Quarterly Global Outlook 1Q 2020

Macro Stabilisation Versus Trade Tirades In Year Of The Rat

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And yet crucially, a lot still depends on the outcome of the US-China negotiations and 15 Dec (2019) could be a key date.

Our base case (at 65%) is still for US and China to sign the Phase 1 trade deal by end-2019 or early 2020 with the US delaying or cancelling additional tariffs scheduled for mid-Dec. The next phase is unlikely to be achieved in 2020 as it covers areas where both US and China have little common ground while the negotiations will take place in a year when the US will be distracted by domestic political issues.

Geopolitics will stay in the spotlight for 2020, including various elections in Asia-Pacific and most importantly, the Trump Impeachment proceeding and the US Presidential elections.

"*I am an optimist. It does not seem to be much use being anything else.*"

Winston Churchill

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EXECUTIVE SUMMARY

Macro Stabilisation Versus Trade Tirades In Year Of The Rat

As we usher in a new decade & a new cycle of the Lunar calendar, the central theme for 2020 looks to be an extension of the key risks in 2019: the global growth slowdown amidst ongoing US-China trade developments. The health of the global economy continued to deteriorate in line with the escalation of US-China trade tensions. From 2018's 3.6% global growth rate, the IMF has downgraded 2019's growth rate further to 3.0% in its October WEO (from 3.2% made in Jul), making it the worst year since 2008/2009. It was also accompanied by stark warnings about global manufacturing downturn and rising trade barriers, and the need for inclusive growth.

Even as most major economies have downgraded their growth forecasts for 2020, macro developments could see some stabilization on the horizon. And we emphasize it is stabilization, not the decisive growth recovery just yet. While IMF's global growth estimate for 2020 was also lowered, it is nonetheless expected to be higher at 3.4%, an improvement from 2019. Among the developed economies, the US continues to fare better than the rest, even amidst conflicting signals from its economic data, although US growth is still seen slowing from 2.5% in 2019 to 1.5% in 2020. A similar outlook faces the Eurozone as growth momentum falters but the bloc is still expected to etch out positive growth, albeit lower at 1.0% in 2020 (from a projected 1.1% in 2019). One exception in our view is Japan which we see as having a strong risk of slumping into recession in 2020, and that would be a good enough reason for Japan's government to roll out a substantial stimulus package and the BOJ to renew easing monetary policy in 2020.

In Asia, the unequivocal attention continues to be on China, the epicenter of the global growth slowdown, but we have kept our growth forecast unchanged at 5.9% in 2020 (from the expected 6.1% in 2019) on the assumption of no major escalation in US-China tensions. And as China is slowing, so will the rest of Asia. That said, there are pockets of growth recovery and some economies are benefitting from the shift in supply chain as a result of the on-going US-China trade tensions, such as Taiwan in North Asia and Vietnam in South East Asia.

And yet crucially, a lot still depends on the outcome of the US-China negotiations and 15 December (2019) could be a key date. Our base case (at 65%) is still for US and China to sign the Phase 1 trade deal by end-2019 or early 2020 with the US delaying or cancelling the new additional tariffs scheduled on

REVISED SCENARIOS FOR US-CHINA TRADE

BEST CASE

- Significant de-escalation of US-China tensions.
- US cancels new additional tariffs scheduled on 15 Dec 2019.
- US and China signs Phase 1 trade deal by end-2019 and a Phase 2 agreement (which may include intellectual property, forced technology transfer and state subsidies to industries) is concluded by end-2020 though this may not remove most of the existing additional tariffs.

5%
Probability

BASE CASE

- US delays/cancels new additional tariffs scheduled on 15 Dec 2019.
- US and China signs Phase 1 trade deal by end-2019 or early 2020, but negotiations for Phase 2 deal will be more protracted than in the Best Case scenario, going well beyond 2020.
- High probability for Phase 2 negotiation to break down intermittently during 2020 and new tariffs or enforcement measures may be implemented.

65%
Probability

WORSE CASE

- US-China Phase 1 trade agreement does not materialize and the delayed/planned additional tariffs are imposed.
- The entire bilateral merchandise trade comes under additional tariffs.
- The tariff rates may be raised further and trade conflict extends into other areas including services trade and investment restrictions etc.

30%
Probability

Source: UOB Global Economics & Markets Research

15 December. The next phase is likely to be even more difficult as it covers areas where both US and China have little common ground while the negotiations will take place in a year when the US will be distracted by domestic issues (Trump impeachment proceedings, US Presidential elections) for most of 2020. If the US-China Phase 1 trade agreement does not materialize and the additional tariffs are imposed on 15 Dec, then that will be a risk-off catalyst for financial markets and the worsening of trade tensions will threaten to extinguish the nascent macro stabilization. That is our worst case scenario at a sizeable 35% probability. Trump's signing of the Hong Kong Human Rights and Democracy Act into law (27 Nov) and the US House passing the Xinjiang Bill (3 Dec) deflated trade optimism while Trump's comment (3 Dec) that he may prefer waiting until after the US elections to sign a deal with China further clouds the timing of Phase 1.

At the end of the day, the reality remains: this is an ideological confrontation between the two most important economies in the world, and it is not just about trade. Trade is the starting point but it is also about technology (and who controls it), military leadership, being the top economy and these issues are not going to be resolved anytime soon (lasting for years if not decades), and it will become increasingly difficult for other countries "not to take sides".

Major economies as well as Asian central banks have responded to the weaker growth and uncertain trade environment by easing monetary policies in 2019. And they are expected to either keep their easy monetary stance or ease policy further to support growth in 2020. After cutting rates trice consecutively in Jul, Sep and Oct, the Federal Reserve (FED) is expected to stay on pause in Dec 2019 but potentially another bout of US-China trade uncertainty post-15 Dec could trigger another 25 bps "insurance" rate cut from the FED in early 2020. The European Central Bank (ECB) may not have to change policy for some time as the latest stimulus package (a parting gift from the former ECB President Draghi) remains in play but the new ECB President Lagarde may find it difficult to get everyone in ECB governing council to agree to more easing. Meanwhile, it is clear that China's easing cycle has started, although the pace of declines seen in the MLF, 7D reverse repo rate and the LPR fixings has been milder than anticipated, suggesting a measured and cautious approach by People's Bank of China (PBoC) to guide interest rates lower. Across Asia, we expect the low policy rate environment to continue in the new year with moderate rate cuts from Malaysia, Philippines and Indonesia.

What To Watch In 2020?

Besides the on-going US-China trade tensions, US President Trump continues to burnish his "Tariff Man" credentials on other fronts: slapping steel and aluminum tariffs back on Brazil and Argentina for currency manipulation, threatening to impose tariffs on French goods in response to the proposed French Digital Tax on US companies, and potentially pursuing auto tariffs under Section 301 of the 1974 Trade Act (the same mechanism used to impose tariffs on China). When will Tariff Man rest?

Perhaps he will take a break from tariffs in 2020 as he deals with impeachment proceedings against him while also stepping up his campaign for the Presidential election (03 Nov 2020). The Democrat-controlled House will certainly vote to pass the articles of impeachment against Trump. But the biggest stumbling block is in the Republican-controlled Senate which may or may not take up the impeachment proceeding. Even if the Senate takes up the proceeding, the chances of Trump's impeachment is LOW unless Trump loses significant Republican support. If we use the Clinton impeachment proceedings as a gauge for the possible timeline (initiated on 8 October 1998, the trial in the Senate began in January 1999, and he was acquitted on 12 February 1999), we believe that the impeachment saga could be over by 1Q 2020.

Why is this important? Trump will be the first president running for re-election under impeachment proceeding. We assume that post-impeachment (which Trump is either acquitted by the Senate or the Senate does not even take it up), US politics will be even more polarized with Trump and the Republican party becoming even more entrenched against the Democrats, while Trump could be more emboldened to push the envelope and adopt an even more antagonistic stance in the upcoming presidential elections because he is convinced that his support base will not punish him. There will be much political fireworks in the US for 2020.

Even before 2020 is upon us, the key election to watch will be the UK general election on 12 Dec 2019 where a decisive victory for Boris Johnson and the Conservative party could finally put the "hard exit" Brexit issue to rest, while a Labour victory would prolong the Brexit drama (which feels like an eternity by now). Besides the US and UK elections, there are several other elections that will matter in 2020 including Taiwan (presidential and legislative, 11 Jan), South Korea (legislative, 15 Apr), Iran (legislative, 20 Feb), Myanmar (tentatively in Nov) and New Zealand (21 Nov). Singapore is also expected to call for a general election in 2020 although it is not due until 15 Apr 2021.

2020 will be the Year of the Metal Rat which is the first of the 12 Chinese zodiac animals and metal is the first of the five elements, which means the start of a new 60-year cycle. According to Feng Shui, the year is seen as strong, prosperous, and lucky, and is a great year to begin new projects or improve ongoing ones. Let's hope it works for trade negotiations too.

We wish all our readers happy holidays and a prosperous New Year ahead!

RATES STRATEGY

Stay "Lower for Longer"

Amidst lingering risks from "international developments", we continue to see a fourth 25 bps cut from the FED in 1Q2020, lowering the target range of the Federal Funds rate down to 1.25%-1.50%, from the current 1.50%-1.75% range. As such, short dated money market rates are expected to drift lower across 1Q and then consolidate around the lower levels across 2020. Overall, from their Dec 2019 levels we forecast 3M US Libor drifting lower from 1.9% to 1.65%, 3M SGD Sibor easing from 1.80% to 1.55% and 3M SGD SOR marginally lower from 1.55% to 1.45%.

As for Singapore Government Securities (SGS) bond market, we forecast that based on the anticipated 7% notional growth rate, the SGS market size may finally exceed SGD 130 bn in 2020. And with about 1/3 of the full year's scheduled auction duration to be placed in Jan and Feb, this would support a slightly steeper SGS curve in 1Q20. Once again, rollover / concentration risk in the SGS market is low given the laddered maturity profile.

Finally, we keep track of the latest developments and regulatory announcements regarding the intensifying transition from Interbank Offered Rates (IBOR) to Risk Free Rates (RFR). As we head into 2020, financial markets now have less than 24 months to prepare for the eventual transition. For various related reports, do refer to our IBOR Transition landing page.

FX STRATEGY

Recovery In Risk Appetite To Weigh On The USD

Against FX Majors, we believe that the USD may be in the process of peaking. We see improving outlook for the EUR, AUD, NZD and GBP in 2020, eventually lowering the DXY from 98 as at end-Nov to about 96 by end 2020. However, in contrast, instead of further JPY strength, we now expect the JPY to weaken going forward beyond 110 to the USD. Japan's steep retail sales slump risks triggering renewed recession. Hence, the BoJ is seen stepping up its monetary policy easing with deposit rate cut and bond purchases.

As for Asian currencies in 2020, we note that the correlation of Asian FX to CNY is now weaker as the financial markets are now increasingly desensitized to the US-China trade conflict headlines. While we continue to expect a weaker CNY amidst on-going slowdown in China, improved risk appetite globally and reducing tail risks may limit negative spillover to the rest of Asia FX. In other words, while the CNY's structural weaknesses persist, depreciation risks are contained at 7.20 against the USD by end 2020.

For the SGD, we continue to expect gradual SGD weakness. Amidst weak growth and soft inflation in Singapore, the S$NEER remains "relatively rich" at 1.6% above the estimated mid-point of the policy band. As external trade tensions remain, this S$NEER richness is likely to normalize across 2020, resulting in modest SGD weakness against the USD towards 1.39 by end 2020.

COMMODITIES STRATEGY

Gold Cools Down As Brent Crude Oil And LME Copper Outlook Improve

Gold's strong rally has cooled down as risk sentiment improved, global growth stabilized and yield curves resisting inversion. Nonetheless, with interest rates expected to stay soft for longer, we continue to maintain our positive outlook for gold, just that the pick-up is now seen more modest. Overall, we now see gold modestly higher from USD 1,450 / oz currently to USD 1,550 / oz by end 2020.

As for Brent crude oil, on-going OPEC+ production cuts, coupled with various supply outages have kept supply in check. Other tentative signs of improvement include lower rig counts, slower rate of shale oil production growth, firm backwardation in futures curve and increased open interest. Amidst all these, geopolitical risks continue to simmer in the background for the Middle East. After consolidating around USD 60 / bbl, we believe Brent crude oil may be ready to trade modestly higher to USD 70 / bbl by end 2020.

As unbelievable as it sounds, the demand-supply balance for copper has taken a decisive swing into deficit with the ICSG forecasting further supply deficit. While global copper consumption growth remains weak, a significant amount of mining stoppage, smelter production disruptions has led to an even larger loss of production of refined copper. Overall, we now see LME Copper continuing its consolidation around USD 6,000 / MT, rather than further weakness to USD 5,000 / MT as previously forecasted.

ASEAN FOCUS I

Mega Trade Deal Is A Further Boost To ASEAN's Long-Term Potential

The Regional Comprehensive Economic Partnership (RCEP) made a major stride forward in November 2019 after 29 rounds of negotiations with its 15 members (excluding India) committing to sign the trade agreement in 2020. While India's withdrawal is a setback, RCEP-15 still accounts for 29% of global GDP, 30% of world population and 28% of world merchandise trade. In terms of global GDP share, it is comparable to NAFTA and EU 28 while being significantly larger in population size.

RCEP is expected to encourage further development of trade on equal platform for members and further building of supply chains throughout member countries. This mega trade deal, which will vastly facilitate trade in merchandise and services among the 15 signatories, could promote further economic integration and drive growth in GDP, trade and foreign direct investment (FDI) in ASEAN over the medium to long term

ASEAN FOCUS II

ASEAN-5: Has The Slowdown In Growth And Trade Bottomed?

According to the IMF's Oct WEO, ASEAN-5 will likely see growth ease to 4.8% in 2019 (compared to a recent peak of 6.9% in 2010) on the back of slowest export growth in four years. Encouragingly, the slowdown in growth and trade could be bottom this year and could see some improvement in 2020, in line with IMF's outlook and estimates by our in-house economists.

Recent incoming economic data from the ASEAN-5 region showed an improvement in economic fundamentals and market confidence while the pace of declines in total trade that began since mid-2018 seemed to have stabilised in recent months. There are signs that the manufacturing growth momentum has improved across most ASEAN-5 economies except for Malaysia and the Philippines as recent data weakened.

Barring further escalation in the US-China trade tensions, a recovery of the global semiconductor cycle and improving trade activities are key drivers to lift ASEAN-5 growth in 2020, backed by improving global economic fundamentals as well as the region's rising prominence as a trade bloc.

INDONESIA FOCUS

Recap Of 2019 And Quick Take On 2020 Assets Market

IDR FX: The Indonesian rupiah, IDR, proved to be less volatile in 2019 than the year before despite going through an election year. Factors such as softer oil prices, a dovish Fed, inflows to the bond market and government import tightening measures helped offset concerns over the current account deficit. Higher FX reserves and President Widodo's election win also worked positively for the currency.

IDR Bonds: IDR bonds have enjoyed a positive year in 2019 for several reasons - S&P rating upgrade, resilient economy, the Fed Reserve's dovish pivot, investors' hunt for yield amid negative bond yields in developed markets, benign domestic inflation and Bank Indonesia's 100bps rate cuts this year.

Quick Take For 2020: Bond market inflows may taper off as we only project one more BI 25bps rate cut and a fiscal deficit target of 2.15% of GDP in 2020. IDR's relatively resilient performance in 2019 has been predominantly underpinned by massive inflows into the local bond market so the tapering of bond inflows next year may see IDR trading weaker albeit in a stable fashion on the back of an improving structural current account deficit.

MALAYSIA FOCUS

Malaysia Budget 2020 Key Takeaways

With 2020 being the final year of the 11th Malaysia Plan, this budget is a crucial one to ensure that gains made in previous years are sustained amid significant external headwinds. On that note, we are positive that the government has announced a fair budget that prioritises the economy without much slippage in the fiscal deficit. The budget delivers a balance of measures to revitalize growth and investments, promote equality, create jobs, raise productivity, and improve human capital.

GLOBAL FX

USD/JPY: Assuming that trade escalation risks stay low, together with global central banks leaning on their accommodative stance, it is likely the current bout of risk-taking and JPY weakness can still persist. Domestically, potential fiscal and monetary stimuli in 2020 are also clear negatives on the JPY. Taken together, we now expected further JPY weakness going forth and our USD/JPY point forecasts are 110 in 1Q20, 112 in 2Q20 and 113 in 3Q and 4Q20.

EUR/USD: Markets have looked beyond a dim Eurozone outlook and EUR/USD has shown tentative signs that an interim bottom has been in place at 1.09. Together with a broad topping out of USD against most Majors, we maintain our forecasts of EUR/USD stabilizing around 1.11 in 1H20 followed by a mild rebound to 1.13 in 3Q20 then 1.15 in 4Q20.

GBP/USD: Even if the "fog of Brexit" lifts with a Brexit deal, markets still have to face the economic consequences from 3 years of political limbo since the referendum in 2016. UK growth was at an anemic 1.0% in 3Q19, the lowest in nine years and the Bank of England may have to catch up with the global monetary policy easing campaign. Overall we see limited upside in GBP/USD above 1.30 in 2020, with our point forecasts at 1.31 in 1H, followed by 1.32 in 2H.

AUD/USD: After dropping for a second straight year in 2019, the AUD is on firmer ground to stage a rebound next year if both domestic and external headwinds moderate further. Underpinned by a modest recovery in growth and inflation next year, a less aggressive RBA together with an improved tone in US-China trade talks may keep the AUD/USD supported at 0.69 in 1H20 before a modest recovery towards 0.70 in 2H20.

NZD/USD: Notwithstanding economic headwinds still persisting and the RBNZ staying dovish, there are clearly less pressures on the NZD compared to our previous quarterly update. As such, we are still of the view that NZD/USD would continue its modest recovery, towards 0.65 in 1H20 and 0.66 in 2H20.

ASIAN FX

USD/CNY: We have dialed back our bearish CNY expectations (previous peak in USD/CNY forecast of 7.30 in 3Q20) in recognition of the progress in trade talks so far and the reduced risks of further trade escalation. Our updated forecasts for USD/CNY are 7.08 in 1Q20, 7.10 in 2Q20, 7.20 in 3Q20 and 7.20 in 4Q20.

USD/SGD: Overall, we maintain our modestly upward trajectory in USD/SGD but SGD weakness this time round would be limited to 1.39/ USD as the trough of the trade-induced slowdown may be behind us for now.

USD/HKD: It is likely that the Hong Kong Monetary Authority has what it takes to defend the currency peg at 7.85. Overall, in the near term, geopolitical pressures are likely to tether the HKD near the weaker end of its peg at 7.85 /USD in 1Q and 2Q20 before a normalization towards 7.80/USD starting 3Q20.

USD/TWD: We maintain our mild weakening bias for TWD going forth but have recalibrated the point forecasts in recognition of the pass through of positive risk sentiment on TWD of late. Our updated point forecasts of USD/TWD in 2020 are now 30.5 in 1Q, 30.8 in 2Q, and 31.0 in both 3Q and 4Q.

USD/KRW: Going forward, with downside risks to external trade and domestic growth receding, together with our less bearish recalibration of CNY, we now foresee modest weakness of KRW going forth. Our point forecasts for USD/KRW in 2020 are 1,200 in 1Q, 1,210 in 2Q, and 1,220 in both 3Q and 4Q.

USD/MYR: Even if external headwinds were to ebb in the coming year, downside risks to domestic growth are likely to pin MYR weaker. Overall, we keep to the view of a modestly higher trajectory for USD/MYR, to 4.19 by 1Q20 then 4.22 by 2Q20 before plateauing at 4.25 in 3Q20 and 4Q20.

USD/IDR: Going forward, continued uncertainties on the US-China trade talks, geopolitical risks, and China economic slowdown may continue to tether the IDR on the weaker end of 14,000 /USD. Overall, we maintain a higher trajectory in USD/IDR, towards 14,200 in 1Q20, 14,300 in 2Q20, 14,400 in 3Q20 and 14,500 in 4Q20.

USD/INR: The intense headwinds INR faces look set to extend into 2020. Next year, risks to growth are still skewed to the downside and further rate cuts will continue to erode the interest-rate advantage that the INR has over the USD, denting its attractiveness as a high yielder. In all, we maintain our negative bias for the INR, expecting weakness towards 73.6 /USD by end-2020.

USD/THB: The standout strength of the THB persisted even as the Thai economy slowed and authorities attempting to throw sand into the wheel which included an unexpected rate cut in Aug and measures to encourage capital outflows. Now with the pick-up in risk appetite, safe haven demand for the THB could plateau. As such, we see USD/THB in a stable range between 30.0 and 30.8 next year.

USD/PHP: While investors' longer term worries of Philippines' twin deficits linger, expectations of sustained inflows of overseas remittances and foreign direct investments amid less aggressive BSP rate cuts pared part of our negative outlook on the PHP. Overall, though we maintain a higher trajectory in USD/PHP, the slope is reduced to 52.0 by 3Q20.

USD/VND: Compared to our previous forecasts, we have moderated the pace of depreciation in view of the growth momentum and inflows. Our latest USD/VND point forecasts are 23,300 for 1Q20, 23,400 for 2Q20, and 23,500 for 3Q and 4Q20, versus previous estimates of a steeper trajectory towards 23,900 by end-2020.

USD/MMK: Next year, political uncertainty may also cast an overhang on the MMK as the election draws nearer. As such, we maintain a modestly higher trajectory in USD/MMK with point forecasts at 1,510 in 1Q20, 1,530 in 2Q20, and 1,540 in 3Q20 and 4Q20.

GLOBAL INTEREST RATES

FOMC: After three rate cuts, the Federal Reserve (FED) signaled current policy stance (1.50-1.75% FED funds) is appropriate and its intention to put policy on pause. We subscribe to the view of a Fed pause in Dec but another bout of US-China trade tensions post-Dec FOMC could trigger another 25bps "insurance" rate cut from Powell in 1Q 2020, and thereafter to stay on pause again for 2020. Conversely, if the trade negotiation progresses smoothly, then the "insurance" cut will be unnecessary.

ECB: The service sector slowdown is in turn impacting price growth, implying little upside in the coming months as far as the inflation outlook is concerned. Thus, we continue to anticipate rates to remain unchanged until end-2021. Lagarde may not have to change policy for some time as the latest stimulus package remains in play; but providing more stimulus further out could be complicated because so much of the ECB's balance sheet has already been deployed.

BOE: Despite the dovish tilt at the 7 November meeting, we see the BoE on a wait-and-see stance. We believe that the two dissenters against a large majority is still somewhat premature in tipping the balance for a rate cut, especially with a no-deal Brexit scenario off the immediate agenda. With offsetting factors currently, we would prefer to wait for the outcome of the impending election and the subsequent impact on how Brexit may proceed, before making changes to our policy rate forecasts.

RBA: It is indeed clear that the RBA appears to be in a holding pattern as it waits to gauge the effects of the rate cuts so far this year. We are thus maintaining our OCR call of 0.75%, for now. We are, however, not ruling out further easing ahead. In fact, the case for a rate cut at the next RBA meeting on 4 February 2020, will depend on housing, construction and economic data released over the next two months.

RBNZ: The next RBNZ meeting is not until 12 February 2020. Our current OCR forecast of 1.00% through 2020 remains intact. That said, we will remain watchful of both developments at home and abroad. Should employment growth, business investment and household spending weaken further, and/or the global economy deteriorates, we will not be surprise to see the RBNZ venturing into further interest rate cuts and the uncharted territory of unconventional monetary policy.

BOJ: Continued forward guidance without action will not be sufficient, and with economic data turning south, the Bank of Japan (BOJ) will eventually need to act. The likelihood of substantial government fiscal stimulus package reinforces expectations that BOJ will be on hold in Dec (2019) but it will likely renew easing monetary policy via deepening its negative policy call rate to -0.2% possibly in 1Q 2020 (from -0.1%). Potentially, other measures will follow if the domestic economic situation worsens in 2020.

ASIAN INTEREST RATES

PBoC: Although we still expect PBoC to guide rates lower, the elevated headline inflation and slowing momentum in global central banks' easing will keep it on a measured and cautious stance as focus remains on improving monetary policy transmission through reforms and push for greater adoption of the Loan Prime Rate (LPR). We expect future LPR fixings to be moved by 5bps each month on average into mid-2020, with no further cuts to MLF. This will see 1Y LPR at 3.80% by mid-2020.

MAS: Given the potential recovery in Singapore's growth into 2020, we continue to expect MAS to keep its monetary policy parameters unchanged at its April 2020 MPS meeting. This means keeping the slope, band and policy mid-point unchanged. Note that in October 2019, MAS reduced the appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) slope "slightly", which we estimate to be at 0.5% currently.

RBI: RBI kept its benchmark rate unchanged at its 5 Dec meeting, leaving both repurchase rate and reverse repurchase rate at 5.15% and 4.90%, respectively. The central bank cited that there is still "monetary policy space for future action", and kept its accommodative stance "as long as it is necessary to revive growth". We opine that growth headwinds could still persist, and we expect the central bank to cut its benchmark rate by 25bps at its 6 Feb 2020 meeting.

BI: Bank Indonesia (BI) has been promoting its pre-emptive, front-loaded, and ahead of the curve policy strategy since 2018. For 2019, BI shifted more focus in supporting growth while maintaining economic and financial stability. With policy measures already in place to support growth, BI is likely to hold its benchmark rate unchanged at 5.00% in Dec. Nevertheless, as we expect the FED to cut once more in 1Q 2020, we keep our forecast of one more cut by BI to 4.75% in 1Q 2020.

BOK: Having cut interest rate twice since July 2019, BOK continued to signal room for further cuts but also said it remained mindful of financial imbalances and is reviewing the short-term impact from earlier rate cuts. We now expect the BOK to be on hold in 1Q20 with further easing being contingent on the deterioration in the economic outlook. Meanwhile, the BOK has indicated that it is not prepared to use monetary policy tools other than interest rate yet.

CBC: Despite low inflation, there has been no change to CBC's neutral stance so far. We maintain our call for CBC to keep its benchmark discount rate at 1.375% through 2020. The benchmark rate is currently near the record low of 1.25% that was registered during the Global Financial Crisis and current economic conditions may not justify a benchmark rate at record low level yet.

BNM: Given the slower trend growth below Malaysia's potential output of 4.8%-5.0%, we have pencilled in a 25bps cut in the Overnight Policy Rate to 2.75% in 1Q20. This is to safeguard domestic growth amid lingering trade uncertainties and muted investments. The central bank earlier cut the Statutory Reserve Requirement ratio by 50bps to 3.00% on 16 Nov (2019) amid a moderation in domestic liquidity as broad money supply slowed and outflows in foreign portfolio funds persist.

BOT: For the next monetary policy meeting on 18 Dec 2019, the BOT will likely maintain the policy rate at 1.25% to gauge the transmission mechanism of monetary policy and the easing of rules on capital outflows first before considering their next move. Barring any unexpected negative shocks, we expect BOT to keep its benchmark rate unchanged at 1.25% in 2020.

BSP: The moderate inflation provides room for Bangko Sentral ng Pilipinas (BSP) to ease its monetary policy further in early 2020 to sustain the growth momentum. We expect BSP to reduce the overnight reverse repurchase rate by a cumulative 50bps (25bps in each quarter) to 3.50% by mid-2020. We also expect BSP to reduce the reserve requirement ratio by an additional 100bps-200bps in 2020, depending on domestic liquidity conditions and credit growth.

SBV: The State Bank of Vietnam (SBV) made a surprise rate cut on 13 Sep (2019), lowering the policy refinancing rate to 6.0%. However, with the unexpectedly strong 3Q GDP report and expectations that full year growth is likely to exceed official target while the policy rate at the lowest since end-2005, there are few incentives for the central bank to take on more aggressive posture. We expect the SBV to stay on hold at least for the next 2-3 quarters.

Real GDP Growth Trajectory

y/y% change	2018	2019F	2020F	1Q19	2Q19	3Q19	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F
China	6.6	6.1	5.9	6.4	6.2	6.0	6.0	5.9	5.9	5.9	6.0
Hong Kong	3.0	-1.2	1.2	0.6	0.4	-2.9	-2.9	-1.7	-0.6	2.8	4.3
India	6.8	6.0	6.5	5.0	4.5	7.5	6.8	8.7	9.1	6.6	3.6
Indonesia	5.2	5.1	5.2	5.1	5.1	5.0	5.1	5.1	5.2	5.2	5.2
Japan	0.8	0.7	-0.8	0.9	0.9	1.3	-0.2	-1.0	-1.2	-1.4	0.2
Malaysia	4.7	4.6	4.4	4.5	4.9	4.4	4.5	4.3	4.3	4.4	4.4
Philippines	6.2	6.0	6.5	5.6	5.5	6.2	6.5	6.5	6.9	6.4	6.2
Singapore	3.1	0.5	1.5	1.1	0.2	0.5	1.0	1.1	1.5	1.6	1.7
South Korea	2.7	2.0	2.1	1.7	2.0	2.0	2.0	2.3	2.1	2.1	2.1
Taiwan	2.7	2.6	2.6	1.8	2.6	3.0	3.0	3.0	2.5	2.4	2.5
Thailand	4.1	2.6	3.1	2.8	2.3	2.4	2.8	2.0	2.9	4.3	3.2
Vietnam	7.1	7.0	6.8	6.9	6.8	7.3	7.1	7.0	6.9	6.7	6.6
Australia	2.8	1.8	2.4	1.7	1.4	1.8	2.3	2.5	2.4	2.4	2.3
Eurozone	1.9	1.1	1.0	1.3	1.2	1.2	1.0	0.8	0.8	1.0	1.2
New Zealand	2.8	2.3	2.4	2.9	2.6	2.1	1.9	2.0	2.2	2.5	2.6
United Kingdom	1.4	1.2	1.1	2.1	1.3	1.0	0.7	0.6	1.1	1.1	1.4
United States (q/q SAAR)	2.9	2.5	1.5	3.1	2.0	2.1	1.8	-0.4	2.3	2.4	2.0

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 (%)	5.0	4.4	6.2	2.4	7.3	0.5	6.0	4.5
Manufacturing PMI (Index)	48.2	49.5	51.4	49.3	51.0	49.8	51.8	51.2
Foreign Direct Investment (Annual, USD bn)	21.5	8.6	9.8	13.3	15.5	81.7	139.5	30.7
Merchandise Trade Balance (USD bn)	0.2	4.2	-3.1	2.1	0.1	3.4	42.8	-11.0
Current Account (Annual, % of GDP)	-3.0	2.1	-2.4	5.6	2.4	17.9	0.4	-2.4
Fiscal Balance (Annual, % of GDP)	-1.8	-3.7	-3.2	-2.5	-4.4	0.4	-2.6	-3.6
Unemployment Rate (%)	5.3	3.3	4.5	1.0	2.2	2.3	3.6	8.5
Inflation (%)	3.0	1.1	1.3	0.2	3.5	0.4	3.8	4.6
Color Code (Definition)	Weakest							Strongest

Source: Bloomberg, UOB Global Economics & Markets Research

FORECASTS

FX, Interest Rate & Commodities

FX	05 Dec 19	1Q20F	2Q20F	3Q20F	4Q20F
USD/JPY	109	110	112	113	113
EUR/USD	1.11	1.11	1.11	1.13	1.15
GBP/USD	1.31	1.31	1.31	1.32	1.32
AUD/USD	0.68	0.69	0.69	0.70	0.70
NZD/USD	0.65	0.65	0.65	0.66	0.66
DXY	97.6	97.7	97.8	96.7	95.6
USD/CNY	7.05	7.08	7.10	7.20	7.20
USD/HKD	7.83	7.85	7.85	7.80	7.80
USD/TWD	30.49	30.50	30.80	31.00	31.00
USD/KRW	1,189	1,200	1,210	1,220	1,220
USD/PHP	50.89	51.50	51.80	52.00	52.00
USD/MYR	4.17	4.19	4.22	4.25	4.25
USD/IDR	14,094	14,200	14,300	14,400	14,500
USD/THB	30.29	30.00	30.50	30.80	30.80
USD/MMK	1,503	1,510	1,530	1,540	1,540
USD/VND	23,170	23,300	23,400	23,500	23,500
USD/INR	71.53	72.50	73.00	73.60	73.60
USD/SGD	1.36	1.37	1.38	1.39	1.39
EUR/SGD	1.51	1.52	1.53	1.57	1.60
GBP/SGD	1.79	1.79	1.81	1.83	1.83
AUD/SGD	0.93	0.95	0.95	0.97	0.97
SGD/MYR	3.06	3.06	3.06	3.06	3.06
SGD/CNY	5.17	5.17	5.15	5.18	5.18
JPY/SGDx100	1.25	1.25	1.23	1.23	1.23

RATES	05 Dec 19	1Q20F	2Q20F	3Q20F	4Q20F
US Fed Funds Rate	1.75	1.50	1.50	1.50	1.50
USD 3M LIBOR	1.89	1.65	1.65	1.65	1.65
US 10Y Treasuries Yield	1.77	1.80	1.80	1.90	1.90
JPY Policy Rate	-0.10	-0.20	-0.20	-0.20	-0.20
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.75	0.75	0.75	0.75	0.75
AUD Official Cash Rate	0.75	0.75	0.75	0.75	0.75
NZD Official Cash Rate	1.00	1.00	1.00	1.00	1.00
CNY 1Y Loan Prime Rate	4.15	3.95	3.80	3.80	3.80
HKD Base Rate	2.00	1.75	1.75	1.75	1.75
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.25	1.25	1.25	1.25	1.25
PHP O/N Reverse Repo	4.00	3.75	3.50	3.50	3.50
SGD 3M SIBOR	1.77	1.55	1.55	1.55	1.55
SGD 3M SOR	1.52	1.45	1.45	1.45	1.45
SGD 10Y SGS	1.75	1.80	1.80	1.80	1.80
MYR O/N Policy Rate	3.00	2.75	2.75	2.75	2.75
IDR 7D Reverse Repo	5.00	4.75	4.75	4.75	4.75
THB 1D Repo	1.25	1.25	1.25	1.25	1.25
VND Refinancing Rate	6.00	6.00	6.00	6.00	6.00
INR Repo Rate	5.15	4.90	4.90	4.90	4.90

COMMODITIES	05 Dec 19	1Q20F	2Q20F	3Q20F	4Q20F
Gold (USD/oz)	1,476	1,480	1,500	1,550	1,550
Brent Crude Oil (USD/bbl)	63	63	65	68	70
LME Copper (USD/mt)	5,885	6,000	6,000	6,000	6,000

ASEAN FOCUS I

Mega Trade Deal Is Further Boost To ASEAN's Long-Term Potential

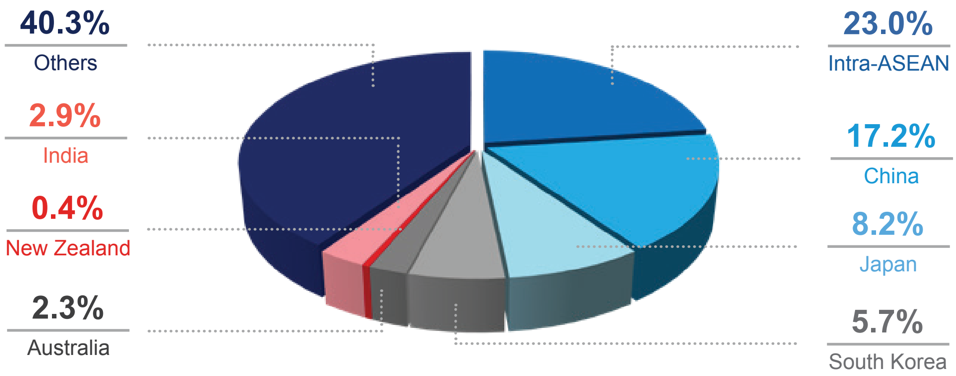
The Regional Comprehensive Economic Partnership (RCEP) made a major stride forward in November 2019 after 29 rounds of negotiations with its 15 members (excluding India) committing to sign the trade agreement in 2020. While India's withdrawal is a setback, RCEP-15 still accounts for 29% of global GDP, 30% of world population and 28% of world merchandise trade. In terms of global GDP share, it is comparable to NAFTA and EU 28 while being significantly larger in population size.

RCEP was mooted in November 2012 with the aim of broadening and deepening ASEAN's economic engagements among its member states and the Asia-Pacific member countries.

ASEAN as a bloc already has existing FTA arrangements with each of the other RCEP member countries including with India (Australia and New Zealand are covered under AANZFTA) though not all member countries have bilateral FTA with each other. And as the largest member in the bloc, China is already the largest trading partner with most countries in RCEP and also has existing FTAs with ASEAN, Australia, New Zealand and South Korea.

RCEP is expected to encourage further development of trade on equal platform for members and further building of supply chains throughout member countries. This mega trade deal, which will vastly facilitate trade in merchandise and services among the 15 signatories, could promote further economic integration and drive growth in GDP, trade and foreign direct investment (FDI) in ASEAN over the medium to long term.

Original RCEP Members Account For Nearly 60% Of ASEAN's Total Trade (2018)



Source: CEIC, UOB Global Economics and Markets Research

Comparison Of Economic Groupings And Trade Blocs

Indicators (2018)	Trade Blocs				Economic Groups		
	RCEP-16	RCEP-15	NAFTA	CPTPP	APEC	EU-28	ASEAN
No. of Economies	16	15	3	11	21	28	10
Population (bn)	3.6	2.3	0.5	0.5	2.9	0.5	0.6
Nominal GDP (USD tn)	27.5	24.8	23.4	13.0	50.0	18.8	3.0
% Share of Global Population	47.0	30.0	6.5	6.5	38.0	6.5	7.8
% of Global GDP	32.0	29.0	28.0	14.0	60.0	22.0	3.3
% Share of Global Trade	30.0	28.0	15.7	15.0	50.0	33.2	7.4
Ranking	Strongest			Weakest	Strongest		Weakest

Source: Macrobond, WTO, UOB Global Economics & Markets Research

APEC's 21 Member Economies are the US, Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong SAR, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

RCEP-16 includes ASEAN countries, China, Japan, South Korea, Australia, New Zealand and India while RCEP-15 excludes India.

The US – Mexico – Canada Agreement (**USMCA**) was signed on Nov 30, 2018 and aims to replace the North-American FTA (**NAFTA**).

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") is an FTA between 11 countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. These are also APEC members.

Existing Trade Deals Amongst RCEP-16 Countries

-	ASEAN	Australia	China	India	Japan	New Zealand	South Korea
ASEAN		YES(1)	YES	YES	YES	YES(1)	YES
Australia	YES(1)		YES	NO	YES	YES	YES
China	YES	YES		NO	NO	YES	YES
India	YES	NO	NO		YES	NO	YES
Japan	YES	YES	NO	YES		NO(2)	NO
New Zealand	YES(1)	YES	YES	NO	NO(2)		YES
South Korea	YES	YES	YES	YES	NO	YES	

Source: CNBC, UOB Global Economics & Markets Research

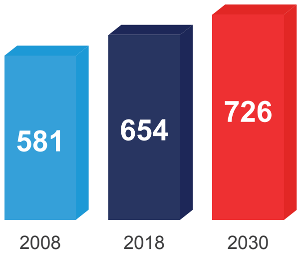
1. ASEAN-Australia-New Zealand FTA (AANZFTA)
2. While New Zealand and Japan do not have an FTA, they are both CPTPP members.

ASEAN's Immense Long-Term Potential

Population
Million Persons

Third largest globally, after China and India

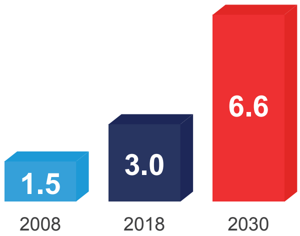
Young demographics, with 381 million below 35 years old (58% of ASEAN's population)



Gross Domestic Product (GDP)
USD Trillion

Fifth largest economic bloc globally in 2018 after US, Euro Area, China and Japan

GDP doubled, over the last decade

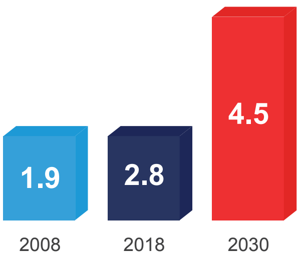


Total Merchandise Trade
USD Trillion

Fourth largest trader globally, after US, China and Germany

Has **extensive FTAs** with its trading partners

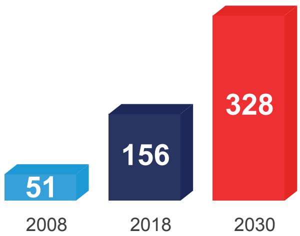
Accounts for **7.4% of global trade**



Foreign Direct Investment (FDI)
USD Billion

Largest recipient of inward FDI globally after US, EU and China + Hong Kong SAR

Grown 3 times, over the last decade



Note: 2030 forecasts for trade and FDI assume annual growth at half the growth pace in the last 20 years
Source: Macrobond, UOB Global Economics and Markets Research

ASEAN FOCUS II

ASEAN-5: Has The Slowdown In Growth And Trade Bottomed?

According to the IMF's Oct WEO, ASEAN-5 will likely see growth ease to 4.8% in 2019 (compared to a recent peak of 6.9% in 2010) on the back of slowest export growth in four years. Encouragingly, the slowdown in growth and trade could be bottom this year and could see some improvement in 2020, in line with IMF's outlook and estimates by our in-house economists.

Recent incoming economic data from the ASEAN-5 region showed an improvement in economic fundamentals and market confidence while the pace of declines in total trade that began since mid-2018 seemed to have stabilised in recent months. There are signs that the manufacturing growth momentum has improved across most ASEAN-5 economies except for Malaysia and the Philippines as recent data weakened.

Barring further escalation in the US-China trade tensions, a recovery of the global semiconductor cycle and improving trade activities are key drivers to lift ASEAN-5 growth in 2020, backed by improving global economic fundamentals as well as the region's rising prominence as a trade bloc.

The economic slowdown in ASEAN-5[1] has stemmed chiefly from the lacklustre external environment, given the region's dependence on trade. From its recent peak of 6.9% in 2010, the International Monetary Fund (IMF) has pencilled ASEAN-5 GDP growth to slow to 4.8% in 2019 (Oct 2019 WEO). This is seen in tandem with declining export growth which is estimated to fall to 2.7% in 2019, the slowest in four years. Encouragingly, the slowdown in growth and trade could be bottoming in 2019 and could see some improvement next year, as estimated by our in-house economists. This is also in line with the outlook from the IMF which expects GDP and exports growth to strengthen to 4.9% and 5.9% respectively in 2020 for the ASEAN-5 region. Please see Table 1 for our in-house outlook for economic growth, inflation and trade for 2019-2021.

Recent incoming economic data from the ASEAN-5 region underlines an improvement in economic fundamentals and market confidence. The pace of declines in total trade that began since mid-2018 has stabilised in recent months. Manufacturing growth momentum especially in Indonesia and Malaysia remained positive albeit some moderation, while Singapore's industrial production surprised the market with positive growth prints in September and October 2019. Consumer confidence levels in ASEAN-5 are also slowly turning more positive. Optimistic consumers continue to outweigh the pessimists in Indonesia (122) and Malaysia (110) in the latest quarterly survey, while Philippines' consumer confidence rose to +4.6% in the three months to September 2019, the largest quarter-on-quarter increase since 4Q17.

The nascent improvements in economic indicators have also led to stronger risk-taking appetite. Market indicators have painted a more positive backdrop as equity benchmarks in the ASEAN-5 economies edged higher on a year-to-date basis. In particular, the Singapore Strait Times Index led the pack with a 4.1% gain in the first eleven months of 2019 (11M19), followed by Philippines Stock Exchange Index (+3.7%) and Stock Exchange of Thailand (+1.7%). The Jakarta Composite Index saw a 2.6% gain in the first half of 2019, before declining by an accumulative 2.9% in 11M19.

Overall, we remain cautiously optimistic on the Indonesian economy after manufacturing growth rebounded to 4.2% y/y in 3Q19 and is expected to accelerate further in 2020. The potential pickup in domestic demand into the next year would also augur well for the general economic outlook. In Thailand, we recognise several factors that could accelerate domestic growth momentum into 2020, which includes its current accommodative monetary policy, ongoing public sector projects, and government-driven policies especially in the transport and logistics infrastructure projects in the Eastern Economic Corridor (EEC). Last-but-not-least, the recent improvement in Singapore's manufacturing PMI and industrial production environment has benefited trade and employment indicators, which will likely lead to an improved growth outlook in 2020. Barring further escalation in US-China trade tensions, ASEAN-5's external environment will also benefit from deepening trade partnerships and initiatives such as the Regional Comprehensive Economic Partnership (RCEP) that was concluded on 4 November 2019. These initiatives will drive ASEAN's increasing prominence and role in global growth and trade, as well as its ability to stay relatively cushioned from global economic shocks.

That said, there are caveats to the positive outlook for the region, in particular for the manufacturing sector. Growth of manufacturing activities in Malaysia slowed below 4.0% in 3Q19, mainly due to weaker export-oriented clusters. Malaysia's capacity utilisation rates have also been falling from 81% in 1Q19 to 72% in 3Q19, suggesting headwinds against the manufacturing cluster in the foreseeable future. In the Philippines, manufacturing growth also slowed to an 8-year low of 2.4% y/y in 3Q19, down from a typical 7.0% growth handle. For the ASEAN-5 region as a whole, a turnaround from the lacklustre trade environment and a revival in the global semiconductor cycle will be prerequisites for a sustainable growth recovery in 2020.

In a nutshell, there are signs that the manufacturing growth momentum has improved across most ASEAN-5 economies, except for Malaysia and the Philippines due to their relatively weaker incoming economic data seen of late. Meanwhile, labour conditions in the region remain resilient. Barring further escalation in the US-China trade tensions, a recovery of the global semiconductor cycle and improving trade activities are key drivers to lift ASEAN-5 growth in 2020, backed by improving global economic fundamentals as well as the region's rising prominence as a trade bloc.

Table 1:
UOB Projections For GDP Growth, Inflation & Merchandise Trade

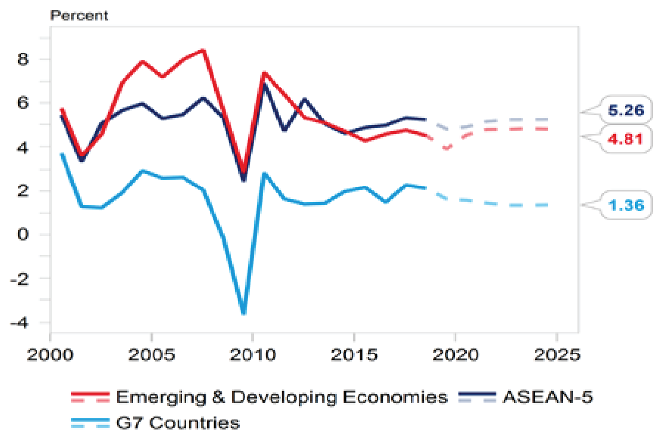
Indicator	2018	2019F	2020F	2021F
Singapore				
GDP Growth (%)	3.1	0.5	1.5	2.0
Inflation (%)	0.4	0.6	1.2	1.5
Exports (%)	7.9	-4.0	-2.0	2.0
Imports (%)	10.7	-2.2	-2.0	1.0
Indonesia				
GDP Growth (%)	5.2	5.1	5.2	5.4
Inflation (%)	3.2	3.1	3.6	3.6
Exports (%)	6.7	-7.5	3.5	6.0
Imports (%)	20.2	-10.0	4.2	7.0
Malaysia				
GDP Growth (%)	4.7	4.6	4.4	4.6
Inflation (%)	1.0	0.8	2.5	2.8
Exports (%)	7.3	-1.0	2.0	2.5
Imports (%)	5.2	-2.5	2.5	3.0
Philippines				
GDP Growth (%)	6.2	6.0	6.5	6.7
Inflation (%)	5.2	2.5	3.0	3.0
Exports (%)	0.9	0.2	1.5	2.0
Imports (%)	17.4	-4.0	2.5	3.0
Thailand				
GDP Growth (%)	4.1	2.6	3.1	3.6
Inflation (%)	1.1	0.7	1.0	1.5
Exports (%)	6.9	-2.0	1.5	2.5
Imports (%)	12.0	-4.6	1.3	2.0

Source: Macrobond, UOB Global Economics & Markets Research

1 ASEAN-5 consists of Indonesia, Malaysia, Singapore, Philippines and Thailand

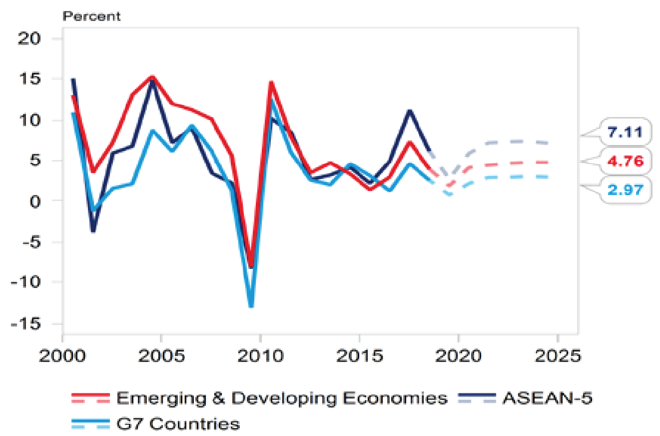
ASEAN-5 Growth Versus Other Regions

Source: Macrobond, UOB Global Economic Economics & Markets Research



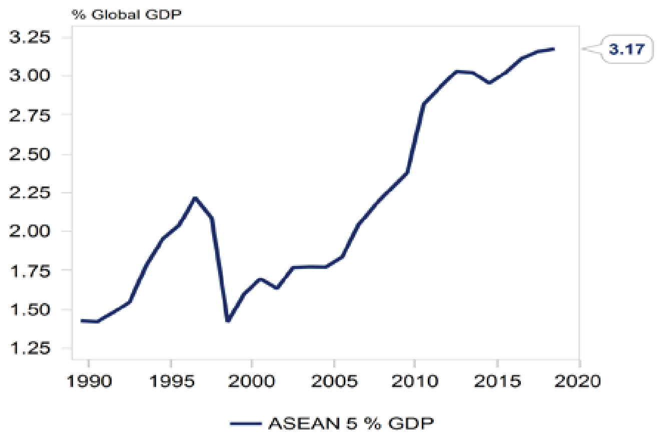
Trade Momentum Is Expected To Improve And Grow Faster Than G7 And DM/EM Economies

Source: Macrobond, UOB Global Economic Economics & Markets Research



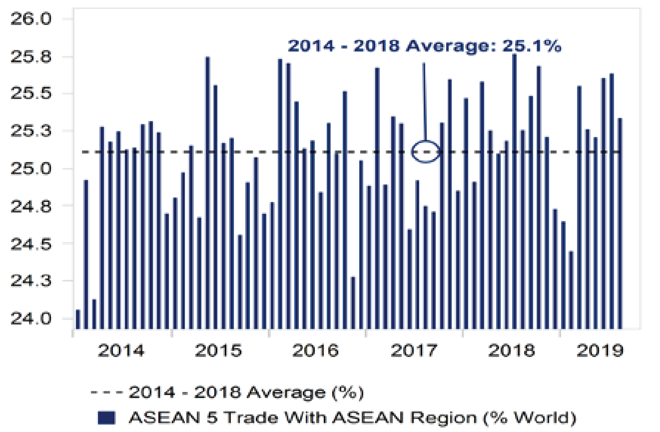
ASEAN-5's GDP As % Of World Has Risen Over the Last Three Decades

Source: Macrobond, UOB Global Economic Economics & Markets Research



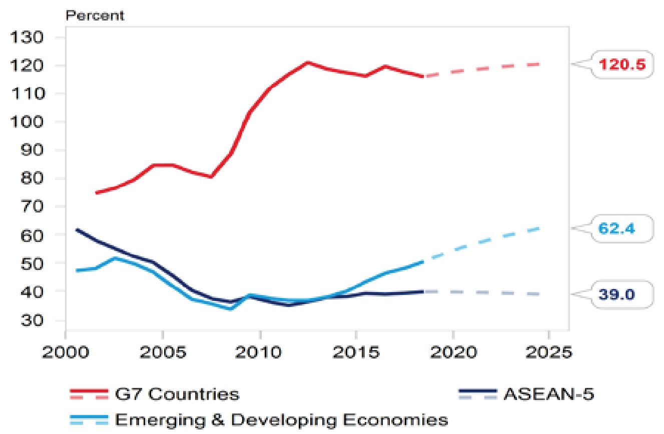
ASEAN Intra-regional Trade (% of Total Trade) Has Increased Progressively

Source: Macrobond, UOB Global Economic Economics & Markets Research



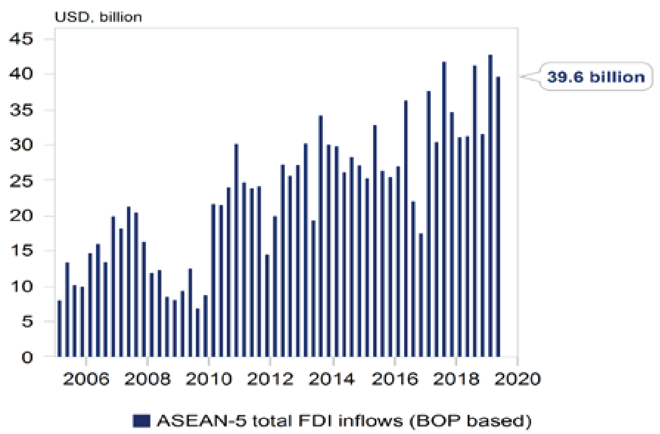
Gross Govt Debt % GDP: ASEAN-5 Remains Fiscally Prudent Vs Other Regions

Source: Macrobond, UOB Global Economic Economics & Markets Research



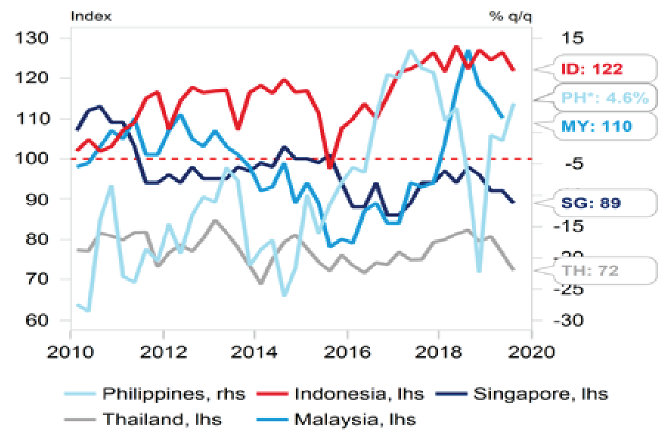
ASEAN Total FDI Inflows (BOP Basis), quarterly

Source: Macrobond, UOB Global Economic Economics & Markets Research



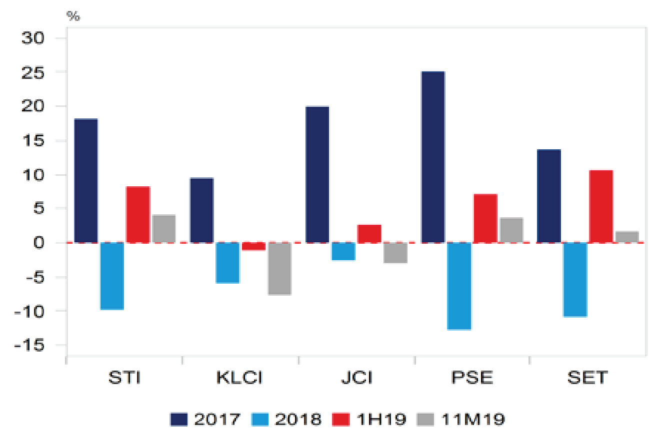
Consumer Confidence In ASEAN-5

Source: Macrobond, UOB Global Economic Economics & Markets Research



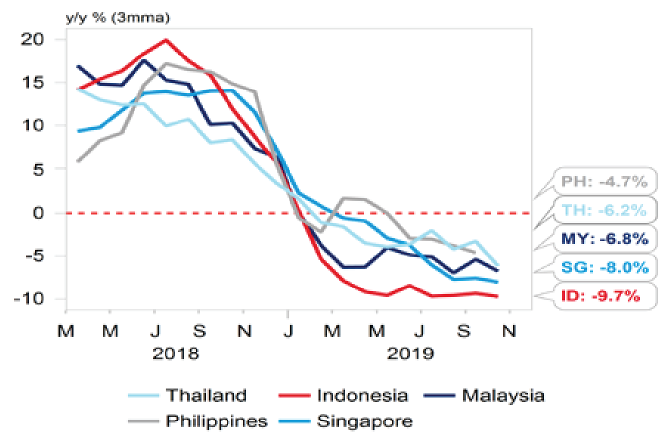
Equity Indices Have Improved For STI, PSE And SET

Source: Macrobond, UOB Global Economic Economics & Markets Research



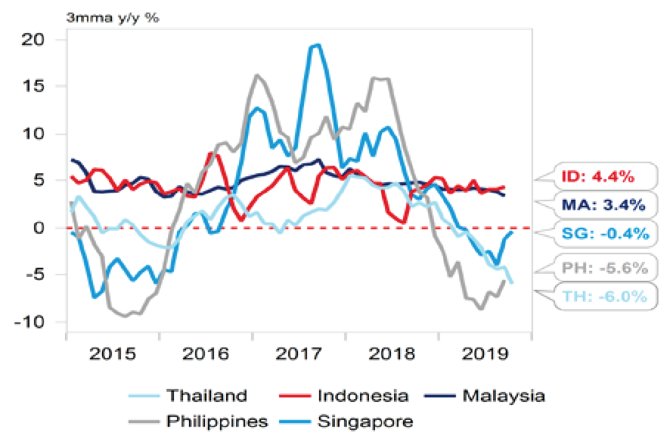
Contraction In Total Trade Has Stabilised 2019 YTD

Source: Macrobond, UOB Global Economic Economics & Markets Research



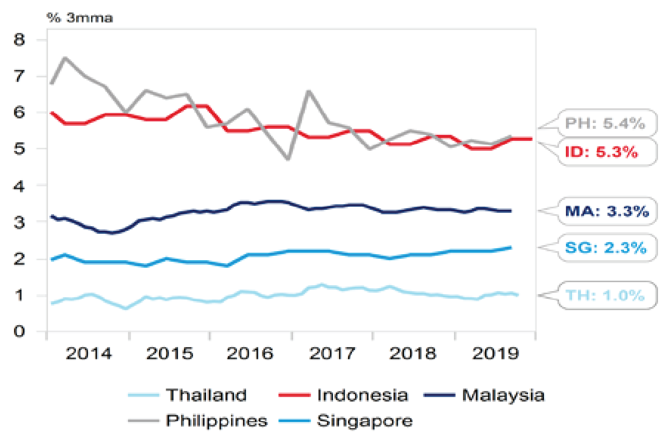
Manufacturing Momentum In ASEAN-5 Has Improved

Source: Macrobond, UOB Global Economic Economics & Markets Research



Unemployment Levels Are Stable Despite The Slowdown

Source: Macrobond, UOB Global Economic Economics & Markets Research



INDONESIA FOCUS

Recap Of 2019 And
Quick Take On 2020 Assets Market

IDR FX

The Indonesian rupiah, IDR, proved to be less volatile in 2019 than the year before despite going through an election year. Factors such as softer oil prices, a dovish Fed, inflows to the bond market and government import tightening measures helped offset concerns over the current account deficit. Higher FX reserves and President Widodo's election win also worked positively for the currency.

IDR Bonds

IDR bonds have enjoyed a positive year in 2019 for several reasons - S&P rating upgrade, resilient economy, the Fed Reserve's dovish pivot, investors' hunt for yield amid negative bond yields in developed markets, benign domestic inflation and Bank Indonesia's 100bps rate cuts this year.

Quick Take For 2020

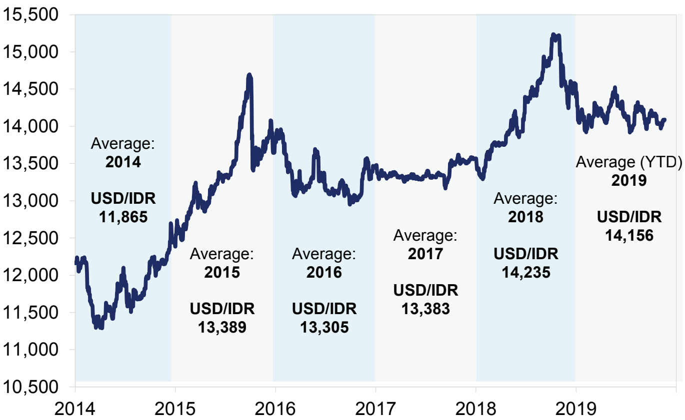
Bond market inflows may taper off as we only project one more BI 25bps rate cut and a fiscal deficit target of 2.15% of GDP in 2020 (Government target at 1.76% of GDP). IDR's relatively resilient performance in 2019 has been predominantly underpinned by massive inflows into the local bond market so the tapering of bond inflows next year may see IDR trading weaker albeit in a stable fashion on the back of an improving structural current account deficit.

The Rupiah

Year-to-date (YTD) IDR performance (as at mid-November) proved to be less volatile than last year despite going through an election year in 2019. IDR averaged IDR14,156 YTD as compared to FY2018 average at IDR14,235. IDR even strengthened passed the IDR14,000 mark at 13,919 on July 2019, post-election and dividend payment cycle on 2Q 2019. Softer oil prices (as Indonesia is net oil importer), a dovish Fed, inflows to the bond market and government import tightening measures offset concerns about Indonesia's persistent current account deficit (CAD). Foreign exchange reserves also climbed to USD126.7bn in October 2019, a 20-month high. The incumbent President Joko Widodo winning a second term in office also played its role in maintaining the portfolio and direct investment inflow, leading to a balance of payment (BoP) surplus.

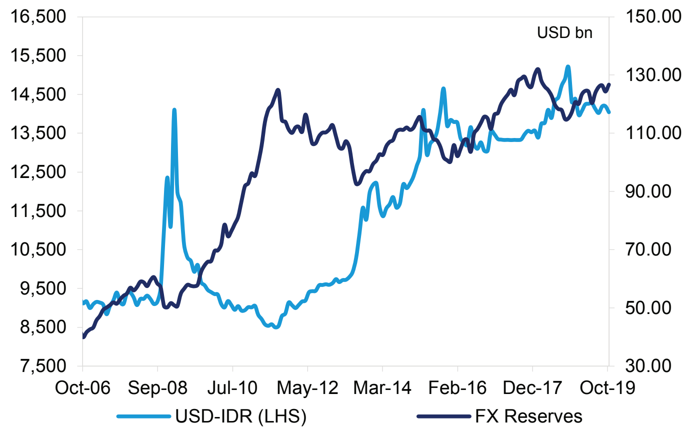
USD-IDR Spot Price

Source: Bloomberg, UOB Global Economic Economics & Markets Research



USD-IDR & FX Reserve

Source: Bloomberg, UOB Global Economic Economics & Markets Research



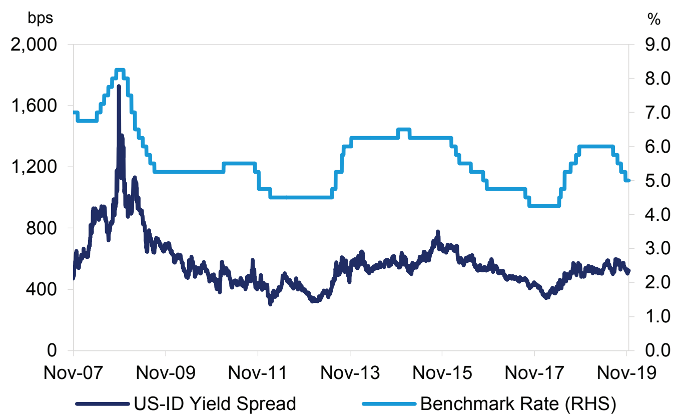
The Sovereign Bonds

2019 has been a positive year for IDR bonds for several reasons. First, Standard and Poor's (S&P) raised Indonesia's long-term sovereign credit rating to BBB from BBB-, as announced on 31 May 2019. The key factors supporting their decision were strong growth prospects over the coming years, stable policy, as well as prudent fiscal settings. S&P also emphasised that President Joko Widodo's strong performance in the elections will lead to policy continuity over the next five years. At the same time, Indonesia's economy is growing faster than that of its peers at the same income level; reflected from real GDP per capita growth at an impressive 4.1%, on a 10-year weighted-average basis compared to 2.2% across global sovereigns. Second, the Federal Reserves' dovish pivot in mid-2019 created a tailwind which was supportive of the bond market since this meant that the US rate hike cycle had effectively ended. Third, lower or even negative bond yields in Developed Market (DM) pushed Emerging Market (EM) bond rally due to more attractive interest rate differentials and largely benign credit conditions in EM Asia. Fourth, inflation in Indonesia was mostly benign, averaging only 3.1% from January – October. This was well below the mid-point of the central bank's official target range of 2.5% to 4.5%. And fifth, the benign inflation and healthy BoP conditions has also allowed Bank Indonesia (BI) to reduce the benchmark rate 4 times in row through July – October 2019 by 100 bps; reversing some of the series of rate hikes totalling 175bps that they put in place in 2018.

These factors have bought foreign inflows into the domestic IDR bond market which cumulated to USD12.2bn YTD in November; this was significantly higher than FY2018's figure of USD3.5bn and also exceeded the record of USD12.1bn set in 2017. Throughout 2019, foreign holdings in government bonds steadily increased from 37.2% to 39.4% (compared to 39.0% in November 2018). 10Y IDR bond yield has dropped by 100bps from 8.03% in early January to 7.03% in mid-November, touching a low of 6.95% early in November along the way. From January – October the government has successfully issued IDR401.7tn (approx. USD28bn) bonds or 103.3% of its issuance target.

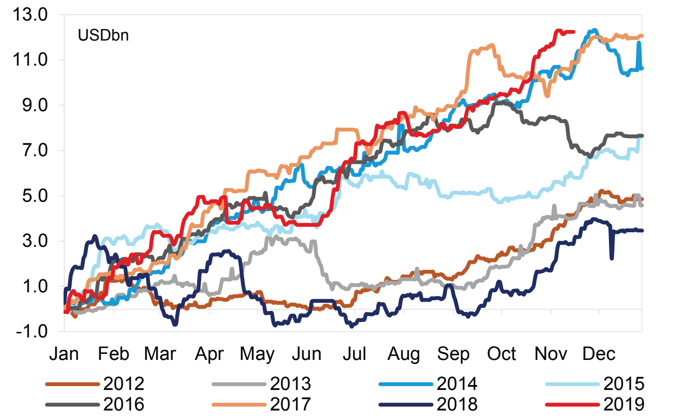
US-ID Yield Spread vs. BI 7D-RR

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Bond Flow

Source: Bloomberg, UOB Global Economic Economics & Markets Research

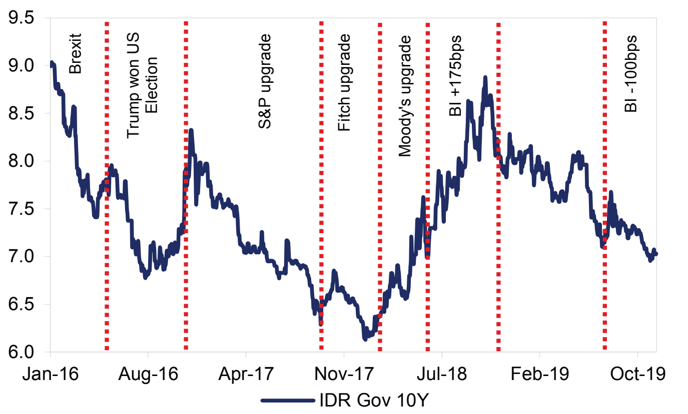


Foreign Holding

Source: Bloomberg, UOB Global Economic Economics & Markets Research

10Y Gov Yield

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Quick Take For 2020

Continued uncertainty on the US-China trade tension, geopolitical risks, and Chinese economic slowdown may continue to weigh down on Indonesia's external sector. We forecast for only one final 25bps rate cut by BI in Q1 2020, coupled with our fiscal deficit target (2.15% of GDP in 2020 from 2.25 percent in 2019), we project bond market inflows may taper off next year although if the market capitalization of negative yielding bonds globally continues to grow, this may still render some support for Indonesian bonds. IDR's relatively resilient performance in 2019 has been predominantly underpinned by; massive inflows into the local bond market, BI cutting policy rate by 100bps to 5.0 percent, a S&P rating upgrade, low and stable inflation, as well as good yield pickup vis a vis negative yielding assets. Going forward, IDR may continue to trade weaker in 2020 albeit in a stable fashion on the back of an improving structural current account deficit, which we forecast to narrow further to around 2.6 percent of GDP in 2020 versus 2.8 percent this year. In general, for 2020 we expect to see government fiscal expenditure focusing on the infrastructure, healthcare, and education as key sectors. Given expansionary fiscal policies and also some injection into social assistance, the consumer sector may also benefit next year. We forecast for a slightly stronger GDP growth of 5.2 percent in 2020 vs. 2019's 5.1 percent.

MALAYSIA FOCUS

MALAYSIA BUDGET 2020 KEY TAKEAWAYS

With 2020 being the final year of the 11th Malaysia Plan, this budget is a crucial one to ensure that gains made in previous years are sustained amid significant external headwinds. On that note, we are positive that the government has announced a fair budget that prioritises the economy without much slippage in the fiscal deficit. The budget delivers a balance of measures to revitalize growth and investments, promote equality, create jobs, raise productivity, and improve human capital.

GOVERNMENT TARGETS FOR 2020

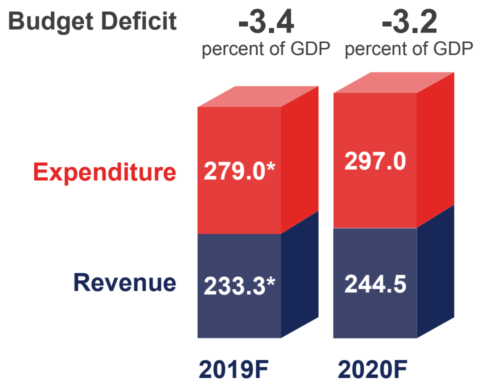
1 **GDP Growth** 4.8 percent

2 **Fiscal Deficit** -3.2 percent of GDP

3 **Infrastructure Spending** 56 MYR billion

4 **Oil Price** 62 USD/bbl

NARROWER FISCAL DEFICIT



Figures are in RM billion
* Excluding tax refunds and one-off special Petronas dividend

CONSUMER

RM5.0 billion	Cash aid
RM2.2 billion	Targeted fuel subsidy program
RM500	Special payment for civil servants
RM250	Special payment for retirees
RM250-500	Incentives for hiring
RM1,200	Higher minimum wage in major cities
RM30 million	Digital stimulus for e-wallets

CONSTRUCTION

RM1.1 billion	To support projects for five economic corridor activities
RM1.6 billion	For new/upgrade hospitals
RM10.9 billion	For rural development
RM85 million	To ease congestion problems at Johor Causeway

DIGITAL

50% matching grant for SMEs to subscribe electronic payment system services

RM21.6 billion	5-Years National Fiberisation & Connectivity Plan
RM50 million	5G Ecosystem Development Grant
RM550 million	Smart Automation matching grants
RM2 billion	Industry Digitalization Transformation Fund

BUSINESS

1. "Special Channel" **to attract Chinese investment**
2. **Investment incentives** to attract Fortune 500 companies & global unicorns
3. Exporters eligible for **sales tax exemption** on imports
4. New **Skim Jaminan Pinjaman Perniagaan** (SJPP) of RM500 million
5. Special **Investment Tax Allowance** for E&E firms to reinvest
6. **Income tax exemption** for E&E firms investing in knowledge-based services

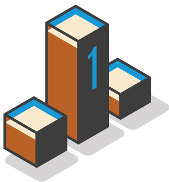
GREEN TECHNOLOGY

Extend Green Investment Tax Allowance (GITA) & Green Income Tax Exemption (GITE) incentives to 2023

70% income tax exemptions for firms undertaking solar leasing activities

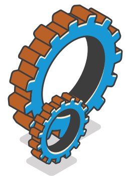
FX STRATEGY

2020 FX Outlook:
Recovery In Risk Appetite To Weigh On The USD



The DXY may be in the process of peaking as FX Majors outlook improves.

While structural weakness in CNY to persist, depreciation risks will be more contained.



Asian FX now more desensitized to trade conflict headlines.

The USD remained 'king' in 2019 and is on track for annual gains (+1.8% year-to-date) for a second year running as the US economy remained resilient relative to its global peers. Supported by robust jobs and wage growth, personal consumption in the US held at a strong 2.9% y/y in 3Q19, pinning GDP growth close to a steady 2.1%. The USD strength persisted in 2H19 even after the Fed delivered three insurance rate cuts since July.

FX Majors vs Asian FX: Two Increasingly Different Tales

That said, cracks in the USD armour are showing up more clearly recently. The USD has started to weaken against the Majors in the 4Q19, weighed by a recovery in global risk appetite. Net long positioning in the US Dollar Index (DXY) were scaled back materially from early October as the interest rate advantage that the USD has over the Majors continues to erode.

In terms of technical analysis, we recently warned that October's peak of 99.67 (refer to FX & Rates Monthly published 1-Nov) for the DXY could be a significant top and the pull-back has ample room to extend lower. Heading into 2020, the USD may face intensifying headwinds. We expect US growth to moderate further to 1.5% in 2020 from 2.5% this year, and we also see the Fed delivering its fourth rate cut in 1Q20. Overall, we expect the USD to weaken against most of the Majors next year, including the EUR, AUD, NZD and GBP, eventually targeting 95.6 in DXY by end-2020.

Chart 1: Increasing Headwinds To Weigh USD In 2020

Source: Bloomberg, UOB Global Economic Economics & Markets Research

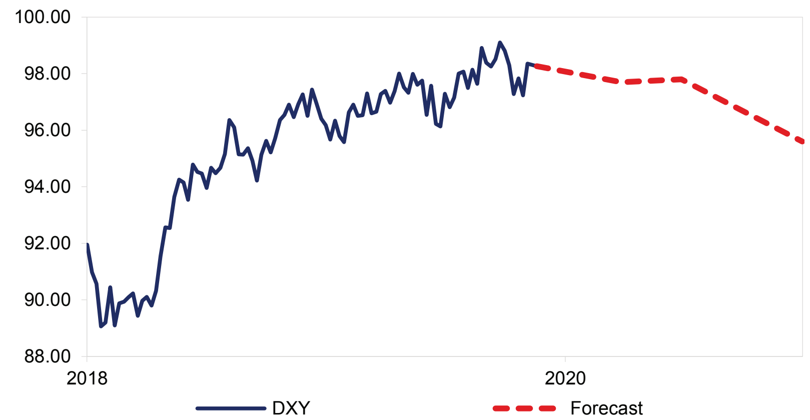
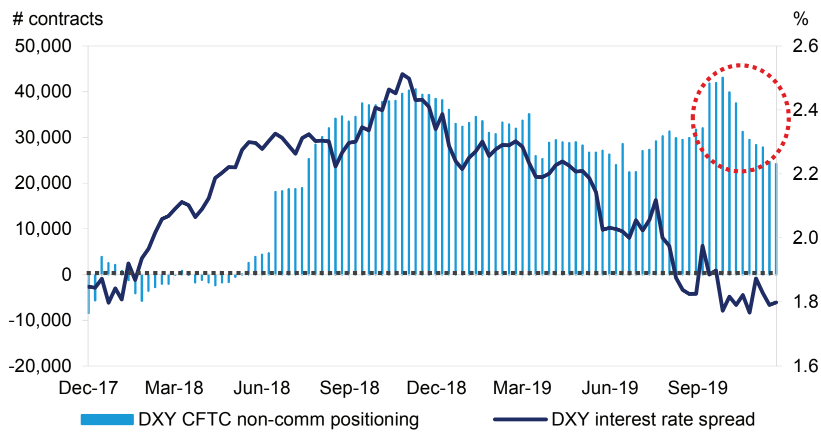


Chart 2: USD's Interest Rate Advantage Eroded Across 2019 While Net USD Longs Has Reduced Since October

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Asian currencies posted a mixed performance in 2019, compared to broad weakness against the USD in 2018 when the US-China trade conflict first emerged. The THB has outperformed for a second year and gained by 7.6% to almost 30 / USD as investors sought refuge in the THB's relative strength. On the opposite end of the spectrum, the trade-sensitive KRW slumped 5.0% to 1,175 /USD, as South Korean exports were stuck in contractionary territory throughout the whole of 2019. Interestingly, the CNY fell by a modest 2.2% to 7.03 /USD (compared to -5.4% in 2018) considering that tariffs were broadened to include almost all of Chinese goods into US and that the US Treasury had officially labeled China a currency manipulator in August.

Into 2020, it is becoming clearer that the correlation of Asian FX to CNY is weaker just as both US and China aim to find common ground to reach a partial trade agreement. So although we continue to expect a weaker CNY amid a structural slowdown in China, an improved risk appetite globally with the tail-risks of US-China trade conflict and Brexit ebbing, may limit the negative spillover to the rest of the Asian FX space next year.

CNY: Depreciation Risks Contained As Structural Weakness Persist

After more than a year of tit-for-tat tariffs, the US-China trade conflict is seemingly at the foothills of an eventual resolution. Since the announcement of a "very substantial Phase 1 deal" on 12-Oct by President Trump, both sides having been in talks on the details behind a Phase 1 deal which could be signed off before the next batch of new 15% tariffs on approximately USD160bn of Chinese products come into effect on 15 Dec. Market sentiments have improved on reports of discussions on a rollback of existing tariffs.

The positive trade developments helped spur a strong recovery in the CNY in 4Q19. From about 7.15 /USD at the start of October, the CNY has gained ground to current level of around 7.03 as at end-Nov, narrowing its year-to-date losses to 2.2%. Currency volatility has also pulled back in tandem, with the 3-month USD/CNY implied volatility dropping from 5.4% to 4.7% in the same period.

Even with improvements in the trade front, the Chinese economy is still showing signs of weakness. In its October figures, official PMI surveys continued to show broad-based weakness in both manufacturing and non-manufacturing sectors, with the former mired in contraction territory for a sixth straight month. Factory output slowed to 4.7% in October

Chart 3: Asian FX Fared Mixed In 2019 Compared To Broad Weakness vs USD In 2018

Source: Bloomberg, UOB Global Economic Economics & Markets Research

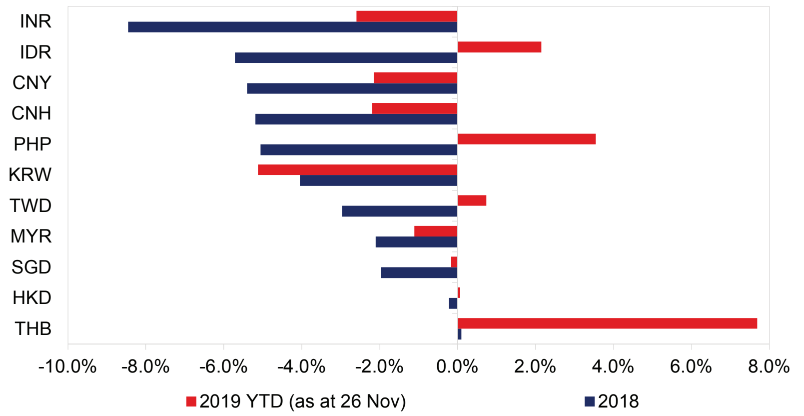


Chart 4: Risk Appetite Picked Up As Trade And Recession Fears Receded

Source: Bloomberg, UOB Global Economic Economics & Markets Research

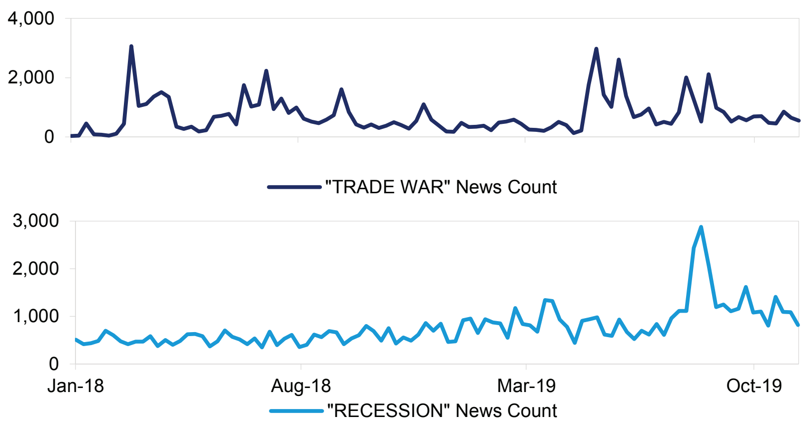
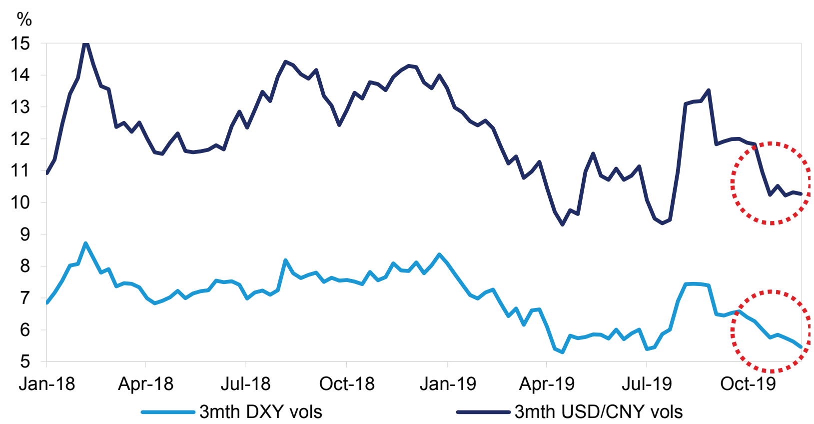


Chart 5: Currency Volatility Plummeted As Risk Appetite Picked Up In 4Q19

Source: Bloomberg, UOB Global Economic Economics & Markets Research



(vs 5.4% expected) and factory-gate price deflation deepened (-1.6%) in the same month, underscoring the challenges of sluggish global demand and excess capacity in China. Both retail sales and fixed-asset investments also slowed to their weakest levels in about two decades, at 7.2% and 5.2% respectively. Looking ahead, we still forecast further slowdown in China's GDP to 5.9% in 2020, from 6.1% this year.

While a Phase 1 trade deal looks increasingly hopeful, structural differences between US and China trade stances (eg intellectual property, market access) make further progress beyond Phase 1 challenging. Together with growth risks of the Chinese economy which are still skewed to the downside, we continue to expect further weakness in the CNY ahead.

However, we have dialed our bearish CNY expectations (previous peak in USD/CNY forecast of 7.30 in 3Q20) in recognition of the progress in trade talks so far and the reduced risks of further trade escalation. Our updated forecasts for USD/CNY are 7.08 in 1Q20, 7.10 in 2Q20, 7.20 in 3Q20 and 7.20 in 4Q20. Overall, we still see value for investors to hedge their USD risks given the forward curve is still below our forecasts for tenures from 1Q20.

Asian FX: Now More Desensitized To US-China Trade Conflict Headlines

With the trade conflict dragging into its second year, trade headlines are not driving markets as much as they did at the onset of the conflict in mid-2018. In 4Q19, as tail risks associated with trade fade, markets have looked beyond often conflicting, specificity-lacking trade headlines for direction.

In 4Q19, we have seen a return of global risk appetite, and the pass-through of rate cuts by Asian central banks across 2019 together with certain idiosyncrasies in certain economies underpinned a strong performance across most Asian FX. The EM carry trade returned just as US equities broke new record highs with investors piling into PHP (+1.8% 4Q-to-date vs USD) for its growth momentum into 2020 sustained by expectations of further monetary easing.

The TWD is on track for its best quarterly performance (+1.7% 4Q-to-date vs USD) since 1Q18 after GDP growth surged 2.99% in 3Q19, led by strong net exports and private consumption. Perhaps the clearest indication that trade concerns may have peaked is shown by a strong 1.7% rebound in the KRW in 4Q, a popular proxy for the trade conflict.

Chart 6: USD/CNH Forwards Are Still Pricing Gradual RMB Weakness

Source: Bloomberg, UOB Global Economic Economics & Markets Research

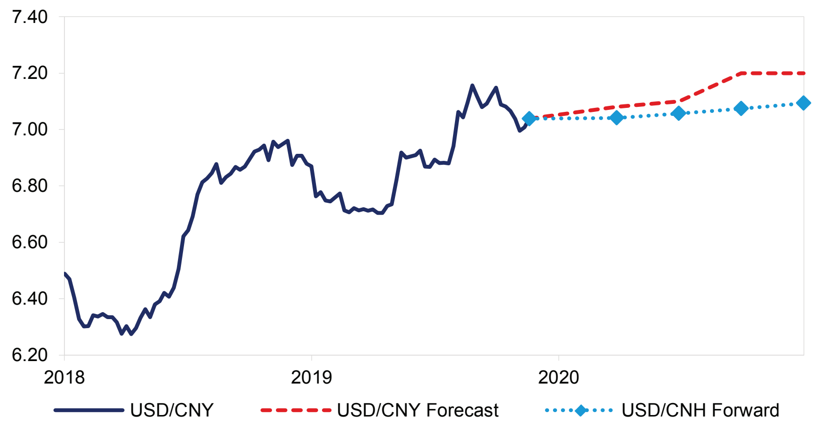
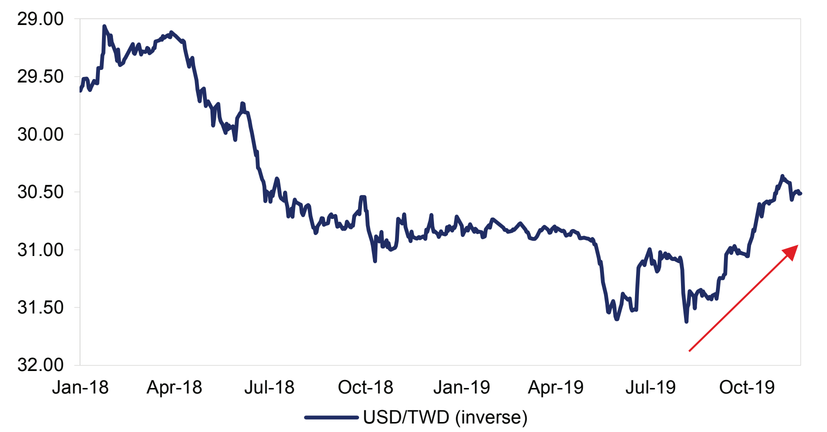


Chart 7: TWD Rebounded Sharply Since August As Growth Surged

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Into 2020, we are less negative on North Asia currencies as trade sentiment improves. To recall, in the past year, we were relatively more negative on KRW, TWD alongside CNY against the USD as their respective economies and hence these currencies were expected to bear the brunt of US-China trade tensions. Going forward, with downside risks receding and in line with our recalibration to CNY as mentioned above, we now only foresee modest weakness of KRW and TWD going forth, limited to 1,220 /USD (from 1,230 previously) and 31 /USD (from 32) respectively by 3Q20.

Predicting the inflexion point for the strong THB has been a frustrating affair in the past year. The currency, on track for a second year of outperformance relative to its Asian peers, benefited from safe haven flows and bucking the Asian FX weakening trend since the onset of the trade conflict in mid-2018. The standout strength of the THB persisted even as the Thai economy slowed and authorities attempting to throw sand into the wheel which included an unexpected rate cut in August and measures to encourage capital outflows. Now with the pick-up in risk appetite, safe haven demand for the THB could plateau. As such, we see USD/THB in a stable range between 30.0 and 30.8 in the next year.

On the other hand, the intense headwinds INR faces look set to extend into 2020. Even after an aggressive 135 bps of rate cuts by the Reserve Bank of India (RBI) this year, growth in India is nonetheless expected to decelerate to 6.0% in 2019 from 6.5% in 2018. Next year, risks to growth are still skewed to the downside and further rate cuts will continue to erode the interest-rate advantage that the INR has over the USD, denting its attractiveness as a high yielder. In all, we maintain our negative bias for the INR, expecting weakness towards 73.6 /USD by end-2020.

Even as trade tensions wax and wane across 2019, USD/SGD traded within the tightest annual range since 1996, between 1.3443 and 1.3941 and looks set to finish the year little changed at about 1.3660. The SGD persisted at the stronger half of the policy band even after the Monetary Authority of Singapore (MAS) reduced the pace of appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) from an estimated 1.0% to 0.5% per annum in October.

We continue to view the S$NEER at about 1.6% above the midpoint currently as "relatively rich" with respect to moderating domestic growth and inflation. Overall, we maintain our modestly upwards trajectory in USD/SGD but SGD weakness this time round would be limited to 1.39/ USD as the trough of the trade-induced slowdown may be behind us for now. Going forward, our point forecasts are 1.37 for 1Q20, 1.38 for 2Q20 and 1.39 for both 3Q and 4Q20.

As for the remainder of the Asian FX space, there are minor tweaks to the point forecasts of MYR and IDR but trajectory remains that of modest weakness towards 4.25 /USD and 14,500 /USD respectively by end-2020 on cautious outlook for both Malaysia and Indonesia's growth next year. Bank Negara Malaysia (BNM) and Bank Indonesia (BI) are expected to stay accommodative and deliver another 25 bps rate cut in 1Q20, pacing a similar reduction by the Fed in the same quarter.

Chart 8: THB Stayed Strong Even As Capital Flows Reversed

Source: Bloomberg, UOB Global Economic Economics & Markets Research

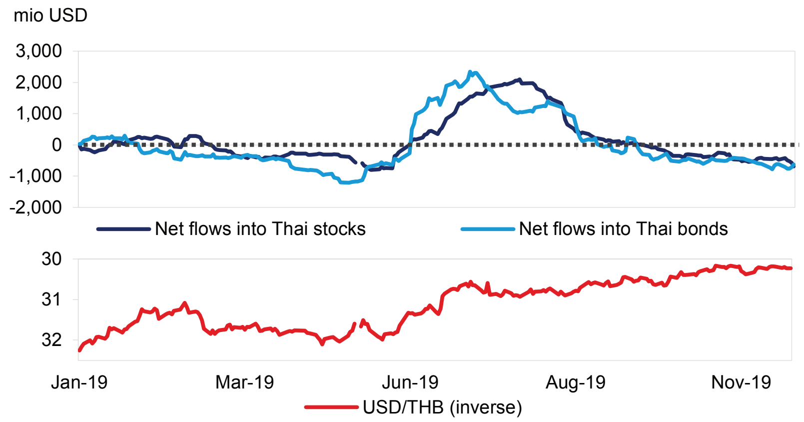
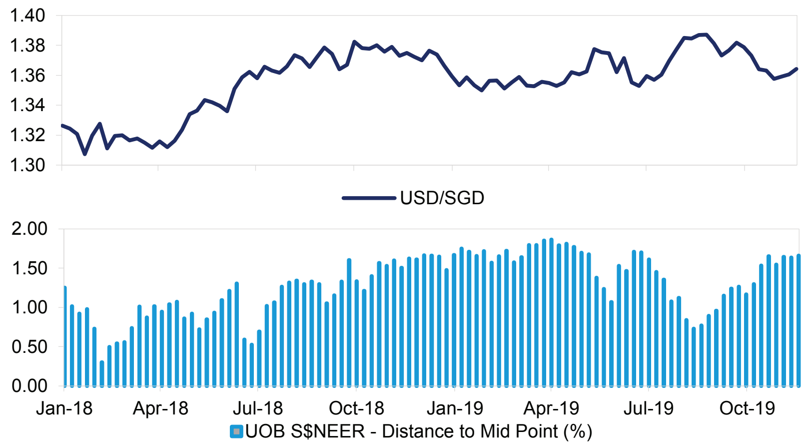


Chart 9: Scope For Further SGD Weakness On Rich S$NEER Valuation

Source: Bloomberg, UOB Global Economic Economics & Markets Research

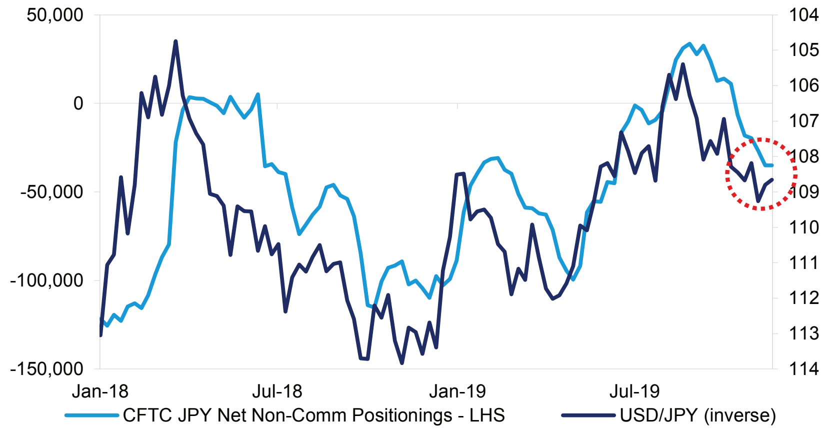


FX Majors: The DXY May Be In The Process Of Peaking As FX Majors Outlook Improve

The USD dominance in the G-10 space has started to dwindle in the last couple of months of 2019. As the negative effects of the protracted US-China trade conflict starts to boomerang back to the US, the Fed cut rates thrice since July. With Fed joining the global easing bandwagon, the monetary policy divergence between the Fed and the global central banks which has underpinned the broad USD rally since 2014 has ended. As we head into 2020, further moderation in US growth together with a further rate cut by the Fed in 1Q20 will probably intensify the headwinds USD face against its Majors peers. Aside from change in point forecasts of GBP/USD and USD/JPY, our trajectory remains that a softer USD against most Majors with the DXY retreating towards 95.6 by end-2020.

Chart 10: JPY's Positioning Flipped Back To Net Short In Oct As Safe Haven Demand Ebbed

Source: Bloomberg, UOB Global Economic Economics & Markets Research



In the G-10 space, a key revision to our forecasts is that of USD/JPY. A 180° reversal of market sentiment from risk-off in 3Q19 to risk-on in 4Q19 spurred a strong recovery in USD/JPY from 3-year lows of 104.46/USD in late August to current levels of 109.50 (as at 29-Nov). Assuming that trade escalation risks stay low, together with global central banks leaning on their accommodative stance, it is likely the current bout of risk-taking hence JPY weakness can still persist.

Domestically, in response to the lackluster economic data of late, we now see the Bank of Japan (BOJ) stepping up its monetary easing which may include a deposit rate cut and further bond purchases, taking place as soon as in 1Q20. In particular, retail sales in Japan took a deep dive after the recent hike in sales tax in October. This is a clear negative on the JPY. Taken together, we now expected further JPY weakness going forth and our USD/JPY point forecasts are 110 in 1Q20, 112 in 2Q20 and 113 in 3Q and 4Q20. This is in contrast to our previous forecasts of 108 for 4Q19, 107 for 1Q20, 106 for 2Q and 3Q20.

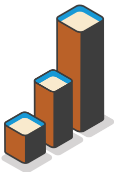
The worst for the EUR may finally be over. Since early 2018, the EUR/USD pair had fallen from 1.25 to a low of 1.09 in October, tracing a drop in euro area's GDP from 3.0% to 1.2% in the same period. The slowdown prompted the European Central Bank (ECB) to unveil a comprehensive set of monetary easing in September 2019 which included a cut to the deposit rate and a new round of bond purchases. Markets cheered the widely anticipated stimulus which would help to stabilize economic growth further and EUR/USD rebounded to almost 1.12 in the last two months. Likewise, options markets are also warming up to prospects of a higher euro, with risk reversals briefly topping at the highest levels since March 2018 in favor of EUR over the USD. As such, we keep to our forecasts of EUR/USD stabilizing around 1.11 in 1H20 followed by a mild rebound to 1.13 in 3Q20 then 1.15 in 4Q20.

After dropping for a second straight year, the AUD is on firmer ground to stage a rebound next year if both domestic and external headwinds moderate further. Domestically, there are some initial signs that the aggressive 75bps of rate cuts from the Reserve Bank of Australia (RBA) has started to work its way through the economy. House prices registered its first monthly gain in two years in July and continue to rise sharply through October (by 1.4%). If sustained, a recovery in the housing market could lift consumption which has been the Achilles' heel of the Australian economy. This may allow the RBA to preserve its remaining monetary policy ammunition and keep rates unchanged at 0.75% in 2020. The specter of a less aggressive RBA (relative to markets' expectations) together with an improved tone in US-China trade may keep the AUD/USD supported at 0.69 in 1H20 before a modest recovery towards 0.70 in 2H20. Based on our view of a "relatively rich" S$NEER, there could be value for long AUD/SGD exposures at current levels of around 0.9240 (as at 29 Nov) as it nears GFC lows of 0.9066.

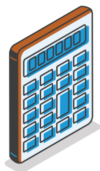
In early November (refer to FX & Rates Monthly published 1-Nov), we have upgraded our year-long bearish view of GBP/USD to a more neutral outlook as the odds of a disruptive "No Deal" Brexit receded. Since then, markets have built up expectations that PM Boris Johnson's Conservatives Party would win by a majority in the upcoming elections on 12-Dec and this would then increase the likelihood that he gets his updated Withdrawal Agreement approved by the Brexit deadline on 31-Jan-2020. This has kept GBP/USD anchored at the top end of its 1.20 – 1.30 trading range since May 2019. That said, we caution against unrealistic expectations of further strong rebound in GBP/USD above 1.30. Even if the "fog of Brexit" lifts with a Brexit deal, markets still have to face the economic consequences of the 3-year political limbo since the referendum in 2016. UK growth was at an anemic 1.0% in 3Q19, the lowest in nine years and the Bank of England may have to catch up with the global monetary policy easing campaign. Overall we see limited upside in GBP/USD above 1.30 in 2020, with our point forecasts at 1.31 in 1H, followed by 1.32 in 2H.

RATES STRATEGY

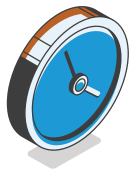
2020 Singapore Bond Market Outlook:
Range Bound Yield Expectation Begins With Chunky Duration



Based on anticipated 7% notional growth rate, the SGS bond market size may finally exceed SGD 130bn in 2020



We estimate that a third of the full year's scheduled auction duration will be placed in January and February supporting a slightly steeper SGS curve in 1Q20.



Lower for longer continues to encapsulate our SG and US rates outlook with anticipated drift lower in short dated rates in 1Q20 and consolidation thereafter.

Lower Rollover Risk On Laddered SGS Bond Maturity Profile

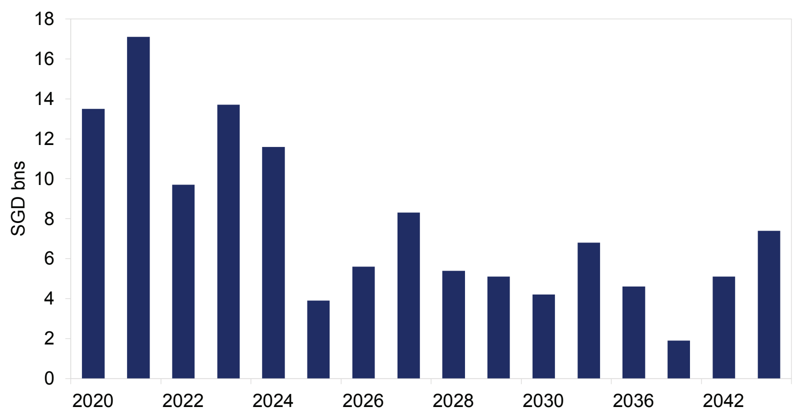
SGS bond maturities in 2020 will drop to SGD 13.5bn from SGD 15.8bn in 2019. Bond maturities will then subsequently pick up to SGD 17.1bn in 2021, and this is likely to remain as the high water mark since there is no scheduled auction for 2021 bonds next year, and we doubt that mini auctions will be exercised for shorter maturities given the abundance of scheduled supply. Laddering out bond maturities from future auction schedules should see the SGS bond maturity profile smoothed out at around SGD 14bn - 15bn for the next few years which will minimize concentration/rollover risk.

SGS Bond Market's Notional Size To Keep Growing

The total SGS market including bills looks set to reach around SGD 170bn this year after taking into account the remaining bill auctions for 2019. This marks a 30% increase compared to 2018, with much of the gains driven mainly by the reintroduction of the 6-month SGS bills in 2019.

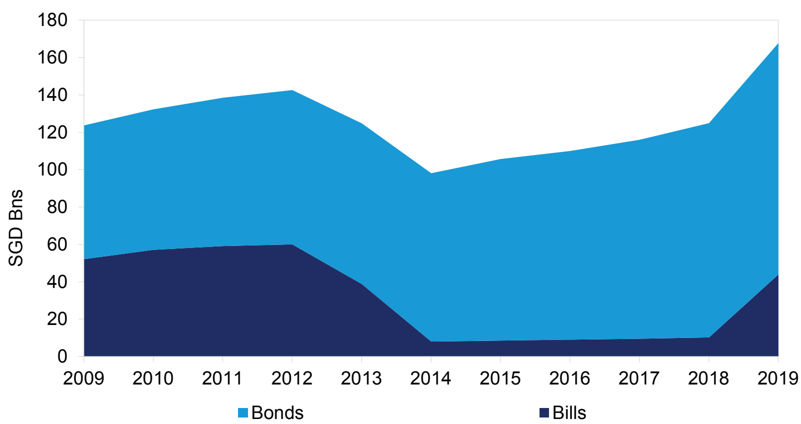
SGS Maturity Profile

Source: Bloomberg, UOB Global Economic Economics & Markets Research



SGS (Bills + Bonds) Outstanding

Source: Bloomberg, UOB Global Economic Economics & Markets Research



The market size for SGS bonds grew by SGD 9.2bn or 7.7% to SGD 123.9bn in the full year of 2019. For 2020, we expect to see the SGS bond market grow in the region of 7% which is above its 5Y average of 6.4% and 10Y average of 5.5% growth.

The shorter maturities will be a substantial contributor to the growth in SGS bond market size since global monetary policy settings are likely to remain accommodative for an extended period, i.e. a lower for longer yield environment, due to seemingly interminable downside growth risks.

Based on a 7% growth rate, our estimated net SGS bond issuance for 2020 is around SGD 8.7bn (gross issuance: SGD 22.2bn), which also means that the SGS bond market size is likely to exceed SGD 130bn next year.

Front End To Weather Headwinds From 2020 SGS Supply

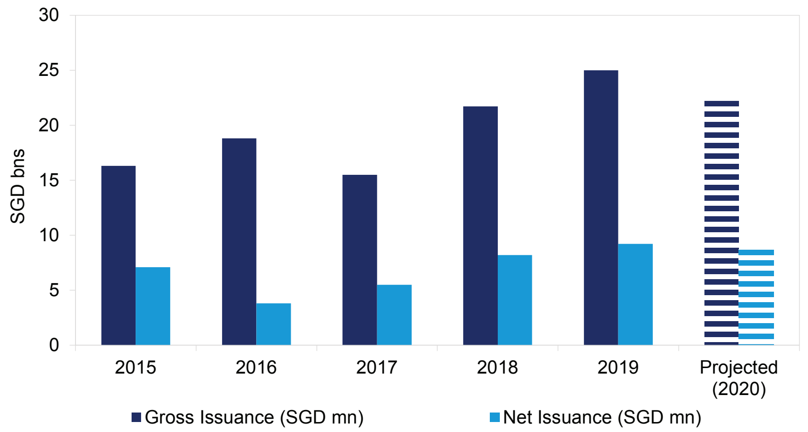
Year-to-date in 2019, SGS bonds have on average been yielding higher than their equivalent interest rate swaps. SGS bonds in the 2- to 3-year region of the asset swap spread curve is relatively richer as of mid-November. In light of next year's auction supply schedule (red markers on the SGS ASW curve chart), the potential for further richening may be limited. We could also see the asset swap spread curve between 2022 maturities and 2024 maturities converging given that the latter is priced cheaper.

Similar Duration Supply Expected For 2020

While the notional size of the SGS bond market is expected to grow in 2020, we anticipate that in terms of duration supply (i.e. DV01), there will be a similar amount of risk introduced in 2020 compared to that of 2019. Next year's auction schedule will see the ratio of 2Y to 5Y auctions flipping to 3:2 compared to 2:3 in 2019, but this skew in favour of the shorter maturity is offset by the introduction of a 15Y re-opening in place of a 7Y auction. In addition, the SGS yield curve will also be extended in 2020 when the 30Y tenor is refreshed with a new issuance.

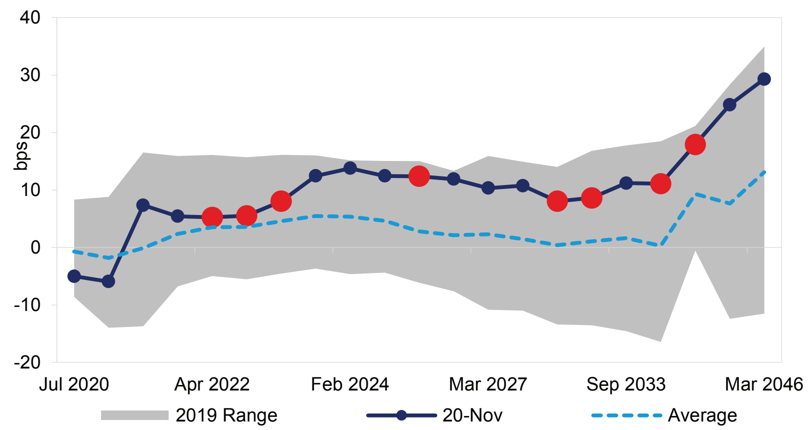
Total SGS Issuance By Year

Source: Bloomberg, UOB Global Economic Economics & Markets Research



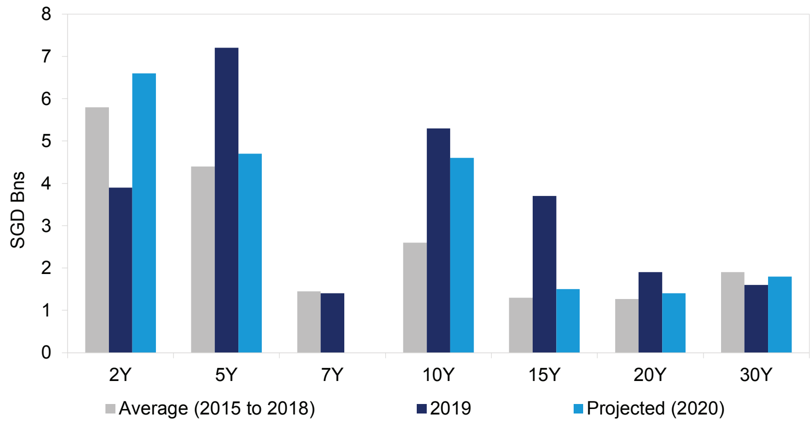
SGS Asset Swap Spread Curve With 2019 Range
(2020 reopenings are highlighted in red circles)

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Gross Notional Issuance By Tenor

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Front Loading Of Duration To Support Steeper SGS Curve In 1Q 2020

In a break from tradition of starting the new year off on an "easy" note, which involved a rotation (since 2012) between 2Y and 5Y auctions to kick off the year, 2020's SGS bond auctions will instead start the year with a 10Y tenor. This in conjunction with a new 30Y bond auction in February could translate to around a third of 2020's scheduled duration supply, based on our estimate, being concentrated in the first two months of the year.

It follows from the above expectation, there should be an underlying interest in SGS curve steepeners going forward until we get closer to February's 30Y auction. The year-end duration extension might introduce some noise into the SGS bond curve, but our view is that any significant flattening of the curve in the near term is unlikely to be sustainable until after we scale Jan/Feb 2020's duration wall.

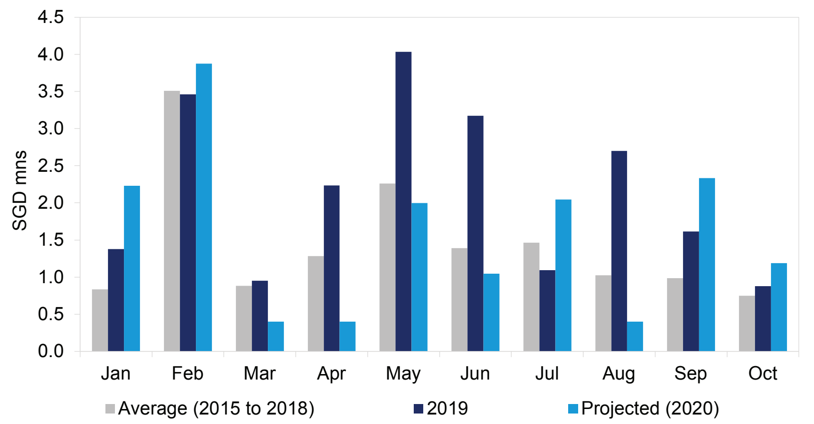
Modest Growth Prospects, Mild Inflation, And Aging Demographics Underpin SGS Demand

Looking past the potential challenge at the start of the year, the fundamental backdrop remains supportive of SGS demand. Consensus estimates for Singapore's GDP growth expect a modest recovery to 1.5% in 2020 and 2.0% in 2021. At the same time, headline inflation is projected to be modest at 1.0% in 2020 and 1.2% in 2021. MAS expects core inflation to average 0.5%-1.5% in 2020. In addition, safe assets such as SGS may continue to see support from downside risks such as an above average probability of a US recession, and political uncertainties emanating from a US election year.

More structurally, Singapore's demographic trends towards an aging population implies a steadily growing pool of demand for safe assets based on commonly applied portfolio construction pedagogy.

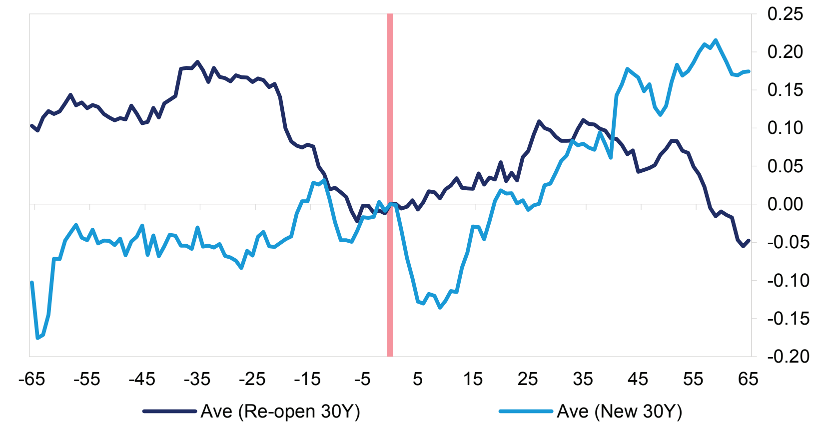
Gross DV01 Supply By Month

Source: Bloomberg, UOB Global Economic Economics & Markets Research



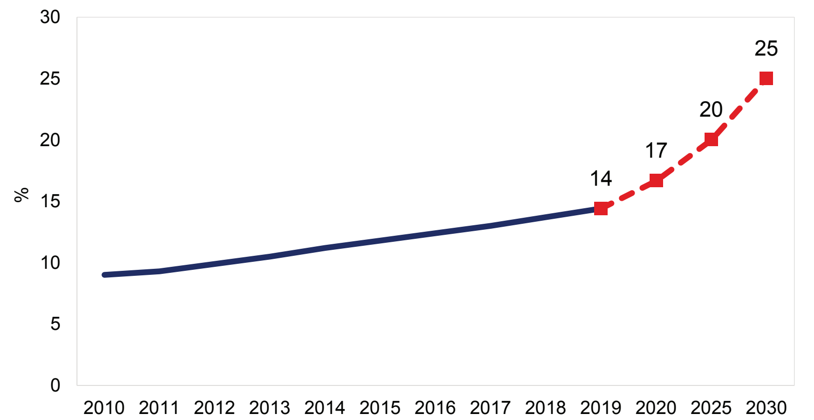
5s30s SGS Curve (4Q To 1Q)

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Proportion Of Elderly Residents (65 Years & Over) Among Resident Population

Source: Bloomberg, UOB Global Economic Economics & Markets Research



US And SG Rates Outlook Is Still "Lower For Longer"

US monetary policy may well be entering into a wait-and-see phase as officials assess the impact of the 75bps of easing that has been set in motion in 2019. In addition, should a phase 1 trade deal materialize as touted, then hopes that further thawing in US-China relations may see expectations build for more tariff reductions in the future, which is a positive for mitigating worst case growth outcomes from the protracted US-China trade tension.

Our macro team now expects the Fed Funds Target Rate to be left unchanged at 1.50%-1.75% at the 10-11 December 2019 FOMC meeting, and only implement one more cut in 1Q 2020 as global growth prospects remain shaky. Overall, the risk for US monetary policy is still tilted towards the downside in 2020 and this will still weigh on term premium normalization in the money market curves for the near term.

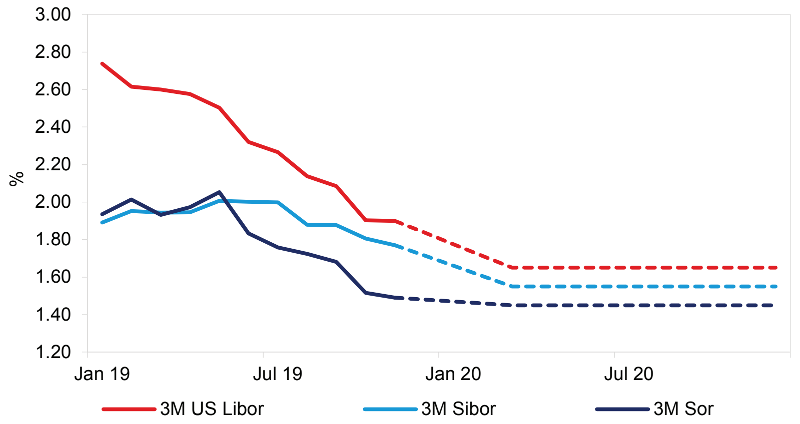
From current level of 1.90%, we forecast US 3M Libor to slide down toward 1.65% by 1Q 2020 when the FED resumes easing early next year. This is in line with market expectations for FED cuts in 2020, which has pulled back to only 1 cut for the year, based on the futures market.

In regards to the MAS monetary policy outlook, the base case call is for MAS to stay on hold in April 2020, with the SGD NEER slope maintaining at +0.5% p.a. gradual appreciation. For 3M Sor and Sibor, we are projecting a decline towards 1.45% and 1.55% respectively by 1Q 2020, from current levels of 1.55% and 1.75% respectively

For whole of 2020, money market rates in both US and SG could remain range bound until monetary policy expectations are repriced. As such, we expect US 3M Libor, 3M Sibor and 3M SOR to consolidate at 1.65%, 1.55% and 1.45% respectively throughout 2020. The curvature between 1M and 6M tenors in both countries are also expected to stay rather shallow/flat in view of still present downside risk for monetary policy.

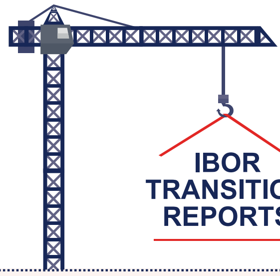
Singapore And US Money Market Rates

Source: Bloomberg, UOB Global Economic Economics & Markets Research



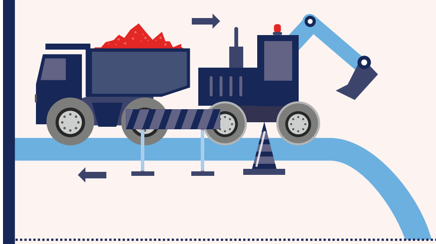
Rates	1Q20F	2Q20F	3Q20F	4Q20F
US Fed Funds Target	1.50	1.50	1.50	1.50
3M USD LIBOR	1.65	1.65	1.65	1.65
3M SGD SOR	1.45	1.45	1.45	1.45
3M SGD SIBOR	1.55	1.55	1.55	1.55
2yr UST	1.55	1.55	1.55	1.55
10y UST	1.80	1.80	1.90	1.90
2Y SGS	1.60	1.55	1.50	1.45
10Y SGS	1.80	1.80	1.80	1.80
2s10s UST	0.25	0.25	0.35	0.35
2s10s SGS	0.20	0.25	0.30	0.35

The longer term yield environment in 2020 will likely stay range bound as we continue to grapple with an extended growth cycle, an above average probability of a US recession, as well as fresh uncertainties associated with the US elections. We see 10Y UST at 1.80% for 1Q 2020 and ending the year at around 1.90%. 10Y SGS is projected to fluctuate around 1.80% in 2020. We are also anticipating the bond yield curves in both countries to steepen going forward with the 2s10s at around 0.35% for both UST and SGS by the end of 2020.



IBOR TRANSITION REPORTS

These reports are designed to inform readers about transition from Interbank Offered Rates (IBOR) to Risk Free Rates (RFR). They will be updated periodically to reflect relevant updates from the regulators.



#6 : ISDA Publishes Final Technical Parameters For IBOR Benchmark Adjustment

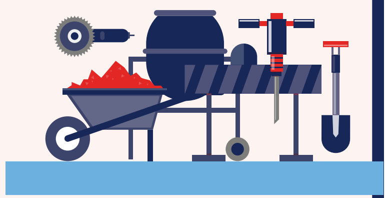
ISDA has announced that the 2006 ISDA definitions will be updated by the end of 2019 for the nine existing IBORs to incorporate fallback rates based on 'compounded setting in arrears' and a 'historical mean/median approach'

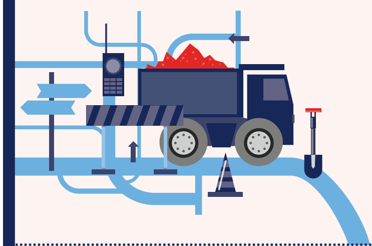
Read more Published on 25 November 2019

#5 : What Is The Secured Overnight Financing Rate (SOFR)?

This Q&A styled report endeavors to provide a better understanding of SOFR giving straight forward answers to key questions on SOFR that investors have been asking.

Read more Published on 29 October 2019





#4 : €STR Goes Live!

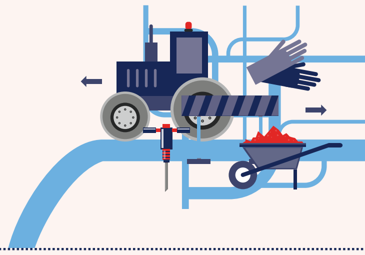
The European Central Bank (ECB) has started to publish a new benchmark Euro Short-Term Rate (€STR) to replace the current Euro Overnight Index Average (EONIA). This report summarizes some of the key features of this transition.

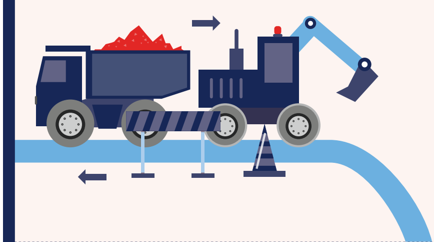
Read more Published on 04 October 2019

#3 : Proposed Compounding Methodology When Transitioning From IBORs To RFRs

The Brattle Group has been engaged by ISDA to provide an independent review, summary and analysis of the results from the ISDA 2019 Supplemental Consultation. We discuss the findings and the proposed compounding methodology in this report.

Read more Published on 25 September 2019





#2 : Transitioning From SOR To SORA

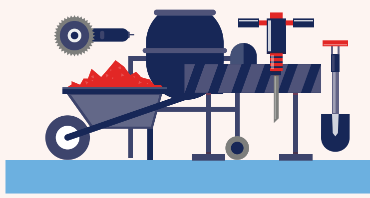
MAS has recently announced the plan to transition from SGD Swap Offer Rate (SOR) to Singapore Overnight Rate Average (SORA). In this report, we discuss the currently available details for SORA.

Read more Published on 03 September 2019

#1 : Interim Update On Money Market Rates Transition

This report updates the progress made by the US Federal Reserve in developing SOFR as a money market alternative to LIBOR. In addition, provides a summary of the potential impact on Singapore money market rates.

Read more Published on 03 September 2019



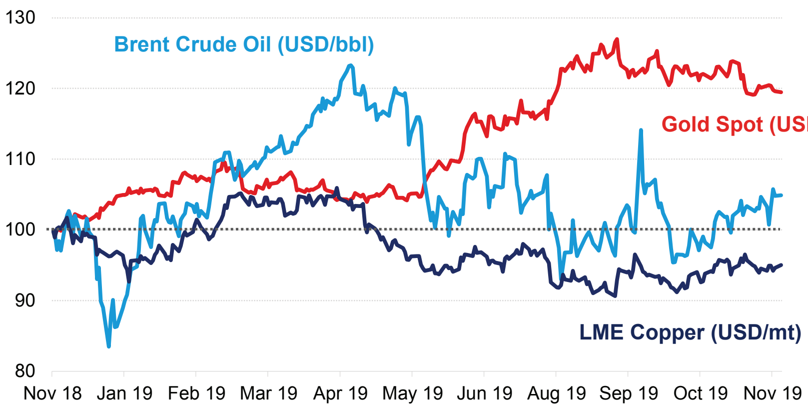
COMMODITIES STRATEGY

2020 Commodities Outlook: Gold Cools Down As Brent Crude Oil And LME Copper Outlook Improve

One and a half years into the US-China trade conflict, global yield curves appear to have stabilized after their steep correction in 2019 and there are also some tantalizing signs of possible stabilization in growth and production activity in certain key economies. Risk sentiment has certainly improved towards the end of 2019, pushing key US equities indices to new all-time highs. This change in underlying drivers and sentiment has affected the outlook for gold, Brent crude oil and LME Copper.

Improving Risk Sentiment Helps Brent And Copper To Stabilize

(% normalised return over the past one year)

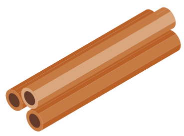


GOLD

After its strong rally from USD 1,280 / oz in Jun, gold appears to have topped out just above USD 1,550 / oz in Sep. Since then gold has pulled back to USD 1,450 / oz. Needless to say, the recovery in risk sentiment, and stabilization has reduced safe haven demand for gold and capped its near term strength. However, we believe that rates will still stay soft overall and the FED is still seen cutting one more time in 1Q20. As such, while we stay positive on gold, we lower our expectations to a more modest pick-up to just USD 1,550 / oz by end 2020.

CRUDE OIL

For Brent crude oil, on-going OPEC+ production cuts and various supply outages have kept supply in check. Other initial signs of improvement in crude oil outlook ranged from lower rig counts, firm backwardation in the futures curve and increased open interest. The retreat in futures positioning is also a positive factor. As such, after consolidating around USD 60 / bbl over the past half a year, we believe that Brent crude oil may be ready to trade modestly higher towards USD 70 / bbl.



COPPER

The demand-supply balance for copper has taken a decisive swing into deficit. While global copper consumption growth remains weak, a significant amount of mining stoppage and smelter production disruptions have led to an even larger amount of loss in production of refined copper. As such, the International Copper Study Group (ICSG) has widened its forecast of a copper supply deficit. The on-going unwinding of substantial net short positioning amidst improving risk sentiment is also a key positive. Hence, we upgrade our copper view to neutral from negative, and now expect LME Copper to continue its consolidation around USD 6,000 / MT, rather than weaken to USD 5,000 / MT.

GOLD
Strong Rally Takes A Breather

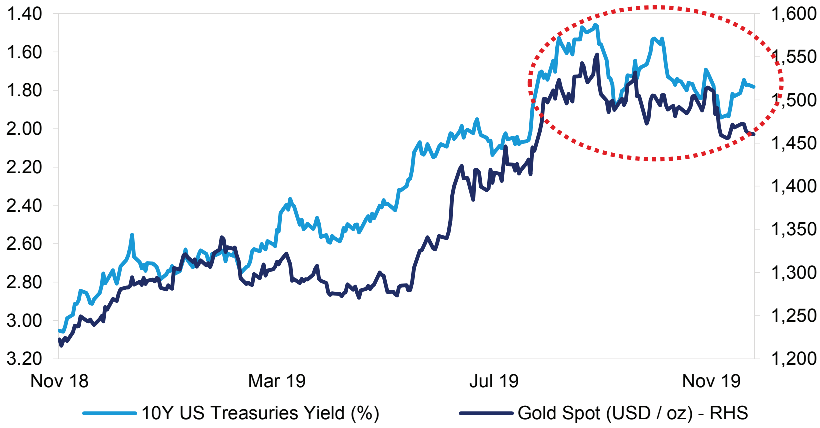
We have been positive on gold since the start of 2019. The positive view was mainly based on four key drivers. Firstly, the US Federal Reserve was widely expected to cut rates. Secondly, the on-going drop in long term bond yields has lowered opportunity costs. Thirdly, Asian and EM countries continue to increase their reserve allocation into gold. Fourthly, the strong increase in safe haven demand fueled investor appetite for gold.

However, as the fourth quarter progressed, all four of the above mentioned positive drivers have weakened noticeably. Firstly, after delivering 3 rate cuts in double quick time, the US Federal Reserve now hints that the current rate level is appropriate. We see only one more rate cut in 1Q20. Secondly, after their steep drop, long term bond yields have stabilized with 10 year US Treasuries yield rebounding from its Aug low of 1.5% to around 1.8% in Dec. Thirdly, the strong pace of central bank gold allocation has taken a breather as China and India kept their gold holdings unchanged across Sep and Oct. Fourthly, global risk sentiment has improved as key event risks like a disorderly Brexit and further escalation of US-China trade war have waned.

As such, after topping out just above USD 1,550 / oz in late Aug, gold has fallen back by about USD 100 / oz to USD 1,450 / oz. Overall, while we maintain our positive outlook for gold, we moderate our enthusiasm given the weakening suite of positive factors. We therefore lower our quarterly gold forecast to USD 1,480/oz for 1Q20, USD 1,500/oz for 2Q20 and USD 1,550/oz for 3Q20 and 4Q20. Our previous quarterly forecast was USD 1,550/oz for 4Q19, USD 1,600/oz for 1Q20, USD 1,650/oz for 2Q and 3Q20.

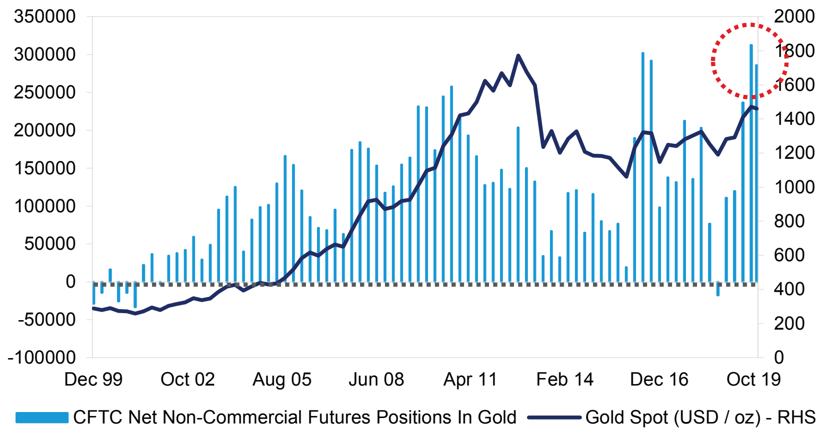
Gold 1: Rebound In US Treasuries Yield Caps Near Term Strength In Gold

Source: Bloomberg, UOB Global Economic Economics & Markets Research



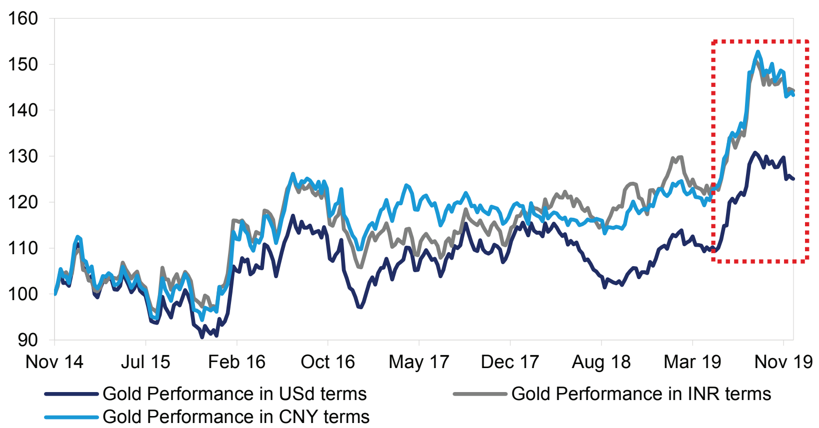
Gold 2: Net Positioning In Gold Remains Near Record High

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Gold 3: Gold Has Been A Good Safe Haven Hedge Against Domestic FX Depreciation

Source: Bloomberg, UOB Global Economic Economics & Markets Research



BRENT CRUDE OIL

Supply And Demand Outlook Starts To Improve

On the supply side, at the moment of writing, OPEC and Russia are widely seen to extend their supply cuts yet again from Mar 2020 to Jun 2020. In addition, supply growth from US shale producers may start to moderate. In fact, US rig count has peaked at 900 in late 2018 and has now fallen back to under 700 by Nov 2019. Meanwhile, US sanctions continue to limit supply from Venezuela and Iran.

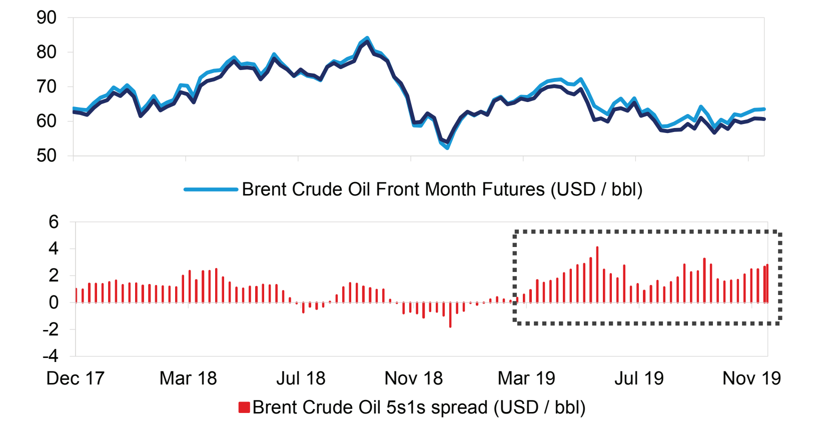
On the demand side, it is true that global crude oil consumption growth is expected to stay soft at about 1.5% next year, adding an additional 1.5 mio bpd next year. While non-OPEC supply growth is projected to grow by about 2 mio bpd per year. However, there are now tentative signs of possible recovery in manufacturing activity and rebound in exports. Should global oil consumption growth pick up above 2% next year, this may well offset some of the projected non-OPEC supply growth.

Adding to the improvement in demand outlook next year is that the International Maritime Organization (IMO) will from Jan 2020 start to ban ships from using marine fuels of sulfur content above 0.5%. This has increased demand for lighter sweet crudes which produce the IMO compliant marine fuels. As such the backwardation in oil futures curve remained firm, hinting of stronger demand.

Positioning has also improved as open interest in crude oil futures has increased while net long positioning has been drawn down over the past 2 years. Overall, after spending the past half a year in consolidation just above USD 60 / bbl, we believe the outlook for Brent crude oil has improved modestly. As such, we raise our Brent crude oil forecast to USD 63 / bbl for 1Q20, USD 65 / bbl for 2Q20, USD 68 / bbl for 3Q20 and USD 70 / bbl for 4Q20 from a neutral outlook previously within the USD 60 to 70 / bbl trading range.

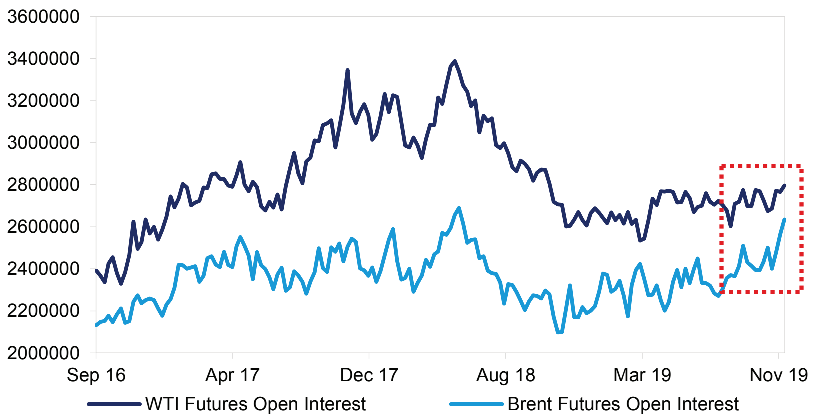
Oil 1: Brent Maintaints Its Recent Backwardation

Source: Bloomberg, UOB Global Economic Economics & Markets Research



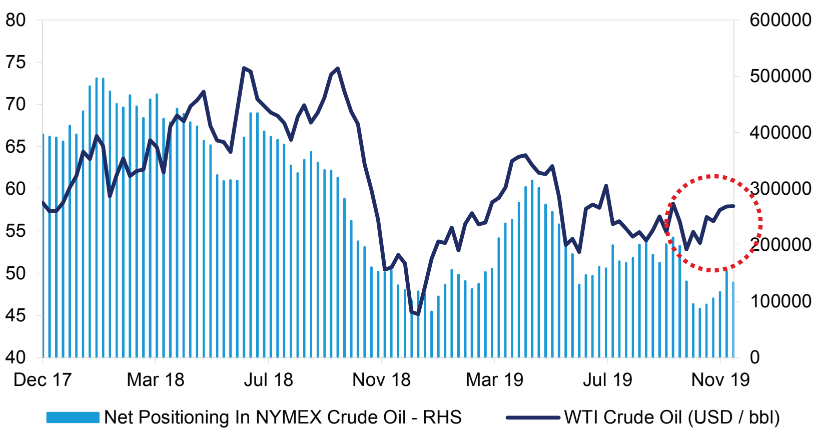
Oil 2: Open Interests In Both Brent And WTI Futures Have Both Stabilized

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Oil 3: Net Positioning In NYMEX Crude Oil Futures Back Down To Early 2019 Low

Source: Bloomberg, UOB Global Economic Economics & Markets Research



COPPER
Supply Disruption Offsets Soft Global Demand

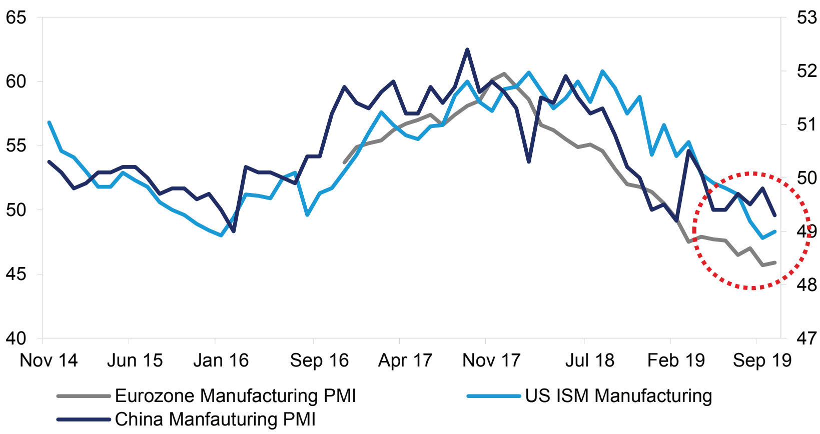
As unlikely as it sounds, the latest semi-annual Copper Market Forecast from the International Copper and Study Group (ICSG) published in late Oct pointed to an increasing deficit in copper supply. On the demand side, the ICSG has marked down this year's world refined copper demand growth to just +0.3%, before recovering to +1.7% in 2020. However, on the supply side, the ICSG now sees global mining production contracting by 0.5% this year after strong growth of 2.5% in 2018. The ICSG noted that production growth has been "significantly constrained by an unusually high number of smelter disruptions and temporary shutdowns". Overall, the ICSG concluded the global supply deficit will widen to 320,000 t this year, before a mild recovery to a thin surplus of 280,000 t for 2020

Concurrently, copper inventories on the LME fell to its lowest since early June. In China, the deficit for refined copper stocks has also widened. On COMEX, there was also a tentative recovery in net positioning in copper futures. Net positioning has collapsed from a net long of about 60,000 contracts just at the start of the US-China trade conflict in June 2018 to the low of a net short of about 60,000 contracts in Sep this year. Since then the net short has been partially unwound to about 35,000 contracts now.

Overall, the increasing deficit in copper supply is now seen offsetting the soft global demand. On-going inventory drawdown and scaling back of short positioning is also seen as supportive for copper prices. As such, we upgrade our outlook from negative to neutral and now see LME Copper consolidating around USD 6,000 / MT over the next four quarters from 1Q20 to 4Q20. The previous forecast see weakening LME Copper price to USD 5,600 / MT for 4Q19, USD 5,400 / MT for 1Q20, USD 5,200 / MT for 2Q20 and 3Q20.

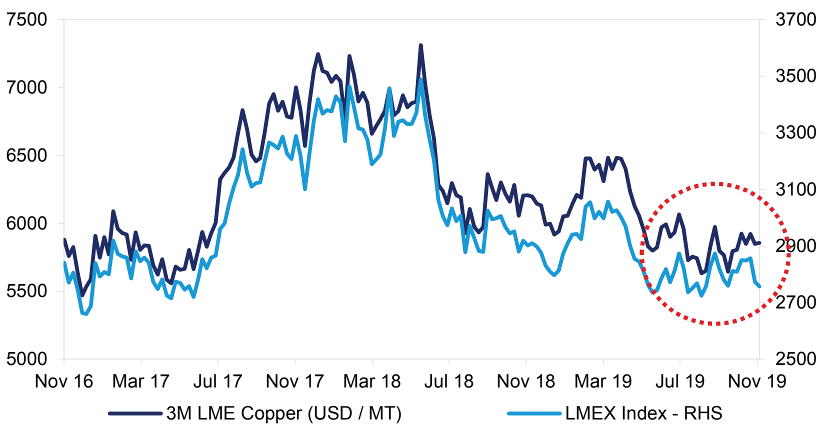
Copper1: Have Global PMIs Fallen Too Much?

Source: Bloomberg, UOB Global Economic Economics & Markets Research



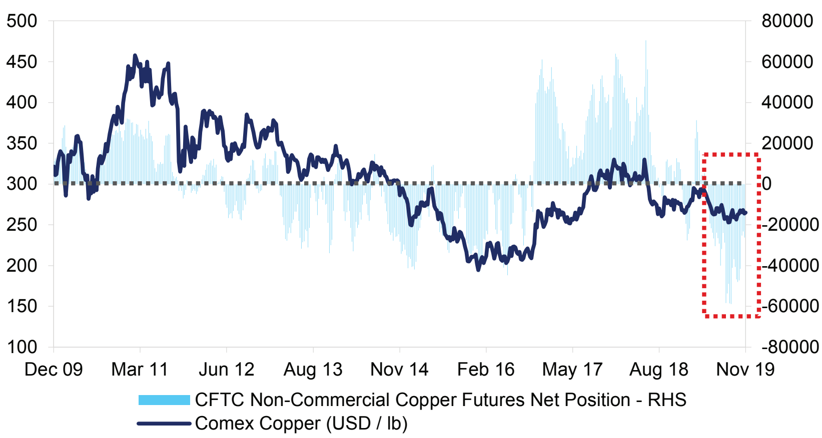
Copper 2: Over The Past 6 Months, LME Copper Has Been Consolidating Under USD 6,000 / MT

Source: Bloomberg, UOB Global Economic Economics & Markets Research



Copper 3: Net Positioning In COMEX Copper Still Resmains Substantially Short

Source: Bloomberg, UOB Global Economic Economics & Markets Research



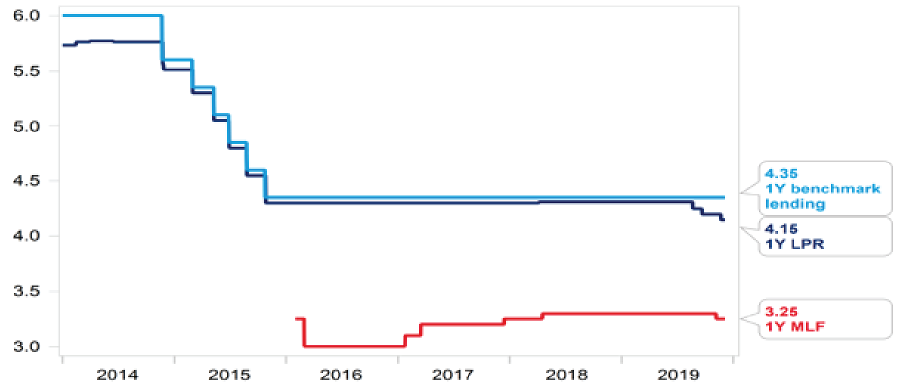
CHINA

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/CNY	7.08	7.10	7.20	7.20
CNY 1Y Loan Prime Rate	3.95	3.80	3.80	3.80

Economic Indicators	2017	2018	2019F	2020F
GDP	6.8	6.6	6.1	5.9
CPI (average, y/y %)	1.6	2.1	2.8	2.6
Unemployment rate (%)	3.9	3.8	3.9	4.0
Current account (% of GDP)	1.6	0.4	1.3	1.2
Fiscal balance (% of GDP)	-3.7	-2.6	-2.8	-2.8

China: Key Policy Rates

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Growth Continues Lower But Counter-Cyclical Measures To Buffer

China's 3Q19 GDP growth slowed further to 6.0% y/y (1.5% q/q SA) from 6.2% y/y (1.6% q/q) in 2Q19, a record low in the quarterly data series (starting from 1992). Notwithstanding the recovery in November PMIs, we continue to hold a cautious view of the economy, noting that the September and October data have pointed to weakening growth in 4Q19 in the key areas of manufacturing, private consumption demand, investment and industrial profitability. The manufacturing sector slowdown continues to be of great concern as industrial production growth had slipped back lower to 4.7% y/y in October, edging towards its 17-year low of 4.4% y/y in August while industrial profits sustained sharp 9.9% y/y slump in October, the largest drop since -14.0% y/y in January-February. Moderating growth and producer price deflation will continue to cloud the outlook for industrial profits.

The uncertainties paving the long road to eventual trade agreement are the key downside growth risks while tangible benefits will come from rollbacks of earlier trade tariffs and measures. Assuming no major escalation in US-China tensions, we maintain our growth forecast for China at 6.1% in 2019 (4Q19f: 6.0%) and 5.9% in 2020.

The domestic focus will also be on the December Central Economic Work Conference (CEWC), the Chinese People's Political Consultative Conference (CPPCC) and National People's Congress (NPC) in March 2020 as policymakers chart the economic plans and set the tone for the 14th Five-Year Plan (2021-2025). Fiscal measures targeting tax and fees cuts as well as infrastructure spending will likely be stepped up to cushion the growth slowdown. Further ahead, we believe US-China trade conflicts will accelerate structural reforms in China as the relocation of manufacturing bases and moderation of trade are expected to drive the push to higher value-add activities and private consumption.

CENTRAL BANK: 3Q Monetary Policy Report Maintains Prudent Stance

The surge in headline inflation to a more than 7-year high in October was mainly driven by the doubling of pork prices while core inflation remained subdued. Nonetheless, elevated headline inflation and slowing momentum in global central bank's easing will likely keep People's Bank of China (PBoC) on a measured and cautious stance as focus remains on improving monetary policy transmission through reforms and push for greater adoption of the Loan Prime Rate (LPR).

As China's easing cycle is at an early stage, we still see room for the LPR to move lower and gravitate towards the Medium-term Lending Facility (MLF), as intended by the policymaker when the reform was engineered back in August. Given the mild pace of interest rate adjustments so far (after November's cut, LPR has fallen just 16 bps since the reform), we now expect future LPR fixings to be moved by 5bps each month on average into mid-2020, with no further cuts to MLF. This will see 1Y LPR at 3.80% by mid-2020. As for the banks' reserve requirement ratio (RRR), we expect the next move to be in 1Q20. The RRR for large financial institutions had already been cut by 150bps to 13.0% YTD with the last broad-based reduction in September.

CURRENCY: Bearish CNY Expectations Recalibrated

The positive trade developments helped spur a strong recovery in the CNY in 4Q19. From about 7.15/USD at the start of October, the CNY has gained significantly to current levels of around 7.03, narrowing its year-to-date losses to 2.2%. Currency volatility has also pulled back in tandem, with the 3-month USD/CNY implied volatility dropping from 5.4% to 4.7% in the same period.

While a Phase 1 trade deal looks increasingly hopeful, stark differences between US and China stances on other issues (e.g. intellectual property, market access) make progress beyond Phase 1 challenging. Together with negative growth risks surrounding the Chinese economy, we continue to expect further weakness in the CNY ahead.

However, we have dialed back our bearish CNY expectations (previous peak in USD/CNY forecast of 7.30 in 3Q20) in recognition of the progress in trade talks so far and the reduced risks of further trade escalation. Our updated forecasts for USD/CNY are 7.08 in 1Q20, 7.10 in 2Q20, 7.20 in 3Q20 and 7.20 in 4Q20. Overall, we still see value for investors to hedge their USD risks given the forward curve is still below our forecasts for tenures from 1Q20.

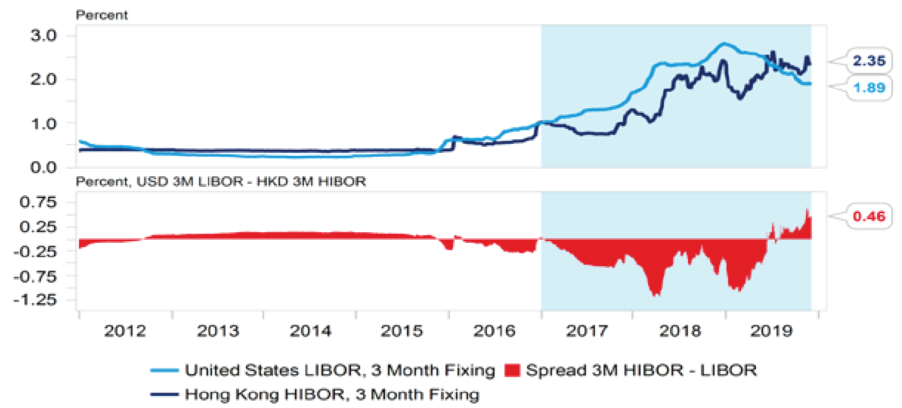
HONG KONG

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/HKD	7.85	7.85	7.80	7.80
HKD Base Rate	1.75	1.75	1.75	1.75

Economic Indicators	2017	2018	2019F	2020F
GDP	3.8	3.0	-1.2	1.2
CPI (average, y/y %)	1.5	2.4	2.9	2.6
Unemployment rate (%)	3.0	2.8	3.3	3.2
Current account (% of GDP)	4.6	4.3	3.9	4.0
Fiscal balance (% of GDP)	5.6	2.4	-1.0	-2.0

HIBOR-LIBOR Spread Driven By Domestic Liquidity And Currency Sentiments

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Recession Expected To Extend Into Fourth Quarter

The third quarter GDP data confirmed that the Hong Kong economy has entered into a recession with quarter-on-quarter (seasonally-adjusted) contraction deepening to -3.2% from -0.5% in 2Q19. On a year-on-year basis, the economy slumped by 2.9% y/y in 3Q19 in its first contraction since 3Q09 as all major components with the exception of government spending fell. The largest drags on headline growth came from gross fixed capital formation (-3.5% point) and private consumption (-2.2% point) while net exports of goods and services (+4.2% point) was buoyed by a sharper contraction in imports than exports and government spending (+0.6% point) was lifted by relief measures.

The government has downgraded its full-year 2019 GDP forecast to -1.3% from its earlier 0-1% growth estimate as it expects consumption and investment demand to remain weighed down for the rest of the year. We foresee Hong Kong's recession extending further into 4Q19 with GDP at around -0.7% q/q and -3.1% y/y.

As we factor in some tapering of domestic protests, lesser risk of major escalation in US-China trade tensions and more policy support next year, we expect Hong Kong's GDP to return to positive year-on-year growth by the second half of 2020. The 2020/21 budget is expected to be announced around February 2020 which could unveil greater support for enterprises and residents (including housing, tax reliefs, subsidies etc). This is in addition to those announced since June 2019 totalling HKD25 bn (USD3.2 bn or 0.9% of GDP) which is still considered small compared to its economic challenges. In 2019, the government is expected to record its first fiscal deficit since 2003/04 SARS crisis and is likely to remain in deficit next year but this may not be of immediate concern given the large fiscal reserves (HKD1.1tn). We have lowered our 2019 full year growth forecast for Hong Kong to -1.2% and maintain the forecast for 2020 at 1.2% for now.

CENTRAL BANK: Financial Stability Continues Despite Growth Fallout

Despite the fallout in economic growth and concerns over capital outflows, Hong Kong's assets markets have remained resilient, with property prices holding up while the surge in shares IPO offerings have also helped the domestic equity market. The residential property price index, an important barometer of investor confidence, has fallen 4.1% in the four months from May's record high, but is still up 5.9% year-to-date (as at September).

We also see current low global interest rate environment as being a stabilisation factor. Domestic base lending rate has fallen in line with the 75 bps cut to the Fed funds rate so far this year and provided some support to the Hong Kong economy as banks have also begun to lower their prime lending rates.

That said, 3M HIBOR-LIBOR spread has been trading at a premium (i.e. HIBOR > LIBOR) since the start of June 2019, driven by domestic liquidity and currency sentiments. The reduction in excess liquidity as seen from the drop in Hong Kong Monetary Authority (HKMA) aggregate balance to around HKD 55bn from HKD 78bn at the start of the year has also increased the sensitivity of the HIBORs to the changes in the supply and demand for HKD funds arising from the shares offerings.

CURRENCY: The Peg At 7.85 Holds

There has been little spillover of Hong Kong's economic woes on the HKD. In the 4Q, the HKD has also moved away from the weak-side convertibility undertaking (CU) at 7.85 /USD and stabilized at about 7.83 at end-November. Implied volatility on USD/HKD also fell from a three-year high of 1.6% in August to 1.1% by end-November. Underpinning the currency's stability is the HKMA which has reiterated its confidence in the more than three-decade-old HKD peg to the USD and sees no need to change it. The HKMA also said the risk of large scale capital outflows has not materialized.

It is likely that the Hong Kong Monetary Authority (HKMA) has what it takes to defend the currency peg at 7.85. At US$440.6 bn, its foreign reserves can cover the monetary base more than twice over. Overall, in the near term, geopolitical pressures are likely to tether the HKD near the weaker end of its peg at 7.85 /USD in 1Q and 2Q20 before a normalization towards 7.80/USD starting 3Q20.

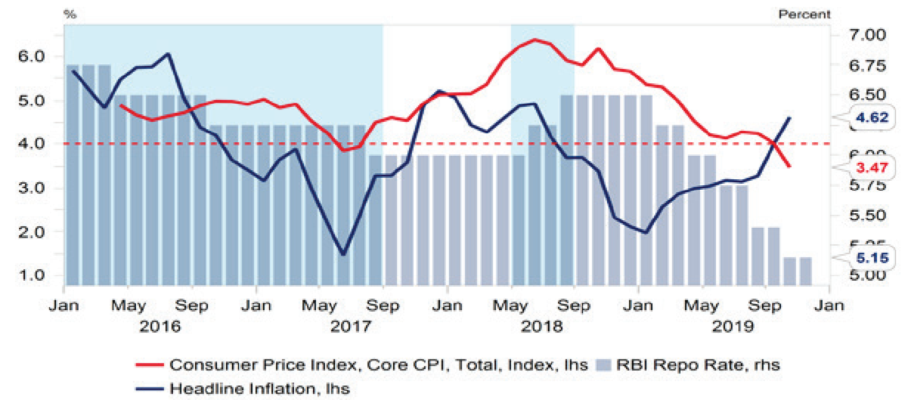
INDIA

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/INR	72.50	73.00	73.60	73.60
INR Repo Rate	4.90	4.90	4.90	4.90

Economic Indicators	2017	2018	2019F	2020F
GDP	7.1	6.8	5.0	6.5
CPI (average, y/y %)	3.3	4.0	3.8	4.4
Current account (% of GDP)	-1.5	-2.4	-1.8	-1.9
Fiscal balance (% of GDP)	-3.9	-3.6	-3.8	-3.7

RBI Rate Versus Inflation

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: GDP Growth Slows To Multi-Year Low

India's macroeconomic environment continues to disappoint despite a raft of policies aimed to boost growth. Beyond India's growth rate which decelerated to its slowest since 2013 for the three months to September 2019, the latest set of incoming data continues to paint a weak outlook. India's industrial output contracted 4.3% on a year-on-year basis in September, marking its second consecutive fall and the worse print since the present series was launched in April 2012. The dismal print coincides with the contraction in India's eight core industries which fell by 5.8% in October 2019, suggesting that the soft manufacturing environment is likely to persist into the fiscal year ahead. Unemployment levels also remain elevated at 8.5% in October 2019 (highest since August 2016) while consumption demand is expected to stay weak.

Accounting for the sluggish manufacturing momentum, India's full-year growth has been downgraded once again to 5.0% for FY2019-2020 (down from a previous 6.1% expectation) in the latest Reserve Bank of India's (RBI) monetary policy statement in December. Moreover, the prospect of a protracted slowdown, softening labour market and rising fiscal deficit had led rating agency Moody's to cut India's credit rating outlook to 'negative' from 'stable', while maintaining its foreign currency rating at Baa2, the second-lowest investment grade score. A negative credit rating outlook means that India's medium-to-long term rating might be lowered in the future should economic and fiscal standing stay lackluster.

Elsewhere, inflation picked up to above RBI's medium-target of 4.0% for the first time since July 2018. Retail inflation rose 4.6% on a year-on-year basis in October 2019, the fastest pace in 16 months. Core inflation, which strips away energy and food items, however decelerated further to 3.5% y/y in the same month and marking the slowest on record since the present series which started in April 2015. The higher headline inflation print was likely driven by supply-driven factors rather than an improvement in consumer demand given monsoon factors which lifted food prices significantly, while other clusters saw broad declines.

In a nutshell, growth in India is expected to decelerate to 5.0% in 2019, with hopes that some positive turnaround in the global economic environment could lift GDP to 6.5% in 2020. As of now, the sputtering manufacturing cluster and faltering domestic consumption seen to-date has been accompanied by a rising unemployment rate to 8.5% in October 2019. With inflation likely to stay soft into the year's end, more stimulus measures will likely stay on the cards to support the growth momentum.

CENTRAL BANK: Benchmark Rate Could Edge Below Its 5.0% Mark

Despite the slowing growth outlook and benign core inflation prospects, RBI has unexpectedly kept its benchmark rate unchanged at its 5 Dec meeting, leaving both repurchase rate and reverse repurchase rate at 5.15% and 4.90%, respectively. The central bank cited that there is still "monetary policy space for future action", and kept its accommodative stance "as long as it is necessary to revive growth". We opine that growth headwinds could still persist amid high unemployment and lacklustre manufacturing environment, and we expect the central bank to cut its benchmark rate by 25bps at its 6 Feb 2020 meeting. We also note that India has limited fiscal policy space to date, owing to its ambitious target to limit fiscal deficit to 3.3% of GDP in its current fiscal year.

CURRENCY: Poor Performance Of INR Looks Set To Continue

The INR was the only EM Asia currency to weaken against USD in the 4Q, dropping 2.8% to 71.80 while peers such as IDR and PHP gained 2.0% and 3.4% respectively. Growth concern was the key factor weighing on the INR. Even after an aggressive 135 bps of rate cuts by the RBI this year, growth in India is nonetheless expected to decelerate to 5.0% in 2019 from 6.8% in 2018.

The intense headwinds INR faces look set to extend into 2020. Next year, risks to growth are still skewed to the downside and further rate cuts will continue to erode the interest-rate advantage that the INR has over the USD, denting its attractiveness as a high yielder. In all, we maintain our negative bias for the INR, expecting weakness towards 73.6 /USD by end-2020.

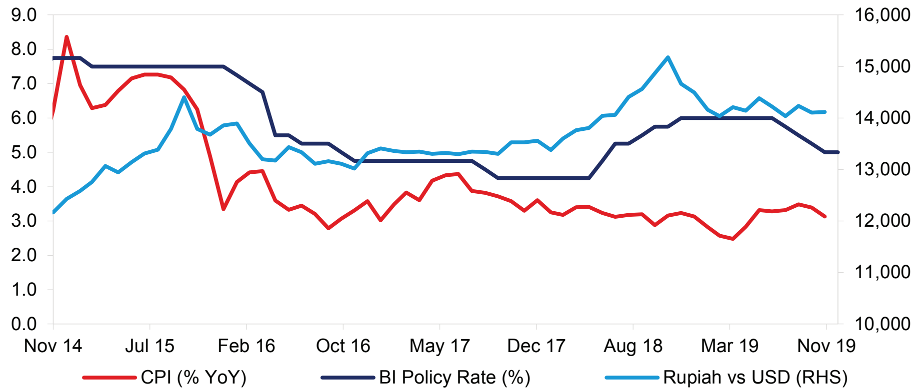
INDONESIA

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/IDR	14,200	14,300	14,400	14,500
IDR 7D Reverse Repo	4.75	4.75	4.75	4.75

Economic Indicators	2017	2018	2019F	2020F
GDP	5.1	5.2	5.1	5.2
CPI (average, y/y %)	3.8	3.2	3.2	3.6
Unemployment rate (%)	5.6	5.3	5.5	5.4
Current account (% of GDP)	-1.7	-3.0	-2.8	-2.6
Fiscal balance (% of GDP)	-2.5	-1.8	-2.2	-2.2

Headline Inflation, Rupiah & BI Policy Rate

Source: BI, Statistics Indonesia, Bloomberg, UOB Global Economic Economics & Markets Research



ECONOMY: 3Q 2019 Growth Grinds Lower to 5.02%

Indonesian Q3 2019 posted a 5.02% y/y growth rate, from 5.05% in the preceding quarter, marking the slowest pace in two years. The economy was dragged by weaker consumption as well as softer government and investment spending. Net exports were relatively flat, suggesting that exports remained weak amidst the global economic slowdown.

The reversal in both election spending and seasonal factors i.e. Ramadhan and Hari Raya Festivities in Q2 2019 partly represented the decline in demand-side private consumption from 5.17% y/y in Q2 2019 to 5.01% in Q3 2019. Government expenditure also posted significantly slower growth at 0.98% y/y in Q3 2019 vs. Q2 2019's reading of 8.23%, due to a plunge of government procurement and social assistance spending. Furthermore, investments expanded 4.21% y/y, slowing from 5.01% in the previous quarter; underlining that infrastructure spending has yet to pick up as expected post-election.

The rising trade tensions have exacerbated the already sluggish global growth recovery, of which Indonesia also felt the negative effects of the external uncertainty. However, as Indonesia is not fully dependent on its exports sector (except for commodities), the negative economic repercussions to the country may have been mitigated by its large domestic market's consumption. The increasingly adverse events externally have sounded a wake-up call for the country to speed-up its structural transformation pace and to leverage more on its big domestic market to sustain growth. Infrastructure spending and its realization have been rightly targeted and implemented. Together with further realization in the program, following the continuation of Jokowi's presidency for another term, we believe that investment spending will continue to be enacted in strategic sectors. In due time, this will bear the intended economic fruits and we are cautiously optimistic that reforms will continue at faster pace such that Indonesia would be able to generate faster and a more sustainable economic growth momentum going forward. For 2019, we keep our headline growth figure at 5.1% and hold a cautiously optimistic view that the economy will grow at a faster 5.2% for 2020.

CENTRAL BANK: Bank Indonesia To Stay Pat In 2019, But One More Cut In 1Q20

Bank Indonesia (BI) has been promoting its pre-emptive, front-loaded, and ahead of the curve policy strategy since 2018. These policies have sustained the stability of the currency while at the same time ensuring that liquidity remains adequate in supporting the economic growth. For 2019, in particular, BI has shifted more focus in supporting growth while continuing to maintain economic and financial stability. This is reflected by the reduction of 100bps in its benchmark interest rate to 5.00%, which partially unwound its tightening cycle in 2018; and in line with low inflation and still-attractive returns on domestic financial investment assets.

In time, we believe that monetary policy transmission to the real sector will be seen but with some lags amidst a dimmer global and regional economic outlook, which has notably dampened the pace of business expansion. BI has also complemented its interest rate policy with other macro-prudential measures in 2019 such as the lowering of the reserve requirements and easier loan-to-value ratios to support the property and automotive market. Therefore, we are cautiously optimistic that with policy measures already in place to support growth, BI will hold its benchmark rate to remain unchanged at 5.00% at its last 19 Dec meeting. Nevertheless, given our expectations for the US Federal Reserve to possibly reduce its Fed Fund Rate once more in 1Q 2020, we keep our forecast of one more cut by BI to 4.75% in Q1 2020.

CURRENCY: IDR To Weaken Moderately

Despite the waxing and waning of trade tensions this year, the IDR was largely confined to a stable 13,900 – 14,500 /USD range since Q2 2019. The stability of the currency gave BI a window of opportunity to normalize rates lower in support of growth and to rebuild FX reserves.

Going forward, continued uncertainties on the US-China trade talks, geopolitical risks, and China economic slowdown may continue to tether the IDR on the weaker end of 14,000 /USD. Overall, we maintain a higher trajectory in USD/IDR, towards 14,200 in 1Q20, 14,300 in 2Q20, 14,400 in 3Q20 and 14,500 in 4Q20.

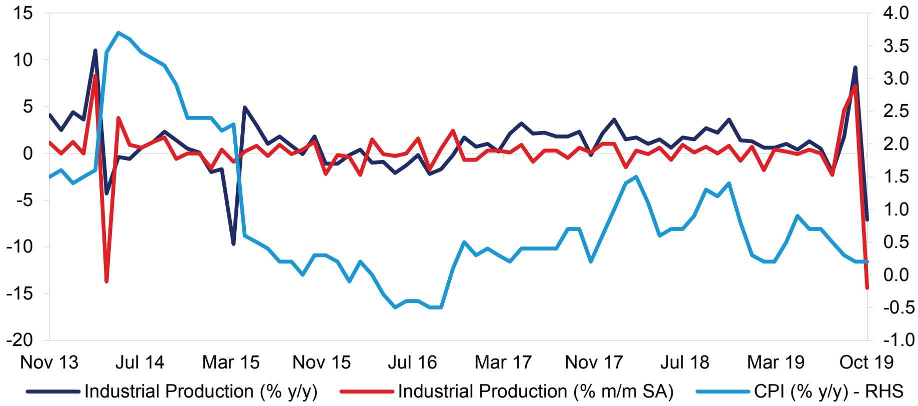
JAPAN

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/JPY	110	112	113	113
JPY Policy Rate	-0.20	-0.20	-0.20	-0.20

Economic Indicators	2017	2018	2019F	2020F
GDP	1.9	0.8	0.7	-0.8
CPI (average, y/y %)	0.5	1.0	0.5	1.2
Unemployment Rate (%)	2.7	2.4	2.4	2.4
Current account (% of GDP)	4.0	3.5	3.5	2.5
Fiscal balance (% of GDP)	-4.2	-2.6	-3.0	-3.5

Post-Oct 2019 Sale Tax Hike, Retail Sales Collapsed But Inflation Hardly Moved Unlike 2014

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Rising Risk Of Recession In 2020

3Q 2019 GDP growth slowed visibly to 0.1% q/q (0.2% annualized rate) from 0.4% q/q (1.8%) in 2Q as both private and public demand slowed but still managed to offset the drag from net exports and private inventories. The next revision of 3Q 2019 GDP (2nd estimate) on 9 Dec bears watching as a sizeable downward revision could swing 3Q into a q/q contraction and put Japan at risk of a technical recession if 4Q GDP contracts as well. Overall, we expect 2019 GDP growth to be 0.7% (down from 0.8% in 2018) and we maintain a cautious 2020 outlook as Japan faces two significant challenges: global trade uncertainties and domestic market weakness post Oct 2019 sales tax hike.

On the trade front, US-China trade uncertainties seemed to have improved with expectations that the Phase 1 trade deal will be signed before the year is up, although it is still a long road before full resolution. Japan-South Korea trade relations which have been difficult in 2H 2019 also seem better. And while US President Trump surprised with a decision to let a deadline to impose auto tariffs under Section 232 of the 1962 Trade Expansion Act lapsed and gave some relief to Japan but the auto tariff threat is still on the table in 2020 if Trump pursues auto tariffs under Section 301 of the 1974 Trade Act (the same mechanism used to impose tariffs on China). Export of cars accounts for about 15% of Japan's total exports.

Domestically, the implementation of the sales tax hike saw retail sales collapse -14.4% m/m, -7.1% y/y in Oct (from +7.2% m/m, 9.2% y/y in Sep) the worst drop since the -9.7% y/y in Mar 2015, potentially the start of a consumption collapse. Meanwhile, Oct industrial production recorded its biggest decline in 2 years, adding to Japan's recession risks. Domestic political stability is a bright spot as Prime Minister Abe is enjoying wide support and there is no crucial election in Japan for 2020. The Government is likely to roll out a big stimulus package of JPY20 trillion soon, at the expense of fiscal discipline. Even with fiscal stimulus and the Tokyo Olympics next year, we expect trade headwinds and a collapse of private spending to drive Japan into a recession, with GDP contracting by 0.8% in 2020.

After peaking at 0.9% y/y in Apr, CPI inflation eased and despite the sales tax hike visibly impacting retail sales, headline inflation hardly budged and crawled at 0.2% y/y in Oct and Sep while core CPI (excluding fresh food) edged higher to 0.4% y/y (from 0.3% in Sep). The last sales tax hike in Apr 2014 saw inflation shoot up to 3.4% y/y (from 1.6% in Mar 2014). The Bank of Japan (BOJ) was again less optimistic about prices as it noted "risks to prices are skewed to the downside" and lowered fiscal 2019-2021 CPI forecasts. The effects of the sale tax hike are assumed to be "flushed out" by fiscal 2021 with core CPI, revised lower to 1.5% (from 1.6%) in fiscal 2021, still far from 2%.

CENTRAL BANK: Easing Expectations In 2020?

The BOJ kept its monetary policy stance and policy rate unchanged at the Oct 2019 Monetary Policy Meeting (MPM) but it "dovishly" enhanced its forward guidance to suggest possible rate cuts in future policy meetings. The "dovishly" enhanced forward guidance was perhaps to re-emphasize the BOJ's commitment to achieving the 2% target and a signal that more easing measures could be coming (without actually doing easing in the immediate period). However, we believe continued forward guidance without action will not be sufficient, and with the economic data turning south, the BOJ will eventually need to act. The likelihood of substantial government fiscal stimulus package reinforces expectations that the BOJ will be on hold in Dec (2019) but we expect the BOJ to renew easing monetary policy via deepening its negative policy call rate to -0.2% possibly in 1Q 2020 (from -0.1% presently). Potentially, other measures will follow if the domestic economic situation turns down further in 2020.

CURRENCY: JPY To Weaken Beyond 110 /USD

A 180-degree reversal of market sentiment from risk-off in 3Q19 to risk-on in 4Q19 spurred a strong recovery in USD/JPY from 3-year lows of 104.46/USD in late August to 109.50, as at 29-Nov. Assuming that trade escalation risks stay low, together with global central banks leaning on their accommodative stance, it is likely the current bout of risk-taking hence JPY weakness can still persist. Domestically, potential fiscal and monetary stimuli in 2020 are also clear negatives on the JPY. Taken together, we now expected further JPY weakness going forth and our USD/JPY point forecasts are 110 in 1Q20, 112 in 2Q20 and 113 in 3Q and 4Q20. This is in contrast to our previous forecasts of 108 for 4Q19, 107 for 1Q20, 106 for 2Q20 and 3Q20.

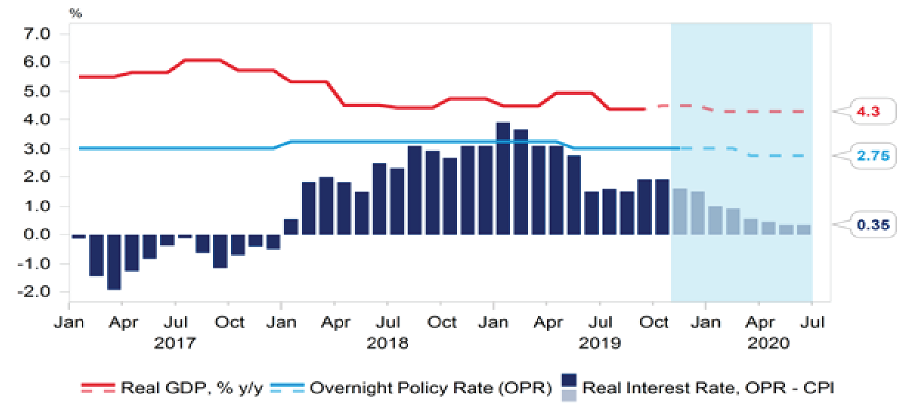
MALAYSIA

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/MYR	4.19	4.22	4.25	4.25
MYR O/N Policy Rate	2.75	2.75	2.75	2.75

Economic Indicators	2017	2018	2019F	2020F
GDP	5.7	4.7	4.6	4.4
CPI (average, y/y %)	3.8	1.0	0.8	2.5
Unemployment rate (%)	3.4	3.3	3.4	3.5
Current account (% of GDP)	2.8	2.1	3.5	2.5
Fiscal balance (% of GDP)	-3.0	-3.7	-3.4	-3.2

Potential Rate Cuts In 2020

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Slower Growth Outlook

Real GDP growth moderated to 4.4% y/y in 3Q19 (from 4.9% y/y in 2Q19) in line with a similar trend of decelerating growth in the region. Growth momentum across most domestic demand components and net exports slowed. Private consumption was the prime driver with a robust growth of 7.0% y/y which contributed 4.1% points to headline growth. However, investments continued to slide with private investments grinding to 0.3% y/y and public investments contracted by a wider 14.1% y/y. Key economic sectors moderated in 3Q19 with support from services (5.9%), manufacturing (3.6%), and agriculture (3.7%). This helped to offset declines in mining and quarrying (-4.3%) and construction (-1.5%).

We project a slower growth of 4.4% in 2020 from an estimated 4.6% in 2019. Domestic-oriented sectors are expected to remain key anchors of growth while the external sector is subject to further downside risks emanating from global trade tensions, policy uncertainty, and geopolitical risks. On the domestic side, we are wary of muted investments and sustained weakness in the broad property segment. Feedback from channel checks was that government disbursement remains slow which is evident from the persistent decline in public investments. Though budget 2020 is expansionary with MYR3bn worth of pre-emptive measures to support the economy, the efficiency and effectiveness of public spending is subject to uncertainty. To drive growth, these measures need to enable private sector involvement, revive business sentiment, and stimulate private investment.

Market Performance Since 2018 General Election

Malaysia's domestic bonds and equity markets have suffered a cumulative outflow of MYR40.6bn since elections last year, bringing foreign holdings of Malaysia's bonds and equities to multi-year lows. Though macro fundamentals remain stable with a higher current account surplus and narrower fiscal deficit targets, investors remain on the side lines as broader political and policy uncertainties continue to weigh on confidence.

Nevertheless, FTSE Russell continued to keep Malaysia on its watch list for potential exclusion from its World Government Bond Index (WGBI) until the next review in March 2020. This remains a key event risk for domestic markets. Ultimately, we think FTSE Russell will retain Malaysia in the WGBI but lower the index weight for Malaysia to pave the way for China's inclusion.

Hence, key re-rating catalysts for Malaysia's markets and MYR include clarity on political succession, positive outcome from FTSE Russell's review in March 2020, and a surprise upside in the economy should government spending recover, regulatory hurdles reduced, and investment realisation accelerates.

CENTRAL BANK: Potential Rate Cuts In 2020

Given the slower trend growth below Malaysia's potential output of 4.8% - 5.0%, we have pencilled in a 25bps cut in the Overnight Policy Rate to 2.75% in 1Q20. This is to safeguard domestic growth amid lingering trade uncertainties and muted investments.

Bank Negara Malaysia cut the OPR by 25bps to 3.00% in May 2019. This was followed by a reduction in the Statutory Reserve Requirement (SRR) ratio by 50bps to 3.00% effective 16 Nov. This marks the first SRR reduction since Feb 2016. We believe the SRR cut comes amid a moderation in domestic liquidity as broad money supply slows and outflows in foreign portfolio funds persist. We estimate about MYR7.4bn of liquidity will be released into the banking system with the 50bps cut in SRR.

Year-to-date, inflation averaged 0.6% in Jan-Oct 2019 (Jan-Oct 2018: 1.1%). The floating of fuel pump prices on a gradual basis starting in Jan 2020, a planned upward adjustment in water tariffs nationwide, and base effects would be key factors lifting inflation in 2020. We expect inflation to hover around 1.1%-1.3% for the remaining two months of 2019, before edging up above 2.0% in 2020. This leaves average full-year inflation at 0.8% in 2019 and 2.5% for 2020. Despite expectations of higher inflation, price pressures should be contained amid moderate demand.

CURRENCY: MYR To Weaken Modestly In 2020

Alongside a broad recovery in Asian FX on US-China trade optimism, the MYR rebounded to 4.12 /USD in early Nov (from 4.19 in Oct) before easing to 4.17 by the end of the month. Even if external headwinds were to ebb in the coming year, downside risks to domestic growth are likely to pin MYR weaker. Overall, we keep to the view of a modestly higher trajectory for USD/MYR, to 4.19 by 1Q20 then 4.22 by 2Q20 before plateauing at 4.25 in 3Q20 and 4Q20.

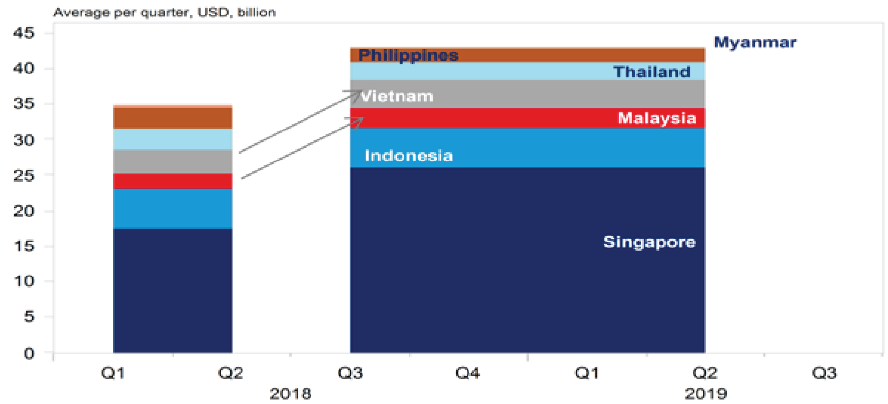
MYANMAR

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/MMK	1,510	1,530	1,540	1,540

Economic Indicators	2017	2018	2019F	2020F
GDP	6.8	6.2	6.6	6.7
CPI (average, y/y %)	4.6	6.9	8.8	6.5
Unemployment Rate (%)	4.0	4.0	4.0	4.0
Current account (% of GDP)	-6.5	-4.1	-4.7	-4.9
Fiscal balance (% of GDP)	-4.4	-4.5	-4.5	-4.5

FDI Inflows To Myanmar Weaker Even As Vietnam And Malaysia Seeing Stronger FDI Inflows Since Onset Of Us-China Trade Tensions

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Both Growth & Risks Higher In 2020

Myanmar is one of the fastest growing economies in Asia and the economic outlook is still positive, with expected growth at 6.7% in 2020 (from a projected 6.6% in 2019). The factors driving growth include higher foreign direct investment (FDI), expansion of tourism-related services, stronger fiscal spending and improving exports in agricultural products, garments and light manufactured goods.

Investment sentiment on Myanmar remains robust as FDI continued to flow into various industries in 2019. According to the Myanmar Investment Commission (MIC), between 1988-89 FY and 2018-19 FY, a total of US$84bn FDI flowed into the country, of which the bulk of it is under the Myanmar Investment Law (US$82.2bn) while a much smaller portion is under the Special Economic Zone Law (US$1.9bn). To date, companies from 50 countries have invested into Myanmar while investments continued to be led by companies from China and Singapore.

By sector/industry, the oil and natural gas sector (US$22.4bn) and the electricity sector (US$21.2bn) account for more than 50% of all FDI so far. While the FDI into manufacturing/production sector remains a distant 3rd (at US$11.5bn that is under Myanmar Investment Law), it is notable that the FDI are from 1,162 permitted companies, largest number than any other sectors. And under the Special Economic Zone Law, the bulk of the permitted companies (90 out of 114) and the FDI (US$1.5bn of the US$1.9bn to date) goes into the manufacturing/production sector. That said, FDI inflows to Myanmar have turned weaker in recent quarters even as ASEAN countries like Vietnam and Malaysia are receiving higher FDI inflows since the onset of the US-China trade tensions in 2018.
It is hoped that after the investment/infrastructure building stage, the Myanmar economy will follow in the footsteps of Vietnam, with growth driven by manufacturing and exports via sustainable FDI inflows and growing domestic consumption base. In addition, recent reforms in banking and financial sectors have helped to draw higher foreign investor interest in Myanmar. These include allowing foreign banks to expand and lend to local businesses and opening up the insurance sector to foreign ownership.

Beyond the investment perspective, other macro-economic factors also bear watching. After a recent peak above 10% y/y in Jul-Aug 2019, inflation eased slightly to 9.5% in Sep. The upside pressure on inflation is likely due to greater fiscal spending and rising domestic demand and is averaging higher than many of the key economies in ASEAN which in turn, could be a source of stability risk for Myanmar. We expect inflation to average 8.8% in 2019 but this is likely to ease to a more benign 6.5% in 2020.

Furthermore, the country still suffers from the persistent twin deficits of the current account and fiscal budget shortfall which is unlikely to see any material turnaround in 2020/2021. If FDI inflows continue to ebb, that means less flows to finance the current account deficit, and together with the persistent fiscal deficit and elevated inflation, there could be downside pressure on the reserves levels and increases the risks to the financial stability. In terms of geopolitics, the next general election is tentatively scheduled for Nov 2020. Rising political and policy uncertainty in the run-up to the general election could be another dampening factor for investors who may defer investment decisions in 2020 until after the election is over.

CURRENCY: Weakening Bias In MMK Remains

After an outsized 12% drop from 1,361 /USD to 1,533 /USD in 2018, trading in the MMK was muted in 2019 in a narrow range between 1,500 and 1,550. Our longer term outlook on the MMK remains that of a weakening bias against the USD due to the persistent twin deficits of the current account and fiscal budget. Next year, political uncertainty may also cast an overhang on the MMK as the election draws nearer. As such, we maintain a modestly higher trajectory in USD/MMK with point forecasts at 1,510 in 1Q20, 1,530 in 2Q20, and 1,540 in 3Q20 and 4Q20.

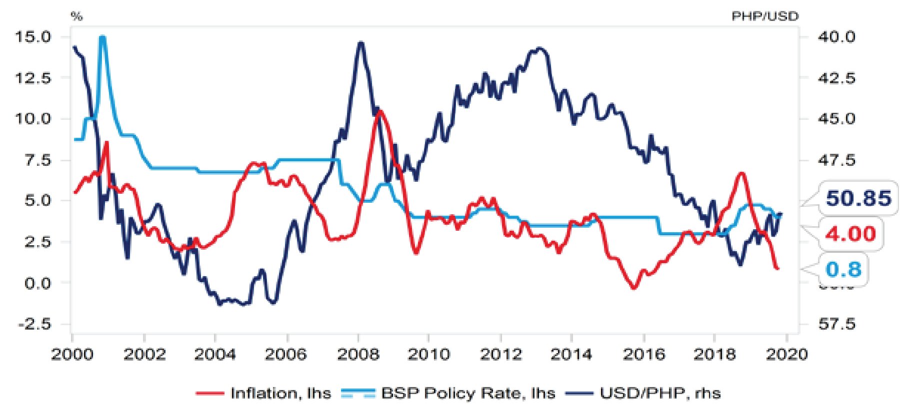
PHILIPPINES

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/PHP	51.50	51.80	52.00	52.00
PHP O/N Reverse Repo	3.75	3.50	3.50	3.50

Economic Indicators	2017	2018	2019F	2020F
GDP	6.7	6.2	6.0	6.5
CPI (average, y/y %)	2.9	5.2	2.5	3.0
Unemployment rate (%)	5.7	5.3	5.2	5.2
Current account (% of GDP)	-0.7	-2.4	-2.0	-2.4
Fiscal balance (% of GDP)	-2.2	-3.2	-3.2	-3.2

BSP Is Expected To Resume Rate Cuts In 1H20

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Back In Stride

The Philippine economy is expected to sustain a decent growth rate of above 6.0% y/y in 4Q19 and into 2020 after staging a stronger-than-expected rebound to 6.2% y/y in 3Q19 (from 5.5% y/y in 2Q19). The government will continue to flex both fiscal and monetary stimulus to further boost government spending on infrastructure program and household consumption amid continued overseas remittances inflows and manageable inflation expectations. Fixed investment is also set to continue its recovery, supported by accommodative monetary policy and higher public infrastructure spending. Nearly a third of the country's new list of 100 flagship infrastructure projects will begin construction over the next 6-8 months, mainly led by the private sector.

Besides that, under the 2020 national budget, the government has plans to ramp up infrastructure investment with a proposed allocation of PHP972.5bn or 4.6% of GDP (vs. PHP909.7bn in 2019). Should this proposed 2020 budget amounting to PHP4.1tr (vs. PHP3.7tr in 2019) be approved and signed into law by mid-Dec, it will further underpin the growth prospects for the Philippine economy next year.

Hence, we expect 2019 full-year GDP growth to come in at 6.0%, hitting the lower end of the government's target range of 6.0%-7.0%. It will likely pick up further to 6.5% in 2020. Downside risks to our growth outlook include a pronounced global recession risk emanating from ongoing global trade disputes and geopolitical tensions, a further downturn in the technology sector, as well as another budget delay in 2020.

CENTRAL BANK: Moderate Rate Cuts In 2020

While domestic growth prospects are expected to improve further going into 2020, real GDP growth is likely to remain below the country's potential output growth of between 6.7% and 6.9%. In the Nov monetary policy statement, Bangko Sentral ng Pilipinas (BSP) expects the fiscal budget for 2020 to be passed this year to support domestic growth, but global economic activities are likely to remain weak as a result of uncertainties arising from US-China trade disputes which could be more long-drawn than expected. This suggests that risks to the Philippines' growth outlook continue to tilt towards the downside.

Meanwhile inflation expectations remain well anchored within the BSP's target range of 2.0%-4.0% despite some upside risks going into 2020. Inflation is expected to bottom out in Oct and start to pick up from Nov onwards due to dissipating high base effects. Other factors such as a planned hike in excise duties for tobacco and alcoholic beverages, potential adverse impact from the ongoing African Swine Flu (ASF) epidemic crisis on food prices, as well as volatile global crude oil prices are wildcards for inflation next year. We project inflation to pick up to 3.0% in 2020 (BSP's forecast: 2.9%) from an estimated 2.5% in 2019 (BSP's forecast: 2.4%).

The moderate inflation provides room for BSP to ease its monetary policy further in early 2020 to sustain the growth momentum. We expect BSP to resume its policy rate cuts in 1H20 after taking a pause at the Nov and Dec MPC meetings this year, reducing the overnight reverse repurchase rate by a cumulative 50bps (25bps in each quarter) to 3.50% by mid-2020.

We also expect BSP to reduce the reserve requirement ratio (RRR) by an additional 100bps-200bps in 2020, depending on domestic liquidity conditions and credit growth. In 2019, BSP has cut RRR three times by a cumulative 400bps to 14.0%. Governor Benjamin Diokno highlighted plans to reduce the RRR to single digits by the end of his term in 2023.

CURRENCY: Less Negative On PHP

A sudden pick-up in global risk appetite in the 4Q19 spurred a revival of the Emerging Markets (EM) carry trade. Consequently, the PHP gained 2.2% to 50.7/USD across Oct-Nov, marking the best performing Asian currency quarter-to-date amid better domestic growth prospects and higher real yields on the back of government stimulus measures.

While investors' longer term worries of Philippines' twin deficits linger, expectations of sustained inflows of overseas remittances and foreign direct investments amid less aggressive BSP rate cuts pared part of our negative outlook on the PHP.

Overall, though we maintain a higher trajectory in USD/PHP, the slope is reduced to factor in the positive developments. Our point forecasts are now at 51.5 in 1Q20, 51.8 in 2Q20, and 52.0 in 3Q20 and 4Q20, compared with our previous expectation of a higher 53.0-53.5 range in 2020.

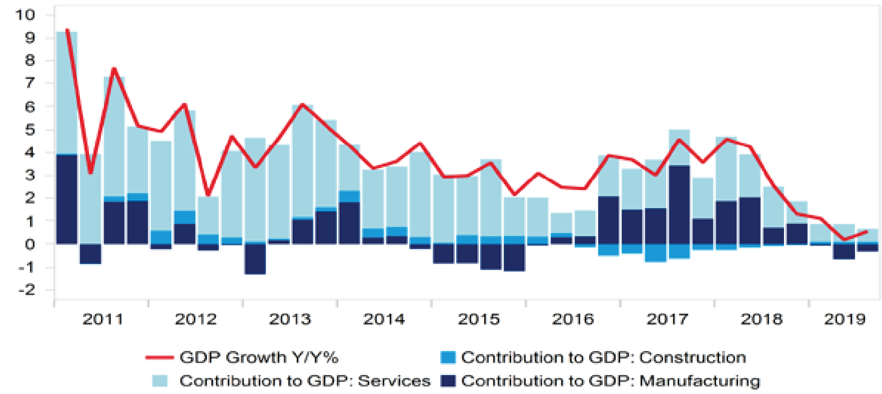
SINGAPORE

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/SGD	1.37	1.38	1.39	1.39
SGD 3M SIBOR	1.55	1.55	1.55	1.55

Economic Indicators	2017	2018	2019F	2020F
GDP	3.7	3.1	0.5	1.5
CPI (average, y/y %)	0.6	0.4	0.6	1.2
Unemployment Rate (%)	2.2	2.1	2.3	2.3
Current account (% of GDP)	16.4	17.9	17.6	17.3
Fiscal balance (% of GDP)	0.3	0.4	-0.7	-0.5

Singapore GDP: Sectoral Contribution To Growth

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Improved Growth Outlook Into 2020

In our last quarterly report, we had identified that Singapore's economy has seen signs of stabilisation in early 2H19. Incoming data of late further reinforces this view, and suggests an improved growth outlook into 2020. The Singapore economy surprised market estimates with a growth of 0.5% y/y in 3Q19, versus market expectations for a milder 0.4% print. On a seasonally-adjusted basis, growth expanded 2.1% on a quarter-on-quarter perspective, thus confirming that Singapore avoided the dreaded technical recession scenario.

Growth has been underpinned by a sustained expansion in the construction sector. In addition, most services industries (except Wholesale & Retail and Transportation & Storage) grew when compared to the previous year. Manufacturing continued to drag on growth with a 1.7% y/y contraction, but was much improved from the preliminary estimate of -3.5%, thereby contributing most to the upward GDP revision. Growth in Finance & Insurance (+3.4%) persisted, followed by Information & Communications (+3.4%) and Hotels & Restaurants (+2.0%).

Consumer prices are expected to stay benign for the rest of 2019 accompanied by weak demand conditions and soft external sources of inflation. Upside risks to inflation for 2020 can be expected however, as economic conditions are likely to have improved then. Official expectations are for the dissipation of negative contribution of imputed rentals to headline inflation in 2020, while the effects of lower electricity prices seen during the progressive launch of the Open Electricity Market over the period April 2018 to May 2019 should dissipate as well into 2H20.

Barring further exacerbation in the uncertainties and risks, we keep our full-year growth outlook for 2019 and 2020 at 0.5% and 1.5%, respectively. MTI pencils Singapore's growth outlook at 0.5 – 2.5% in 2020, up from the revised growth range of 0.5 – 1.0% in 2019. The manufacturing sector is expected to return to positive growth into the next year, aided by a rather low base year seen in 2019 as well as a potential turnaround in global semiconductor demand. In the services sector, growth in the information & communications and finance & insurance sectors are "expected to remain healthy", supported by firms' demand for IT and digital solutions and sustained demand for payment processing services.

CENTRAL BANK: Keeping The Powder Dry

Given the potential recovery in Singapore's growth into 2020, we continue to expect the Monetary Authority of Singapore (MAS) to keep its monetary policy parameters unchanged at its April 2020 MPS meeting. Note that in October 2019, MAS reduced the appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) slope "slightly", which we estimate at 0.5% currently. Despite the slowdown in growth and benign inflation pressures to-date, there remains the possibility for both growth and inflation to pick-up into 2020 barring unexpected negative shocks. In addition, there are optimistic signals from pockets in the services cluster, owing to the positive domestic-driven momentum in the modern-services sector and continued growth in the construction sector.

CURRENCY: SGD To Weaken Modestly

Even as trade tensions wax and wane across 2019, USD/SGD traded within the tightest annual range since 1996, between 1.3443 and 1.3941 and looks set to finish the year little changed at around 1.3660. The SGD persisted at the stronger half of the policy band even after the MAS has eased the policy slope of the S$NEER in October. Notwithstanding a slightly brighter growth and inflation, we continue to see a lower S$NEER from at about 1.6% above the midpoint as at end-November. Overall, we maintain our modestly upward trajectory in USD/SGD but SGD weakness this time round would be limited to 1.39/ USD as the trough of the trade-induced slowdown may be behind us for now. Going forward, our point forecasts are 1.37 for 1Q20, 1.38 for 2Q20 and 1.39 for both 3Q and 4Q20.

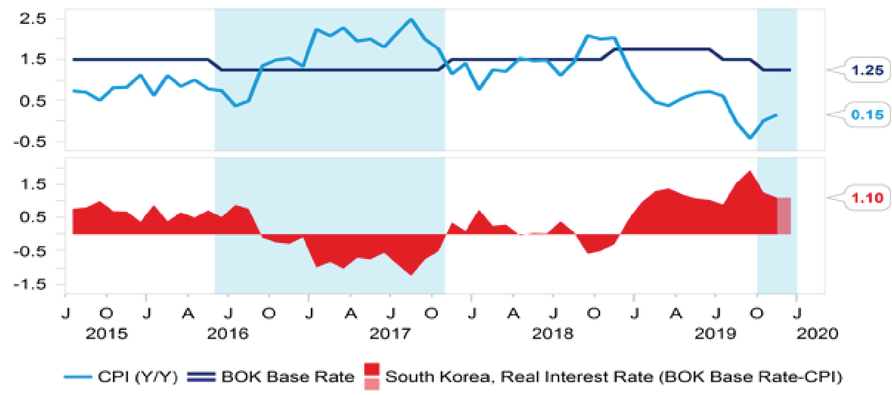
SOUTH KOREA

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/KRW	1,200	1,210	1,220	1,220
KRW Base Rate	1.25	1.25	1.25	1.25

Economic Indicators	2017	2018	2019F	2020F
GDP	3.2	2.7	2.0	2.1
CPI (average, y/y %)	1.9	1.5	0.4	0.9
Unemployment rate (%)	3.7	3.8	3.8	3.9
Current account (% of GDP)	4.6	4.4	3.0	3.6
Fiscal balance (% of GDP)	-1.7	-1.7	-1.8	-1.8

Real Interest Rates Significantly Higher Compared To When The Base Rate Was Last At 1.25%

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Growth Outlook Modestly Better In 2020

South Korea's economy maintained a stable growth of 2.0% y/y in 3Q19, similar to 2Q19. Private consumption growth moderated but government consumption was held up by increased spending on health care and benefits. The proactive fiscal policy is likely to be maintained to boost growth in coming quarters. Meanwhile, gross fixed capital formation (GFCF) contracted for the 6th consecutive quarter with both construction and facilities investment continuing to fall due to increased business uncertainties. Private sector continued to hold back although the government had been stepping up fixed investments in the last two quarters. As for trade, the double-digit expansion in services exports helped to offset the contraction in goods shipments in 3Q19. Monthly merchandise trade numbers suggest that the export sector is likely to remain sluggish in the near-term.

Overall, the South Korean economy recorded a growth of 1.9% y/y in the first three quarters of 2019. Given the more moderate growth outlook and sluggish investment, we have lowered our 2019 full-year growth forecast to 2.0% (4Q19f: 2.0%) from 2.2% previously. We expect a small uptick in the growth rate to 2.1% in 2020 on the back of some recovery in the semiconductor industry by 2H20 and assuming that US and China are able to prevent an escalation in tensions.

CENTRAL BANK: BOK Hit Pause Button In November

The Bank of Korea (BOK) expectedly kept its benchmark interest rate unchanged at a record low of 1.25% at its final meeting in 2019. Having cut interest rate twice since July this year, Governor Lee continued to signal room for further cuts but said the central bank remained mindful of financial imbalances and is reviewing the short-term impact from earlier rate cuts. And given that the momentum of monetary easing by global central banks appears to be slowing, we now expect the BOK to be on hold in 1Q20 with further easing being contingent on the deterioration in the economic outlook. Meanwhile, the BOK has indicated that it is not prepared to use monetary policy tools other than interest rate yet.

Domestic inflation continues to be subdued even as the economy emerges from deflation. This keeps the door open for further rate cuts should growth momentum weaken again. South Korea's consumer price index recovered further in November with headline inflation rebounding to 0.2% y/y after two months of deflation in August and September. Core inflation (excluding agricultural products and oils) was sluggish at 0.6% y/y in November. Year-to-date (YTD) in November, headline and core inflation averaged 0.4% y/y and 0.9% y/y respectively. We expect headline inflation to average 0.4% in 2019 and accelerate to 0.9% in 2020. This remains well below the BOK's inflation target of 2%.

CURRENCY: Less Bearish On KRW

Although the trade-sensitive KRW is still on track to be the worst performing Asian currency this year (-5.6% YTD), it has rebounded by about 1.3% in 4Q to 1,181 /USD, as at 29 November. The move coincided with an improvement in US-China trade talks starting in October.

To recall, in the past year, we were relatively more negative on KRW alongside CNY against the USD as both South Korea and China's economies and currencies were expected to bear the brunt of US-China trade tensions. Going forward, with downside risks to external trade and domestic growth receding, together with our less bearish recalibration of CNY, we now foresee modest weakness of KRW going forth. Our point forecasts for USD/KRW in 2020 are 1,200 in 1Q, 1,210 in 2Q, and 1,220 in both 3Q and 4Q. This is a mark down from a range of 1,210 - 1,230 in the same period as per the previous quarterly update.

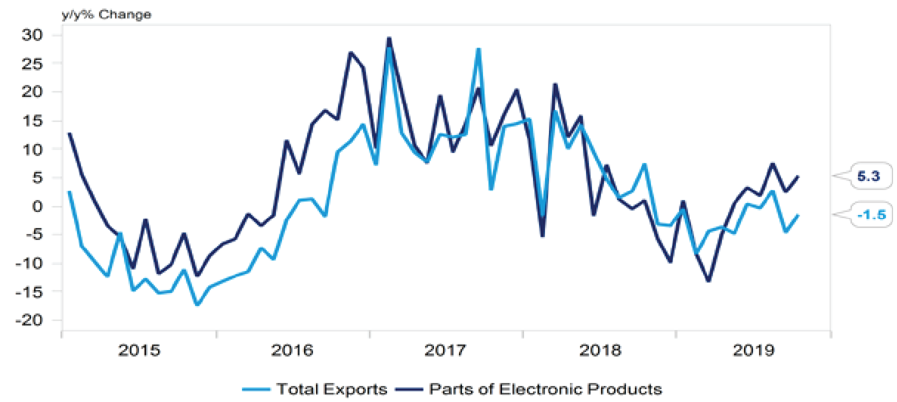
TAIWAN

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/TWD	30.50	30.80	31.00	31.00
TWD Official Discount Rate	1.38	1.38	1.38	1.38

Economic Indicators	2017	2018	2019F	2020F
GDP	3.3	2.7	2.6	2.6
CPI (average, y/y %)	0.6	1.3	0.6	0.7
Unemployment Rate (%)	3.8	3.7	3.7	3.7
Current account (% of GDP)	14.1	11.6	10.4	11.0
Fiscal balance (% of GDP)	0.0	0.6	-0.2	-0.3

Taiwan: Exports Have Rebounded

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Clear Beneficiary Of Supply Chain Shift

Taiwan's GDP continued to show strong growth momentum and is a clear outperformer in the region despite the US-China trade tensions and weakening Chinese demand. The economy has benefited from the supply chain shift, supported by the government's efforts to facilitate returning overseas Taiwanese companies through land acquisition, industrial human resources, financing, provision of utilities and tax services.

Growth accelerated to 2.99% y/y in 3Q19 from 2.60% in 2Q19, the highest pace in five quarters. The growth in 3Q19 was largely generated by net exports (+1.5% point contribution) and private final consumption (+1.2% point contribution). Despite a relatively high base, gross fixed capital formation (GFCF) growth remained positive and it was driven almost entirely by the private sector (+1.0% point contribution) which added to the positivity surrounding Taiwan's economic prospects. The decline in stocks (-1.20% point) was the largest drag on headline growth in the third quarter.

Overall, Taiwan economy expanded by 2.49% y/y in the first three quarters of the year. The government has revised its GDP series and currently projects a full year growth of 2.64% in 2019 and sees it picking up to 2.72% in 2020. It sees the robust growth pace holding up at around 3.0% y/y in both 4Q19 and 1Q20. Our forecast for Taiwan's GDP growth is now at 2.6% for both 2019 and 2020.

Notwithstanding the resilience so far, we do not think Taiwan will be immune to the downturn in global trade should a break of current trade truce between US and China lead to additional tariffs being imposed on a wider range of Chinese consumer electronics. The mainland accounts for more than a quarter of Taiwan's total exports and a large chunk is related to the electronics industry. For now, we remain positive on Taiwan's outlook due to the reshoring of overseas Taiwanese companies, projection of a recovery in the tech cycle underpinned by 5G adoption and stabilization of the US-China trade relations. Although the national election on 11 January 2020 poses some risk to cross-strait relations, we have not factored in any explicit impact to our growth forecast. Notably, tourist arrivals from the mainland have plunged since August but this was offset by higher arrivals from other countries including Japan and South Korea.

CENTRAL BANK: CBC Chooses To Keep Policy Space

Domestic inflation has been low so far into 2019 due to falling transportation and communication costs as well as weak commodity prices. Headline and core (excluding fruit, vegetables, and energy items) inflation both averaged 0.5% y/y in the first 10 months of 2019. With global growth still looking listless, Taiwan's subdued inflation outlookwill likely extend into 2020 despite stronger-than-expected domestic private consumption demand. We expect headline inflation to average 0.6% and 0.7% in 2019 and 2020 respectively.

Despite the low inflation, there has been no change to Central Bank of the Republic of China (Taiwan) or CBC's neutral stance so far and we see this as a preservation of policy room should growth outlook weaken unexpectedly. We maintain our call for CBC to keep its benchmark discount rate at 1.375% through 2019 and 2020. The last rate move was back in 2Q16 when the central bank cut interest rate by 12.5 bps to current level. The benchmark rate is currently near the record low of 1.25% that was registered during the Global Financial Crisis and current economic conditions may not justify a benchmark rate at record low level yet.

CURRENCY: Recent Strong Gains Unlikely To Continue

The TWD is on track for its best quarterly performance (+1.7% 4Q-to-date vs USD) since 1Q18 after GDP growth surged to 2.99% in 3Q19. However, at current levels of about 30.50 /USD, there is hardly any new catalyst to justify further TWD gains. We expect growth to plateau at 2.6% next year while increasing political risks ahead of the January elections may hold back some investors. As such, we maintain our mild weakening bias for TWD going forth but have recalibrated the point forecasts in recognition of the pass through of positive risk sentiment on TWD of late. Our updated point forecasts of USD/TWD in 2020 are now 30.5 in 1Q, 30.8 in 2Q, and 31.0 in both 3Q and 4Q.

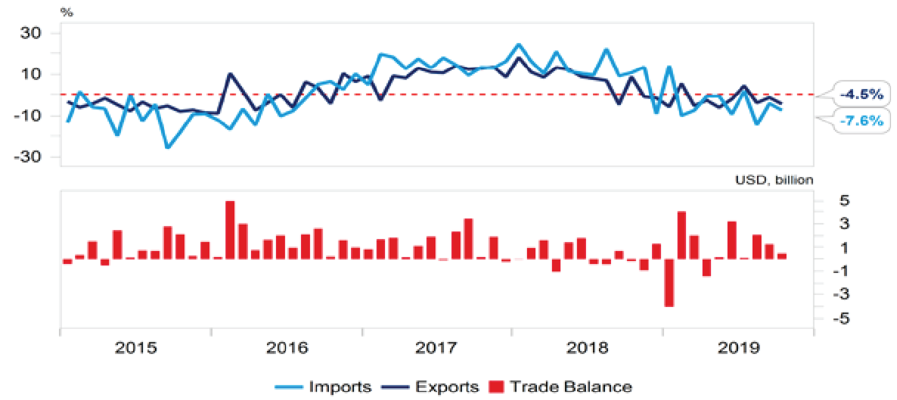
THAILAND

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/THB	30.00	30.50	30.80	30.80
THB 1D Repo	1.25	1.25	1.25	1.25

Economic Indicators	2017	2018	2019F	2020F
GDP	4.0	4.1	2.6	3.2
CPI (average, y/y %)	0.7	1.1	0.7	1.0
Unemployment rate (%)	1.0	1.0	1.1	1.0
Current account (% of GDP)	9.7	5.6	6.0	8.0
Fiscal balance (% of GDP)	-3.5	-2.5	-2.9	-3.0

Thailand's External Environment Remains Soft To-Date

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: A Cautiously Optimistic Outlook

Thailand's GDP grew marginally higher to 2.4% y/y in 3Q19 after decelerating to its slowest pace since 4Q14 at 2.3% y/y in the previous quarter. Growth was underpinned by the expansion in the agriculture sector, led by "greater yields of vegetables, rubber, and oil palm", while services growth accelerated further on the back of tourism activities which buoyed accommodation services, and land & air transport services. An increase in gross fixed capital formation was led by an expansion in both public and private investments.

Despite the growth in agriculture and services, the ongoing maturation of the global electronic cycle as well as uncertainties surrounding the US-China trade tensions will likely hamper Thailand's overall growth prospects. We downgrade Thailand's growth outlook to 2.6% for 2019 (from 2.8%) while keeping our 2020 growth forecast unchanged at 3.2%. The export outlook has also deteriorated to-date, with the National Economic and Social Development Council (NESDC) lowering its export outlook to -2.0% for this year, from a 1.2% contraction previously forecasted in Aug 2019.

We hold a cautiously optimistic view for Thailand to expand by 3.2% in 2020, in line with the NESDC's growth outlook range of 2.7% – 3.7%. Thailand's monetary policy is already accommodative given that its benchmark rate is at a record low of 1.25%. The Bank of Thailand (BOT) has also relaxed regulations to stimulate capital outflows in order to promote capital flow balance and lessen appreciation pressure on THB. Such measures include allowing exporters to keep foreign currency proceeds overseas; allowing retail investors to invest in foreign securities without going through a Thai intermediary institution; and allowing businesses and individuals to transfer funds abroad more freely.

Moreover, construction activities are also expected to be supported by the ongoing public sector projects, which include (1) the Phase II expansion of Suvarnabhumi Airport of the Airport Authority of Thailand; (2) Bangkok Water Supply Improvement Projects of the Metropolitan Waterworks Authority; (3) Water Pipelines Construction Project of the Provincial Waterworks Authority (PWA); and (4) work in progress of the MRT Orange Line Project (Thailand Cultural Center Section – Min Buri), which is a rapid transit line of the Mass Rapid Transit Authority of Thailand.

Elsewhere, headline inflation pressures are likely to stay benign and miss BOT's 1% – 4% target range for 2019. With inflation averaging 0.69% in the first eleven months of 2019, we expect consumer price index to grow merely 0.7% in 2019 and 1.0% in 2020. The softer inflation has led by falling energy prices, which had contracted for seven consecutive months. Prices of non-food & beverage items also fell for six straight months, led by THB's appreciation and falling commodity prices.

CENTRAL BANK: Maintaining Policy Rate Into 2020

For the next monetary policy meeting on 18 Dec 2019, the BOT will likely maintain the policy rate at 1.25% to gauge the transmission mechanism of monetary policy and the easing of rules on capital outflows first before considering their next move. Barring further unexpected negative shocks, we also expect BOT to keep its benchmark rate unchanged into 2020. Although Thailand's economy is expected to grow more slowly than its potential this year, there are other risks to financial stability that warrant close monitoring. In particular, Thai household debt picked up to 78.7% of GDP at the end of 1Q19, which is among the top three countries with the highest household debt in Asia.

CURRENCY: THB Finds It Hard To Strengthen Past 30 /USD

The THB is on track for a second year of outperformance relative to its Asian peers, benefiting from safe haven flows and bucking the Asian FX weakening trend since the onset of the trade conflict in mid-2018. The standout strength of the THB persisted even as the Thai economy slowed and authorities attempting to throw sand into the wheel which included an unexpected rate cut in Aug and measures to encourage capital outflows. Now with the pick-up in risk appetite, safe haven demand for the THB could plateau. As such, we see USD/THB in a stable range between 30.0 and 30.8 next year.

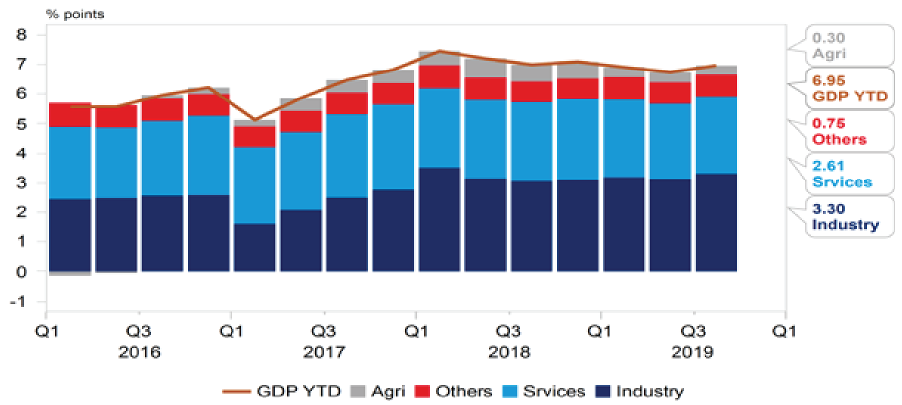
VIETNAM

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
USD/VND	23,300	23,400	23,500	23,500
VND Refinancing Rate	6.00	6.00	6.00	6.00

Economic Indicators	2017	2018	2019F	2020F
GDP	6.8	7.1	7.0	6.8
CPI (average, y/y %)	3.5	3.5	2.6	3.5
Unemployment Rate (%)	2.3	2.1	2.1	2.1
Current account (% of GDP)	2.1	2.4	2.3	2.5
Fiscal balance (% of GDP)	-4.7	-4.4	-4.3	-4.3

Vietnam: GDP YTD Growth Contributions by Main Sectors (% points)

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Growth Rate On Track To Hit 7% For Full Year

Vietnam's economy performed stronger than expected in 3Q19, rising 7.3%y/y, ahead of market expectation of 6.8% and the 6.7% pace in 2Q19. Growth momentum was supported by strong activities in manufacturing and services sectors, which expanded 10.05%y/y and 7.11%y/y, respectively, during the quarter.

YTD to 3Q19, Vietnam's economy rose by 7.0%y/y, from 6.8% in 2Q19. Manufacturing related activities continue to be the main driver Vietnam's growth momentum, as industry value added contributed 3.3% points, or nearly 50% share of overall expansion YTD in 2019. In comparison, during the 2016-2018 period, the average contribution of manufacturing was only 42% share to the overall activities. With investments continuing to flow into the country in response to the shift in global supply chains, manufacturing activities are expected to remain the key economic driver for at least the next 1-2 years.

While Vietnam's growth target for 2019 remains at 6.8%, Prime Minister Nguyen Xuan Phuc said in the National Assembly on 21 Oct that the country's pace of economic growth could exceed its target due to robust exports and foreign investment. With the strong momentum likely to continue in the next 1-2 quarters, we are revising up full year 2019 growth forecast to 7% (from our previous projection of 6.8%), followed by a slight tapering to 6.8% in 2020. This implies economic activities in 4Q19 to rise by 7.1%y/y.

Investment: FDI Activities To Remain Strong

Indeed, foreign direct investment (FDI) flows and the manufacturing sector have been well supported even amidst the ongoing uncertainty from the US-China trade tensions, and has benefitted from a shift in global supply chains as companies relocate. Vietnam saw an annualized FDI inflow of more than USD15bn in 2019, close to the full year amount of USD15.5bn in 2018, and more than 40% higher than the average annual flow of USD10.7bn in the 2010-18 period. As US-China trade tensions escalated in the second half of 2018, average FDI inflows to Vietnam have picked up to USD4bn in each quarter, about 18% higher compared to USD3.4bn average in the first half of 2018. This pace is likely to remain given the uncertainty of how the US-China trade tensions could be fully resolved, despite signs of potential compromises by both sides.

CENTRAL BANK: SBV To Hold For Now

The State Bank of Vietnam (SBV) made a surprise rate cut on 13 Sep, bringing the policy refinancing rate down to 6.0%, which will be helpful in providing support to economic activities. However, with the unexpectedly strong 3Q GDP report as well as expectations that full year growth likely to exceed official target, and with the policy standing at the lowest since end-2005, there are few incentives for the central bank to take on more aggressive posture. Taking into consideration that the US Federal Reserve is likely to be taking a breather after three rate cuts in 2019, we anticipate the SBV to do likewise and stay on hold at least for the next 2-3 quarters.

CURRENCY: VND To Weaken At A Slower Pace

The VND is on track to finish 2019 unchanged on the year at about 23,200 /USD. Strong domestic growth and FDI activities helped mitigate headwinds from the US-China trade conflict and an unexpected rate cut from SBV. At the same time, we are wary against extrapolating further gains in the VND. Given Vietnam's history of currency devaluation in the past and its persistent fiscal deficit, we still maintain a bias for weaker VND against the USD going forth. Compared to our previous forecasts, we have moderated the pace of depreciation in view of the growth momentum and inflows. Our latest USD/VND point forecasts are 23,300 for 1Q20, 23,400 for 2Q20, and 23,500 for 3Q and 4Q20, versus previous estimates of a steeper trajectory towards 23,900 by end-2020.

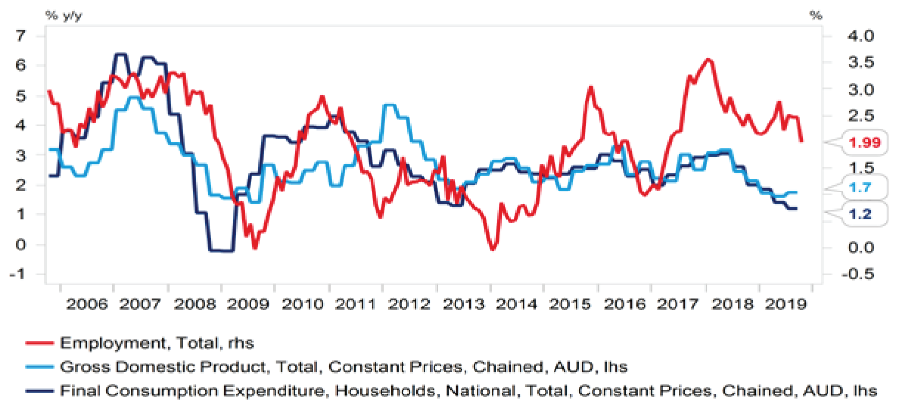
AUSTRALIA

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
AUD/USD	0.69	0.69	0.70	0.70
AUD Offical Cash Rate	0.75	0.75	0.75	0.75

Economic Indicators	2017	2018	2019F	2020F
GDP	2.4	2.8	1.8	2.4
CPI (average, y/y %)	1.9	1.9	1.6	2.0
Unemployment rate (%)	5.6	5.3	5.2	5.2
Current account (% of GDP)	-2.6	-2.1	0.1	-0.8
Fiscal balance (% of GDP)	-0.8	0.0	-0.1	0.3

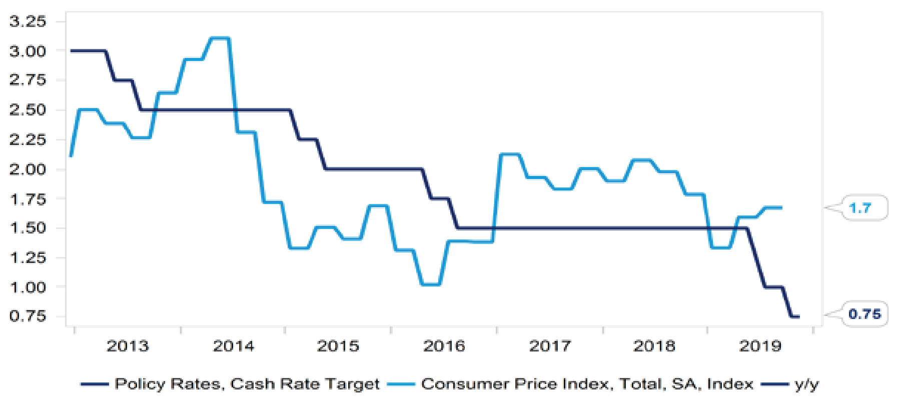
Weak Consumer Spending Signals Job Growth Will Slow Further

Source: Macrobond, UOB Global Economic Economics & Markets Research



Inflation And RBA's Policy Rate

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Economic Backdrop Remains Challenging

Australia's GDP slipped to 0.4% q/q in 3Q19, down from a revised 0.6 q/q in 2Q19, and below expectations of 0.5% q/q. The below-trend 1.7% y/y annual expansion came in within expectations, a tad higher from the revised 1.6% y/y reading in 2Q19. Growth continued to be dragged lower by weak household spending, with domestic final demand remaining subdued, contributing just 0.2ppts. Government spending was up 0.9% and was the main contributor to growth in domestic final demand, reflecting ongoing delivery of services in disability, health and aged care. Net exports contributed 0.2ppts to growth for the quarter.

The weakness in domestic demand continues to be a main story, with consumption growth remaining weak. Hiring momentum also seems to have weakened recently. All of these could negate the positive wealth effect expected from the housing price recovery. In addition, weak capex data (-0.20% in 3Q19) reinforces the view of that the ongoing decline in dwelling investment will keep the economic backdrop for Australia subdued. Our growth forecasts of 1.8% for 2019 and 2.4% for 2020 are lower than the RBA's, which expects growth to return to around 2.75% in 2020 and 3.00% in 2021 going forward.

CENTRAL BANK: On Hold For Now But Risk Of Further Rate Cuts Ahead

As widely expected, the RBA kept its OCR at the historic-low of 0.75% at its final meeting for the year, after making three quarter-point reductions to the OCR this year in June, July and October. For now, it is indeed clear that the RBA appears to be in a holding pattern as it waits to gauge the effects of the rate cuts so far this year. Although we remain less optimistic than the RBA that growth will return to trend, the RBA seems to be strongly signaling their confidence in a better economic backdrop and therefore is likely to stay pat for some time.

As such, even as we maintain our OCR call of 0.75%, for now, we are not ruling out further easing ahead. In fact, the case for a rate cut at the next RBA meeting on 4 February 2020, will depend on housing, construction and economic data released over the next two months. At the same time, the Government does not seem to be inclined to provide material fiscal stimulus in the near term, which increases the need for the RBA to ease further, should the labour market deteriorate and consumer spending weakens further.

CURRENCY: AUD May Have Seen Its Worst In 2019

After dropping for a second straight year in 2019, the AUD is on firmer ground to stage a rebound next year if both domestic and external headwinds moderate further. Domestically, there are some initial signs that the aggressive 75bps of rate cuts from the RBA has started to work its way through the economy. House prices registered its first monthly gain in two years in July and continued to rise sharply through October (by 1.4%). Consumption which has been the Achilles' heel of the Australian economy could get a lift from a sustained recovery in the housing market. This may allow the RBA to preserve its remaining monetary policy ammunition. Underpinned by a modest recovery in growth and inflation next year, a less aggressive RBA together with an improved tone in US-China trade may keep the AUD/USD supported at 0.69 in 1H20 before a modest recovery towards 0.70 in 2H20. Based on our view of a "relatively rich" S$NEER, there could be value for long AUD/SGD exposures at current levels of around 0.9240 as it nears GFC lows of 0.9066.

EUROZONE

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
EUR/USD	1.11	1.11	1.13	1.15
EUR Refinancing Rate	0.00	0.00	0.00	0.00

Economic Indicators	2017	2018	2019F	2020F
GDP	2.5	1.9	1.1	1.0
CPI (average, y/y %)	1.5	1.8	1.2	1.2
Unemployment Rate (%)	9.1	8.2	7.6	7.5
Current account (% of GDP)	3.2	3.1	2.8	2.7
Fiscal balance (% of GDP)	-0.9	-0.5	-0.9	-1.0

ECB: Doves vs Hawks

Name	Position	Country	12 Dec	23 Jan	12 Mar	Scale
Olli Rehn		Finland	✓	✓	✓	DOVISH
Pablo Hernández de Cos		Spain	✓	×	✓	
Luis de Guindos	Vice President	Spain	✓	✓	✓	
Philip R. Lane	Exec Board	Ireland	✓	✓	✓	
Peter Kažimír		Slovakia	✓	✓	✓	
Ignazio Visco		Italy	✓	✓	×	
Yannis Stournaras		Greece	✓	✓	✓	
Bostjan Vasle		Slovenia	✓	✓	✓	
Christine Lagarde	President	France	✓	✓	✓	
Constantinos Herodotou		Cyprus	×	✓	✓	
Pierre Wunsch		Belgium	✓	✓	✓	
Isabel Schnabel	Exec Board	Germany	✓	✓	✓	
Gabriel Makhlouf		Ireland	✓	✓	✓	
Gaston Reinesch		Luxembourg	✓		×	
Mario Vella		Malta	✓	✓	×	
Carlos Costa		Portugal	✓	✓	✓	
Ilmars Rimšēvičs		Latvia	×	×	✓	
Vitas Vasiliauskas		Lithuania	×	×	✓	
Benoît Cœuré	Exec Board	France	✓	✓	✓	
François Villeroy de Galhau		France	✓	✓	✓	
Madis Muller		Estonia	✓	✓	✓	
Yves Mersch	Exec Board	Luxembourg	✓	✓	✓	
Robert Holzmann		Austria	✓	✓	×	
Klaas Knot		Netherlands	✓	✓	✓	
Jens Weidmann		Germany	×	✓	✓	HAWKISH

Source: ECB, Various Sources, UOB Global Economics & Markets Research

ECONOMY: Likely To Lose Further Momentum

The Eurozone economy had a subdued 3Q19. Preliminary flash GDP revealed a modest 0.2% q/q gain, a tick above expectations of 0.1% q/q, but still equaling the worst performance since it last contracted back at the start of 2013. Italy and France both topped expectations at 0.1% q/q and 0.3% q/q, respectively, whilst Spain maintained a relatively solid expansion at 0.4% q/q. Importantly, Germany managed to dodge a recession, with growth coming in ahead of consensus at 0.1% q/q, after suffering a revised 0.2% q/q contraction in 2Q19.

That said, the Eurozone's composite PMI for November remains barely in expansionary territory at 50.3, down from 50.6 in October. More worrying was that the services sector has also become more affected by the slowdown, with the services PMI falling to a 10-month low of 51.5 in November from 52.2 in October.

We expect growth in the Eurozone to lose further momentum. Germany, Eurozone's largest economy, is still teetering on the verge of a recession as a result of a continued downturn in manufacturing and subdued global automobile sales. On the external front, the Eurozone's export dependence makes it highly vulnerable to US-China trade tensions and the overall global economic slowdown. We are now looking at a lower full-year GDP forecast at 1.0% for 2020.

CENTRAL BANK: New ECB Chief Faces Huge Challenges

The minutes of the ECB meeting in October underscored worries that the economic outlook may prove to be a shade darker than the ECB had previously forecast. The minutes also revealed the important task ahead for new ECB President Christine Lagarde to build consensus amongst members and to press member states to deploy fiscal policy more concertedly. Indeed, data has weakened since the announcement of the QE package by former ECB President Mario Draghi in September. The service sector slowdown is in turn impacting price growth, implying little upside in the coming months as far as the inflation outlook is concerned.

Thus, we continue to anticipate rates to remain unchanged until end-2021. Lagarde may not have to change policy for some time as the latest stimulus package remains in play; but providing more stimulus further out could be complicated because so much of the ECB's balance sheet has already been deployed. The ECB's deposit rate is already at a record-low and its bond-buying programme is close to self-imposed limits on how much of each country's debt it can own. Further complicating Lagarde's role is the fact that the ECB's decision in September to cut interest rates and to print EUR20bn a month to buy more bonds has led to unusually strong criticism from several members on the ECB governing board.

CURRENCY: EUR Showing Clearer Signs Of Stabilization

In the previous quarterly report, we opined if the previous QEs by the ECB from 2015-2018 serves as a guide, EUR/USD may even stabilize after bond purchases commence in November. Indeed, markets have looked beyond a dim Eurozone outlook and EUR/USD has shown tentative signs that an interim bottom has been in place at 1.09. Likewise, options markets are also warming up to prospects of a higher EUR, with risk reversals briefly topping at the highest levels since March 2018 in favor of EUR over the USD. Together with a broad topping out of USD against most Majors, we maintain our forecasts of EUR/USD stabilizing around 1.11 in 1H20 followed by a mild rebound to 1.13 in 3Q20 then 1.15 in 4Q20.

NEW ZEALAND

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
NZD/USD	0.65	0.65	0.66	0.66
NZD Offical Cash Rate	1.00	1.00	1.00	1.00

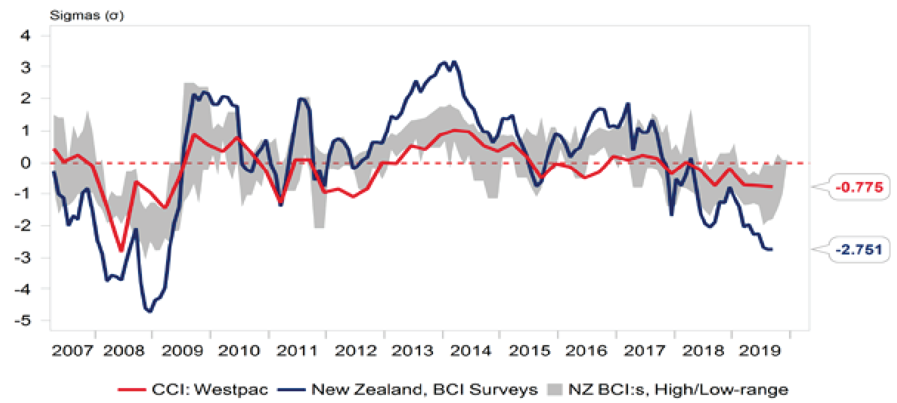
Economic Indicators	2017	2018	2019F	2020F
GDP	2.8	2.8	2.3	2.4
CPI (average, y/y %)	1.9	1.6	1.6	1.9
Unemployment rate (%)	4.7	4.3	4.1	4.4
Current account (% of GDP)	-2.6	-3.9	-3.3	-3.2
Fiscal balance (% of GDP)	1.2	0.1	0.8	0.5

New Zealand: Retail Trade

Source: Macrobond, UOB Global Economic Economics & Markets Research

New Zealand: Business & Consumer Confidence Surveys

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Headwinds On The Horizon

New Zealand's GDP grew at its slowest pace in more than five years in 2Q19, up 2.1% y/y, slowing from the 2.5% y/y in 1Q19. This was the weakest annual growth since the 4Q13. GDP rose 0.5% q/q, against expectations of 0.4% q/q, and also lower than the 0.6% q/q gain in 1Q19. The quarterly growth matched the RBNZ's projection of 0.5% in its August policy statement and was largely led by household spending, farm production and services.

Our view of the economy not derailing depends very much on the household sector. Retail sales in 3Q19 held up strongly, on the back of robust spending on electronics such as appliances, mobile phones, and computers. That said, the unemployment rate climbed to 4.2% in 3Q19, up from 2Q19's 11-year low of 3.9%.

Pessimism on the business outlook is a persistent feature of the economic landscape, seen weighing on both investment and employment. Given that labour market data generally lags broader economic activity; with softer economic momentum poised to persist, we now expect New Zealand's GDP growth to come in lower at 2.3% for 2019, followed by 2.4% for 2020.

CENTRAL BANK: No Urgency To Act For Now

The RBNZ's surprise rate cut of 50bps back in August was a major talking point for financial markets over the quarter. The RBNZ then decided to keep its OCR unchanged at 1.00% at its last monetary policy for the year. Although it downgraded near-term growth projections, the RBNZ remained relatively optimistic on the medium-term outlook. The OCR track was all but unchanged versus August, with the Policy Assessment noting the Committee "will add further monetary stimulus if needed". We had held an out-of-consensus call, expecting the RBNZ will maintain its OCR going into this meeting, because we believed the bigger-than-expected rate cut in August was pre-emptive in nature, and the RBNZ would have liked to be on a "wait-and-see" approach to assess the impact of the cumulative 75bps rate cuts (year-to-date).

The next RBNZ meeting is not until 12 February 2020. Our current OCR forecast of 1.00% through 2020 remains intact. That said, we will remain watchful of both developments at home and abroad. Should employment growth, business investment and household spending weaken further, and/or the global economy deteriorates, we will not be surprise to see the RBNZ venturing into further interest rate cuts and the uncharted territory of unconventional monetary policy, as stated in the post-decision press conference by RBNZ Governor Adrian Orr. He did, however, flag that there is no urgency to act and to use unconventional tools for now.

CURRENCY: NZD/USD To Appreciate Towards 0.66

It appears that the worst is over for the kiwi. After a 6.8% drop in 3Q19 on the front-loaded aggressive easing by the RBNZ, the NZD/USD has rebounded 2.9% to 0.6450 in 4Q19 tracing a pickup in global risk appetite and local dairy prices. Markets have also scaled their expectations of further rate cuts, with only 15bps of easing expected from the RBNZ by next December. Notwithstanding economic headwinds still persisting and the RBNZ staying dovish, there are clearly less pressures on the currency compared to our previous quarterly update. As such, we are still of the view that the NZD/USD would continue its modest recovery, towards 0.65 in 1H20 and 0.66 in 2H20.

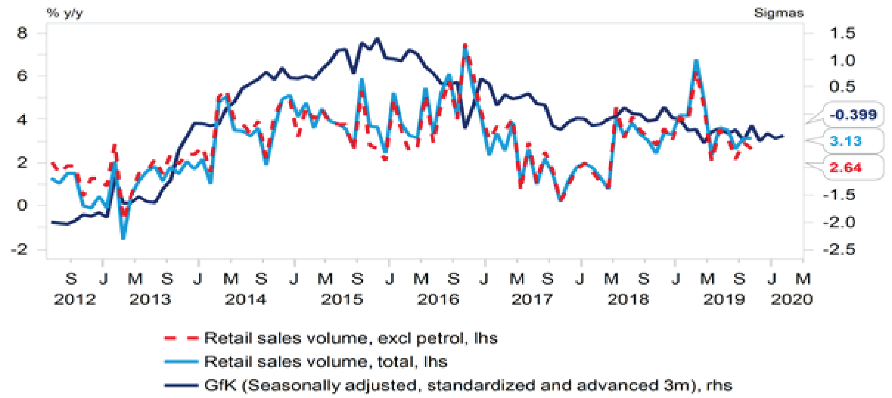
UNITED KINGDOM

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
GBP/USD	1.31	1.31	1.32	1.32
GBP Repo Rate	0.75	0.75	0.75	0.75

Economic Indicators	2017	2018	2019F	2020F
GDP	1.9	1.4	1.2	1.1
CPI (average, y/y %)	2.7	2.5	1.9	1.9
Unemployment rate (%)	4.4	4.1	3.9	4.0
Current account (% of GDP)	-3.5	-3.9	-4.3	-4.2
Fiscal balance (% of GDP)	-2.5	-2.3	-1.9	-2.2

New Zealand: Retail Trade

Source: Macrobond, UOB Global Economic Economics & Markets Research



ECONOMY: Outlook Shrouded By Political Uncertainty

Economic growth in the UK has slowed since the start of 2019 as weak external demand and Brexit uncertainty weighed. 2020 is likely to be another politically and economically tumultuous year. We are about a week away from the 12 December election, as of writing, which is the UK's fourth national vote in five years. Regardless of the outcome, a fractious political backdrop, declining sentiment, and continued uncertainty about the UK's future trading relations with the EU, and the world, is set to slow growth further, even with the assumption of an "orderly" Brexit.

Following the -0.2% q/q reading in the second quarter, third quarter GDP rebounded to 0.3% q/q, dodging a recession. That said, this was weaker than both market expectations and the BoE's latest forecasts, which had pointed to 0.4% q/q growth for the period between July and September. On a year-on-year basis, third quarter GDP slowed to 1.0% y/y, the weakest annual rate since 2010. On a month-to-month basis, September GDP alone marked a 0.1% m/m contraction, up a tad from a revised -0.2% m/m reading previously.

The unemployment rate may have fallen back to 3.8%, its lowest level since early 1975, but employment fell at its fastest rate in four years, by 58,000 during the third quarter to 32.75mn, the biggest fall since May 2015. The fall in employment masked a rise of 100,000 people in full-time work that was cancelled out by a 160,000 fall in part-time jobs.

Although the consumer sector has continued to drive the UK economy, UK retail sales fell 0.1% m/m in October, significantly below expectations of 0.2% m/m. The core print came in at -0.3% m/m, also missing consensus estimates of 0.2% m/m. A cooling housing market alongside slower jobs growth could suggest that the resilient consumer sector could be weakening. Even assuming an "orderly" Brexit, UK economic growth is unlikely to return to previous levels given the uncertainty about the precise future trading arrangement between the EU and the UK, which may hinder business investment. We now see full-year GDP growth at 1.2% for this year, followed by 1.1% in 2020.

CENTRAL BANK: Brexit To Keep BoE Cautious

As widely expected, the BoE kept its monetary policy unchanged at their November meeting. What came as a surprise, though, was how the MPC was divided over whether to reduce rates, with two of the nine-member committee voting for a 25bps rate cut from the current 0.75% rate.

This was the first time that there were votes for a lower policy rate since 2016, and the first MPC decision that was not unanimous since June 2018. The dissent by Michael Saunders was particularly significant, because it was only about 18 months ago that he had been the outlying vote for a rate hike. That said, his recent comments had marked him as an emerging dove. Jonathan Haskel's vote for a rate cut had also come as a total surprise.

Despite the dovish tilt at the 7 November meeting, we see the BoE on a wait-and-see stance. We believe that the two dissenters against a large majority is still somewhat premature in tipping the balance for a rate cut, especially with a no-deal Brexit scenario off the immediate agenda. With offsetting factors currently, we would prefer to wait for the outcome of the impending election and the subsequent impact on how Brexit may proceed, before making changes to our policy rate forecasts.

CURRENCY: Limited Upside In GBP/USD Above 1.30

In early November, we upgraded our year-long bearish view of GBP/USD to a more neutral outlook as the odds of a disruptive no deal Brexit receded. Since then, markets have built up expectations that PM Boris Johnson's Conservatives Party would win by a majority in the upcoming elections on 12-Dec and this would then increase the likelihood that he gets his updated Withdrawal Agreement approved by the Brexit deadline on 31-Jan-2020. This has kept GBP/USD anchored at the top end of its 1.20 – 1.30 trading range since May 2019. That said, we caution against unrealistic expectations of further strong rebound in GBP/USD above 1.30. Even if the "fog of Brexit" lifts with a Brexit deal, markets still have to face the economic consequences from 3 years of political limbo since the referendum in 2016. UK growth was at an anemic 1.0% in 3Q19, the lowest in nine years and the BoE may have to catch up with the global monetary policy easing campaign. Overall we see limited upside in GBP/USD above 1.30 in 2020, with our point forecasts at 1.31 in 1H, followed by 1.32 in 2H.

UNITED STATES OF AMERICA

FX & Rates	1Q20F	2Q20F	3Q20F	4Q20F
US Fed Funds Rate	1.50	1.50	1.50	1.50

Economic Indicators	2017	2018	2019F	2020F
GDP	2.2	2.9	2.5	1.5
CPI (average, y/y %)	2.1	2.4	1.9	2.7
Unemployment rate (%)	4.1	3.9	3.7	3.8
Current account (% of GDP)	-2.4	-2.4	-2.5	-3.0
Fiscal balance (% of GDP)	-3.4	-3.8	-4.5	-4.5

ECONOMY: Slightly More Optimistic For 2020 But Trade-Related Risks Remain Key

The 2nd estimate of US 3Q GDP showed growth edging higher to 2.1% q/q SAAR in 3Q (up from preliminary print of 1.9% and a tad faster than the 2% recorded in 2Q). **Consumer spending** – the steadfast anchor for the US economy – has been resilient even though it was evidently a notch lower from 2Q, but the main drags on GDP continued to be related to the impact from trade uncertainties in the form of **slumps in business investment and exports**. The US **housing market** looked to have a new lease of life after the residential fixed investment rose 5.1% in 3Q after being stuck in a prolonged soft patch (for 5 quarters). If the positive effect persists, then there will be further uplift to the US economy as the lower Fed policy rate helps ease borrowing costs and reinvigorate demand for homes although the bottleneck for the sector may be the dwindling home supply.

Corporate profits disappointed with an increase of 0.2% m/m to US$4.6bn in 3Q, much weaker than the 3.8% m/m, US$75.8bn jump in profit in 2Q. Weakness in corporate profitability is likely a sign that the on-going trade tensions with China has negatively impacted US corporates.

Recent concerns about a much weaker US growth outlook came amidst conflicting signals from US economic data. The 3Q GDP upward revision and the surprise jump in Oct core durable goods orders (+1.2% m/m versus expectations for a 0.2% fall) helped eased such concerns although unexpectedly weak Nov ISM manufacturing and Oct construction spending dented hopes of a stronger 4Q. Atlanta Federal Reserve's GDPNow forecasting model is expecting US GDP growth at 1.3% in 4Q 2019 (as of 2 Dec), down from the recent 1.7% but still a significant improvement from 0.4% in early Nov. We still expect full year US growth to come in at 2.5% in 2019 and that implies a 4Q growth of 1.8% on healthy US consumption spending partly mitigate the downside from weaker investments and exports.

The biggest risk to the US is still trade tensions with its biggest trading partners (especially China) and that risk has manifested into weaker business sentiment and leading to investment decisions being put on hold. Even as the US and China are working towards a Phase 1 trade deal, there remains uncertainties and risks as to whether both countries would eventually come to a comprehensive trade agreement in the future, so that means that the lackluster business spending outlook may not be turning around just yet.

While we may have underestimated the resilience of US consumption in 2019, we believe that the flagged trade-related risks which have impaired business spending in 2Q and 3Q, may eventually take its toll on US consumption spending. Overall, US GDP growth could slow further into 2020 although full-year growth is still very likely to remain positive. **We revised our growth forecast higher to 1.5% in 2020** (from 1.3% previously but still well below its potential growth of 2%).

According to the New York Fed Recession Probability calculations, the US recession risk for Oct 2020 eased to 29% (from a recent peak of 37.9% just 3 months ago). We also see lower risk of a technical recession (i.e. 2 consecutive quarters of sequential q/q declines) in 2020 but have not ruled it out. It is important to remember that we are still in the midst of the longest US economic expansion on record (127 months as of Dec 2019) and even if we do get a technical recession in 2020, it will likely be mild.

Next year, US domestic politics will grip the attention of not just Americans but everyone as well with the US Presidential election due on 2 Nov 2020, but it is unlikely to have a material effect on the US economy in 2020, (except for a slight election-relation spending boost domestically). That said, the subsequent policy direction of the next president will definitely have implications for the US and the broader global economy. Our base case scenario is for Donald Trump to win the Presidency for a 2nd term although we believe that this election could be acrimonious as Trump will be the first president running for re-election under impeachment proceeding.

CENTRAL BANK: Pause Or "One More Cut & Done" In 2020?

After three consecutive 25bps rate cuts (in Jul, Sep & Oct) to provide insurance against ongoing risks, the Federal Reserve (FED) signaled that the current policy stance (1.50-1.75% FED funds) is appropriate and its intention to put policy on pause, and as noted by Powell [US] monetary policy is in a good place, and the current stance of monetary policy would only change if there was a "material" change in the US economic outlook. We too subscribe to the view of a Fed pause in Dec but we still project one more 25bps rate cut in 1Q 2020, and thereafter to stay on pause again for the rest of 2020.

The boogie man for Fed policy outlook is still the international trade developments and the caveat for us is that another bout of US-China trade tensions post-Dec FOMC could trigger another 25 bps "insurance" rate cut from Powell in early 2020. And as it will be far enough distance from the US elections, it will not to be construed as politically motivated.

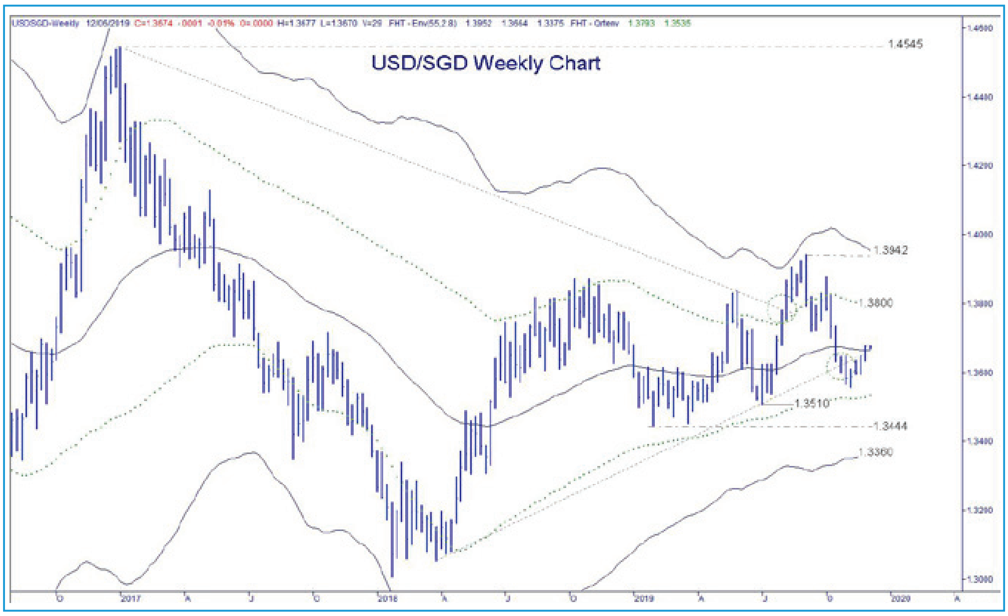
Conversely, if the trade negotiation progresses smoothly into 2020, then the "insurance" cut will be unnecessary. On the flipside, the Fed has set the handle very high for policy tightening, as there needs to be a materially significant rise in inflation for the Fed to go the opposite direction and start raising rates. Core PCE inflation – the Fed's preferred price measure – has eased lower in Sep and Oct after a recent peak at 1.76% y/y in Aug. While it is certainly no longer a far way off the 2% target, it is also nowhere near being uncomfortably high.

Moving into the new year, the composition of the Federal Open Market Committee (FOMC) will change in 2020. Of the four Fed Reserve Bank Presidents who will into voting positions next year, Minneapolis Fed President, Neel Kashkari, is likely the most dovish while Cleveland Fed President Loretta Mester is slightly hawkish.

FX TECHNICALS

USD/SGD: 1.3665

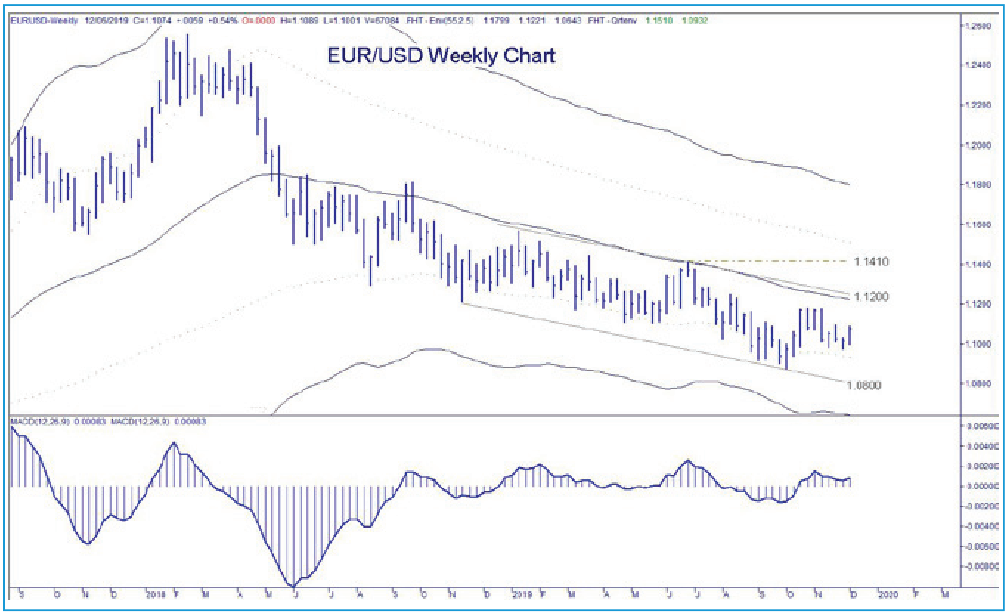
No sign that USD/SGD is about to embark on a sustained directional move soon



At the time of writing in early December, USD/SGD is on track to register a yearly range of 498 pips, between 1.3444 and 1.3942. Note that since 1981, there was only a single year that USD/SGD registered an annual range of less than 500 pips (in 1996, USD/SGD traded between 1.3880 and 1.4312, a range of 432 pip). Such prolonged period of depressed volatility is not common and is usually not sustainable. That said, there is no sign that USD/SGD is about to embark on a sustained directional price action anytime soon. On the monthly chart, momentum indicators are 'flat' and while the underlying tone on the weekly chart appears to be on the soft side, any weakness is expected to encounter solid support near 1.3510. The year's low of 1.3444 is not likely to come into the picture within the first few months of 2020. Conversely, 1.3942 is acting as 'high-water mark' and this level could remain unchallenged for several months. Overall, going into the first quarter of 2020, USD/SGD could trade within a 1.3500/1.3800 range. The price action near 1.3500 or 1.3800 should provide a clearer USD/SGD outlook for the later part of 2020.

EUR/USD: 1.1065

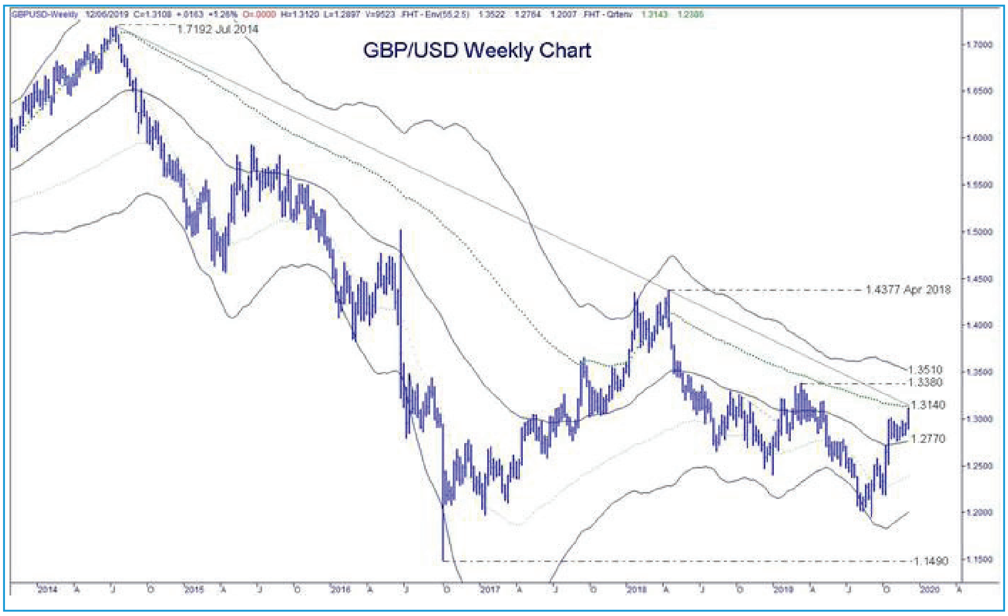
EUR/USD could trade sideways but the top of the range at 1.1200 appears to be more vulnerable



EUR/USD traded in a quiet manner for most of 2019. As of early December, EUR/USD is on track to register a year to date range of 693 pips, the smallest since the EUR's inception in 1999. The price action offers not much clues and EUR/USD could trade sideways between the two major level of 1.0800 and 1.1200 in the first few months of 2020. While the top of the range at 1.1200 appears to be more vulnerable, the next level at 1.1400 is expected to offer solid resistance. In other words, EUR/USD does not appear ready to move anywhere far, anytime soon.

GBP/USD: 1.3100

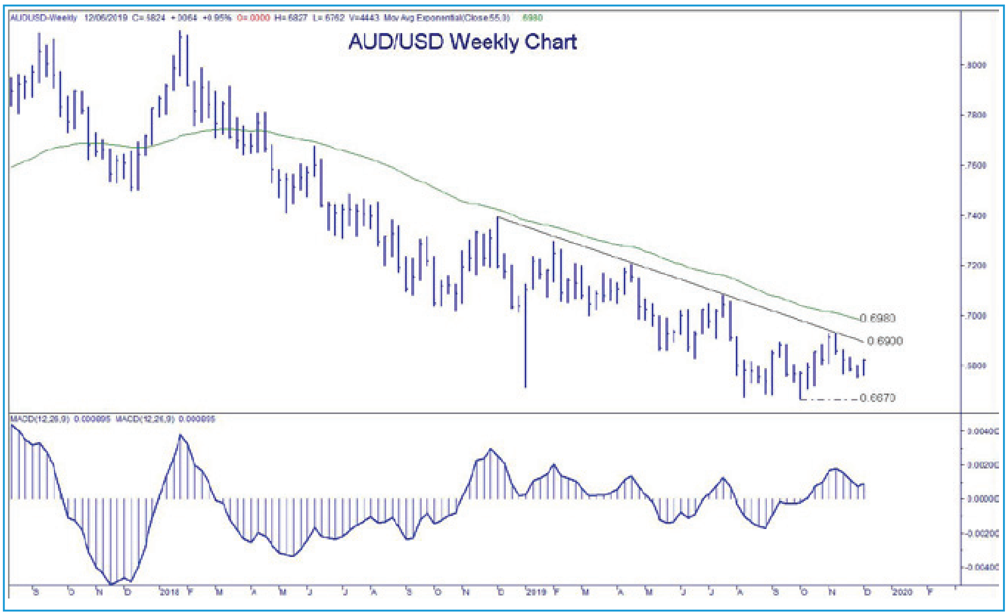
A break of the solid long-term resistance at 1.3140 would not be surprising but GBP/USD may find it difficult to clear the 1.3380/1.3510 resistance zone



At the time of writing in early December, GBP/USD is holding just below the long-term declining trend line at 1.3140. The trend line that connects the peaks of 1.7192 (Jul 2014) and 1.4377 (Apr 2018) sits very close to the ‘inner boundary’ of the trading envelope. In view of the robust momentum, a break of this solid resistance level would not be surprising. However, any further advance may find it difficult to move clearly above the 1.3380/1.3510 resistance zone. All in, GBP/USD is expected to strengthen going into 2020. Support is at 1.2770 but only a break of 1.2550 would indicate that an intermediate top is in place.

AUD/USD: 0.6820

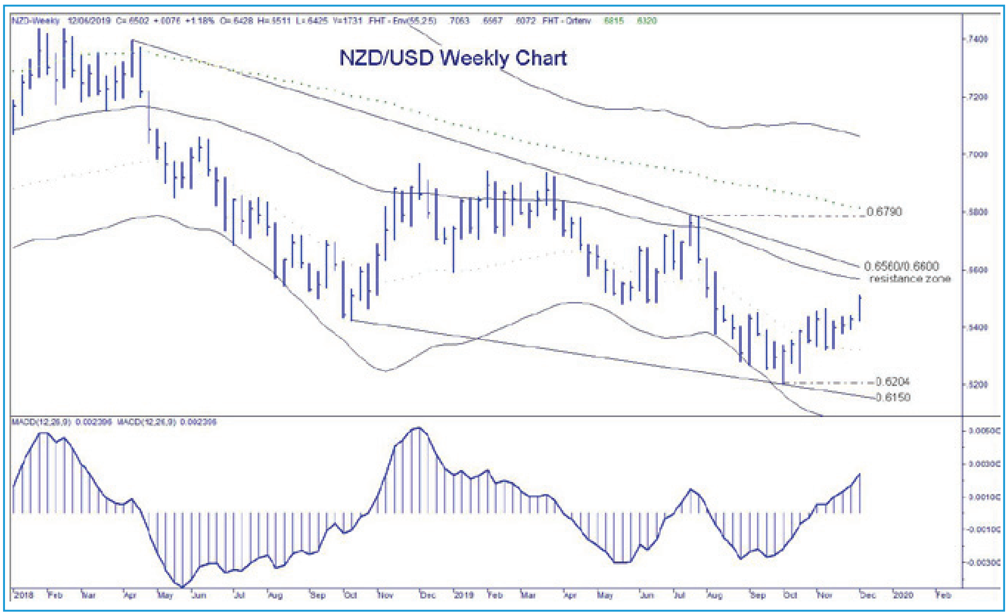
AUD/USD appears to be close to making a bottom.



Despite deteriorating downward momentum and oversold conditions, the recovery in AUD/USD in last quarter of 2019 has been tepid. While AUD/USD tested the declining trend line in November, the major moving average resistance remains unthreatened (this level is at 0.6980 in early Dec). Both the declining trend line and moving average are moving lower over time and a break of these resistance levels would flag the start of a sustained recovery in AUD/USD. To put it another way, AUD/USD appears to be close to making a bottom but confirmation is only upon a break of both the declining trend line and moving average. On the downside, a break below 0.6670 would suggest AUD/USD is not ready to rebound just yet. But in view of the lackluster momentum, any move below 0.6670 is likely limited to a test of 0.6600.

NZD/USD: 0.6500

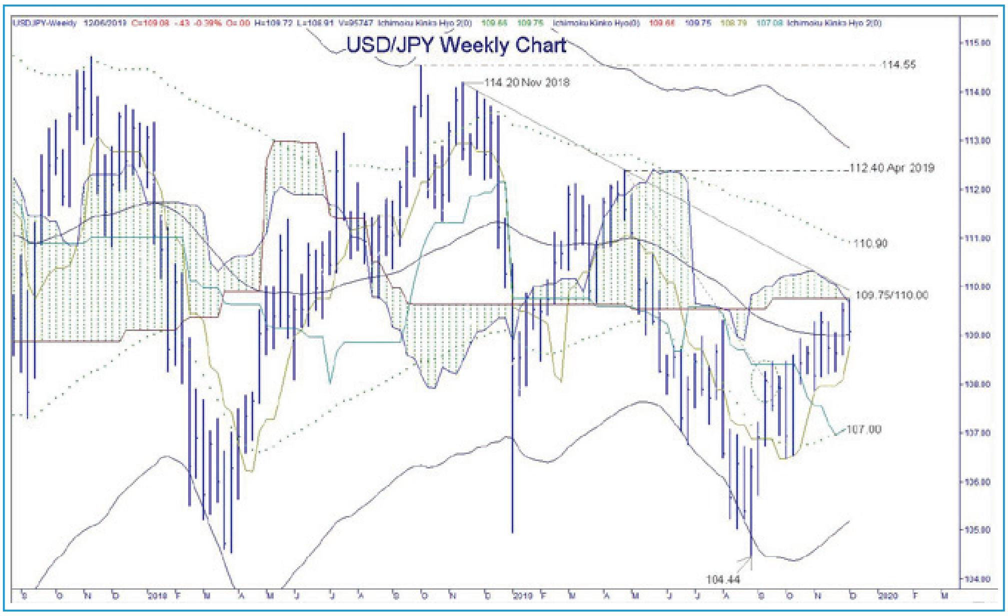
Recovery in NZD /USD could advance above the strong 0.6570/0.6600 resistance zone



The combination of oversold conditions and rapid improvement in upward momentum suggest NZD/USD has found an intermediate bottom at 0.6204 in October. The price action since the October low is viewed as the early stages of a corrective rebound. Going into the first quarter of 2020, the recovery in NZD/USD could advance above the strong 0.6570/0.6600 resistance zone. As of early December, the prospect for NZD/USD to move to the next resistance at 0.6790 is not high. On the downside, support is at 0.6330 followed by the 0.6204 low. The latter level is not expected to come into the picture within the first few months of 2020.

USD/JPY: 109.20

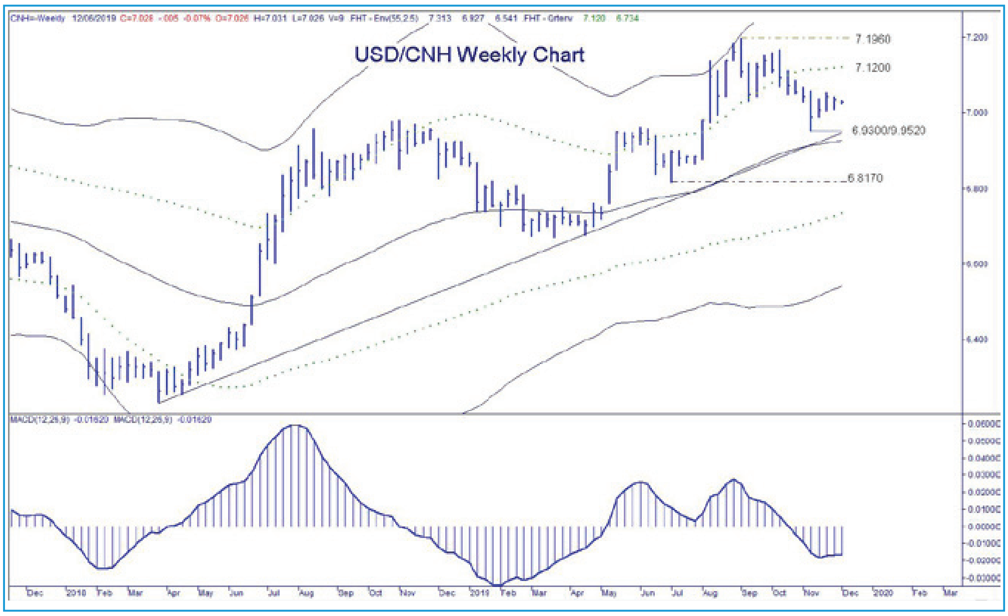
Prospect for USD/JPY moving above the major 109.75/110.00 resistance zone is higher than even



As of early December, USD/JPY retreated after testing the weekly Ichimoku cloud at 109.75. The pull-back from the major resistance zone is not surprising (the declining trend line resistance sits just above the Ichimoku cloud at 110.00). Despite the pull-back, upward momentum is still relatively robust and the prospect for USD/JPY to move above the 109.75/110.00 zone within the first quarter of 2020 is higher than even (next resistance is at 110.90). Only an unlikely break of the 107.00 support would suggest USD/JPY is likely to trade sideways for a period.

USD/CNH: 7.0300

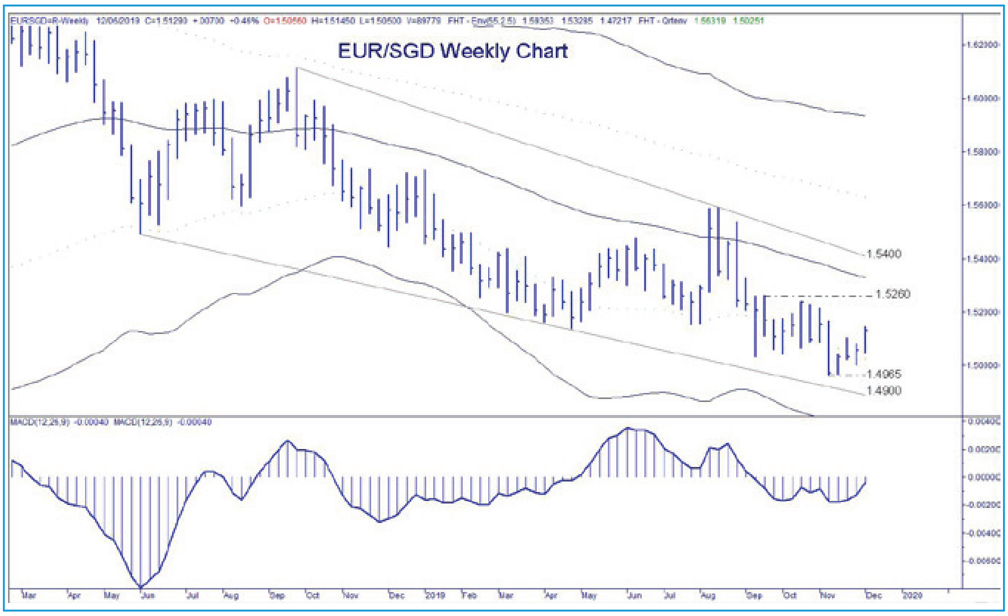
Pull-back appears incomplete; bias for USD/CNH is tilted to the downside



The pull-back in USD/CNH from its early September peak of 7.1960 is viewed as an on-going correction phase. In view of the strong surge from early 2019, this pull-back appears incomplete. In other words, the bias for the first quarter of 2020 is tilted to the downside. A dip below the strong support 6.9300/6.9520 support zone would not be surprising but the next support at 6.8170 is unlikely to come into the picture. On the upside, a probe of the 7.1200 resistance is not ruled out but a breach of 7.1960 would come as a surprise.

EUR/SGD: 1.5120

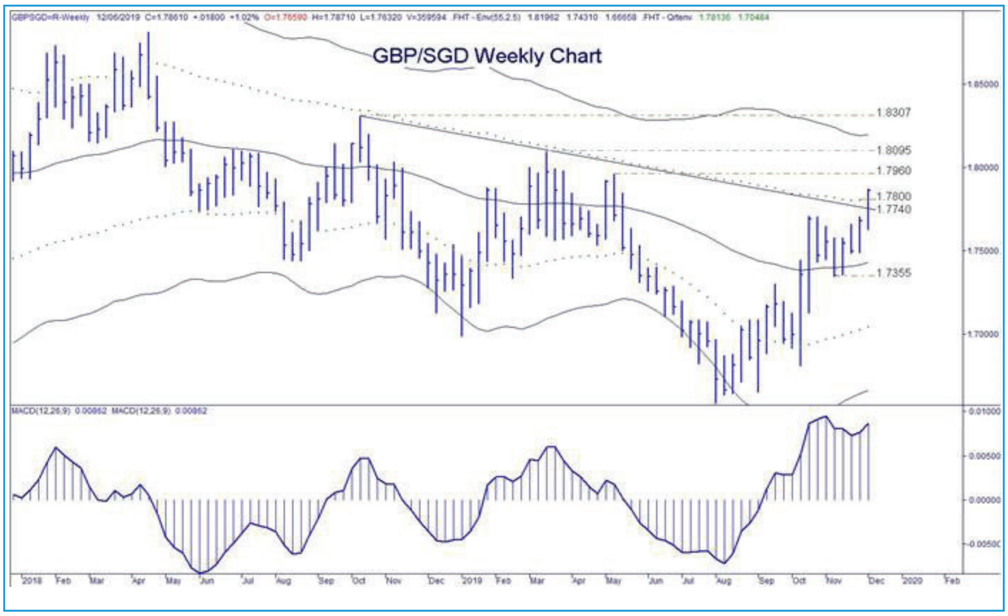
EUR/SGD is likely in the early stages of forming a bottom



After cracking the round-number support of 1.5000 in early November, EUR/SGD has not been able to make headway below the 1.4965 low. The combination of rapidly waning momentum and oversold conditions suggest that EUR/SGD is likely in the early stages of forming a bottom. However, it is too early to expect a sustained recovery. For the first quarter of 2020, EUR/SGD is more likely to consolidate and trade sideways. A dip below 1.4965 is not ruled out but the next support at 1.4900 is not likely to be threatened. On the upside, there is scope for EUR/SGD to probe the 1.5260 resistance but a challenge of the major declining trend line at 1.5400 would be surprising.

GBP/SGD: 1.7860

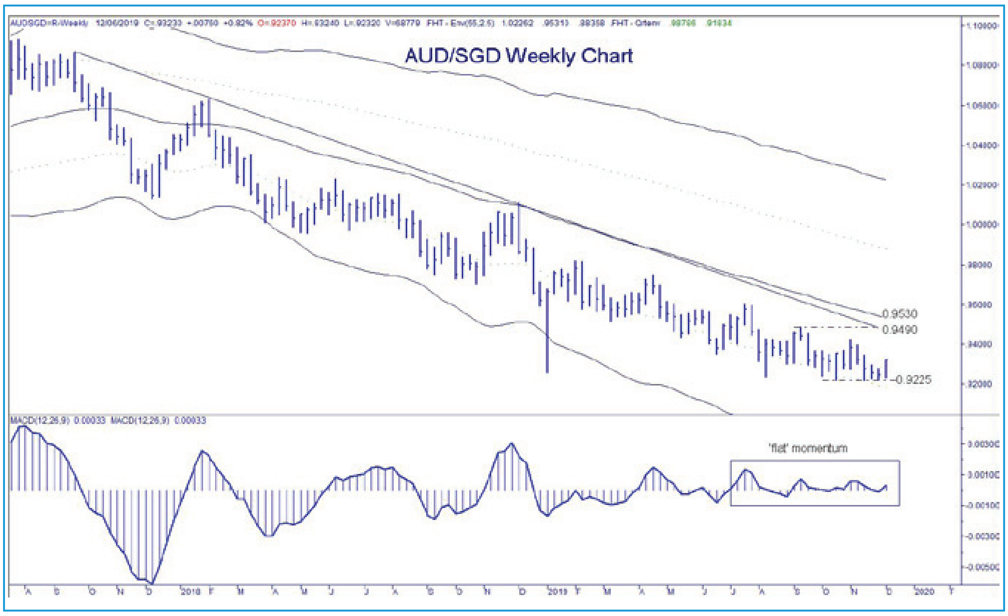
GBP/SGD could move above 1.8095 but 1.8307 is likely out of reach



At the time of writing in early December, GBP/SGD has burst above a couple of solid resistance levels at 1.7740 and 1.7800. While overbought, the advance in GBP/SGD is accompanied by strong and impulsive momentum. Going into the first quarter of 2020, the risk is for further GBP/SGD strength. A move above the March 2019 high of 1.8095 is not ruled out but in view of the already overbought conditions, the next resistance at 1.8307 is likely out of reach. Support is at 1.7650 but only break below 1.7355 would indicate that the rally in GBP/SGD has run its course.

AUD/SGD: 0.9320

AUD/SGD is under mild downward pressure but is not expected to challenge the round-number support of 0.9000



After briefly touching a high of 0.9490 in mid-September, AUD/SGD dropped to 0.9225 in October. Since then, it has traded in a quiet manner and within narrow ranges. That said, AUD/SGD is still under mild downward pressure and only a break of the major 0.9490/0.9530 resistance zone would indicate that a bottom is in place. Until there is a break of the resistance zone, AUD/SGD could grind lower but 'flat' momentum indicators suggest that the pace of any weakness is likely to be tepid and the major round-number support of 0.9000 is unlikely to be challenged.

JPY/SGD: 1.2520

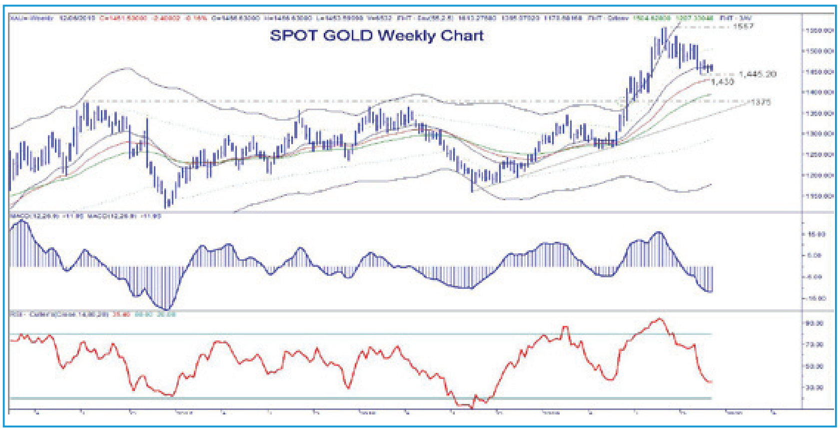
Mixed outlook suggests JPY/SGD is likely to consolidate and trade sideways

The rapid pace of pull-back from the late August peak of 1.3325 has resulted in the weekly RSI dropping from severely overbought levels to severely oversold within the span of a few months. The rapid swing has resulted in a mixed outlook for JPY/SGD. Going into the first quarter of 2020, JPY/SGD could consolidate and trade sideways between 1.2290 and 1.2780 (this range is contracting over time). As of early December, JPY/SGD is sitting roughly in the middle of the 1.2290/1.2780 range.

COMMODITIES TECHNICALS

SPOT GOLD: $1,460/oz

Pull-back in spot gold has scope to extend lower but is likely to stabilize ahead of major $1,375 support



The price action in spot gold since its $1,557 peak in early September is viewed as part of an on-going corrective pull-back. This pull-back appears to have scope to extend lower towards the next support at $1,430. Going into the first quarter of 2020, the risk of a break of the major $1,375 support is not high. To put it another way, the pull-back is expected to stabilize ahead of $1,375. On the upside, resistance is at $1,495 followed by $1,520. The $1,557 peak may not come into the picture within the first half of 2020.

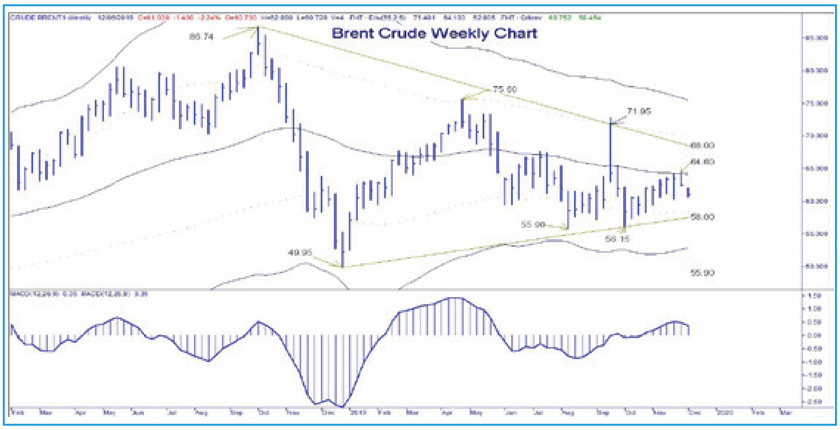
LME 3M COPPER: $5,883/mt

Scope for recovery in copper to extend towards $6,070

While severely oversold, copper's recovery from its early September low of $5,518 lacks momentum and has been limited. Despite the lackluster price action, there is scope for the rebound in copper to extend higher towards the declining trend resistance at $6,070. The trend line is a relatively strong resistance and while a move above this level is not ruled out, the next resistance at $6,170 is likely out of reach within the first few months of 2020. On the downside, the $5,518 low is deemed as a major bottom and is not expected to be challenged. On a shorter time frame, $5,720 is already a strong level.

BRENT CRUDE: $61.00/bbl

Brent is likely to consolidate and trade sideways



Brent crude surged to a high $71.95 in late September but the advance was short-lived as it plummeted back down to $56.15 within the span of a few weeks. The recovery from $56.15 has been tentative and at the time of writing in early December, Brent crude slumped after failing to move clearly above the $64.00 resistance (high of $64.60). Contracting trading envelopes on both the daily and weekly charts suggest Brent crude is likely to trade sideways. Within the expected sideway-trading range of $58.00/$68.00, the downside appears to be more vulnerable. However, any weakness is unlikely to challenge the solid support level near $56.00.

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