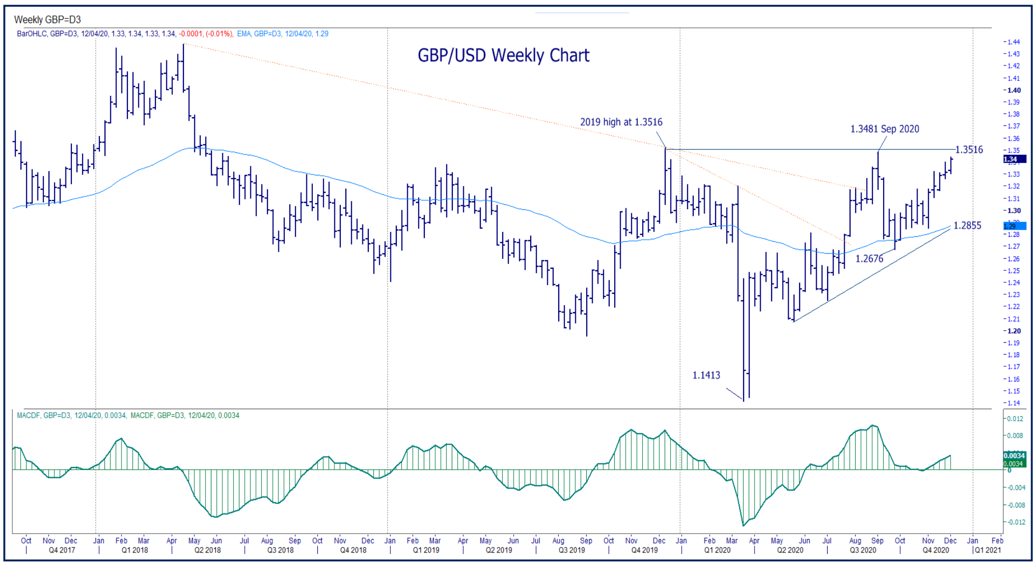
The next up-leg in EUR/USD has started. Premature to expect a move to 1.2555 but an advance to 1.2300 would not be surprising.



The price action since the early September 2020 peak of 1.2011 is viewed a corrective pull-back. The pull-back has been relatively mild as EUR/USD dipped to a low of 1.1602 in early November. At the time of writing in early December, EUR/USD blast past 1.2011 and weekly MACD appears poised to cross into positive territory. In other words, the next up-leg in EUR/USD has likely started. While the next long-term resistance level of note is at 1.2555 (high in 2018), it is premature to expect EUR/USD to move to this level within the first quarter of 2021. That said, an advance to 1.2300 would not be surprising. In order to maintain the current strong momentum, EUR/USD should ideally not move below 1.1800 even though the stronger support level is near 1.1600.

GBP/USD: 1.3420

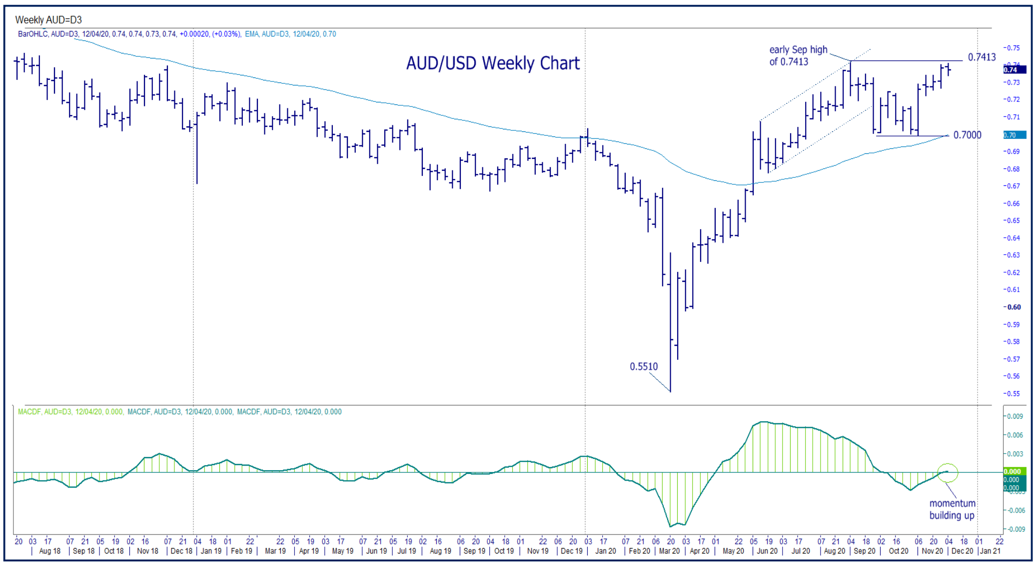
GBP/USD could strengthen but barring a sudden surge in momentum, any advance is likely limited to 1.3700.



The pull-back in GBP/USD from the early September 2020 high of 1.3481 lasted only for a few weeks. After touching a low of 1.2676, GBP/USD has been moving higher. Upward momentum has improved, albeit not by much. For the first few months of 2021, GBP/USD could continue to strengthen and a break above the 2019 peak of 1.3516 would not be surprising. However, barring a sudden surge in momentum, any advance is likely limited to a test of 1.3700 (next resistance is at 1.3900). On the downside, the 55-week exponential moving average and rising trend-line (both near 1.2855) are acting as a solid support level.

AUD/USD: 0.7360

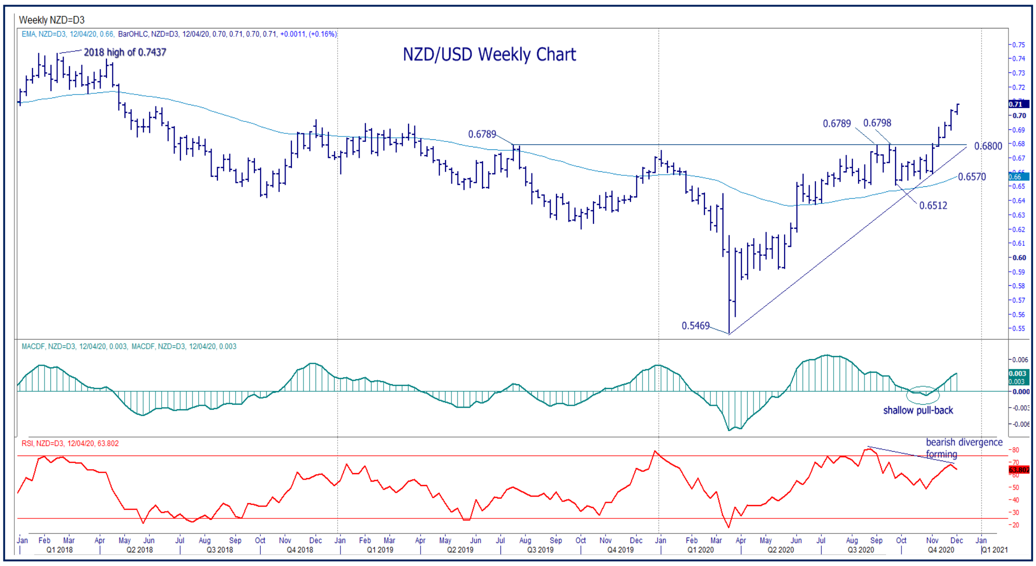
Bias is for a higher AUD/USD but nascent build-up in momentum suggests 0.7700 is likely out of reach.



After rising strongly for several months, AUD/USD retreated after touching a high of 0.7413 in early September 2020. The movement since the high is viewed a part of a corrective pull-back. However, the pull-back has been relatively shallow as AUD/USD tried but failed to move clearly below 0.7000. The rebound from 0.7000 is beginning to gain momentum and the bias for the first few months of 2021 is tilted to the upside. In view of the nascent build-up in momentum, any advance in AUD/USD is likely to be slow and grinding and the major resistance at 0.7700 is likely out of reach. On the downside, an unlikely break of the solid support at 0.7000 could trigger a deeper pull-back.

NZD/USD: 0.7060

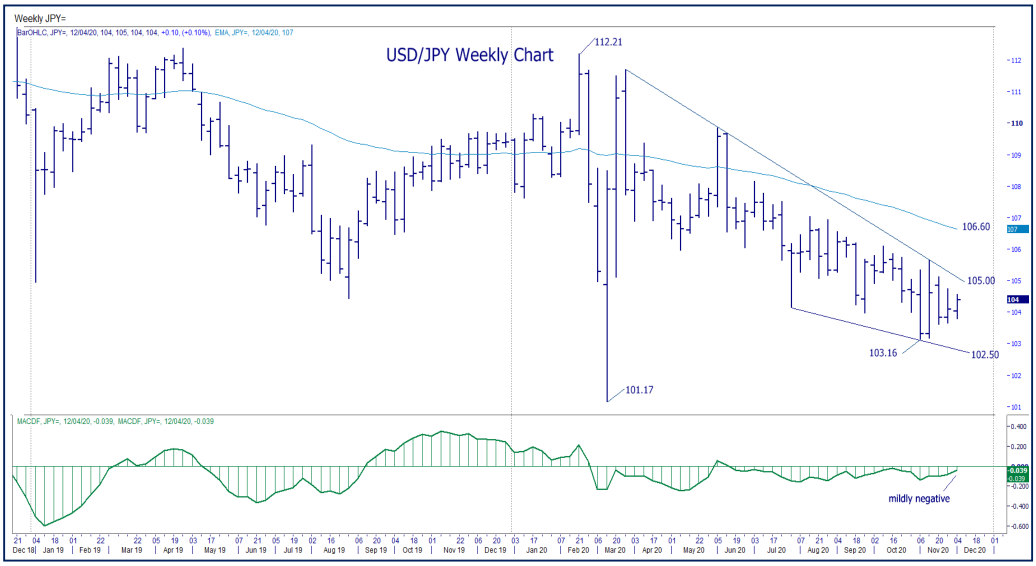
Further NZD/USD strength is not ruled out but the pace of any advance is likely to be slower and the 2018 high of 0.7437 is not expected to come into the picture (0.7250 is already a strong resistance level).



NZD/USD staged a brief and shallow pull-back to a low of 0.6512 in late September 2020. NZD/USD subsequently traded sideways but it broke above the crucial 0.6800 resistance in early November. The break of 0.6800 (after several attempts) led to a strong surge in NZD/USD. The rapid rise appears to be running ahead of itself and while further NZD/USD strength is not ruled out in early 2021, the pace of any advance is likely to slower and the 2018 high of 0.7437 is not expected come into the picture (0.7250 is already quite a strong resistance level). Bearish divergence is beginning to form on the weekly RSI and a break back below 0.6800 could trigger a pull-back towards 0.6570.

USD/JPY: 104.40

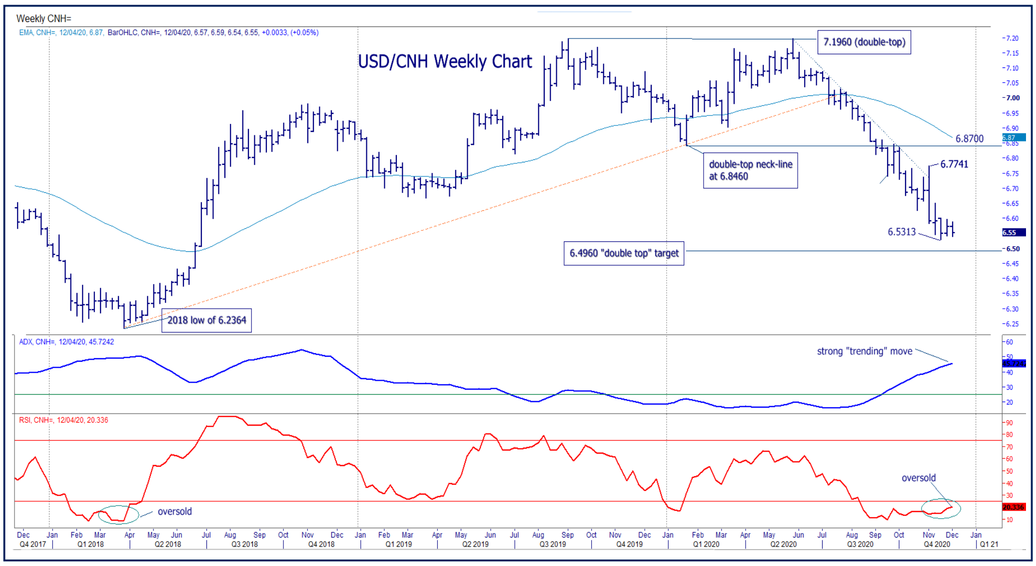
USD/JPY is under mild downward pressure but risk of a rebound has increased.



USD/JPY has been edging lower since early September 2020. The gentle pace of decline was not surprising as while weekly MACD is negative, it is not strong. That said, as the declining trend-line resistance continues to inch lower (currently at 105.00), the risk of a rebound has increased. A break of 105.00 could potentially lead to recovery towards the 55-week exponential moving average at 106.60. At the time of writing in early December, it is premature to expect a sustained advance above this level within the first few months of 2021. On the downside, there is a strong support at 102.50. The May 2020 low of 101.17 is not expected to come under threat.

USD/CNH: 6.5550

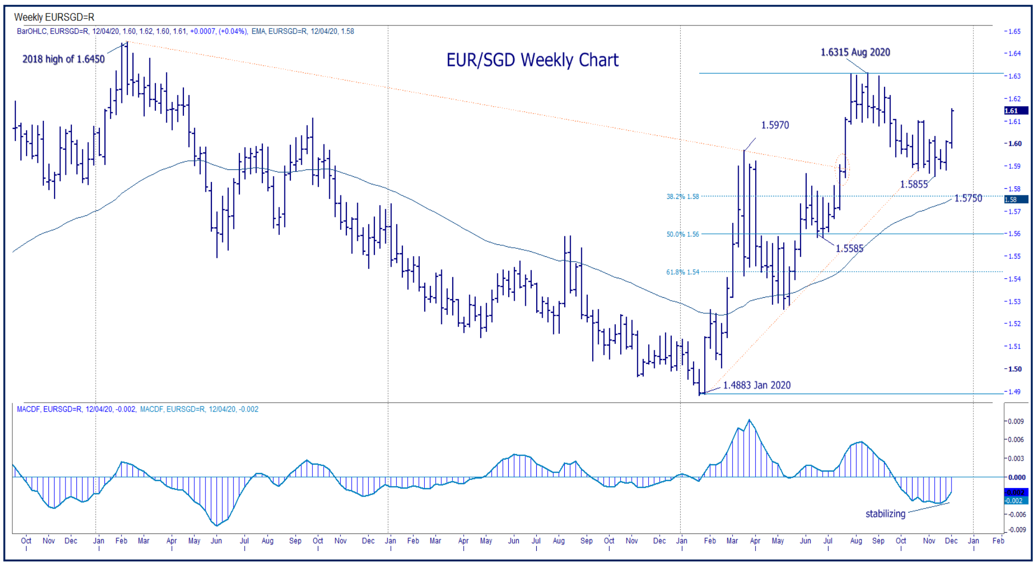
USD/CNH could dip below the ‘double-top’ target of 6.4960; oversold conditions suggest the next support at 6.3800 is likely out of reach within the first quarter of 2021.



USD/CNH extended its decline as it dropped to a low of 6.5313 in mid-November 2020. Weekly ADX suggests the downtrend is still strong even though oversold conditions could slow the pace of any further decline. The next level to focus on is the ‘double-top’ target at 6.4960. A dip below this level is not ruled but in view of the oversold conditions, the next support at 6.3800 is likely out of reach within the first quarter of 2021. Resistance is at the early November high of 6.7741 followed by the 6.8460. The 55-week exponential moving average is not expected to come under threat (currently near 6.8700).

EUR/SGD: 1.6150

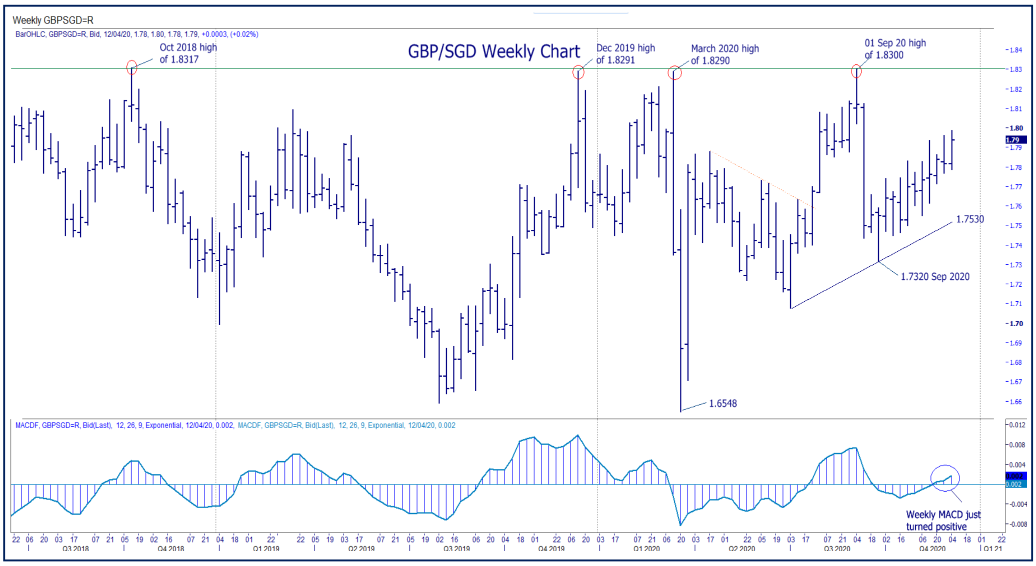
Bias is for a higher EUR/SGD but the August 2020 peak of 1.6315 is a solid resistance level and may not be easy to break.



The movement in EUR/SGD since the 1.6315 peak in August 2020 is viewed as part of a corrective pull-back (EUR/SGD dipped to a low of 1.5855 in mid-November). At the time of writing in early December, EUR/SGD staged a strong advance. Weekly MACD appears to be stabilizing and the bias for the first quarter of 2021 is tilted to the upside. However, the August peak of 1.6315 is acting as a solid resistance and may not be easy to break (next resistance is at the 2018 high of 1.6450). Support is at 1.5855 but the stronger level is at the 55-week exponential moving average at 1.5750.

GBP/SGD: 1.7920

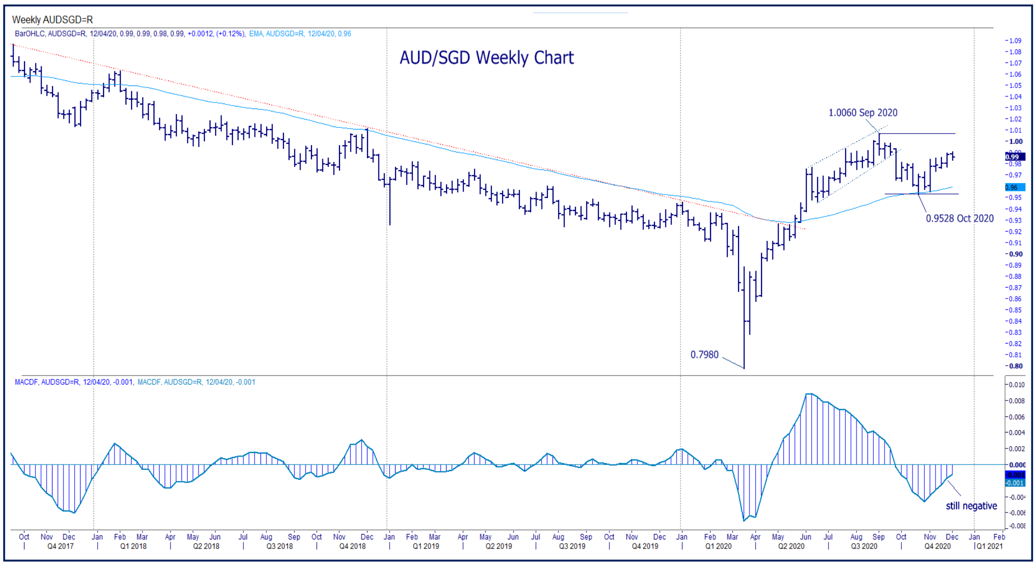
GBP/SGD could grind higher but is unlikely to challenge the major long-term resistance at 1.8300.



After failing to break the major long-term resistance at 1.8300, GBP/SGD dropped sharply in September 2020. The decline was however, short-lived as GBP/SGD rebounded after touching 1.7320. While the underlying tone appears to be positive, the recovery from 1.7320 has been patchy and erratic. Going into the first few months of 2021, GBP/SGD could continue to grind higher. To look at it another way, barring a sudden surge in momentum, GBP/SGD is unlikely to challenge the major long-term resistance at 1.8300. On the downside, a break of 1.7530 would indicate the current mild upward pressure has eased.

AUD/SGD: 0.9860

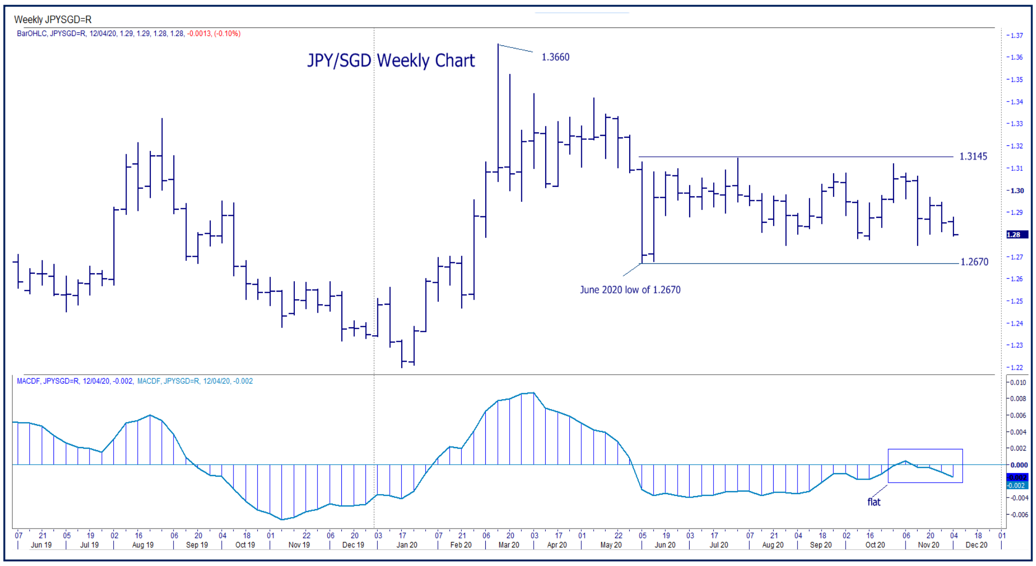
AUD/SGD is likely to trade between 0.9830 and 1.0060.



The decline in AUD/SGD from the September 2020 peak of 1.0060 is viewed as a corrective pull-back. The pull-back tested the 55-week exponential moving average near 0.9530 before rebounding. The rebound lacks momentum and while AUD/SGD could grind higher towards 1.0060, a sustained rise above this strong resistance level is unlikely (next resistance is at 1.0240). In other words, going into the first few months of 2021, AUD/SGD is more likely to trade between 0.9530 and 1.0060.

JPY/SGD: 1.2830

JPY/SGD could continue to trade sideways between the two major levels of 1.2670 and 1.3145.

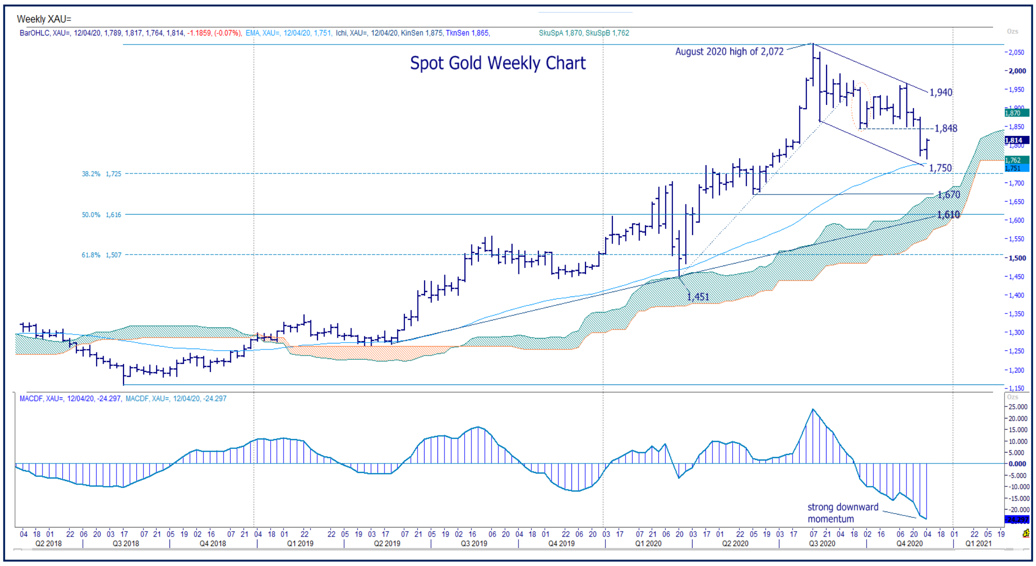


After rebounding from the June 2020 low of 1.2670, JPY/SGD has traded sideways. Momentum indicators are mostly flat and going into the first quarter of 2021, JPY/SGD could continue to trade sideways. Only a clear break below 1.2670 or above the major resistance at 1.3145 would indicate the start of a sustained directional move.

Commodities Technicals

SPOT GOLD $1,810/OZ

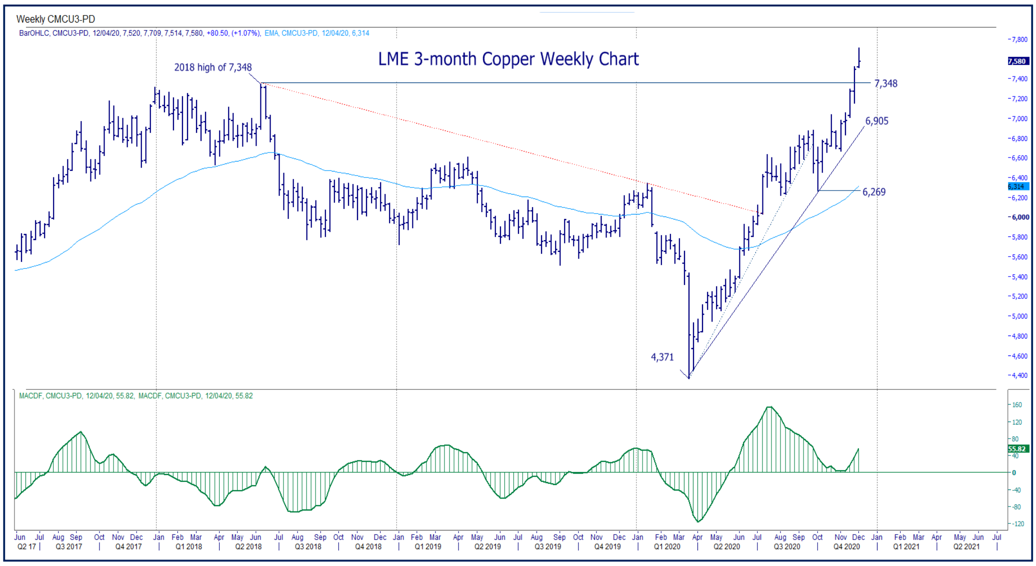
Gold has moved into the next 'down-leg' of its correction phase. Break of $1,750 would open up the way for further weakness towards the strong support zone between $1,610 and $1,670.



Spot gold cracked a strong support level at $1,848 in late November. The break of the support is accompanied by strong downward momentum and the weakness is viewed as the next 'down-leg' of a correction phase from the August's peak of $2,072. In other words, gold is expected to weaken further going into the first quarter of 2021. In view of the strong downward momentum, the support at $1,750 is unlikely able to check the decline in gold. A break of this level would open up the way for a move to the strong support zone between $1,610 and $1,670. For the first few months of 2021, the prospect for a clear break below this long-term support zone is deemed as low. On the upside, the 'break-down' level of $1,848 is acting as a strong resistance but the key resistance for gold weakness lies at $1,940.

LME 3M COPPER $7,695/MT

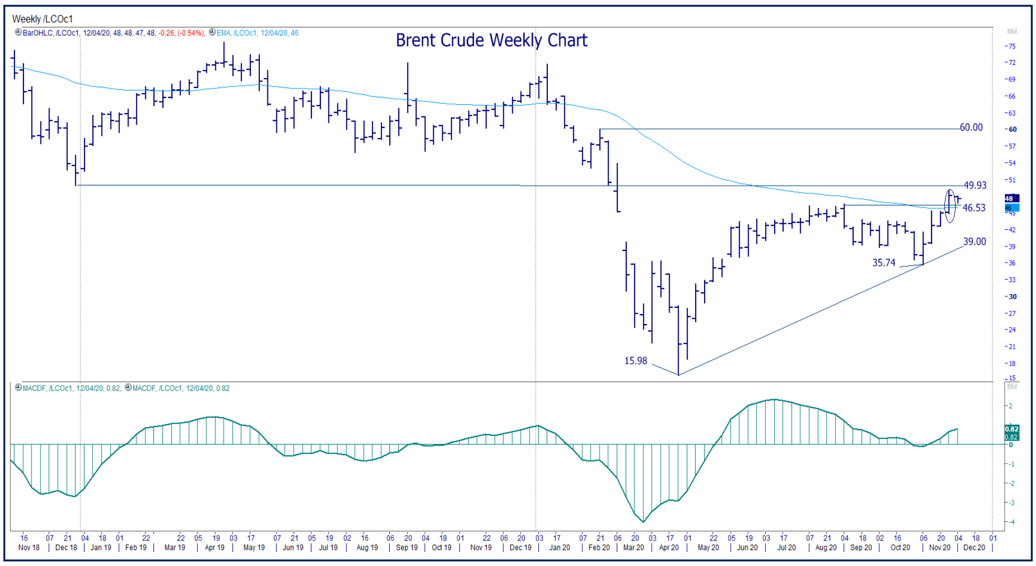
Copper could move above the round-number $8,000 resistance; odds for extension to the 2013 peak of $8,346 are not high.



Copper briefly dropped to a low of $6,629 in early October 2020 before snapping back up. At the time of writing in early December, copper blew past the 2018 high of $7,348. While the rapid rise within a short span of time appears to be overdone, the advance is not showing any sign of weakness just yet. That said, copper is unlikely able to maintain the frenetic pace of advance going into the first quarter of 2021. The round-number $8,000 is a strong resistance and while copper could move above this level, the odds for extension towards the next long-term resistance at $8,346 (peak in 2013) are not high. On the downside, a break of the rising trend-line (currently sitting at $6,905) would indicate the current copper strength has run its course.

BRENT CRUDE $48.00/BBL

Break of $49.93 could lead to a higher Brent but it is premature to expect a move to $60.00.



At the time of writing in early December 2020, Brent just cracked a strong resistance at $46.53 (55-week exponential moving average and the high in September 2020). Weekly MACD is beginning to show sign of strength and if Brent can break $49.93 and maintain a foothold above this level, it could advance further going into the first few months of 2021. That said, barring a sudden surge in momentum, it is premature to expect a move to $60.00. Support is at $39.00 followed by $35.74. The latter level is acting as a rather solid mid-term support now.

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