Quarterly Global Outlook 2Q 2022

The Price Of War

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Executive Summary
The Price Of War

> " War is the unfolding of miscalculations. "
>
> — Barbara W. Tuchman

The expectations of moderating growth colliding with higher inflation in 2022 is now dealt with geopolitical headwinds. It is an ominous start to 2022 with the outbreak of war in Europe as Russia invaded Ukraine in late February. This is a tragic turn of events and one that has rapidly/already descended into a humanitarian crisis as thousands are killed while millions flee their Ukrainian homeland. Just as war could be sparked by miscalculations, with great trepidation we took a best-effort attempt to draw out three scenarios of how this fluid situation will play out and assess the impact on growth, inflation and monetary policy for the economies that we cover.

Our base case (at 60%) is to expect an extended conflict and occupation, and the main assumption in this scenario is the full range of sanctions imposed on Russia by US and its allies will stay on a prolonged basis. Thus, the political fallout of the sanctions will translate into higher commodity prices (from energy, to agriculture to metals) as both Russia and Ukraine are significant producers and exporters of key commodities demanded by the world.

We remain hopeful of a positive scenario of a negotiated ceasefire (at 35% probability) but the chances of that happening is reduced with each passing day of war and failed talks. And while we assign the very lowest probability (of 5%) to the worst outcome of an expanded conflict involving US and NATO allies, we cannot rule out that scenario for miscalculations.

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In our view, the more pronounced impact is on inflation while growth will see more moderate correction although the magnitude of the growth correction will be differentiated among economies. We have raised the inflation forecasts almost everywhere with especially marked increases for developed markets (DMs) like the US and the Eurozone, which are already experiencing elevated inflation. At the same time, our correction in US GDP growth is milder at just 0.2% points but the Eurozone will suffer a bigger growth downgrade of -0.7% points due to the proximity to the war and its reliance on Russian energy. Major commodity exporting economies will also record higher inflation but their growth will benefit from the commodity price rally and help cushion the negative domestic effects of inflation, such as Australia where we have upgraded its 2022 growth forecast, as opposed to downward revisions for most of the economies in Asia-Pacific.

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With inflation concerns more acute, we see many economies either on the cusp of or bringing forward their monetary policy normalization cycle. For the Federal Reserve (Fed), after its 25 bps rate liftoff in Mar FOMC, we expect the US central to hike at everyv one of the six remaining meetings for this year by at least 25bps, with a significant risk of a more aggressive 50bps hike in at least one of the upcoming meetings. As for the European Central Bank (ECB), despite the significant inflation revision, we see them treading cautiously and we expect no hike from them in 2022. And while Bank of England (BOE) continued its hiking cycle in Mar, and may most likely follow up with another 25bps hike in May, we see limited BOE rate hikes thereafter. The Bank of Japan (BOJ) is likely to be on the extreme end among the G7 central banks, as the higher energy and commodity prices could drive the inflation above its 2% objective but will be viewed as temporary and unlikely to draw any policy normalisation response.

For China, the hit of a bigger energy bill will add on the woes of domestic risk factors such as the latest wave of Omicron COVID-19 infections and the subsequent large-scale lockdowns. With growth now likely to slide below 5% and inflation likely higher at 2.9% (but still below the official target of 3%), we should expect more monetary policy easing from China, which goes in the opposite direction of most of the other economies.

For rest of Asia, North Asian economies like South Korea and Taiwan will see a bigger inflation impact compared to growth downgrade. In particular, Taiwan's recent 25bps hike (vs market expectations for no change) very much reflected the inflation concerns as a result of global geopolitical developments. As for ASEAN, inflation was revised higher in most of the economies in the region due to the commodity price surge, but growth revisions were more varied as it took into account other domestic factors. Overall, Singapore is expected to continue with its policy tightening in Apr and Oct, while Malaysia and Philippines are expected to start raising rates in 2Q22, followed by Indonesia and Thailand in 2H of this year.

FX Strategy

Geopolitical Tensions Is The Surprise Catalyst For The USD

On top of its monetary policy edge advantage, the USD also draws strength from growing concerns of slower global growth amidst elevated inflation and sustained risk aversion, which adds an important tailwind for the USD.

Over the past month, the biggest commodity shock since the twin oil shocks of 1973 and 1979 have added further upside pressure to the already multi-decade high inflation in some DMs, strengthening the case for aggressive rate hikes. As a result, the US Fed has embarked on its rate tightening cycle and also presented a rather hawkish dot plot that implies as much as 175 bps of liftoff across this year. On top of its monetary policy edge advantage, the USD also draws strength from growing concerns of slower global growth amidst elevated inflation and sustained risk aversion, which adds an important tailwind for the USD. Overall, compared to a quarter ago, the momentum of USD has improved and DXY now targets 100.3 by end-2022. Specifically, rising energy prices and higher US Treasury yields are both bad news for the JPY. As such, we raise our USD/JPY forecast further to 121 by end of this year (from the previous forecast of 119). Conversely, given the elevated geopolitical risk in Ukraine, we stay negative on the EUR and downgrade our EUR/USD forecasts further to 1.06 by end of this year (from the previous forecast of 1.08).

In Asia, Russia's invasion of Ukraine has upended the relative calm of Asia FX. As investors scaled back on Asia Emerging Markets (EMs) exposure as part of the global risk aversion, most Asia FX faced selling pressure. Laggards are mostly dominated by net energy importers such as the INR and PHP, hurt by a massive jump in energy prices. The Asia Dollar Index (ADXY) has also lurched lower and took out its key support at 107, a level that has held declines since last Aug. As with any previous Fed rate hike cycles, the start of the current cycle raises the spectre of portfolio outflows from Asia EMs, especially so for a front-loaded cycle this time round. The challenging risk backdrop due to a prolonged military conflict also injects considerable downside risk to Asia FX as a whole. The wild card for Asia FX has been the CNY. After a period of exceptional stability and strength, we expect renewed weakness in the CNY as China's economy weakens further below the critical 5% growth rate and People's Bank of China (PBoC) stays accommodative for more monetary policy easing. As such, we raise our USD/CNY forecast for end 2022 to 6.60 (from the previous forecast of 6.55). Concurrently, we also raise our USD/SGD forecast for end 2022 to 1.40 (from the previous forecast of 1.37). Once again, we reiterate that within a global strong USD backdrop, a higher USD/SGD can co-exist with further tightening of S$NEER by the Monetary Authority of Singapore (MAS).

Rates Strategy

Not Your Usual Fed Hike Cycle

Presently, safe haven demand from geopolitical developments is keeping a cap on 10Y UST yield. Eventually when tensions dissipate, sanctions and higher inflation prospects will likely remain. At such a point, 10Y UST is likely to return to a firmer path of higher yields.

The US Fed has finally started its rate hiking cycle and signaled a rather hawkish updated dot plot with potentially a higher terminal rate at around 2.75%. They have also signaled that Quantitative Tightening (QT) is just round the corner. As a result, we can expect outright yields to be higher and anchored on resilient Fed hike expectations and more persistent inflation scenario. Specific to the yield curve, this is where it gets interesting. The US Fed has started its hiking cycle at a time when the yield curve is relatively flat at just about 25 bps for US10s2s. In the current environment of extended supply chain disruption and a potentially more persistent elevated inflation outcome, we think that the yield curve impact could surprise to the downside. On the other hand, there is also possible transitory countertrend steepening post QT implementation. Presently, safe haven demand from geopolitical developments is keeping a cap on 10Y UST yield. Eventually when tensions dissipate, sanctions and higher inflation prospects will likely remain. At such a point, 10Y UST is likely to return to a firmer path of higher yields. Finally, as the US Fed takes the lead in this cycle, we can expect deeper SG yield discount to US over the monetary policy normalization cycle.

Given that our macroeconomic team has front loaded the US Fed hiking trajectory and also raised the terminal Federal Funds Terminal Rate (FFTC), we have consequently raised our suite of long term yield as well as short term money market rates forecasts. As such, we revise higher our year end projection for 10Y UST yield to 2.50% (from the previous forecast of 2.35%) and also raise our forecast for 10Y SGS yield to 2.30% (from the previous forecast of 2.10%). The short term money market rate forecasts for end 2022 are also raised, specifically 3M US Libor, SOR, SOFR and SORA to 2.15%, 1.90%, 1.67% and 1.52% respectively (from the previous forecasts of 1.85%, 1.60%, 1.63% and 1.51% respectively).

Commodities Strategy

Is the Commodities Supercycle Upon Us?

Over the near term, about 5% of global oil supply has "evaporated" as Russia is hit by sanctions and oil import ban. Over the longer term, Europe will need to diversify away from its heavy dependency on Russian oil and gas. In the interim, OPEC does not seem to be in a hurry to pump more oil.

Russia's invasion of Ukraine in late Feb triggered a strong price rally in practically every commodity. In particular, those commodities which are more dependent on supply from Russia and Ukraine, especially crude oil, have witnessed even more explosive price rallies over the past month. As a result, investors are now wondering whether we are witnessing the start of a new Commodities Supercycle. Brent crude oil has gone on a round trip from USD 100 / bbl to almost USD 140 / bbl and back down yet again. Despite the latest pullback, there is no doubt that crude oil prices are now in a brave new world above USD 100 / bbl. Over the near term, about 5% of global oil supply has "evaporated" as Russia is hit by sanctions and oil import ban. Over the longer term, Europe will need to diversify away from its heavy dependency on Russian oil and gas. In the interim, OPEC does not seem to be in a hurry to pump more oil. We stay positive for USD 110 / bbl in 2Q22 and 3Q22 and USD 100 / bbl in 4Q22 and 1Q23.

Compared to other commodities, LME Copper had a more muted and controlled rally so far, rising by "just 10%" from USD 9,500 / MT in Jan to about USD 10,800 / MT in early Mar, before drifting back down to just above USD 10,000 / MT. Diversified mining sources and an anticipated global surplus in refined copper have helped to keep a lid on excessive price volatility. However, as global inventory levels stay near multi-year low, we can expect LME Copper to head back up to USD 11,000 / MT by the end of this year. As for gold, all signs suggest strong safe haven buying amidst such uncertain times of war. Retail investors have been ramping up their purchases of gold jewellery, institutional investors have raised allocation into gold ETFs and global central banks are almost certain to increase their diversification of their reserves into gold. All the safe haven buying coupled amidst even more negative real yield will imply that gold is able to rally further and shake off the anticipated US Fed rate hiking cycle. Overall, we keep our bullish outlook and expect gold to climb up to USD 2,200 / oz by end of this year.

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

Global Focus

Scenarios For Russia-Ukraine Conflict And the Likely Impact On Inflation And Growth

Based on our base case scenario of an extended Russia-Ukraine conflict, most of the economies under our coverage will expect further upside risks to their already high inflation and some moderate downward revisions to growth (which will remain positive in 2022).

How the Russia-Ukraine conflict will resolve is central to our assessment to inflation and growth outlook at least over the next 6-12 months, as Russia (together with Ukraine in some commodities) are key exporters of critical commodities such as crude oil, gas, wheat, and industrial metals.

In this Focus piece, we highlight three scenarios: 1) Extended Conflict & Occupation (Base case at 60%), Negotiated Ceasefire (Optimistic But Low Probability at 35%), Expanded Conflict (Pessimistic But Lowest Probability at 5%). Based on our base case scenario of an extended Russia-Ukraine conflict, most of the economies under our coverage will expect further upside risks to their already high inflation and some moderate downward revisions to growth (which will remain positive in 2022). At this point, the risk of slower global growth amidst elevated inflation has moved higher, but none of the major developed economies and Asian economies are expected to slip into a recession yet.

Global FX

USD/JPY: We continue to reiterate the view that the stark monetary policy divergence between the Fed and the BOJ continues to argue for a higher USD/JPY over the medium to long term. As such, we shift up our existing USD/JPY forecasts by about 200 pips across the forecast period. The updated levels are now at 119 in 2Q22, 120 in 3Q22, 121 in 4Q22 and 122 in 1Q23.

EUR/USD: With this sudden jolt of geopolitical risks, our previous 1.08 year-end target for EUR/USD is now outdated. Overall, with a multitude of headwinds hitting the EUR, we expect further weakness in EUR/USD. Our updated point forecasts are 1.08 in 2Q22, 1.07 in 3Q22, and 1.06 in both 4Q22 and 1Q23.

GBP/USD: Overall, we keep to our bullish outlook for GBP/USD but have dropped the point forecasts to reflect the newly injected geopolitical risks. The updated GBP/USD forecasts are 1.30 in 2Q22, 1.32 in 3Q22, 1.34 in 4Q22 and 1.36 in 1Q23.

AUD/USD: High commodity prices and earlier RBA rate hikes have prompted us to shift to a positive trajectory for AUD/USD. The point forecasts are updated to 0.73 in 2Q22, 0.74 in 3Q22, 0.75 in both 4Q22 and 1Q23.

NZD/USD: With higher commodity prices and the prospect of larger-than-usual RBNZ rate hikes of 50bps in Apr and Aug, we are no longer bearish on the NZD/USD and now factor in a gradual rise from current levels. Our updated forecasts are 0.68 in 2Q22, 0.69 in 3Q22 and 0.70 in both 4Q22 and 1Q23.

Asian FX

USD/CNY: Taken together, we see a strong likelihood of USD/CNY turning the corner from here given the increasingly challenging growth outlook. In conjunction with our latest 2022 GDP downgrade to 4.9% from 5.2%, we have lifted our USD/CNY forecasts higher, with updated forecasts at 6.50 in 2Q22, 6.55 in 3Q22, 6.60 in 4Q22 and 6.65 in 1Q23.

USD/SGD: While the MAS is expected to tighten policy further in Apr in response to rising inflation, the knee-jerk strength in the SGD is likely to be limited, considering the current challenging risk backdrop. Also, front-loaded Fed rate hikes will continue to underpin broad USD strength. Overall, we maintain an upward trajectory in USD/SGD and update the point forecasts to 1.38 in 2Q22, 1.39 in 3Q22, and 1.40 in both 4Q22 and 1Q23.

USD/HKD: With a front-loaded Fed rate hike cycle, we expect USD/HKD to reach the top end of the Convertibility Undertaking (CU) at 7.85 faster compared to previous cycles. As such, our updated USD/HKD forecasts are 7.84 in 2Q22, followed by 7.85 from the 3Q22 onwards till at least 1Q23.

USD/TWD: Overall, we keep to our cautious view on TWD. Given that our previous year-end USD/TWD target of 28.60 has been met, we update our point forecasts to 28.60 in 2Q22, 28.80 in 3Q22, 29.00 in 4Q22 and 29.20 in 1Q23.

USD/KRW: Being a high beta currency sensitive to global growth expectations, the KRW has taken a beating after the Russia-Ukraine conflict exacerbated inflationary pressures and dimmed the global growth outlook. Overall, USD/KRW is still biased higher and we have updated our point forecasts to 1250 in 2Q22, 1260 in 3Q22 and 1270 in 4Q22 and 1280 in 1Q23.

USD/MYR: Overall, we expect USD/MYR to be guided higher by broad strength in the USD as the Fed begins its rate hike cycle. Hence, we expect the pair at 4.26 in 2Q22, 4.29 in 3Q22, 4.32 in 4Q22, and 4.35 in 1Q23.

USD/IDR: Looking ahead, risks are skewed to downside for IDR as portfolio outflows (both equities and bonds) appears to be accelerating since the onset of the Russian invasion. The 10-year Indonesia Government bond yield has also briefly spiked to 1-year high of 6.80% before pulling back. Overall, we keep to our expectations of a higher USD/IDR, with point forecasts at 14,700 in 2Q22, 14,800 in 3Q22, and 14,900 in both 4Q22 and 1Q23.

USD/THB: The pace of the bond outflows in the last couple of weeks due to geopolitical tension is concerning and bears close watching especially now that the Fed has started its rate hike cycle. Overall, we keep to our defensive view for THB and expect USD/THB at 33.8 in 2Q22, 34.0 in 3Q22, 34.2 in 4Q22 and 34.4 in 1Q23.

USD/PHP: Locally, expectations of twin deficits for two consecutive years and uncertainty surrounding the country's presidential election on 9 May could sap investors' risk appetite in Philippine assets. Therefore, we project a slight upward trajectory for USD/PHP to 53.0 in 2Q22, 53.5 in 3Q22, and 54.0 in both 4Q22 and 1Q23 (vs previous target range of 52.5-53.5).

USD/VND: Potential portfolio outflows from Vietnam due to global de-risking triggered by both the start of the Fed rate hike cycle and geopolitical tensions give ground for a more cautious outlook for the VND. Our USD/VND forecasts are at 23000 at 2Q22, 23100 at 3Q22, 23200 at 4Q22 and 23300 at 1Q23.

USD/INR: Being a net energy importer, the INR is vulnerable to a spike in oil prices. Net outflows from India's bond and equity markets will keep the downward pressure on the INR. Overall, we keep to our cautious view on the INR, with point forecasts updated at 77.5 in 2Q22, 78.0 in 3Q22, 78.5 in 4Q22 and 79.5 in 1Q23.

CENTRAL BANK OUTLOOK

Our Projection For Policy Rates

Central Bank	Total Hike/Cut Quantum Since Start of 2022	2Q22F	3Q22F	4Q22F	Total Quantum Hike/Cut For 2022
PBOC	10bps cut	15bps cut			25bps cut
RBI	-	25bps hike	25bps hike	25bps hike	75bps hike
BI	-		50bps hike	50bps hike	100bps hike
BOJ	-	On hold			
BNM	-	25bps hike	25bps hike		50bps hike
BSP	-	25bps hike	25bps hike	25bps hike	75bps hike
BOK	25bps hike	25bps hike	25bps hike		75bps hike
CBC	25bps hike				25bps hike
BOT	-		25bps hike		25bps hike
SBV	-	On hold			
RBA	-		15bps hike	25bps hike	40bps hike
ECB	-	On hold			
RBNZ	25bps hike	50bps hike	50bps hike	25bps hike	150bps hike
BOE	50bps hike	25bps hike			75bps hike
FED	25bps hike	50bps hike	50bps hike	50bps hike	175bps hike

Source: UOB Global Economics & Markets Research Forecast

KEY EVENTS

2Q 2022

01 April

Malaysia Transition To Endemic Phase
The country will enter the "Transition to Endemic" phase of COVID-19 and fully reopen its borders to further restore economic growth amid higher national vaccination rates.

10-24 April

French Presidential Election
The first round of the presidential election will be held on 10 Apr. If no candidate wins a majority of the vote, a runoff will be held between the top two candidates on 24 Apr. The incumbent President Emmanuel Macron's current term will last until 13 May and he is seeking a second five-year term in office.

Likely **11-14** April

Singapore's MAS Monetary Policy Announcement
We expect the MAS to further steepen the S$NEER gradient "slightly" against the backdrop of a higher inflation environment. There will also be a material risk for added tightening by policymakers via a recentring of the policy mid-point, given that the S$NEER has already appreciated within the upper half of the policy band since Oct 2021's policy meeting.

15 April - **15** June

Italian Local Elections
This will be held on a weekday between 15 Apr to 15 Jun, with a second round to be held two weeks later. Mayors and city councils will be elected for the ordinary five-year terms, lasting till 2027.

18-24 April

2022 Spring Meetings of the IMF and the World Bank
To discuss issues of global concern, including the world economic outlook, global financial stability, inclusive economic growth and job creation and others.

In April

Appointment of BOK's New Governor
BOK Governor Lee Ju-yeol's term ends on 31 Mar. The new governor is expected to be nominated and approved by parliament by the next meeting in Apr.

05 May

UK Local Elections
These will include elections for all London borough councils, and for all local authorities in Wales and Scotland.

08 May

Hong Kong Chief Executive Election
The election was postponed due to the local pandemic outbreak. Carrie Lam's term will end on 30 Jun, providing sufficient time should the election needs to be further postponed.

09 May

Philippines Presidential Election
Incumbent President Rodrigo Duterte is ineligible for re-election as he is limited to a single term, under the 1987 Philippine Constitution. The position of president and vice president are elected separately, and hence the two winning candidates could come from different political parties.

21 May

Australian Federal Election
To elect members of the 47th Parliament of Australia. All 151 seats in the lower house (House of Representatives) and 40 of the 76 seats in the upper house (Senate) will be up for election.

12-19 June

French Legislative Election
This election will determine the 577 seats of the National Assembly of France. Without a majority in parliament, a French president's powers are limited.

27-29 June

ECB Forum on Central Banking
This is an annual event organised by the ECB and is ordinarily held in Sintra, Portugal, where views on current economic and policy issues are being discussed.

OUR FORECASTS

Real GDP Growth Trajectory

y/y% change	2021	2022F	2023F	1Q21	2Q21	3Q21	4Q21	1Q22F	2Q22F	3Q22F	4Q22F
China	8.1	4.9	5.3	18.3	7.9	4.9	4.0	4.5	4.5	4.9	5.5
Hong Kong	6.4	1.7	3.5	8.0	7.6	5.5	4.8	-1.3	1.4	2.7	4.0
India	8.5	7.5	9.0	1.6	20.7	8.9	5.5	2.5	9.5	6.8	5.6
Indonesia	3.7	4.8	5.0	-0.7	7.1	3.5	5.0	4.9	5.0	4.7	4.6
Japan	1.6	1.7	2.5	-1.8	7.1	1.2	0.4	0.5	0.9	2.7	2.5
Malaysia	3.1	5.5	4.8	-0.5	16.1	-4.5	3.6	4.5	5.5	6.0	5.8
Philippines	5.6	6.5	6.5	-3.9	12.0	6.9	7.7	7.6	5.5	6.5	6.4
Singapore	7.6	3.5	3.5	2.0	15.8	7.5	6.1	5.0	3.4	3.7	2.0
South Korea	4.0	2.7	3.0	1.9	6.0	4.0	4.2	2.6	2.4	3.0	2.8
Taiwan	6.4	3.6	3.9	9.2	7.8	4.4	4.9	2.6	3.6	4.1	4.1
Thailand	1.6	3.5	3.6	-2.4	7.7	-0.2	1.9	2.2	2.4	6.2	3.4
Vietnam	2.6	6.5	7.0	4.7	6.6	-6.0	5.2	5.8	6.0	7.2	7.0
Australia	4.8	3.9	3.5	1.3	9.6	4.0	4.2	2.2	3.3	5.9	4.3
Eurozone	5.6	3.4	2.9	-0.9	14.6	4.0	4.6	5.1	3.7	2.2	2.5
New Zealand	5.3	3.6	3.0	3.8	17.3	-1.7	1.7	3.0	1.3	6.2	3.7
United Kingdom	8.2	3.9	2.1	-5.0	24.6	7.0	6.5	8.3	2.8	2.3	2.0
United States (q/q SAAR)	5.7	3.3	2.3	6.3	6.7	2,3	7.0	0.8	3.1	2.8	3.2

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

HEAT MAP

Key Macro Indicators In The Region

Markets	Quarterly GDP % y/y change	Headline CPI % y/y change	Mfg PMI Month	Jobless rate %	Trade balance Billion USD, month	Current a/c % of GDP, quarter	Foreign Dir Inv (FDI) Billion USD, 2021	Fiscal balance % of GDP, 2021
China	4.0	0.9	50.4	5.5	116.0	2.4	149.3	-3.8
India	5.4	6.1	54.9	8.1	-20.9	-1.3	64.1	-7.0
Indonesia	5.0	2.1	51.2	6.5	3.8	0.4	31.1	-4.7
Malaysia	3.6	2.3	50.9	4.2	4.7	3.6	13.2	-6.4
Philippines	7.7	3.0	52.8	6.4	-4.7	-1.0	10.5	-8.6
Singapore	6.1	4.0	50.2	2.4	5.3	18.6	105.1	-0.9
Thailand	1.9	5.3	52.5	1.5	-2.5	-4.3	-6.1	-3.8
Vietnam	5.2	1.4	54.3	3.6	-2.0	-4.4	15.8	-4.5

Green = Strongest across country (rows)
Red = weakest
Source: Macrobond, UOB Global Economics & Markets Research
China's trade balance is for Jan-Feb 2022
India & Thailand's FDI 2021 not available; data reflecting 2020's figures

OUR FORECASTS

FX, Interest Rates & Commodities

FX	18 Mar 22	2Q22F	3Q22F	4Q22F	1Q23F
USD/JPY	119	119	120	121	122
EUR/USD	1.11	1.08	1.07	1.06	1.06
GBP/USD	1.32	1.30	1.32	1.34	1.36
AUD/USD	0.74	0.73	0.74	0.75	0.75
NZD/USD	0.69	0.68	0.69	0.70	0.70
DXY	98.07	99.6	99.9	100.3	100.1
USD/CNY	6.36	6.50	6.55	6.60	6.65
USD/HKD	7.82	7.84	7.85	7.85	7.85
USD/TWD	28.33	28.6	28.8	29.0	29.2
USD/KRW	1,213	1,250	1,260	1,270	1,280
USD/PHP	52.34	53.0	53.5	54.0	54.0
USD/MYR	4.20	4.26	4.29	4.32	4.35
USD/IDR	14,330	14,700	14,800	14,900	14,900
USD/THB	33.34	33.8	34.0	34.2	34.4
USD/VND	22,870	23,000	23,100	23,200	23,300
USD/INR	75.81	77.5	78.0	78.5	79.5
USD/SGD	1.36	1.38	1.39	1.40	1.40
EUR/SGD	1.50	1.49	1.49	1.48	1.48
GBP/SGD	1.78	1.79	1.83	1.88	1.90
AUD/SGD	1.00	1.01	1.03	1.05	1.05
SGD/MYR	3.10	3.09	3.09	3.09	3.11
SGD/CNY	4.69	4.71	4.71	4.71	4.75
JPY/SGDx100	1.14	1.16	1.16	1.16	1.15

RATES	18 Mar 22	2Q22F	3Q22F	4Q22F	1Q23F
US Fed Fund Rates (Upper Bound)	0.50	1.00	1.50	2.00	2.25
USD SOFR	0.05*	0.91	1.46	1.90	2.24
USD 3M LIBOR	0.95	1.25	1.70	2.15	2.35
US 10Y Treasuries Yield	2.18	2.25	2.35	2.50	2.80
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.25
GBP Repo Rate	0.75	1.00	1.00	1.00	1.25
AUD Official Cash Rate	0.10	0.10	0.25	0.50	0.75
NZD Official Cash Rate	1.00	1.50	2.00	2.25	2.50
CNY 1Y Loan Prime Rate	3.70	3.55	3.55	3.55	3.55
HKD Base Rate	0.75	1.25	1.75	2.25	2.50
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.25	1.50	1.75	1.75	1.75
PHP O/N Reverse Repo	2.00	2.25	2.50	2.75	3.00
SGD SORA	0.28	0.81	1.34	1.72	2.05
SGD 3M SIBOR	0.63	1.15	1.55	1.95	2.10
SGD 3M SOR	0.87	1.10	1.50	1.90	2.05
SGD 10Y SGS	2.09	2.15	2.20	2.30	2.50
MYR O/N Policy Rate	1.75	2.00	2.25	2.25	2.25
IDR 7D Reverse Repo	3.50	3.50	4.00	4.50	4.75
THB 1D Repo	0.50	0.50	0.75	0.75	1.00
VND Refinancing Rate	4.00	4.00	4.00	4.00	4.00
INR Repo Rate	4.00	4.25	4.50	4.75	4.75

COMMODITIES	18 Mar 22	2Q22F	3Q22F	4Q22F	1Q23F
Gold (USD/oz)	1,937	2,100	2,150	2,200	2,200
Brent Crude Oil (USD/bbl)	108	110	110	100	100
LME Copper (USD/mt)	10,243	10,500	10,500	11,000	11,000

* Last fixed on 16 March

Global Focus

Scenarios For Russia-Ukraine Conflict And the Likely Impact On Inflation And Growth

The expectations of a year of moderating growth colliding with higher inflation in 2022 is now dealt with geopolitical headwinds of a war in Ukraine. As trading partners of ASEAN, Russia and Ukraine are not among the top 20 but these two countries are large exporters of many key commodities demanded by the world (crude oil, gas, industrial metals and agriculture such as wheat).

While inflation is expected to head even higher due to the confluence of COVID-19 Omicron variant-related factors (in terms of temporary but material disruptions to supply chains, shipping, worsening logjams and labor shortages) and this latest commodity price spike, the key concern is how much that growth will be impacted by the inflation shock and whether the world will head into slower growth or even recession in 2022, or will it be somewhere in-between?

How the Russia-Ukraine conflict will resolve is central to our assessment to inflation and growth outlook at least over the next 6-12 months, as Russia (together with Ukraine in some instances) are key exporters of critical commodities such as crude oil, gas, wheat, and industrial metals.

Our Three Scenarios – Extended Conflict & Occupation (Base), Negotiated Ceasefire (Optimistic But Low Probability), Expanded Conflict (Pessimistic But Lowest Probability)

The Russia-Ukraine developments remain highly uncertain in terms of its potential severity and duration of the conflict, and we profess that, like many others, we do not know when and how it will end. With great trepidation, we set out our assumptions and highlight three scenarios that assess the impact of the Russia-Ukraine conflict on inflation, growth and monetary policy outlook:

Base Case: Extended Conflict and Occupation and its Impact on Inflation and Growth

Scenario	Extended Conflict & Occupation	Negotiated Ceasefire	Expanded Conflict
Probability	60%	35%	5%
Description	▪ Fighting goes on weeks/months before Russian forces gain control of Kyiv and Eastern Ukraine ▪ Occupation of Ukrainian territories for one year before setting up a new government ▪ Sanctions to stay, partial Russian oil sanction by US	▪ Russia and Ukraine reach ceasefire agreement ▪ Most sanctions stay for 6 months, no new sanctions on Russian commodities	▪ Direct NATO-Russia military clash (either intentional or by accident) leading to expansion of warzone beyond Ukraine ▪ Major sanctions escalation including energy and other commodities
Impact on outlook	Growth slows, elevated inflation risks	Return to BAU, with adjustments	Hyperinflation/depression/ WWIII risks amplified
Inflation	Upside risks in 2022/23 as elevated commodities' prices, especially food, energy, are adding on to supply chain disruptions, logistic bottlenecks due to COVID-19 which are still being resolved	Temporary uptick in 1H 2022, But upside pressures set to ease subsequently	Significant increases in inflation as supply of commodities and production face major disruptions due to broadening of military conflict in Europe, sanctions, infrastructure damage
Global growth & sector impact	Food and energy import dependent economies will see downside risks to growth in 2022/23 as surging prices hurts consumption recovery. US growth lower but outperforms EU and Japan.	Recovery dented temporarily but quickly resumes to focus on recovery efforts from COVID-19. Loss in 1H 2022, and compensated in 2H 2022	Major disruptions/destruction in global demand as consumers cut back spending and companies reassess investment plans – hyperinflation/depression risks
Central Bank Policy	Still proceed to unwind accommodative measures but more cautiously due to uncertainty in growth and inflation outlook. The Fed proceeded with a 25bps rate hike in Mar FOMC, and will follow with hikes in every FOMC meeting bringing the FFTR to 1.75%-2.00% by end-2022. Potential for bigger rate hikes if inflation accelerates.	Proceed to remove accommodative measures in this somewhat "BAU" situation. The Fed proceeded with a 25bps rate hike in Mar FOMC, and will follow with hikes in every FOMC meeting bringing the FFTR to 1.75%-2.00% by end-2022. Potential for less hikes if inflation pressures disspate or lessen.	Massive easing by central banks, which in turn spark further escalation in prices while supplies are disrupted – risks of hyperinflation
Fiscal policy	Governments may need to step up stimulus measures; while some increase military spending	Rollback past stimulus measures	Massive fiscal easing, leading to huge increase in government debt and central bank financing
Risk appetite	Generally, risk-off sentiment; safe haven demand will be strong	Risk on: pro-growth	-

Source: UOB Global Economics & Markets Research

One estimate suggested Russia would face inflation rates of 20% and an economic contraction of 8% in 2022.

Our current assessment is that Russia who is the recipient of the majority of the sanctions imposed as a result of the Ukraine invasion and faced with the sharp depreciation in the ruble currency, is the economy most likely falling into severe a recession in 2022. One estimate suggested Russia would face inflation rates of 20% and an economic contraction of 8% in 2022 as a consequence.

Based on our base case scenario of an extended Russia-Ukraine conflict, most of the economies under our coverage will expect further upside risks to their already high inflation and some moderate downward revisions to growth (which will remain positive in 2022). At this point, the risk for slower grow amidst higher inflation, but none of the major developed economies and Asian economies are expected to slip into a recession yet.

Our base case (**Extended Conflict & Occupation**) rests on the assumptions that the Russia-Ukraine conflict will extend into weeks/months before Russia gaining the upper hand and subsequent occupation of Ukrainian territories to achieve its objectives. In this base case, we assume that the full range of sanctions imposed on Russia by US and its allies will stay on a prolonged basis. Russia is among the top three global oil and gas producer and the geopolitical fallout was acutely felt by energy prices which surged in late Feb/early Mar. We project that the Brent crude oil price will average USD110/bbl in 2Q and 3Q 2022, before easing to USD100/bbl in 4Q 2022 (Please see our Commodities Focus Strategy). This is up sharply from our 1Q 2022 Quarterly report's assumption of USD70-75/bbl forecast range for 2022.

And as both Russia and Ukraine are major producers and exporters of soft commodities (wheat), we also expect there will be food supply/price disruptions due to the extended conflict. We project (with significant standard deviation) the Food and Agriculture Organization's (FAO) food price index to rise by 40% to 176 in 2022. In 2021, the index rose by 28% to 125.7.

Chart 1: Geopolitical Fallout Translating Into Higher Energy Prices As Russia Is One Of The Top Crude Oil & Gas Producers

Source: Bloomberg, UOB Global Economics & Markets Research

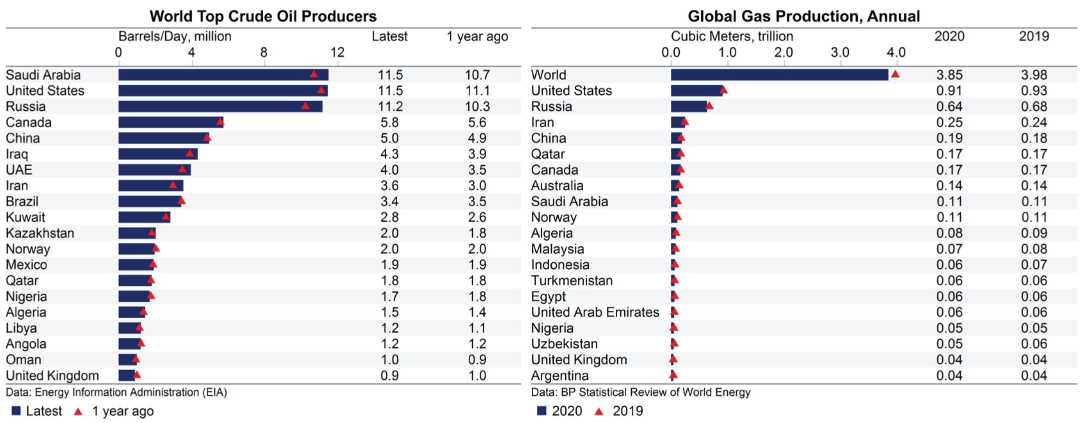
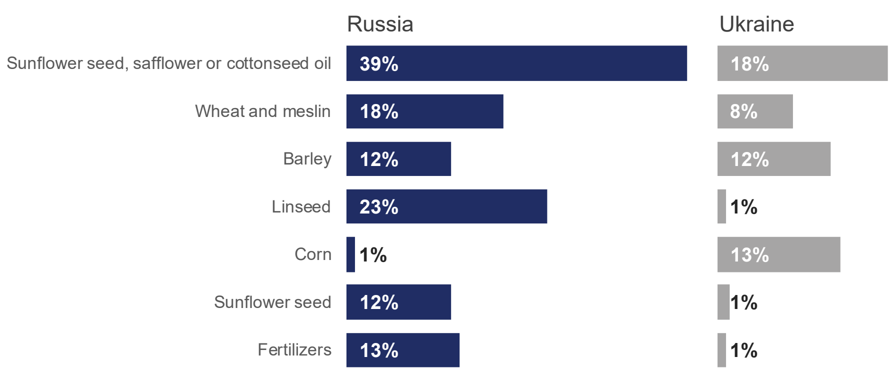


Chart 2: Russia and Ukraine Are Major Food Exporters
(Share of total global exports in 2020)

Source: Intl Trade Centre, Vox, UOB Global Economics & Markets Research
Note: Exports shown are those with a combined share over 10% of the 2020 export total



Our optimistic scenario (at 35% probability) is for a **Negotiated Ceasefire** which implies a swift resolution to the Russia-Ukraine crisis and a subsequent reversal of sanctions after 6 months of implementation. Admittedly, the chances of that happening are reduced with each passing day of war and failed talks although the possibility should not be ruled out altogether.

On the extreme negative spectrum, our pessimistic case of **Expanded Conflict** is a tail end risk of 5% probability as US and its NATO allies have shown great caution so as not to escalate the confrontation with Russia beyond Ukraine. However, it is worth noting that as the conflict approaches the western border of Ukraine near Poland, which is a NATO member, there is no telling how the situation could develop in the fog of war.

How Has The Economy Been Performing Since The Pandemic?

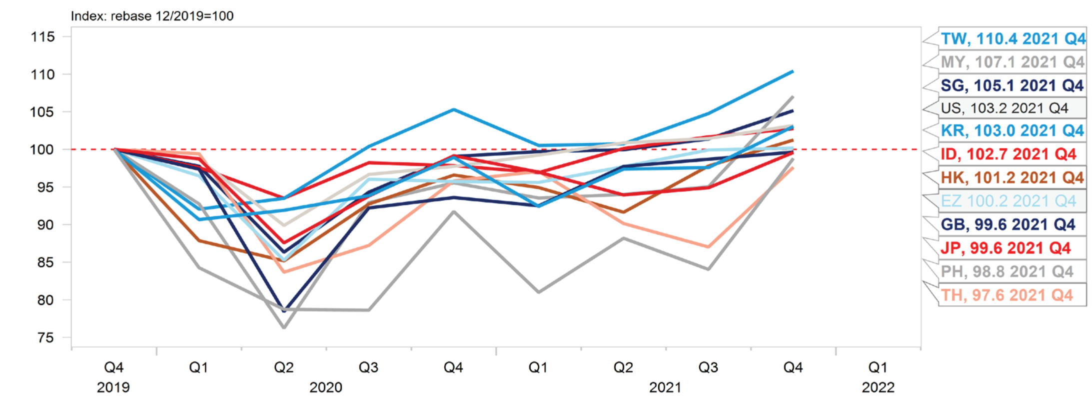
After weighing down by the COVID-19 pandemic in 2020, the global economy has been recovering from the trough with the availability of vaccines, adoption of measures to contain the COVID-19 virus, and gradual resumption of activities.

The question is how far has the global economy recovered from the impact of the pandemic? Using the real GDP level of 4Q19 as a baseline, most of the economies have indeed exceeded or at least near the output level in the pre-COVID era. Even for those that have yet to catch up, the gap is very narrow and the uptrend is clear that they will catch up within a quarter or two. This also explains why some of the central banks have tightened their policy measures, such as the US, Singapore, Taiwan, South Korea, UK, and the others are poised to commence on their rate hike cycle soon, including Malaysia, Indonesia, Philippines, and Thailand.

Within the ASEAN region, most of the economies are recovering towards the pre-COVID level of output or even beyond such as Singapore, Malaysia and Indonesia. This means that domestic inflationary pressures have been accumulating, as economic output reaches or exceeds their potential levels, while external factors such as supply chain bottlenecks, elevated commodity prices, materials shortages pile on to the domestic factors to drive up inflationary pressures. Adding to the mix is the Russia-Ukraine conflict which worsens the picture. Singapore has taken the lead in tightening monetary policy when the Monetary Authority of Singapore (MAS) initiated the process in Oct 2021 and surprised with further tightening in an off-cycle decision in Jan 2022. MAS is expected to continue the tightening cycle in Apr and Oct this year. This is likely to be followed by Indonesia and Malaysia, among others, in the months ahead as highlighted by our economists below, with the immediate priority on containing inflationary pressures rather than supporting growth despite the ongoing Russia-Ukraine conflict.

Chart 3: Global Economy: How Much Has Real Economic Output Recovered to Pre-COVID Level?

Source: Macrobond, UOB Global Economics & Markets Research



Forecast Revisions In Our New Base Case

While our economic coverage does not include Russia, the costly war and the impact of the broad ranging sanctions imposed against the country are unsurprisingly expected to hit Russia the hardest, sending its economy into a recession with prices surging and on the verge of a debt default.

The next group of economies that will be impacted by the war and sanctions on Russia are those closest to Ukraine and Russia – in terms of proximity, trade and investment flows – such as Belarus and the Central and Eastern European Countries (CEECs).

The next group of economies that will be impacted by the war and sanctions on Russia are those closest to Ukraine and Russia – in terms of proximity, trade and investment flows – such as Belarus and the Central and Eastern European Countries (CEECs).

Based on our core scenario of "Extended Conflict & Occupation", the biggest impact for the rest of the world is even higher inflation, transmitted by the elevated price increases, due to the spikes in commodity prices (especially for energy and food) and yet another round of supply chain disruptions owing to raw material shortages (like fertilisers for farming and high grade nickel for electric vehicle production) and transport/shipping linkages particular around the conflict zone.

In comparison, the impact to growth for the rest of the world is likely to be moderate at this point, and differentiated with some potential gainers, such as large commodity exporting economies.

United States

The reason for the mild impact on US growth stems from the lower reliance of its economy on Russia exports and the lower importance of Russia as an end market for US goods.

We assess the impact from the commodity spike and supply chain disruptions to be more acute on inflation for the US which we added 1ppt to the headline CPI inflation forecast at 6% in 2022 (from 5% previously), as compared to growth which we shaved off 0.2ppt to 3.3% in 2022 (from 3.5% previously). The reason for the mild impact on US growth stems from the lower reliance of its economy on Russia exports and the lower importance of Russia as an end market for US goods. While the elevated inflation and consumer prices may curb some of the US consumer spending as real disposable income is eroded by rising prices, we note that the US households still have significant excess saving (thanks to the various rounds of COVID-19 fiscal stimulus packages) to support consumption.

In addition, the energy price surge will help drive greater investments in the energy sector, offsetting some of the declines in other sectors. We think the accelerating and increasingly broad-based inflation outlook will be the primary focus for the Federal Reserve (Fed), which is in the process of unwinding its emergency measures in place since the outbreak of the COVID-19 pandemic. With the 25bps liftoff done and dusted in the Mar FOMC, we now expect the policy Fed Funds Target rate (FFTR) to be hiked faster by clips of 25bps in every remaining meeting of this year, bringing the FFTR higher to the range of 1.75-2.00% by end-2022. As another candidate for unwinding, we continue to expect the Fed to announce Quantitative Tightening (QT, reducing the Fed's US$9 tn balance sheet) in the Jun FOMC and start in Jul, which will help to reduce liquidity and further normalize interest rates (in tandem with the Fed's FFTR hikes).

Eurozone

The Eurozone economy will be more affected by the Russia-Ukraine conflict as the war is literally at their doorstep and the bloc's reliance on Russian energy commodities (as compared to the US).

The Eurozone economy will be more affected by the Russia-Ukraine conflict as the war is literally at their doorstep and the bloc's reliance on Russian energy commodities (as compared to the US). We have revised up the Eurozone CPI inflation by 3.1ppts to 5.4% for 2022 (from 2.3% previously) while trimming GDP growth lower by 0.7ppt to 3.4% (from 4.1%). While the European Central Bank (ECB) is seen with a hawkish tilt in the latest meeting in Mar, we believe the central bank will tread cautiously and we expect no hike for them in 2022 despite the elevated inflation numbers.

United Kingdom

The huge squeeze on living standards could see the UK economy losing steam as households face triple headwinds ahead in the form of inflation, higher interest rates and increased national insurance contributions. We have revised higher the UK CPI inflation by 1.4ppts to 5.0% for 2022 (from 3.6% previously) and have also brought lower our GDP forecast for 2022 to 3.9% (from 4.2% previously). We see limited room for rate hikes by the Bank of England (BOE) this year as it treads cautiously on the back of the Russia-Ukraine conflicts which might upend the UK's economic outlook.

Japan

Amidst its recovery from a significant COVID-19 wave of infections due to the Omicron variant, the surge in energy and commodity prices, and renewed material shortages, will further hamper the manufacturing sector's recovery, worsen the trade position (with a huge jump in energy import bill) and crimp domestic demand in the near term.

Amidst its recovery from a significant COVID-19 wave of infections due to the Omicron variant, the surge in energy and commodity prices, and renewed material shortages, will further hamper the manufacturing sector's recovery, worsen the trade position (with a huge jump in energy import bill) and crimp domestic demand in the near term. The inflation is likely to spike above 2% in 2022 but it will be temporary and not for the desired reason. Wage driven inflation remains largely elusive. As a result, we upgrade headline CPI inflation to average 2.5% (from 1.7%) while lowering GDP growth to 1.7% (from 2.3%). With the inflation largely stemming from a perceived temporary supply shock while domestic demand remains weak, we are certain that the Bank of Japan (BOJ) will keep its current easy monetary policy intact for 2022.

Australia and New Zealand

Australia and New Zealand may benefit from the commodity price rally, which in turn will offset some of the domestic negative factors. We upgraded our 2022 GDP growth forecast for Australia (to 3.9% from 3.7% previously) while downgrading New Zealand's GDP (to 3.6% from 4.1% previously). Inflation is revised higher for both Australia (3.3% from 2.5%) and New Zealand (4.0% from 2.6%). As for monetary policy, New Zealand already started it rate hike cycle and is widely seen as pre-emptive in its monetary policy approach, so we anticipate a 50bps hike in Apr followed by a pause before another 50bps hike in Aug and a further 25bps increase in Nov to bring rates to 2.25% by end-2022. The Reserve Bank of Australia will likely begin its rate hike cycle with a 15bps liftoff in Aug followed by another 25bps hike in Nov 2022.

The bigger risk to China is other domestic factors (such as the renewed large-scale lockdowns due to new waves of infections brought by Omicron variant).

China

With the wide ranging of sanctions imposed on Russia by the US and Western allies, that would likely push Russia and China closer economically in the area of trade, to China's benefit. But as China is also a huge energy importer, the hit to the economy due to a ballooning energy bill will be a negative factor to its growth. But the bigger risk to China is other domestic factors (such as the renewed large-scale lockdowns due to new waves of infections brought by Omicron variant). We now expect China's growth to slip below 5%, to 4.9% in 2022 (from our previous projection of 5.2% prior to the Russia-Ukraine conflict) while inflation is likely higher at 2.9% (from prior forecasts of 2.2%), but still below the official target of 3%, which will provide room for more monetary policy easing/flexibility.

Rest of Asia

The impact is largely more magnified for upside inflation risks for the North Asian economies like South Korea and Taiwan while the growth downgrade is more moderate in comparison. That said, the inflation upside is smaller in magnitude compared to the developed economies of US and Europe. The exception is perhaps for Hong Kong whose economy is hit more by the domestic pandemic situation with the prolonged restrictions in addition to high oil prices, combining to bring GDP below target in 2022.

ASEAN and Regional Economies

The higher inflation revisions due to the commodity price surge is generally seen in most of the economies in the region. The difference is more on growth where the energy cost surge in addition to domestic factors will see downgrades to growth in India, Indonesia and Vietnam while other economies like Singapore, Thailand, Malaysia and Philippines are likely to keep growth steady for now in part due to the cautious projections that were already put in place prior to the Russia-Ukraine conflict and the uncertain impact of the war on the growth outlook of these economies given the very minimal direct exposure to the troubled countries.

For more details, kindly refer to respective country forecasts and views throughout this quarterly report.

Three Scenarios On Russia-Ukraine Conflict: Our Base Case Is Extended Conflict & Occupation

Indicator	CPI Inflation 2022F			GDP 2022F			Monetary Policy			Comments
	Old	New	Diff	Old	New	Diff	Old	New	Diff	
China	2.20	2.90	+0.7	5.20	4.90	-0.3	<15 bps cut as credit growth starts to recover	15bps cut to 1Y LPR by end-2Q22	Higher probability of LPR and RRR cuts	Headline inflation below 3% target to provide room for monetary easing. Growth downside to be mitigated to some extent by easing property measures and higher government infrastructure spending.
Hong Kong	2.00	2.70	+0.7	2.50	1.70	-0.8	-	-	-	Near-term growth to be hit more by the domestic pandemic situation. Prolonged restrictions and high oil prices to bring GDP below target.
India	5.00	6.00	+1.0	8.00	7.50	-0.5	25bps hike in 2Q, 3Q and 4Q 2022	25bps hike in 2Q, 3Q and 4Q 2022	No change	Inflation risks magnified given India being the third-largest crude oil consumer in the world.
Indonesia	2.40	3.30	+0.9	5.00	4.80	-0.2	100bps hike in 2H22	100bps hike in 2H22	No change	Inflation is more affected versus growth, hence keeping our view that BI is going to hike in H2 22, though timing is tricky
Japan	1.70	2.50	+0.8	2.30	1.70	-0.6	10bps hike in 1Q 24	10bps hike in 1Q 24	No change	Sharp price surge due to commodity price surge seen as temporary and unlikely to push BOJ into action in 2022.
Malaysia	3.00	3.00	-	5.50	5.50	-	50bps hike in 2022	50bps hike in 2022	No change	Being a commodity exporter, Malaysia is expected to benefit from higher commodity prices while reopening of borders from 1 Apr will provide further impetus for recovery. The continuation of various government subsidies and cash aids will help to ease cost of living.
Philippines	3.50	3.50	-	6.50	6.50	-	75bps hike in 2022	75bps hike in 2022	No change	Domestic growth catalysts remain and underpin our conservative growth forecast vs official target of 7%-9% with negligible direct impact from Russia-Ukraine conflict. Ongoing and potential fiscal interventions will temper supply-led inflation.
Singapore	2.00	3.50	+1.5	3.50	3.50	-	Further steepen slope "slightly" in Apr 2022, with risk of recentring higher	Further steepen slope "slightly" in Apr 2022, with risk of recentring higher	No change	Higher-for-longer inflation expected, as Singapore remains reliant on food and energy imports.
South Korea	3.00	3.30	+0.3	3.00	2.70	-0.3	50 bps hike in 2Q and 3Q	50 bps hike in 2Q and 3Q	Higher probability of additional 25 bps hike in 4Q given hawkish BOK stance	New government to increase fiscal stimulus, capping downside growth risks. BOK has sharply raised its 2022 inflation forecast to 3.1% from 2.0% in Feb, our forecast is further raised to 3.3%.
Taiwan	1.90	2.50	+0.6	3.90	3.60	-0.3	Total 25 bps hike in 2022	Total 25 bps hike in 2022	No change but potential for another 25bps hike	CBC estimates GDP impact of Russia-Ukraine conflict to be 0.3ppt to 0.4ppt. Our growth forecast is more conservative vs. CBC's updated forecast of 4.05% for 2022.
Thailand	2.00	4.00	+2.0	3.50	3.50	-	25bps hike in 3Q22 to mitigate inflation and ouflow risks	25bps hike in 3Q22 to mitigate inflation and ouflow risks	No change	Tourism may be affected as Russia was the third-largest tourism revenue generator in 2019. Inflation risks significant given that raw food and energy account for 1/3 of CPI basket.
Vietnam	3.20	4.10	+0.9	6.80	6.50	-0.3	50bps hike in 2023	50bps hike in 2023	No change	High energy and food prices are already impacting costs of living. Economic activities are likely to slow slightly as consumers and companies adjust to higher prices. Downside risks remain.
Australia	2.50	3.30	+0.8	3.70	3.90	-0.2	No change in 2022	40bps of rate hikes in 2022	Brought forward rate hikes from 2023 to 2022	The upgrade to our inflation forecasts, alongside an even tighter labour market, has led us to bring forward our RBA rate hike call.
New Zealand	2.60	4.00	+1.4	4.10	3.60	-0.5	100bps of rate hikes in 2022	150bps of rate hikes in 2022	Additional 50bps of rate hikes in 2022	We are now anticipating more aggressive rate hikes this year, in view of our updated inflation forecasts, and also because of the pre-emptive nature of the RBNZ.
Eurozone	2.30	5.40	+3.1	4.10	3.40	-0.7	No change in policy rates for 2022	No change in policy rates for 2022	Brought forward rate hikes from 2024 to 2023	We are not expecting any changes in key interest rates by the ECB for now. Rather, any policy tightening this year, will solely be in terms of ending its QE programs.
UK	3.60	5.00	+1.4	4.20	3.90	-0.3	50bps of rate hikes in 2022	75bps of rate hikes in 2022	Additional 25bps of rate hikes in 2022	We see room for a further 25bps hike, due to the strength of the labour market and upward revisions to our inflation outlook. Subsequently, we look for a pause.
US	5.00	6.00	+1.0	3.50	3.30	-0.2	150bps hikes in 2022	175bps hikes in 2022	Additional 25bps of rate hikes in 2022	The accelerating and increasingly broad-based inflation outlook will be the primary focus for the Fed and keep it on track for 175bps hikes in 2022

Source: UOB Global Economics & Markets Research

FX Strategy

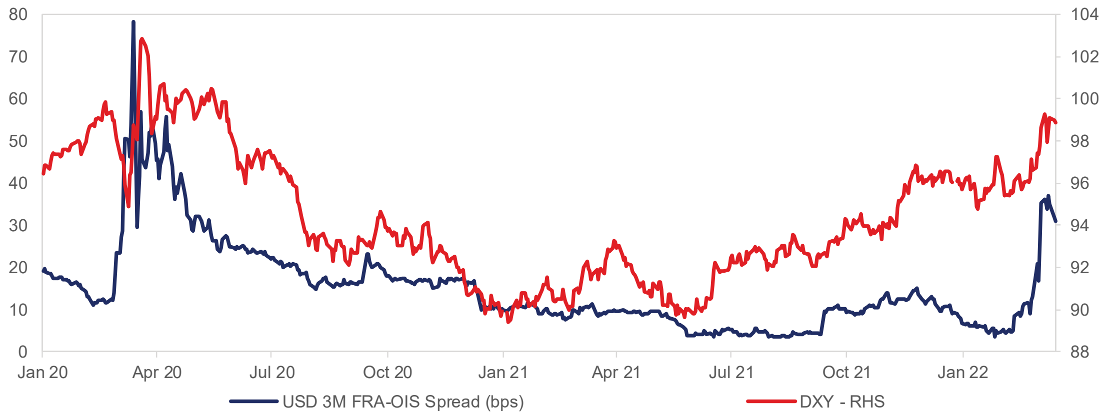
Geopolitical Tensions Is The Surprise Catalyst For The USD

- Safe haven demand fueled the next leg of the USD rally
- EUR pinned lower due to geopolitical tensions while commodity-linked FX will outperform
- A prolonged military conflict injects considerable downside risk to Asia FX as a whole

Geopolitical tensions have achieved what even a hawkish Fed could not in the last couple of months – sparking a sustained upside breakout in the USD. Russia's invasion of Ukraine late Feb triggered a flight-to-quality towards the reserve currency of the World, the USD, and helped push the US Dollar Index (DXY) to the highest levels in almost two years. The ensuing sanctions on Russian financial institutions by US and its allies also raised concerns on USD funding and put a bid to the USD. In addition, the USD will continue to draw support from tighter US monetary policy going forward. Given that the military conflict has exacerbated inflation expectations via a spike in commodity prices, the Fed is likely to stay the course to hike a cumulative of 175 bps this year together with reducing its balance sheet in the second half of the year. Spurred by the unexpected bout of geopolitical tensions, it does appear the next leg of USD strength is well underway.

Chart 1: USD Funding Concerns Helped Trigger The Next Phase of USD Uptrend

Source: Bloomberg, UOB Global Economics & Markets Research

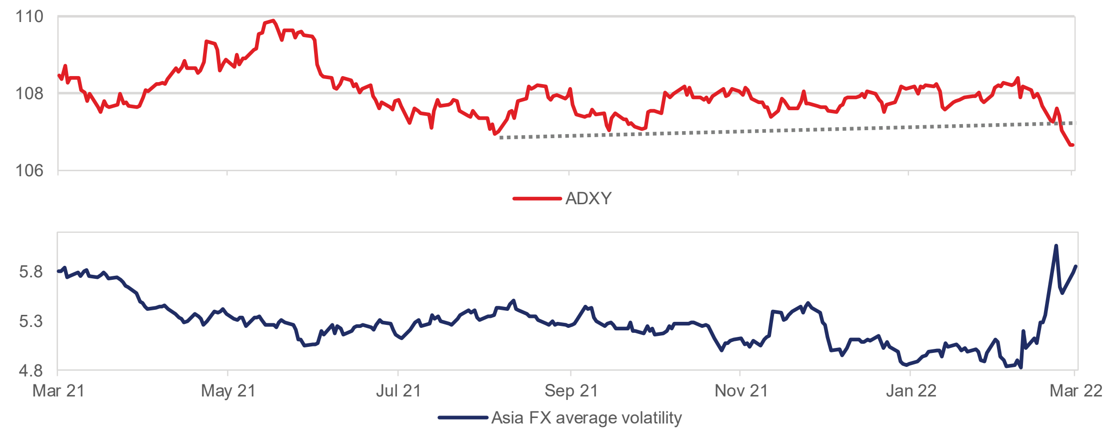


The challenging risk backdrop due to a prolonged military conflict also injects considerable downside risk to Asia FX as a whole. The wild card for Asia FX has been the CNY.

Russia's invasion of Ukraine has upended the relative calm of Asia FX across Jan – Feb. As investors scaled back on Asia Emerging Markets (EMs) exposure as part of the global risk aversion, most Asia FX faced selling pressure. Laggards are mostly dominated by net energy importers such as the INR and PHP, hurt by a massive jump in energy prices. The Asia Dollar Index (ADXY) has also lurched lower and took out its key support at 107, a level that has held since last Aug. As with previous Fed rate hike cycles, the start of the current cycle raises the spectre of portfolio outflows from Asia EMs, especially so for a front-loaded cycle this time round. The challenging risk backdrop due to a prolonged military conflict also injects considerable downside risk to Asia FX as a whole. The wild card for Asia FX has been the CNY. Would a stable CNY continue to anchor Asia FX as it did for the last couple of months? Or would the CNY start to unravel in response to a slowing Chinese economy and the easing bias of the People's Bank of China (PBOC)?

Chart 2: ADXY Took Out a Key Support Amidst a Spike In FX Volatility During The Russian Invasion

Source: Bloomberg, UOB Global Economics & Markets Research



On top of its monetary policy advantage, the USD also draw strengths from growing concerns of a global stagflation and sustained risk aversion, which adds an important tailwind for the USD.

Major FX Outlook

Will Commodities Volatility Become a Key Determinant of FX Movements?

Similar to the emergence the Omicron variant in 4Q21, Russia's invasion of Ukraine in 1Q22 is unlikely to derail the monetary policy normalization plans of Developed Markets (DMs) central banks, particularly the Fed. In fact, the biggest commodity shock since the twin oil shocks of 1973 and 1979 adds further upside pressure to the already multi-decade high inflation in some DMs, strengthening the case for aggressive rate hikes. The overnight index swaps have rebounded back to pre-conflict levels, pricing in excess of 175 bps of Fed rate hikes this year. On top of its monetary policy advantage, the USD also draw strengths from growing concerns of slowing global growth amidst elevated inflation and sustained risk aversion, which adds an important tailwind for the USD. Overall, compared to a quarter ago, the momentum of USD has improved and DXY now targets 100.3 by end-2022.

Chart 3: Risk Reversals Suggest a Depressed EUR/USD Just as The Currency Pair Becomes a Default Hedge For Geopolitical Uncertainties

Source: Bloomberg, UOB Global Economics & Markets Research

Overall, with a multitude of headwinds hitting the EUR, we expect further weakness in EUR/USD.

The short-euro trade has emerged as investors' default choice to hedge against increasing geopolitical uncertainties. The bloc's geographical proximity to the military conflict implies higher collateral risk and Europe's strong dependence for Russian gas exports means the EUR is most exposed within G-10 to the economic fallout of the Russian invasion. Indeed, by the second week of the invasion, EUR/USD has plunged over 3% to almost 1.08, the lowest level since May 2020. With the tentative post-COVID economic recovery under threat, the European Central Bank (ECB) is almost certain to double down on its patience on rates liftoff, which we expect to only occur in 1Q23. As such, the widening EU-US rates differential will continue to weigh on EUR/USD. Also, the current net long EUR/USD positioning lends a long runway for additional geopolitical hedges to be deployed before positioning becomes excessive. With this sudden jolt of geopolitical risks, our previous 1.08 year-end target for EUR/USD is now outdated. Overall, with a multitude of headwinds hitting the EUR, we expect further weakness in EUR/USD. Our updated point forecasts are 1.08 in 2Q22, 1.07 in 3Q22, and 1.06 in both 4Q22 and 1Q23.

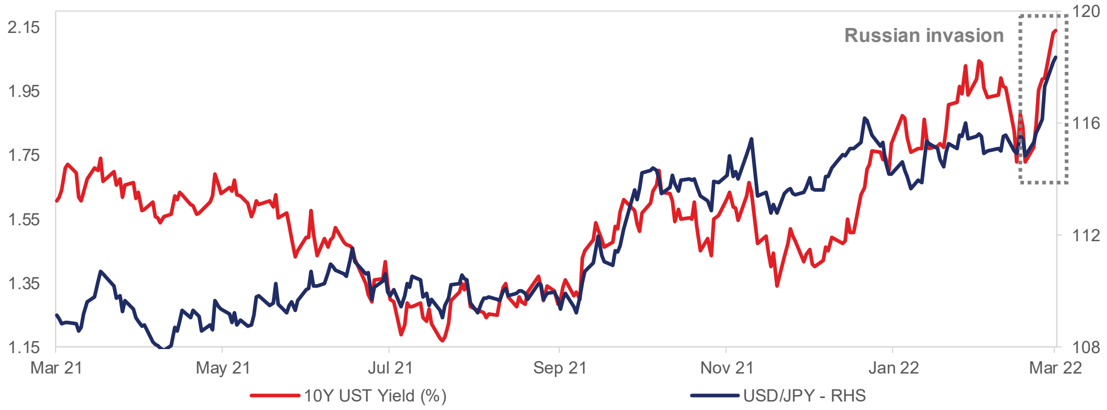
The steady rate hikes by the BOE over the next three years are likely to underpin the GBP as well. Overall, we keep to our bullish outlook for GBP/USD but have dropped the point forecasts to reflect the newly injected geopolitical risks.

GBP/USD fell to a post-Brexit era low of almost 1.30 as part of a broader risk selloff amidst the Russian invasion. While geopolitics-inflicted volatility and a scale back of the aggressive rate expectations in the wake of Bank of England's (BOE) dovish hike in Mar may weigh on GBP/USD in the near-term, longer term valuation of GBP remains attractive. The Real Effective Exchange Rate (REER) valuation of GBP is still stuck at its lowest quartile over the last four decades and we expect the structural Brexit discount to continue to unwind. The steady rate hikes by the BOE over the next three years are likely to underpin the GBP as well. Overall, we keep to our bullish outlook for GBP/USD but have dropped the point forecasts to reflect the newly injected geopolitical risks. The updated GBP/USD forecasts are 1.30 in 2Q22, 1.32 in 3Q22, 1.34 in 4Q22 and 1.36 in 1Q23.

What we have also witnessed in the last couple of weeks is how commodity prices have been a key driver for Majors FX given the unprecedented rally in some of the commodities, so much so that it has overtaken the traditional relationship of some currencies. Two good examples are the USD/JPY and AUD/USD.

Chart 4: USD/JPY Driven By Higher Treasury Yields and Oil Prices, Instead of Safe Haven Demand

Source: Bloomberg, UOB Global Economics & Markets Research

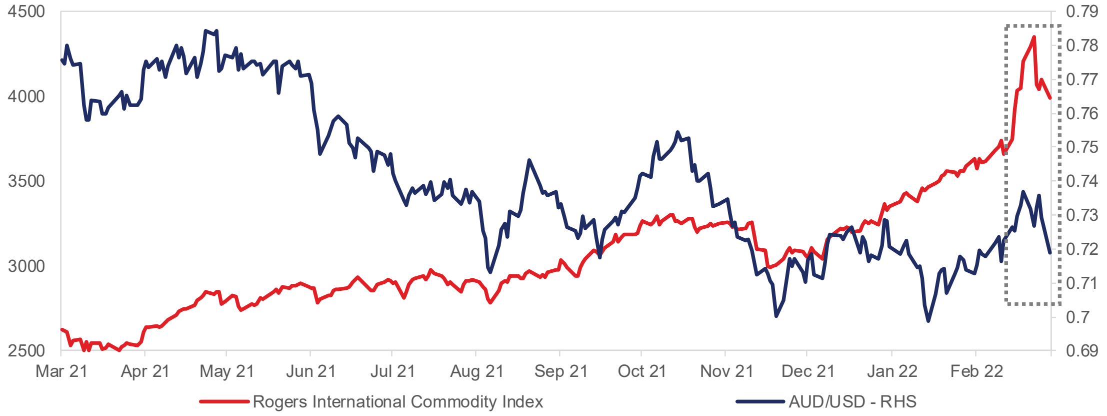


Beyond the near-term anomaly, we continue to reiterate the view that the stark monetary policy divergence between the Fed and the Bank of Japan (BOJ) continues to argue for a higher USD/JPY over the medium to long term.

The JPY is stuck in a quandary of late. Typically, the default safe haven currency should appreciate sharply in a period of intense risk aversion such as the current context. Instead, the JPY has weakened from 115 /USD to 119 /USD since the start of the Russian invasion. What has eroded the JPY's safe haven appeal is an unusual driver – Japan's trade balance. With sharply higher oil prices, markets are expecting Japan's energy bill to balloon and its trade deficit to worsen further. Beyond the near-term anomaly, we continue to reiterate the view that the stark monetary policy divergence between the Fed and the Bank of Japan (BOJ) continues to argue for a higher USD/JPY over the medium to long term. As such, we shift up our existing USD/JPY forecasts by about 200 pips across the forecast period. The updated levels are now at 119 in 2Q22, 120 in 3Q22, 121 in 4Q22 and 122 in 1Q23.

Chart 5: AUD/USD Has Seen Increased Correlation to Commodity Prices

Source: Bloomberg, UOB Global Economics & Markets Research



A positive factor for the AUD probably comes in the form of the Reserve Bank of Australia (RBA) bowing to markets' expectations of a rates liftoff this year given the sudden commodity price shock.

Commodity prices which have been on a tear since the start of the Russian invasion has been a strong tailwind for AUD. Australia is amongst the world's top exporters of liquefied natural gas (LNG), iron ore and wheat, all of which saw significant price jumps of late. The increased correlation to higher commodity prices has helped AUD to outperform within G-10 space. Even against a deteriorating global risk backdrop and a scramble for the USD, the AUD/USD rallied to a 4-month high of 0.7441 before paring some gains. With our base case being a protracted Russia-Ukraine war, it is likely that high commodity prices will be with us for a while longer, a key support for AUD bulls. Another positive factor for the AUD probably comes in the form of the Reserve Bank of Australia (RBA) bowing to markets' expectations of a rates liftoff this year given the sudden commodity price shock. We have brought forward our RBA call and now a 15bps liftoff in Aug and another 25bps rate hike in Nov. Taken together, we are now shifting to a positive trajectory for AUD/USD, with point forecasts updated at 0.73 in 2Q22, 0.74 in 3Q22, and 0.75 in both 4Q22 and 1Q23.

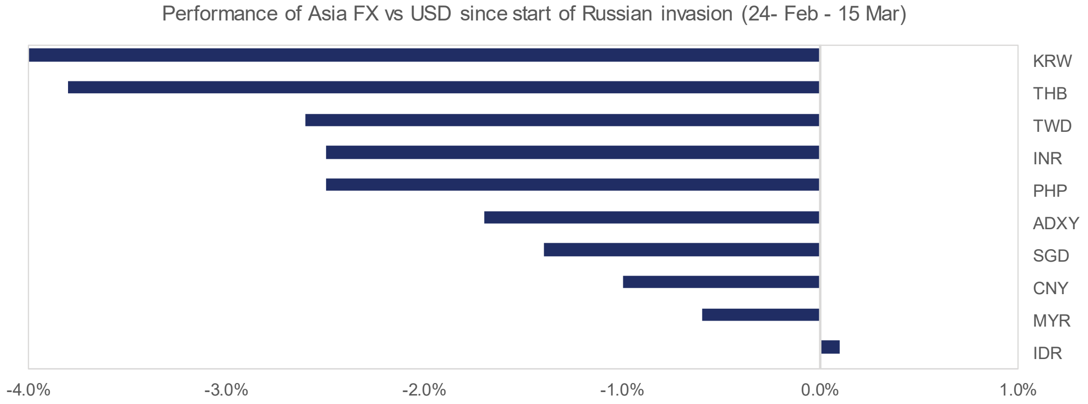
Asia FX Strategy

Is The CNY Finally Going to Reflect its Weak Fundamentals?

Most Asia FX slipped in the wake of the Russian invasion, alongside a pullback in global risk sentiment. Uncertainties over the economic fallout of the Russian invasion will add to portfolio outflows pressures spurred by the start of the Fed rate hike cycle. Accompanied by a jump in implied volatility, there is now a higher risk that ADXY would sustain below its key support at 107.00, ending the sideways phase in place since last Aug and beginning a new leg lower.

Chart 6: Most Asia FX Fell Against USD as Geopolitical Tensions Weighed

Source: Bloomberg, UOB Global Economics & Markets Research

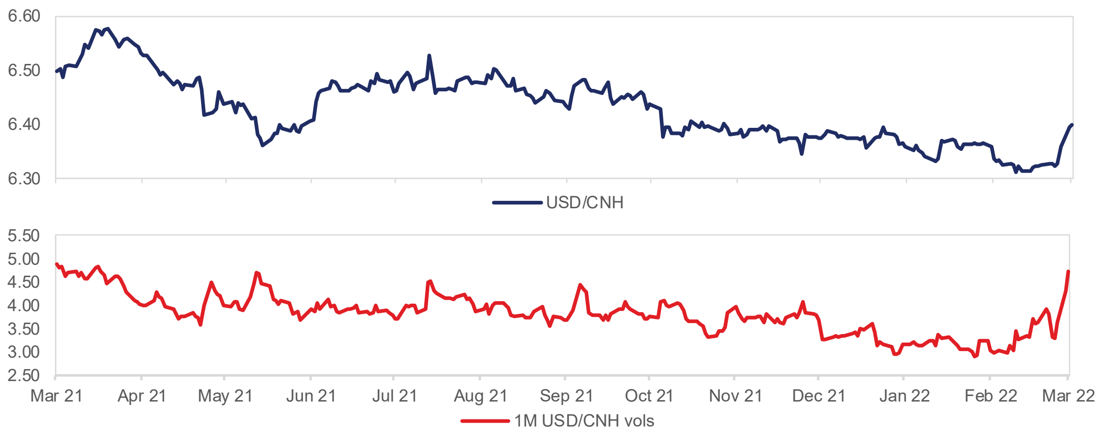


We see a strong likelihood of USD/CNY turning the corner from here given the increasingly challenging outlook.

The CNY's stability around 6.32 /USD throughout the Russian invasion was upended in mid-March after China registered its biggest surge in COVID-19 cases in two years. The return of lockdowns and its disruptions to economic activities rekindled concerns over the ambitious 2022 GDP target of 5.5% set by the Chinese government just days below the recent outbreak. As a result, USD/CNY jumped from 6.32 to 6.38 in a matter of three days, the highest level this year. All of a sudden, the wide divergence in growth outlook and monetary policy stance between the US and China comes into a sharper focus. The CFETS RMB index which has largely rallied in a one-way traffic from its lows in Jul 2020 is now more vulnerable to a pullback since the headwinds on the CNY have increased. Seasonally, we are also entering a bullish quarter for USD/CNY, i.e. CNY weakness. For the past 10 years, USD/CNY has averaged a 0.7% gain in the second quarter, the highest quarterly gain in the year. The PBOC also appears to be guiding the CNY weaker via a series of weaker-than-expected fixings. Taken together, we see a strong likelihood of USD/CNY turning the corner from here given the increasingly challenging outlook. In conjunction with our latest 2022 GDP downgrade to 4.9% from 5.2%, we have lifted our USD/CNY forecasts, with updated forecasts at 6.50 in 2Q22, 6.55 in 3Q22, 6.60 in 4Q22 and 6.65 in 1Q23.

Chart 7: USD/CNH Jumped From 6.32 to 6.38 as China Slowdown Fears Grew

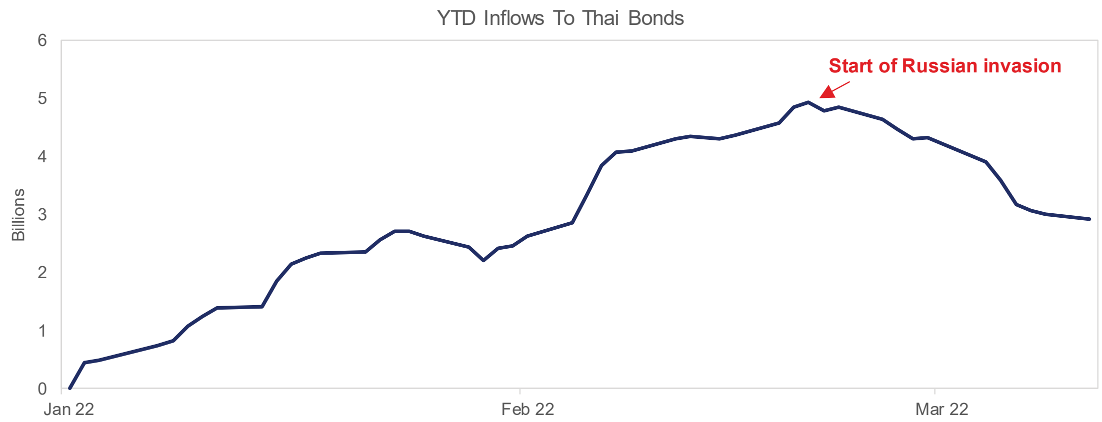
Source: Bloomberg, UOB Global Economics & Markets Research



Geopolitical risks dented what had been a strong start to a year for THB. After rising as much as 3.4% to 32.09 /USD on strong bond inflows, THB pared gains as the Russian invasion started. Higher oil prices cast considerable uncertainty to the expected recovery of Thailand's current account back to surplus this year. The pace of the bond outflows in the last couple of weeks due to geopolitical tension is concerning and bears close watching especially now that the Fed has started its rate hike cycle. Overall, we keep to our defensive view of THB and expect USD/THB at 33.8 in 2Q22, 34.0 in 3Q22, 34.2 in 4Q22 and 34.4 in 1Q23.

Chart 8: Thailand's Net Bond Inflows Are Checked By The Russian Invasion

Source: Bloomberg, UOB Global Economics & Markets Research



While the MAS is expected to tighten policy further in Apr in response to rising inflation, the kneejerk strength in the SGD is likely to be limited, considering the current challenging risk backdrop.

Even after the Monetary Authority of Singapore's (MAS) surprise off-cycle move to increase the policy slope late Jan, we opined that our expectations of higher USD/SGD were not derailed. Furthermore, we pointed out that a rising S$NEER can coexist with a higher USD/SGD as long as there is broad-based USD strength, as seen in the last Fed rate hike cycle. Our view appears prescient as USD/SGD did not lose further ground below 1.34 after MAS's surprise decision to tighten monetary policy in Jan (compared to about 1.3460 immediately before) and the subsequent Russian invasion jolted the pair above 1.3600. While the MAS is expected to tighten policy further in Apr in response to rising inflation, the kneejerk strength in the SGD is likely to be limited, considering the current challenging risk backdrop. Also, front-loaded Fed rate hikes will continue to underpin broad USD strength. Overall, we maintain an upward trajectory in USD/SGD and update the point forecasts to 1.38 in 2Q22, 1.39 in 3Q22, and 1.40 in both 4Q22 and 1Q23.

Factors supportive of the MYR include stable growth fundamentals, robust external position with surplus current account and foreign direct investments. Overall, we expect USD/MYR to be guided higher by broad strength in the USD as the Fed begins its rate hike cycle.

Being a net commodity exporter, the MYR has been steadily buoyed by the strength of oil prices. USD/MYR continues to hover in a tight range of 4.17 between 4.21. The MYR is also one of the most resilient currency in Asia, having only dropped 0.5% against the USD from the start of the Russian invasion to 14 Mar even amidst heightened geopolitical risks. Other factors supportive of the MYR include stable growth fundamentals, robust external position with surplus current account and foreign direct investments. Overall, we expect USD/MYR to be guided higher by broad strength in the USD as the Fed begins its rate hike cycle. Hence, we expect the pair at 4.26 in 2Q22, 4.29 in 3Q22, 4.32 in 4Q22, and 4.35 in 1Q23.

Similar to MYR, the IDR is in fine balancing act now. Being a net energy exporter, the IDR benefits from high energy prices but are counteracted by portfolio outflows which hurt the IDR. Looking ahead, risks are skewed to downside of IDR as portfolio outflows (both equities and bonds) appears to be accelerating since the onset of the Russian invasion. The 10-year Indonesia Government bond yield have also briefly spiked to 1-year high of 6.80% before pulling back. Overall, we keep to our expectations of a higher USD/IDR, with point forecasts at 14,700 in 2Q22, 14,800 in 3Q22, and 14,900 in both 4Q22 and 1Q23.

Rates Strategy

Not Your Usual Fed Hike Cycle

- Potential for yield upside but may be capped by growth concerns.
- Extent of yield curve inversion may surprise.
- After the rate hike, Federal Reserve's (Fed) Quantitative Tightening to follow soon.

Looking forward, there is a sense that the direction for bond yield is being pulled from both sides, with upgraded inflation prospects and Fed hikes on the one hand, and diminished growth outlook on the other.

1Q 2022 Recap

Geopolitics and high inflation low growth parallels dominated the headlines during the first quarter of 2022. Nominal 10Y UST yield round tripped and has even surpassed its pre-invasion level. More importantly, Russia's invasion of Ukraine has reduced the dominance of gains in real yield and boosted the contribution by breakeven inflation in explaining year to date changes in the 10Y UST yield. Looking forward, there is a sense that the direction for bond yield is being pulled from both sides, with upgraded inflation prospects and Fed hikes on the one hand, and diminished growth outlook on the other.

Chart 1: Quarterly Change (31 Dec to 17 Mar)

Source: Bloomberg, UOB Global Economics & Markets Research

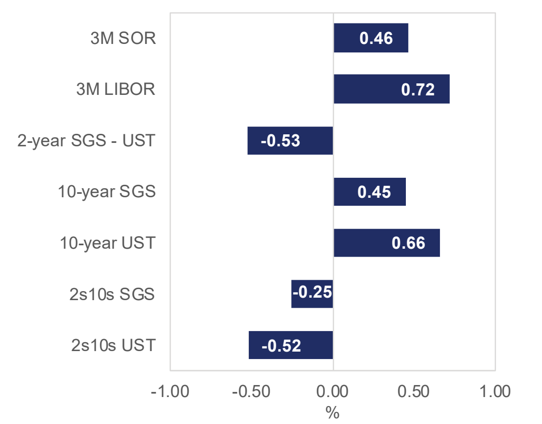


Chart 2: 10Y UST Yield Change (Ytd cumulative)

Source: Bloomberg, UOB Global Economics & Markets Research

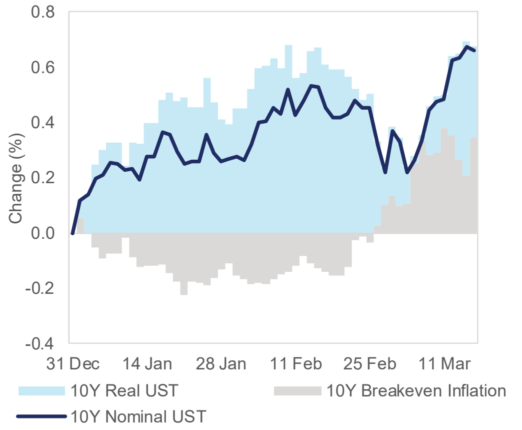
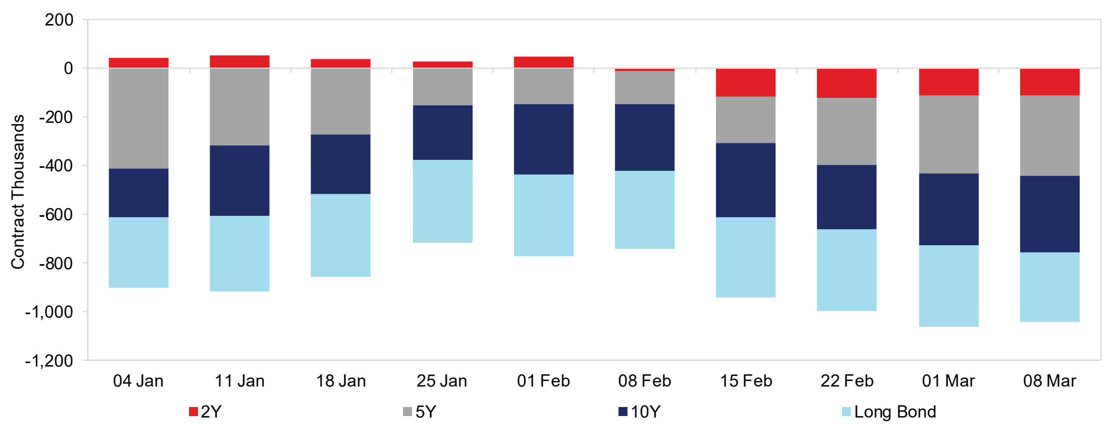


Chart 3: CFTC Non-Commercial For US Treasuries (Net combined)

Source: Bloomberg, UOB Global Economics & Markets Research



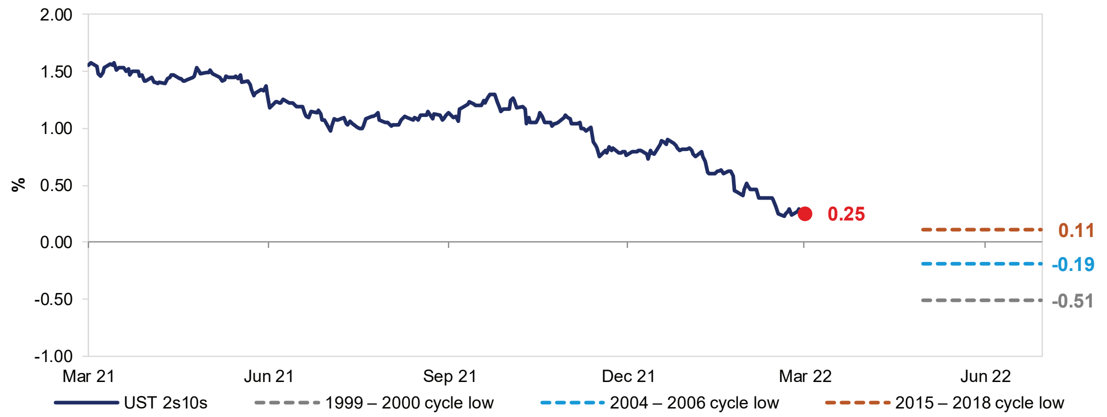
Speculative positioning seen through the lens of changes in the CFTC non-commercial report showed minor changes to the net-combined positions across the UST contracts since the Russian invasion. Net shorts were reduced for the wings of the curve while rising for the intermediate tenors. Thus for this investor segment, the consensus view has been resilient and aligned towards an expectation for higher yields in the near term.

Yield Curve May Invert And Its Magnitude Could Surprise

In the current environment of extended supply chain disruption and a potentially more persistent elevated inflation outcome, we think that the yield curve impact could surprise to the downside.

Chart 4: 2s10s UST Curve

Source: Bloomberg, UOB Global Economics & Markets Research



Progressively higher yields will dampen the outlook for future growth prospects, translating to flatter yield curves

With inflation staying sticky above the Fed's comfort levels, doing nothing is not a choice for policy makers even if the driver of higher prices are mainly supply side factors. But channeling their inner "Volcker" to aggressively intervene on inflation may turn out to be more form than substance based on the current generation of policy makers' track record. The balancing act will be to nurse aggregate demand lower via a more measured pace of rate hikes whilst waiting for supply side price pressures to ease. At the same time, progressively higher yields will dampen the outlook for future growth prospects, translating to flatter yield curves.

Where the curve ultimately finds a bottom will depend on the Fed's willingness to respond to financial market disruption. This hurdle rate looks like it has reset higher given the possibility that inflation could prove stickier after the broad range of sanctions imposed on Russia.

Chart 5: UST Curve and CPI by Decade (Quarterly)

Source: Bloomberg, UOB Global Economics & Markets Research

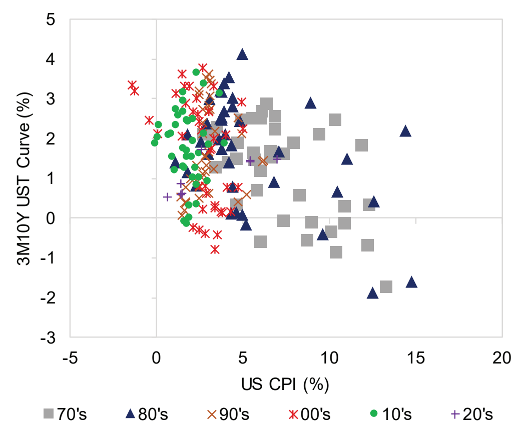
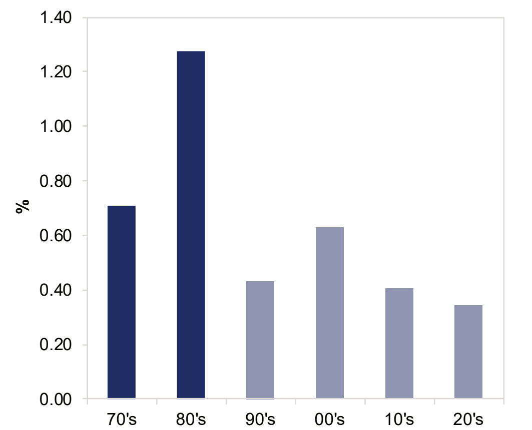


Chart 6: Std Dev of 3M10Y UST Curve (Quarterly change)

Source: Bloomberg, UOB Global Economics & Markets Research



High inflation low growth parallels to the 1970/80s show that yield curve changes can be extremely volatile during periods of high inflation as well as being capable of reaching depths of inversion that few would imagine possible in modern times. The first run up in US CPI from 3.4% to 12.3% (between 1973 and 1974); saw the 3M10Y UST curve inverting to lows of -1.86%. In the second inflation spike from 1978 to 1980, the 3M10Y curve plunged to -3.70%.

We do see a reasonable chance that the run of higher yield curve bottoms over the past three monetary policy tightening cycle may be broken.

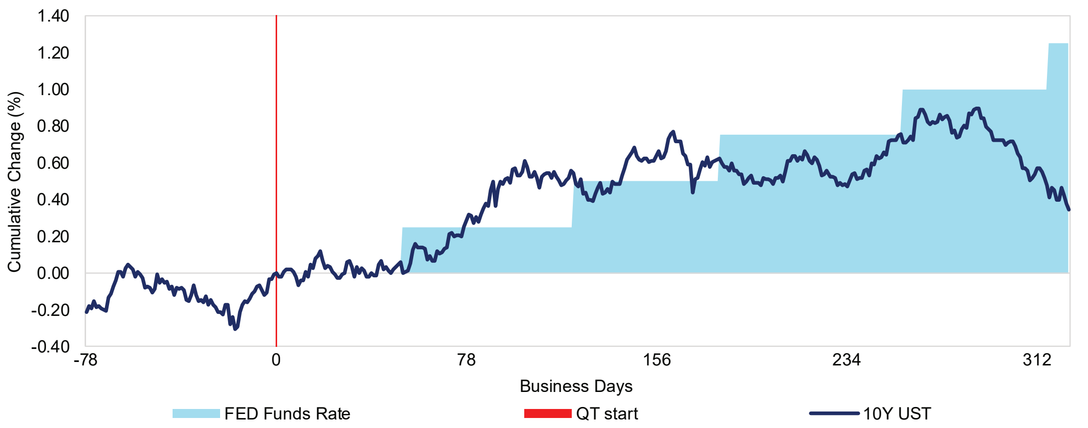
Outright yield levels are currently much lower compared to where they were in 1970/80s; this will be a limiting factor that prevents a repeat performance of the extremes in curvature changes. However, we do see a reasonable chance that the run of higher yield curve bottoms over the past three monetary policy tightening cycle may be broken.

Reacquainting With Quantitative Tightening

Investors are expecting to see the US Fed pivoting towards Quantitative Tightening (QT), soon after lifting their policy rates off their pandemic era lows. The assumption is that a reduction in FED's balance sheet will result in additional upside for yields, particularly in the longer maturities. Geopolitical developments will have an impact on the timing of QT but outside of the worst case scenario, commencement of QT is fait accompli.

Chart 7: 10Y UST (2017-2019 QT)

Source: Bloomberg, UOB Global Economics & Markets Research



Did the balance sheet and yield change causality hold back in 2017/19 when QT was previously implemented? As it turns out, the answer is both yes and no, depending on how the price action was sliced. Based on the 10Y UST yield changes in 2017/2019, there was little differentiation between the increase in 10Y bond yield and the increase in the baseline Fed funds target rate (FFTR) over the period of QT, i.e. from point to point. Between Oct 2017 when QT was implemented and Dec 2018 when Fed chair Jerome Powell deemed that the QT process was on "autopilot", 10Y UST yield had gained by around 90bps at its highest point while over the same period, the FFTR was hiked by 100bps.

Since higher 10Y UST yield appeared to have been underwritten by higher FFTR in the previous QT experience, is the logic of QT equating to higher yields false? Specifically, should we be sanguine about additional upside risk to 10Y UST yields, beyond what is to be expected from higher FFTR during the 2022 QT?

Our sense is that a laid back approach to QT's impact on yield may be too cavalier. In 2017/19, two thirds of the increase in 10Y UST yield (around 60bps) was recorded in just over 50 sessions during the first 100 days post implementation. Over the same period, the FFTR was hiked once by 25bps. 10Y UST went on to consolidate the yield gains over an extended period.

Presently, safe haven demand from geopolitical developments is keeping a cap on 10Y UST yield.

Presently, safe haven demand from geopolitical developments is keeping a cap on 10Y UST yield. Eventually when tensions dissipate, sanctions and higher inflation prospects will likely remain. At such a point, 10Y UST is likely to return to a path of higher yields. Adding QT to this mix could engineer a period of rapid repricing; similar to what was experienced in 2017/19.

Summary of Our Views

Accounting for our revised front loaded and higher terminal FFTR, we are projecting 10Y UST to end the year at 2.50% (10Y SGS at 2.30%). 3 month US Libor and SG Sor is expected to touch 2.15% and 1.90% respectively by 4Q 2022.

Summary of Our Views	
Outright Yield	Higher, anchored on resilient FED hike expectations and more persistent inflation scenario.
Curve	Flatter yield curves with risk of deeper inversion. Possible transitory countertrend steepening post QT implementation.
Spread	Deeper SG yield discount to US over monetary policy normalization cycle.

Source: UOB Global Economics & Markets Research

Our Forecasts

Rates	17 Mar 22	2Q22F	3Q22F	4Q22F	1Q23F
US Fed Funds Target	0.50	1.00	1.50	2.00	2.25
3M SOFR	0.05	0.67	1.18	1.67	2.05
3M USD LIBOR	0.95	1.25	1.70	2.15	2.35
10Y UST	2.11	2.25	2.35	2.50	2.80
3M SORA	0.23	0.51	1.06	1.52	1.86
3M SGD SOR	0.87	1.10	1.50	1.90	2.05
10Y SGS	2.13	2.15	2.20	2.30	2.50

Source: UOB Global Economics & Markets Research forecasts

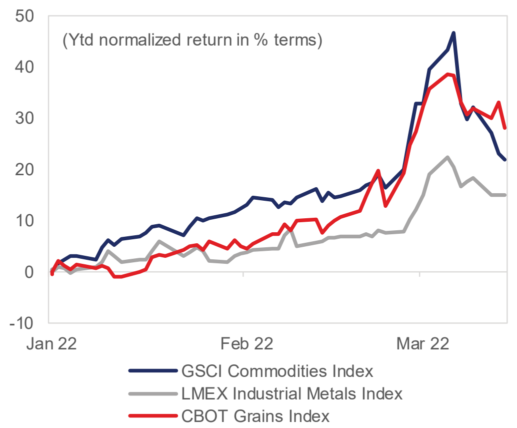
Commodities Strategy

Is the Commodities Supercycle Upon Us?

Russia's invasion of Ukraine in late Feb triggered a strong price rally in practically every commodity. In particular, those commodities which are more dependent on supply from Russia and Ukraine witnessed even more explosive price rallies over the past month. These included mainstream commodities like crude oil, nickel, palladium and wheat, to more esoteric commodities like sunflower and rapeseed oil. Overall the CBOT Grains Index has led with a 28% year to date gain, followed by the broader GSCI Commodities Index at 22% and the LME Indstiral Metals Index at 15%.

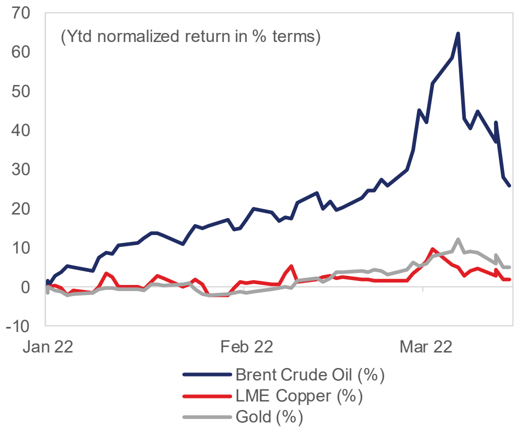
Key Commodities Indices Have Made Strong Gains This Year

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Has Outshined Gold and LME Copper

Source: Bloomberg, UOB Global Economics & Markets Research



Following the explosive price rallies, investors are now wondering whether we are witnessing the start of a new Commodities Supercycle. To answer this question, one needs to have an objective definition of the term "Supercycle". If "Supercycle" implies that the commodities value chain and ecosystem will now see a renewed rush into investments for energy production, mining equipment and agriculture facilities etc, then the answer is likely yes. This war has brought to the fore vulnerabilities in commodities supply chains that had in recent years been under invested and will take years to fix, particularly Europe's energy dependency on Russian oil supply.

But if "Supercycle" is defined as "a period of strong sustained demand for commodities", then the verdict remains out. This rally in commodities prices is triggered by Russia's invasion of Ukraine, i.e. a geopolitical event. Europe will bear the brunt of the collateral risk in the form of a marked growth slowdown. This growth slowdown may extend across the world as this rally in commodities prices further exacerbates the on-going supply chain disruption from COVID-19 resulting in higher inflation and higher production and shipping costs. This may well lead to an eventual economic downturn that will curtail commodities demand. An extreme example of this narrative is the question of just how high crude oil prices can jump before it leads to "demand destruction".

In terms of the three leading commodities that we cover, Brent crude oil has led the charge higher, leading to a strong rally that outshines that of gold or LME Copper. Year-to-date, despite the latest pullback to the USD 100 / bbl handle, Brent crude oil has rallied some 25 %, compared to the relatively modest 2% move higher in LME Copper and the 5% gain in gold price. With the on-going geopolitical uncertainty and widening sanctions on Russia, will Brent crude oil trade trade back up? Can gold renew its climb higher in the face of upcoming FED rate hikes? Will LME copper play catch-up? Can we continue to expect stronger gains for commodities for the remainder of the year?

GOLD

To Rally Further On Strong Safe Haven In-Flows

UOB's Forecast	2Q22F	3Q22F	4Q22F	1Q23F
Gold (USD/oz)	2,100	2,150	2,200	2,200

Gold has had a wild quarter. Starting from the low of about USD 1,800 / oz in early Jan, gold started to break high above USD 1,900 / oz by late Feb as the Ukraine crisis escalated. On 8 Mar, gold spiked above USD 2,000 / oz to challenge the all-time-high of about USD 2,070 / oz. The trigger for the spike were the twin news of US banning of Russian oil import as well as the suspension of trading of gold and silver from Russian refineries by LBMA and CME. Thereafter, gold pulled back below USD 2,000 / oz to USD 1,925/oz.

The onset of Russia's invasion of Ukraine has triggered a large jump in commodities prices and inflation risk is now seen as higher and more persistent. As such, US real yield has dropped deeper into negative territory. This we believe is now a key positive driver of gold.

Across Q1, there was clear evidence of increased re-allocation back into gold across various investor classes. Retail investors have lifted quarterly gold jewellery purchases back to pre-covid levels. Institutional investors have also returned to gold ETFs. And central banks will most likely accelerate their reserve diversification into gold.

Overall, with the onset of war, mounting fears of inflation, coupled with strong safe haven in-flows have now taken over as the dominant drivers for gold price, muting the negative impact from the anticipated rate hikes from the US Federal Reserve.

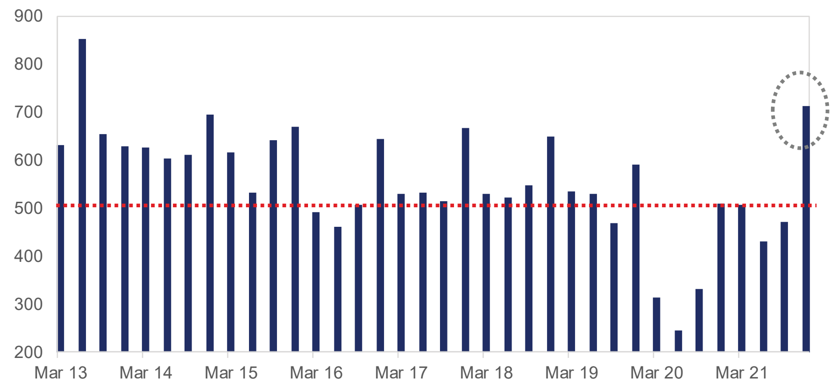
As per our Commodities Strategy note "Gold To Rally Further On Strong Safe Haven In-Flows" dated 09 Mar 22, we have upgraded our forecast for gold from neutral to positive and raised our forecasts to USD 2,100 / oz for 2Q22, USD 2,150 / oz for 3Q22 and USD 2,200 / oz for 4Q22 and 1Q23.

Renewed Drop in Real Yield Triggers Further Gold Strength

Source: Bloomberg, UOB Global Economics & Markets Research

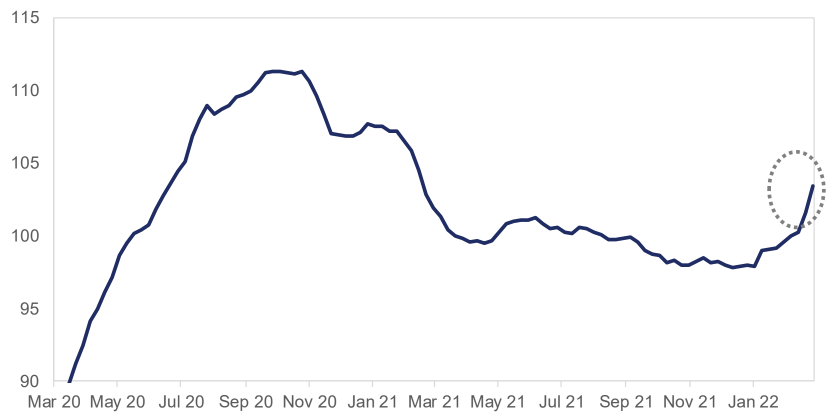
Global Quarterly Gold Jewellery Demand Has Surged Past Pre-Covid Level

Source: Bloomberg, UOB Global Economics & Markets Research



Global Gold ETF Tonnage Has Witness Renewed Surge

Source: Bloomberg, UOB Global Economics & Markets Research



BRENT CRUDE OIL

A Brave New World Above USD 100 / bbl

UOB's Forecast	2Q22F	3Q22F	4Q22F	1Q23F
Brent Crude Oil (USD/bbl)	110	110	100	100

Since the start of the year, Brent crude oil has been trading higher from the low of about USD 80 / bbl in Jan to just under USD 100 / bbl in mid-Feb. Thereafter, the start of the war triggered a sharp rally in Brent crude oil above USD 100 / bbl that subsequently jumped to just under USD 140 / bbl in early Mar upon the announcement of US banning of Russian oil imports. Subsequently, Brent crude oil pulled back to the USD 100 / bbl level yet again as the initial shock from the war subsided.

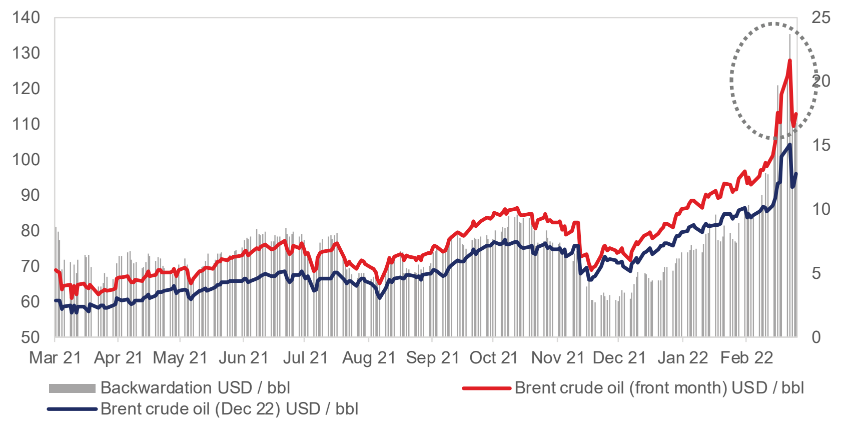
Prior to Russia's invasion of Ukraine, global crude oil inventory as measured by OECD has already dropped to an almost decade low. Upon the invasion, global oil supply tightened further as the US and most of the world stopped buying Russia crude. This resulted in an "immediate loss" of about 5% of global crude oil supply. Furthermore, OPEC is not in a hurry to raise its production anytime soon as only Saudi Arabia and UAE have some spare capacity left.

Over the medium term, the escalating geopolitical tensions with Russia means that Germany and western Europe will need to diversify away from their high dependency on Russia oil and gas. The weak balance sheets of US shale oil producers also imply that there is difficulty in raising US shale oil production anytime soon.

As per our Commodities Strategy note "A Brave New World For Brent Crude Oil Above USD 100 / bbl" dated 28 Feb 22, we have raised Brent crude oil forecast to USD 110 / bbl in 1H22 and USD 100 / bbl in 2H22. We maintain this rolling forecast at USD 110 / bbl for 2Q and 3Q22, followed by USD 100 / bbl for 4Q22 and 1Q23 and warn that outlook remains volatile and tilted to the upside.

Brent Backwardation Jumps to Extreme Levels

Source: Bloomberg, UOB Global Economics & Markets Research

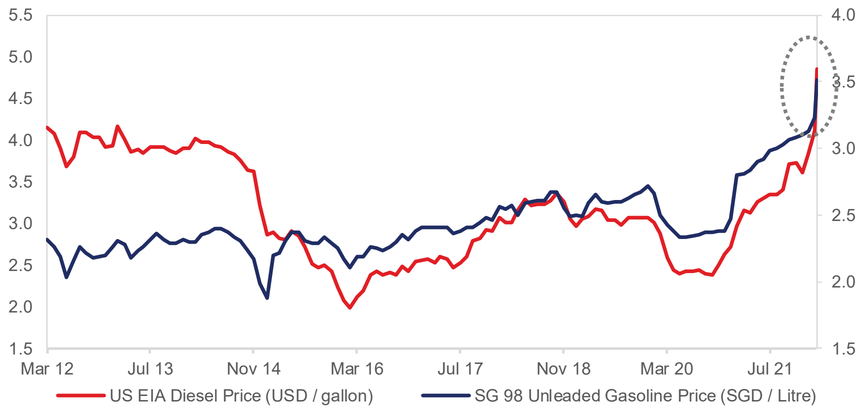


OSP Premium in Saudi Light Sweet Crude Jumps

Source: Bloomberg, UOB Global Economics & Markets Research

Pump Prices Surge in US and SG

Source: Bloomberg, UOB Global Economics & Markets Research



LME COPPER

Consolidating Gains Above USD 10,000 / mt

UOB's Forecast	2Q22F	3Q22F	4Q22F	1Q23F
LME Copper (USD/mt)	10,500	10,500	11,000	11,000

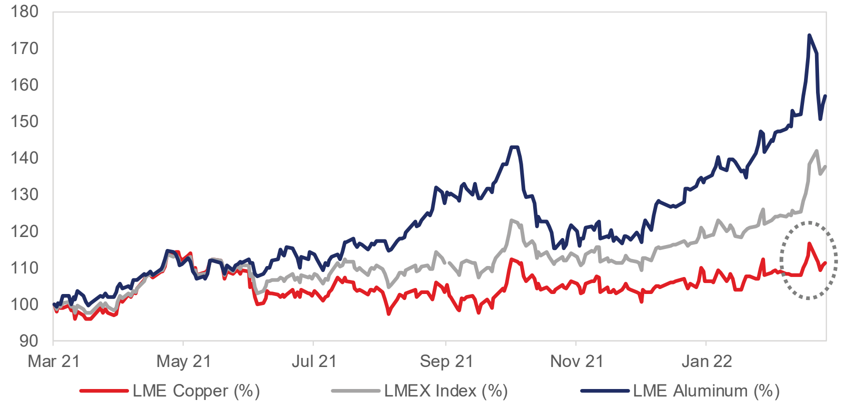
In tandem with the energy and agriculture complexes, the industrial metals complex also went through a very wild ride upon the Russia's invasion of Ukraine. In particular, much has been said about the controversy surrounding the unprecedented vertical jump in LME Nickel from USD 20k / MT in early Feb to above USD 100k / MT in early Mar. That disorderly jump led to LME's historic decision to suspend LME Nickel trading and to void all transactions above USD 48k / MT. Aside from LME Nickel, LME Aluminum also staged a strong rally from USD 2,800 / MT at the start of Jan to just above USD 4,000 / MT in early March. Overall, the entire LMEX Industrial Metals Index has jumped by about 20% from 4,500 in Jan to 5,500 in early Mar.

While Russia's invasion of Ukraine has upended the supply of Nickel, it is fortuitous that global supply for Copper is more diversified across various countries like Chile, Peru and Indonesia. More importantly, the refined copper market is expected to be in a comfortable surplus this year. Prior to the war, the ICSG has forecasted that the refined copper market will improve from a 42k MT deficit in 2021 to a substantial 328k MT surplus this year.

As a result, LME Copper had a more muted and controlled rally so far, rising by "just 10%" from USD 9,500 / MT in Jan to about USD 10,800 / MT in early Mar, before drifting back down to USD 10,200 / MT. Nonetheless, tight on-warrant stock coupled with decade low inventory in global exchanges is expected to keep LME Copper prices elevated above USD 10,000 / MT in the foreseeable future. Overall, we see on-going gradual grind in LME Copper prices higher towards USD 11,000 / MT by end of this year.

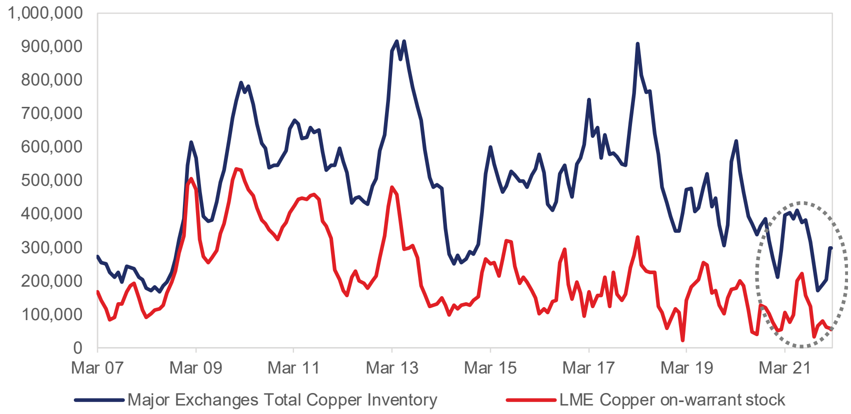
Copper's 11% One Year Return Pales in Comparison to Other LME Industrial Metals

Source: Bloomberg, UOB Global Economics & Markets Research



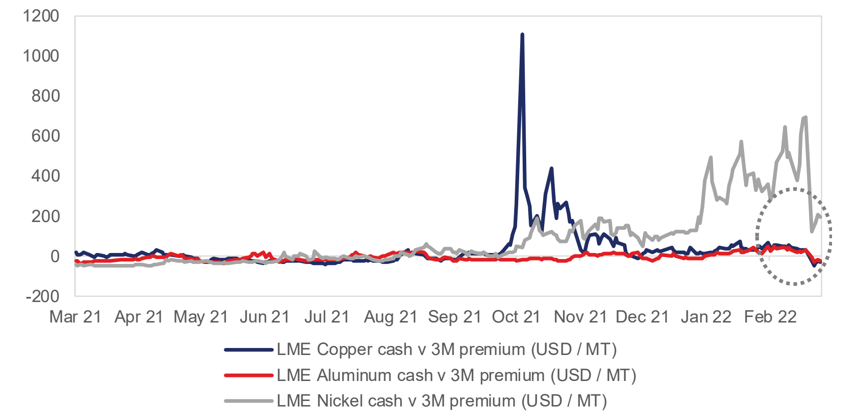
Global Copper Inventory at Multi Year Low Pior to Ukraine War

Source: Bloomberg, UOB Global Economics & Markets Research



After Last Oct's "trial run" Copper Cash Premium Has Stayed Muted

Source: Bloomberg, UOB Global Economics & Markets Research



CHINA

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/CNY	6.50	6.55	6.60	6.65
CNY 1Y Loan Prime Rate	3.55	3.55	3.55	3.55

Economic Indicators	2020	2021	2022F	2023F
GDP	2.2	8.1	4.9	5.3
CPI (average, y/y %)	2.5	0.9	2.9	2.5
Unemployment Rate (%)	5.2	5.1	5.2	5.1
Current Account (% of GDP)	1.9	1.8	0.9	1.1
Fiscal Balance (% of GDP)	-6.2	-3.8	-3.5	-3.5

ECONOMY

Increased Downside Risks

The upbeat data in Jan-Feb suggests that the policy easing measures are working through. China's industrial production, fixed asset investment and retail sales were all better than expected. Infrastructure investment (excluding utilities) surged by 8.1% y/y YTD in Feb compared to just 0.4% y/y YTD in Dec 2021 in signs that local government's infrastructure spending has started to kick in.

Property investment unexpectedly grew by 3.7% y/y YTD in Feb but the real estate market is still under downward pressure while the government has started to ease property curbs in some cities. New home prices continued to recover in the first-tier cities in Feb but prices in the third-tier cities fell for the 6th consecutive month. Home sales volume has also remained on a decline since Jul 2021 and slid by 22% in Jan-Feb. Housing market is a key pillar of China's economy and the government is expected to implement further easing measures to prevent a hard-landing.

Despite the strong start to the year, the Russia-Ukraine conflict and worsening domestic pandemic warrant a more cautious outlook. China's "dynamic zero-COVID" policy is expected to come at a significant cost to the economy as it implemented widespread full/partial lockdowns across cities in response to the recent outbreaks. An extended or more frequent large scale lockdowns will have detrimental impact on the economy.

Furthermore, the Russia-Ukraine conflict has landed China in an awkward position given its strategic ties with Russia and may increase tensions with the US and Europe. While China is Russia's largest trade partner, Russia only accounted for 2.4% of China's total trade, with the bulk of imports from Russia related to energy. Russia is the second-largest crude supplier after Saudi Arabia and the third-largest natural gas supplier to China including pipeline gas and LNG. It accounted for 15% of China's oil imports and around 10% of China's total gas imports. This could increase over time as China seeks to reduce its dependence on other markets.

As energy and raw material costs surge, this will suppress domestic consumption as well as external demand, hurting the key growth engines of the Chinese economy. However, investment will be propped up by infrastructure spending as real estate investment outlook still remains relatively weak.

In consideration of the increased near-term headwinds, we have lowered our growth forecast for China to 4.9% for 2022 from our previous forecast of 5.2%. We expect to see the impact of the lockdowns and higher commodity prices from Mar with 1H22 GDP likely at around 4.5% y/y before picking up to 5.2% y/y in 2H22.

Policymakers have emphasised stability at the National People's Congress (NPC). By setting a higher-than-expected growth target of "around 5.5%" for 2022, we expect that policy support will need to be stepped up significantly.

The lower official fiscal deficit target of 2.8% of GDP has understated the level of fiscal support as the amount available to the government for spending will also include leftover funds held over from previous years that are not in the official budget forecast. That amount is worth around 1% of GDP and thus the fiscal support could be higher than in the last two years when the government set fiscal deficit targets of 3.2% and 3.6% in 2021 and 2020 respectively. Furthermore, the local government special bond quota which is used to finance large infrastructure projects, is set at CNY3.65 tn for 2022, unchanged from last year.

CENTRAL BANK

PBOC Has Policy Levers To Cushion The Downturn

In Jan-Feb, China's CPI inflation remained mild at 0.9% y/y while PPI averaged 9.0% y/y compared to 10.3% y/y in Dec. Inflationary pressure outside of energy has remained fairly muted.

Nonetheless, the surge in commodity prices and potential for wider supply disruptions due to the Russia-Ukraine conflicts as well as domestic lockdowns have turned the inflation risks to the upside even though weaker domestic and global demand may provide some offset to the higher inflation risks. On balance, we have raised our forecast for CPI to 2.9% from 2.2% previously, and maintain our forecast for PPI to average 4%-6% in 2022 (2021: +8.1%). With CPI inflation expected to be below the 3% target, the PBOC has room to cut interest rates further to boost growth.

The near-term focus will stay on supporting growth. Thus, we are maintaining our forecast for the benchmark 1Y loan prime rate (LPR) to fall by another 15bps to 3.55% by the end of 2Q22. There is also possibility for a further cut in the reserve requirement ratio (RRR) to help lower the funding costs for banks. As domestic economic condition improves and credit growth rebound more strongly in 2H22, the attention could then shift to the higher global inflation backdrop.

CURRENCY

Headwinds On CNY Have Intensified

The CNY's stability around 6.32 /USD throughout the Russian invasion was upended after China registered its biggest surge in COVID-19 cases in two years. The return of lockdowns and its disruptions to economic activities rekindled concerns over the ambitious 2022 GDP target of 5.5% set by the Chinese government just days before the recent outbreak. As a result, USD/CNY jumped from 6.32 to 6.38 in a matter of three days, the highest level this year. All of a sudden, the wide divergences in growth outlook and monetary policy stance between the US and China came into a sharper focus. The CFETS RMB index which have been largely a one-way traffic from its lows in Jul 2020 is now more vulnerable to a pullback since the headwinds on the CNY have increased. Seasonally, we are also entering a bullish quarter for USD/CNY. For the past 10 years, USD/CNY has averaged a 0.7% gain in the second quarter, the highest quarterly gain in the year. The PBOC appears to be guiding the CNY weaker via a series of weaker-than-expected fixings.

Taken together, we see a strong likelihood of USD/CNY turning the corner from here given the increasingly challenging outlook. In conjunction with our latest 2022 GDP downgrade to 4.9% from 5.2%, we have lifted our USD/CNY forecasts by 500 pips, with updated forecasts at 6.50 in 2Q22, 6.55 in 3Q22, 6.60 in 4Q22 and 6.65 in 1Q23.

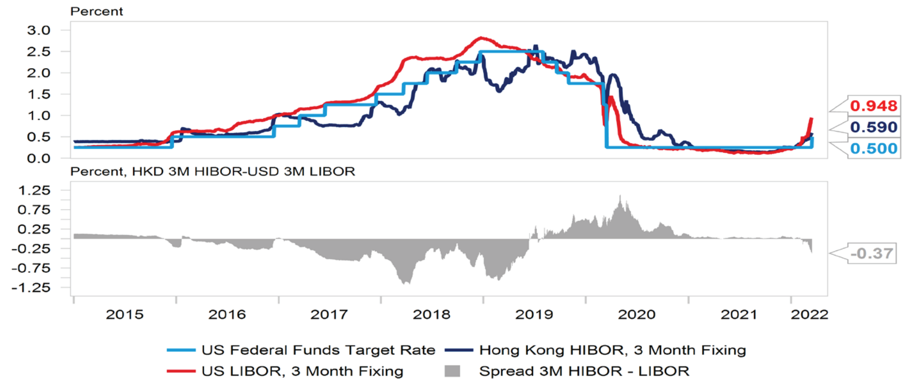
HONG KONG

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/HKD	7.84	7.85	7.85	7.85
HKD Base Rate	1.25	1.75	2.25	2.50

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.5	6.4	1.7	3.5
CPI (average, y/y %)	0.3	1.6	2.7	2.2
Unemployment Rate (%)	6.5	3.9	3.7	3.3
Current Account (% of GDP)	7.0	9.1	5.0	6.0
Fiscal Balance (% of GDP)	-8.7	0.7	-1.9	1.5

Hibor-Libor Spread Widening Ahead Of US Fed Hikes

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

GDP Set For Contraction In 1Q22

Hong Kong's economy rebounded from back-to-back contractions in 2019-2020 to grow by 6.4% in 2021. Goods export and capital investment rebounded by one of the sharpest paces in 2021 as global demand recovered but private consumption lagged, growing just 5.6% in 2021 after contracting in the last two years, including a sharp 10.5% slump in 2020. Still, the disbursement of the second batch of consumption vouchers in early-Oct last year and improvement in the labour market supported further recovery in private consumption in 4Q21. Notably, despite some recovery, median household income has remained below the pre-recession level in 2Q19.

The outlook for 1Q22 has been jeopardised by the severe pandemic outbreak in the city. Although the government resisted a city lockdown, the dent to the sentiment and strict pandemic control measures will severely crimp demand in 1Q21. The negative sentiment towards Hong Kong's COVID handling has also soured business sentiment, leading to concerns over exodus of companies. Furthermore, there is also an increased downside risk from the mainland due to the weaker real estate market and its own pandemic surge. The swift lockdowns in the Chinese cities only reinforce the point that China is not ready to abandon its "dynamic zero-COVID" policy and thus any future plans for quarantine free travel with the mainland will continue to be fraught with difficulties. This continues to hold back the post-pandemic private consumption recovery in Hong Kong.

Hong Kong has outlined a huge epidemic control spending and support measures in its Budget 2022/23. The direct spending on epidemic control is estimated to be HK$47.5 bn in the current budget allocation with an additional HK$20 bn earmarked for other potential anti-epidemic needs. The consumption voucher scheme was also reintroduced this year with the amount doubled to HK$10,000 from HK$5,000 last year. The first payment is scheduled in Apr which will be expected to lift consumption in 2Q22. However, as we had observed last year, the boost could be short-lived without a broader improvement in outlook and revival of tourism.

A prolonged conflict between Russia and Ukraine will have a negative impact on Hong Kong's economy through global supply shocks as sanctions are likely to remain in place for a period of time. This will exacerbate the weakening of consumer sentiment.

However, higher import prices will be partly countered by a subdued domestic demand. The headline inflation has rebounded to 1.6% in 2021 from 0.3% in 2020, mainly due to a low base effect from the government's relief measures in 2020. For this year, we expect the headline inflation to rise to 2.7% as a result of the elevated energy and commodity prices. The government expects underlying inflation (net of one-off relief measures) to rise to 2.0% this year from 0.6% in 2021. The forecast was made before the escalation of the Russia-Ukraine conflicts.

As for the GDP, we expect Hong Kong's economy to contract by 1.3% y/y in 1Q22 (4Q21: +4.8%), the first in five quarters. The successful containment of the Omicron wave by 2Q22 should lend some strength to a gradual economic recovery over the next 2-3 quarters of the year. Key risks include China's economic slowdown, higher geopolitical tensions, supply shock and a higher domestic interest rate environment as US Fed raises rates. For the full-year, we only expect Hong Kong's economy to grow by 1.7%, below the official forecast of 2.0-3.5%.

CENTRAL BANK

Hibor-Libor Spread To Continue Widening

The 3M Hibor-Libor spread has started to widen ahead of the first Fed hike in Mar, to the most since 2019 as flushed domestic liquidity resulted in a slower catch-up for the Hibor. Hong Kong's aggregate balance which indicates the interbank liquidity remained substantial despite coming off its record high of more than HK$450 bn to HK$338 bn in mid-Mar. Similar to the previous US rate hike cycle between 2015-2018, the Hibor-Libor spread will likely turn more negative in favour of the USD.

CURRENCY

HKD Weakens Towards The Weak Side Of The Peg

Boosted by the broad-based in the USD, the USD/HKD pair traded back into the top half of its 7.75 – 7.85 allowable range in the first quarter. With the Libor-Hibor spread firmly back in positive territory, USD carry trades funded out of HKD are back in vogue again. The sustained push of USD/HKD above 7.80 this time round also coincided with the Russia-Ukraine war which spurred a flight-to-quality towards USD. With a front-loaded Fed rate hike cycle, we expect USD/HKD to reach the top end of the Convertibility Undertaking (CU) at 7.85 faster compared to previous cycles. As such, our updated USD/HKD forecasts are 7.84 in 2Q22, followed by 7.85 from the 3Q22 onwards till at least 1Q23.

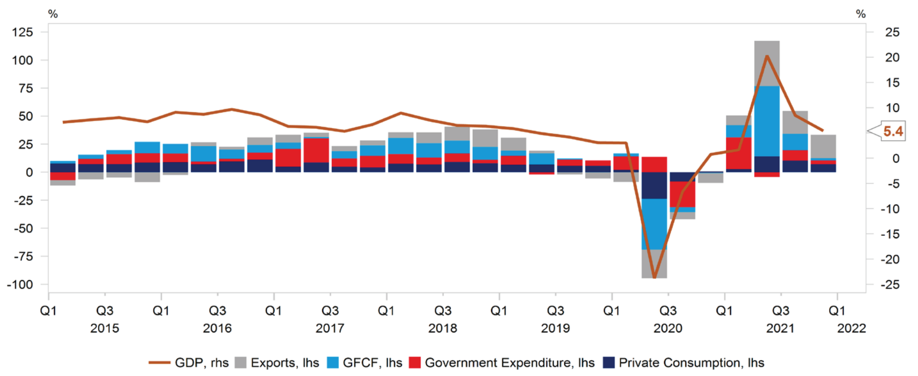
INDIA

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/INR	77.5	78.0	78.5	79.5
INR Repo Rate	4.25	4.50	4.75	4.75

Economic Indicators	2020	2021	2022F	2023F
GDP	-7.3	8.5	7.5	9.0
CPI (average, y/y %)	6.2	5.5	6.0	5.0
Current Account (% of GDP)	-0.3	-1.3	-1.5	-2.0
Fiscal Balance (% of GDP)	-9.6	-7.0	-6.9	-6.4

India's Economy Nears Its Pre-COVID-19 Levels

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Bitter-Sweet Prognosis

India's GDP expanded 5.4% y/y in the third quarter of its fiscal year (3QFY2021/22: Oct – Dec 2021), even as GDP growth in 2QFY2021/22 was revised higher to 8.5% y/y.

Encouragingly, the economic recovery from the throes of COVID-19 was led by its relatively large domestic consumer base, where private final consumption expenditure expanded 7.0% y/y. Elsewhere, government final consumption expenditure continued to support overall economic growth with a 3.4% y/y expansion. However, gross fixed capital formation (GFCF), a widely recognised proxy for investment activity, only rose marginally by 2.0% y/y, thus suggesting investors are hesitant to return fully to the investment cycle.

To us, the data presents itself as a bitter-sweet supposition. For one, private final consumption remains robust in the latest quarter, in tandem with the rise in current consumer confidence in Jan 2022. Notwithstanding the ongoing COVID-19-related risks, the resilient consumer spending also suggests a favourable outlook for consumer demand and business capacity utilisation. However, the slowdown in GFCF was in tandem with the net equity and bond outflows over the period Oct – Dec 2021, suggesting the softness in both domestic and foreign investors' confidence amid mounting inflation concerns.

Similar to the rest of Asia, India's growth and inflation dynamics will be shaped by how the current geopolitical landscape may evolve in the coming months. India is the third-largest consumer of crude oil in the world, just behind China and the US. Even so, food prices have also skyrocketed in India, which is exceptionally relevant to overall CPI given that food makes up almost half of India's CPI basket.

Unsurprisingly, inflation rose to 6.3% y/y in Jan 2022, the fastest pace since Nov 2020, as food, utilities and transport costs rose on the back of rising commodity prices.

In a nutshell, GDP growth may decelerate to 7.5% in FY2022/23, from our initial 8.0% target, and down from an expected average of 8.5% in the previous fiscal year. Inflation will see further upside risks from our initial 5.0% projection in the coming fiscal year to as high as 6.0% in FY2022/23, as oil and food prices may stay higher for longer in the coming year.

CENTRAL BANK

Higher Rates Still Expected

The Reserve Bank of India (RBI) kept its policy repo rate and reverse repo rate unchanged at 4.00% and 3.35% respectively in its Jan monetary policy meeting. Unsurprisingly, policymakers adopted a dovish and cautious tone then, while shading down their GDP growth outlook to 7.8% in FY2022/23, from their initial growth target range of 8.0% - 8.5%.

We still think that RBI faces pressure to hike rates in the face of global monetary policy normalization and inflation risks. As mentioned, inflation rose to its multi-year high in Jan 2022. Even so, the economy has recovered to near its pre-COVID-19 levels as GDP in real terms in the first three quarters of FY2021/22 was just 0.6% below FY2019/20, suggesting that India's GDP growth has indeed recovered substantially since COVID-19 hit its shores.

In a nutshell, the looming inflation risks in FY2022/23 will be a persuasive factor for RBI to finally jump on the hike wagon and introduce its first rate hike in 2Q22 to 4.25%. We also pencil in further hikes of 25bps for both 3Q22 and 4Q22 to finally bring the repo rate to 4.75% at the end of 2022.

CURRENCY

High Oil Prices Hurt The INR

The INR has one of the biggest casualties amongst the Asia FX space since the start of the Russian invasion of Ukraine. Being a net energy importer, the currency is vulnerable to a spike in oil prices. On the day Brent crude touched almost USD140/bbl, the INR fell to a record low of about 77 against the USD. Strong demand for the USD was also seen at a recent FX swap auction by the RBI which drew almost three times more demand, with Indian banks buying the entire USD5bn that the RBI offered to sell. Net outflows from India's bond and equity markets will keep the downward pressure on the INR. Overall, we keep to our cautious view on the INR, with point forecasts updated at 77.5 in 2Q22, 78.0 in 3Q22, 78.5 in 4Q22 and 79.5 in 1Q23.

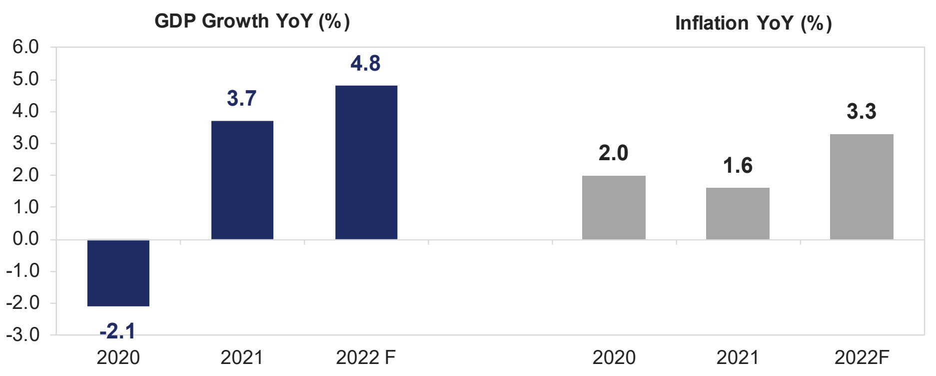
INDONESIA

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/IDR	14,700	14,800	14,900	14,900
IDR 7D Reverse Repo	3.50	4.00	4.50	4.75

Economic Indicators	2020	2021	2022F	2023F
GDP	-2.1	3.7	4.8	5.0
CPI (average, y/y %)	2.0	1.6	3.3	3.5
Unemployment Rate (%)	7.1	6.3	6.0	5.8
Current Account (% of GDP)	-0.5	0.3	-0.5	-1.0
Fiscal Balance (% of GDP)	-6.1	-4.6	-4.0	-3.0

Economy Is Expected To Regain Momentum In 4Q21

Source: Statistics Indonesia, UOB Global Economics & Markets Research



ECONOMY

Recovery Path Is Challenged By Impact From Geopolitical Tension

In 2021, Indonesia's economic growth posted a significant uplift to record 3.7% y/y. This was supported by stronger contribution from domestic demand, especially the consumer and investment spending alongside steady contribution from net exports. Higher global commodity prices have propelled Indonesia to record stellar growth in exports, which bode well for the country's trade balance, posting a record high trade surplus of USD35.3bn in 2021. The surplus in the trade balance also helped to narrow the country's current account deficit and provided stronger external sector resiliency. In 2021, Indonesia posted a current account surplus of 0.3% of GDP, while the total Balance of Payment recorded a high surplus of USD13.5 bn. Increasing global demand was also benefiting Indonesia in terms of higher FDI inflows to the country, reaching around USD32bn last year, an increase of more than 10%.

In 2022, we expect the economic recovery to continue its momentum but not without fresh challenges ahead. The global economic uncertainties, including Russia-Ukraine tension have threatened to cause some detrimental impacts to the country's economy. Firstly, higher inflation risks amidst fast and exorbitant rise of global energy and food prices have put some pressures to the overall headline inflation to rise faster than our initial forecast for 2022. Coupled with higher administrative prices that are set to increase as early as next month and ahead of the Eid al Fitr festivities, inflation could reach closer to the top end of BI's inflation target of 2-4%. Our inflation forecast has also been revised higher from 2.4% to 3.3% to reflect the likely implications from those factors and developments mentioned before. Higher inflation would limit to a certain extent the recovery of domestic consumer spending, though the loosening of COVID-19 activity restrictions would continue to support domestic demand. For one, higher global commodity prices will likely increase the net exports contribution to the overall growth, but higher inflationary pressures will limit consumer spending this year. On balance, we revised our 2022 growth forecast lower to 4.8% from 5.0% set out previously.

CENTRAL BANK

BI Still Expected To Raise Rates In 2H22

Bank Indonesia (BI) maintained its benchmark rate (7-Day Reverse Repo) stable at 3.50% at its Feb MPC Meeting, stating that the decision was in line with the current economic condition of stable and lower inflation and at the same time also providing continuous support for economic recovery process to return to a pre-pandemic growth. Nevertheless, with a more challenging external environment including the timing and quantum of US Fed's rate hike and certainly the ramifications from the fallout in the Russia-Ukraine upheavals in terms of causing higher inflationary pressures to the local economy, BI will likely have to respond accordingly and more swiftly as far as monetary policy normalization goes.

On inflation and Fed rate hikes account, we maintain our forecast for BI to keep its benchmark rate stable in 1H22. Even with the likely changes in external environment, we continue to take the view that BI will want to keep lower rates for longer but indeed there is a non-trivial chance they may start hiking earlier if conditions require them to do so, especially to anchor inflation expectations. Our forecast remains for BI to hike 2x25bps hikes in 3Q22 to 4%, followed by another 2x25bps rise in 4Q22 to 4.5%. Our 2022 forecast for BI rate stands at 4.5% and is expected to rise to terminal point at 5% in early 2023 as inflation is expected to stand within the 2.0%-4.0% of the central bank's target range.

CURRENCY

IDR Still Biased Weaker Despite Near Term Resilience

The IDR is in fine balancing act now. Being a net energy exporter, the IDR benefits from high energy prices but are counteracted by portfolio outflows which hurt the IDR. Looking ahead, risks are skewed to downside of IDR as portfolio outflows (both equities and bonds) appears to be accelerating since the onset of the Russian invasion. The 10-year Indonesia Government bond yield have also briefly spiked to 1-year high of 6.80% before pulling back. Overall, we keep to our expectations of a higher USD/IDR, with point forecasts at 14,700 in 2Q22, 14,800 in 3Q22, and 14,900 in both 4Q22 and 1Q23.

JAPAN

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/JPY	119	120	121	122
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10

Economic Indicators	2020	2021	2022F	2023F
GDP	-4.5	1.6	1.7	2.5
CPI (average, y/y %)	0.0	-0.2	2.5	1.3
Unemployment Rate (%)	3.0	2.8	2.8	2.6
Current Account (% of GDP)	3.3	2.8	2.0	2.8
Fiscal Balance (% of GDP)	-17.3	-12.2	-8.0	-6.0

ECONOMY

Geopolitical Headwinds Clouds Growth, Adds To Inflation

Despite coming in below expectations, Japan's 4Q GDP growth of 5.4% q/q seasonally adjusted annualized rate was still a decent rebound, due to a bigger than expected private consumption spending jump (2.7%), and to a smaller extent, the business spending recovery (0.4%), after the government ended the state of emergency in Oct (2021). When compared to the same period one year ago, 4Q GDP growth was revised markedly lower to 0.4% y/y (compared to the first prelim cut of 0.7% y/yfrom 1.2% y/y in 3Q). This was the third straight quarter of y/y expansion following 6 quarters of declines between 4Q 2019 and 1Q 2021. For the full calendar year, the GDP growth was marginally revised lower to 1.6% for 2021 (compared to the prelim cut of 1.7%), from an unchanged -4.5% in 2020 and -0.2% in 2019.

After the rebound in 4Q, Japan's economy is unfortunately expected to suffer another setback in the first three months of 2022, due to the latest wave of COVID-19 infections attributed to the Omicron variant. Consumption will likely be dampened again as the government implements (less restrictive) measures to curb the domestic spread of the Omicron and tourists remain largely absent as Japan promptly closed its borders upon news of the latest dominant COVID-19 variant. And while supply chain disruptions/logistics delays that were holding back the manufacturing sector's recovery (especially for vehicle production due to chip shortages) to full potential has eased, the surge in Omicron infections have again forced some manufacturers to halt production, causing another round of output disruptions and delivery delays.

The confluence of geopolitical risks (Russia-Ukraine conflict) looks to cloud the growth outlook while temporarily driving inflation higher due to the surge in energy and commodity prices and renewed supply chain disruptions of raw materials (that is attributed to the Ukraine invasion), which will further hamper the recovery in the manufacturing sector and crimp domestic demand in the near term, as costlier fuel and food takes a larger chunk of household spending. Weaker growth outlook in Japan's key trading partners (especially Eurozone) will imply weaker demand for Japan's exports, adding further downside to growth.

Even before the start of the Russia-Ukraine conflict, Japan recorded a big current account deficit of JPY1.19 tn in Jan, the second straight month of deficit and the second biggest on record since 1985. And it all boiled down to surging fuel costs which drove up Jan imports by 39% y/y, outstripping the 10% export increase, leading to a JPY 2.2 tn trade deficit. The steady pickup in returns from Japan's direct and portfolio investment overseas helped partly offset the trade deficit. In Feb, imports continued to surge 34% y/y while exports growth improved to 19%, helping to narrow the trade deficit to JPY0.67 tn. That said, the subsequent spike in crude oil price will blow up the energy import bill in Mar and possibly extend into the following months. We now expect Japan to run a trade deficit of JPY4.0trn in 2022.

Once the latest wave of infections recedes after 1Q, we may see another rise in consumer spending in subsequent quarters, although the rise will now be trimmed by higher costs. Overall, we expect Japan to resume its growth trajectory after a temporary dip to -2.0% q/q SAAR in 1Q. We project full-year 2022 GDP growth at 1.7% (from previous forecast of 2.3%), a marginal improvement from 1.6% in 2021. The growth outlook will still be clouded by the on-going Russia-Ukraine situation.

Japan's headline CPI inflation continued to move higher to 0.9% y/y in Feb (from 0.5% in Jan) while core inflation (which excludes fresh food but includes energy items) also rose, albeit more modestly at 0.5% y/y (from 0.2% in Jan). Factoring the geopolitical-driven commodity price surge and another temporary raw material supply chain disruption, both the CPI headline and core inflation will spike above 2% in the coming months of 2022, above the Bank of Japan's (BOJ) 2% inflation target. But it will be temporary and not for the desired reason. Wage driven inflation remains largely elusive. The drag of mobile charge fees which had weighed heavily on overall prices in the past year, will fade from 2Q onwards, adding positive base effects to inflation. As a result, we have upgraded headline CPI inflation to average 2.5% (from previous forecast of 1.7%) while core inflation will average 2.2% in 2022.

CENTRAL BANK

BOJ Stance Unlikely To Shift In 2022

In its Mar MPM, the BOJ kept policy rates unchanged, downgraded the view on the economy due to impact from COVID-19. In a stark divergence with its G7 peers, the BOJ kept its preference for easing ("it expects short- and long-term policy interest rates to remain at their present or lower levels." It also highlighted the extremely high uncertainties over how the Russia-Ukraine war will affect Japan's economic activity and prices. With the inflation largely stemming from an uncertain supply shock while domestic demand remains weak, we are certain that the BOJ will keep its current easy monetary policy intact for 2022 and will maintain its massive stimulus, possibly at least until FY2023.

CURRENCY

Monetary Policy Divergence Drives Higher USD/JPY

The JPY is stuck in a quandary of late. Typically, the safe haven currency should appreciate sharply in a period of intense risk aversion such as in the current context. Instead, the JPY has weakened from 115 /USD to 118 /USD since the start of the Russian invasion. What has eroded the JPY's safe haven appeal is an unusual driver – Japan's trade balance. With sharply higher oil prices, markets are expecting Japan's energy bill to balloon and its trade deficit to worsen further.

Beyond the near-term anomaly, we continue to reiterate the view that the stark monetary policy divergence between the Fed and the BOJ continues to argue for a higher USD/JPY over the medium to long term. As such, we shift up our existing USD/JPY forecasts by about 200 pips across the forecast period. The updated levels are now at 119 in 2Q22, 120 in 3Q22, 121 in 4Q22 and 122 in 1Q23.

MALAYSIA

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/MYR	4.26	4.29	4.32	4.35
MYR O/N Policy Rate	2.00	2.25	2.25	2.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-5.6	3.1	5.5	4.8
CPI (average, y/y %)	-1.2	2.5	3.0	2.8
Unemployment Rate (%)	4.8	4.2	3.6	3.5
Current Account (% of GDP)	4.2	3.5	2.0	2.5
Fiscal Balance (% of GDP)	-6.2	-6.4	-6.0	-5.5

MYR Steady Amid High Oil Prices

Source: Macrobond, UOB Global Economics & Markets Research

ECONOMY

Breathing Easier In 2022

Real GDP turned around to record a positive growth of 3.6% y/y or 6.6% q/q seasonally adjusted in 4Q21. For the full-year, GDP expanded by 3.1% in 2021 (2020: -5.6%). The economy turned around amid improvements across key sectors including manufacturing, services, and agriculture. Higher private consumption provided a fillip as the restrictions were eased and interstate travelling resumed.

We expect Malaysia's economy to breathe easier and sustain its recovery momentum through 2022. Although pandemic risks still linger and new daily infections remain high due to the Omicron wave, the government has reassured that they do not intend to re-introduce a total lockdown. Moreover, the government has continued to reopen international borders with vaccinated travel lane programs and relaxation of quarantine procedures. Malaysia has achieved a high vaccination rate of nearly 80% of population that are fully vaccinated and 47% with booster doses.

The Russia-Ukraine conflict has emerged as a new major geopolitical risk with high likelihood of further sanctions. Our assessment is that the direct economic impact on Malaysia is minor at this juncture. Malaysia has minimal direct exposure to Russia which accounts for only 0.3% of exports and 0.5% of imports, 0.7% of tourist arrivals, and is not a major direct investor in Malaysia. Meanwhile, Malaysia also benefits from being a commodity exporter and domestic fuel prices are capped to help ease cost of living. Our sensitivity analysis shows that for every 10% increase in global oil and food prices, Malaysia's GDP could be negatively affected by 0.1%. Though the impact is less significant for now, should the conflict prolong with broader sanctions while commodity prices stay elevated, Malaysia would be affected from higher cost pressures and via indirect trade channels especially if growth prospects of its key trade partners are affected. Given that the situation remains fluid, we maintain our current GDP growth forecast of 5.5% for 2022 (official: 5.5% - 6.5%).

Escalating oil prices are adding pressures to Malaysia's government fuel subsidy bill, raising the flag for government to refocus on the fuel subsidy rationalisation plan. Total subsidies could reach MYR28bn for 2022 compared with MYR11bn for 2021. This comes as the country's fiscal space remains constrained following record spending for pandemic stimulus packages over the last two years. The higher subsidy cost would have to be offset by increased revenue and cost saving measures to ensure the fiscal deficit target (6.0% of GDP) remains achievable.

CENTRAL BANK

BNM Holds Rates

Bank Negara Malaysia (BNM) left the Overnight Policy Rate (OPR) unchanged at 1.75% for the tenth straight meeting in Mar. BNM cautioned that the military conflict in Ukraine has emerged as a new key risk to global growth and trade outlook, commodity prices and financial market conditions. Nevertheless, the central bank maintained its optimism on domestic growth recovery and moderate inflation outlook. As geopolitical risks continue to unfold, we maintain our view for two 25bps OPR hikes for now. This would bring the target level to 2.25% by year-end.

Headline inflation moderated to a four-month low of 2.3% y/y in Jan, but we see signs of domestic inflation pressures building up from surging costs and improved demand as the economy reopens. We estimate that every 10% increase in oil and food prices would lift headline inflation by 0.1%. The impact is small given that fuel and utility prices are subsidised as well as a number of price controlled items in the CPI basket.

Unemployment rates have improved to 4.2% in Jan, the lowest level since 3.9% in Mar 2020. Both the labour force participation rate and hiring also reached a new record high of 69.1% and 15.69m respectively. Private sector wages rose 2.5% y/y in 4Q21 with wages in the manufacturing sector rising at a faster rate of 4.7% y/y.

CURRENCY

MYR Weakness Capped

The MYR has been steady, largely buoyed by the strength of oil prices. USD/MYR continues to hover in a tight range of between 4.17 to 4.21.

Malaysia recorded foreign portfolio inflows totalling MYR30.4bn in 2021 (2020: -MYR6.3bn). This marks the highest foreign portfolio inflows since 2012. Foreign holdings of government bonds rose to a record MYR240.4bn or 25.3% of total bonds outstanding as at Feb. Judging by the net foreign inflows of MYR5.9bn in Feb into domestic bonds and equities, Malaysia appears to benefit from safe haven demand as Malaysia is a commodity exporter and beneficiary of trade diversification amid heightened geopolitical risks.

Overall, we expect USD/MYR to be guided higher by broad strength in the USD as the Fed begins its rate hike cycle. Hence, we expect the pair at 4.26 in 2Q22, 4.29 in 3Q22, 4.32 in 4Q22, and 4.35 in 1Q23.

PHILIPPINES

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/PHP	53.0	53.5	54.0	54.0
PHP O/N Reverse Repo	2.25	2.50	2.75	3.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-9.6	5.6	6.5	6.5
CPI (average, y/y %)	2.4	3.9	3.5	3.5
Unemployment Rate (%)	10.4	7.9	6.0	5.3
Current Account (% of GDP)	3.2	-1.8	-3.8	-3.7
Fiscal Balance (% of GDP)	-7.6	-8.6	-7.5	-5.9

ECONOMY

Recovery On Track But Russia-Ukraine Tensions A Downside Risk

The Philippines' economy recovered at a faster-than-expected pace of 7.7% y/y in 4Q21 (3Q21: +6.9%) and 5.6% for the entire year of 2021 (2020: -9.6%). It was propelled by a broad-based expansion across all sectors, resilient household consumption, persistent public spending, and stock replenishment activities.

On a seasonally adjusted q/q basis, real GDP grew for the second straight quarter by 3.1% in 4Q21 (3Q21: +3.1%), indicating that the economic recovery is gaining traction. This comes on the back of higher national vaccination rates and further easing of mobility restrictions.

Going forward, the government's plan to shift the entire nation to the lowest COVID-19 alert, open all schools for face-to-face classes, and fully re-open the country's borders are key catalysts for a sustainable growth recovery path through 2022. In early Mar, the National Economic and Development Authority (NEDA) revealed that the economy will gain PHP16.5bn weekly while the tourism industry can recover PHP750bn or half of the losses it incurred in 2020, should the entire nation is placed under Alert Level 1. The government has on 10 Feb reopened its borders to fully vaccinated tourists from more than 150 countries to boost the nation's tourism and related sectors.

However, the escalating Russia-Ukraine conflict has become a new headwind for the Philippines' post-pandemic recovery. At this juncture, the main channel through which the Russia-Ukraine war could affect the Philippines is skyrocketing oil prices, although the direct impact from trade, investment and tourism channels with Russia and Ukraine are minimal. Russia accounted for only 0.4% of the Philippines' total trade in 2021 while Ukraine's share was even smaller at 0.1%. Foreign direct investments from both countries into the Philippines were negligible, while total Russian tourists to the Philippines also accounted for just 0.6% of total tourist arrivals in 2021.

Based on our rough estimates, every 10% rise in global crude oil prices would slash the Philippines' economic growth by 0.11ppt, chiefly through weaker household consumption. Given the situation remains fluid, it is very hard to accurately assess the full, material impact from the Russia-Ukraine war and sanctions on the Philippines. We opt to maintain our 6.5% GDP growth for the Philippines this year for now (official est: 7.0%-9.0%).

Besides key growth catalysts mentioned earlier to uphold the growth momentum ahead, we also anticipate some targeted government relief measures to be unveiled in due course to assist vulnerable groups and critical sectors to deal with higher business and living costs triggered by this Russia-Ukraine crisis. Potential measures include more fuel subsidy to the public transport sector, increase coal supply with zero tariff rate, increase rice and fish imports, extend lower tariff on inbound shipments of the grain and pork, drop food import tariff, as well as increase buffer stock of petroleum and LPG.

CENTRAL BANK

Guard Against Second Round Effects On Inflation

Recent commodity price shocks are not just casting a shadow over the economy but also putting upward pressures on the already sticky consumer price inflation. The Philippines, being net importers of petroleum products and some food items, will definitely see a direct impact from higher commodity prices. The BSP has also guided that a sustained uptrend in Dubai crude oil prices above USD95/bbl, particularly if they surpass USD110/bbl, will push the nation's headline inflation above BSP's 2.0%-4.0% target range this year. We estimate that every 10% hike in oil prices will lift the nation's overall inflation by 0.07ppt, barring spill-over effects on non-commodity components.

Given the oil market remains uncertain, we keep our 2022 inflation forecast at 3.5% for now (BSP est: 3.7%; 2021: 3.9%). Our inflation outlook is also partly premised on the government's proactive measures to mitigate the impact of rising oil and food prices on inflation.

The new headwind brought on by Russia-Ukraine tensions will likely put BSP in a cautious mode at the upcoming monetary policy meeting on 24 Mar as it weighs the upside risks to inflation against downside risks to the domestic growth recovery. In the Feb monetary policy statement and post the release of Feb inflation data, the central bank echoed that it will closely monitor emerging risks to inflation and be vigilant against spill-over price effects amid a continued economic expansion. Taking these factors and the expected path of US Fed monetary policy in consideration, we reiterate our year-end overnight reverse repurchase rate forecast at 2.75% (current rate: 2.00%).

CURRENCY

On A Weakening Path

At present, both external and domestic factors point to a weakening path for the Philippine Peso (PHP) against USD through 2022. The exclusion of certain Russian banks from the SWIFT payment system and sanctions against Russia's central bank have sparked dollar liquidity concerns and in turn adding to demand for the USD, which is deemed as the global safe haven.

Locally, expectations of twin deficits for two consecutive years and uncertainty surrounding the country's presidential election on 9 May could sap investors' risk appetite in Philippine assets. The possibility of narrower interest rate differentials with the US Fed and higher inflation expectations would also make some Philippine investment instruments less attractive. Therefore, we project a slight upward trajectory for USD/PHP to 53.0 in 2Q22, 53.5 in 3Q22, and 54.0 in both 4Q22 and 1Q23 (vs previous target range of 52.5-53.5).

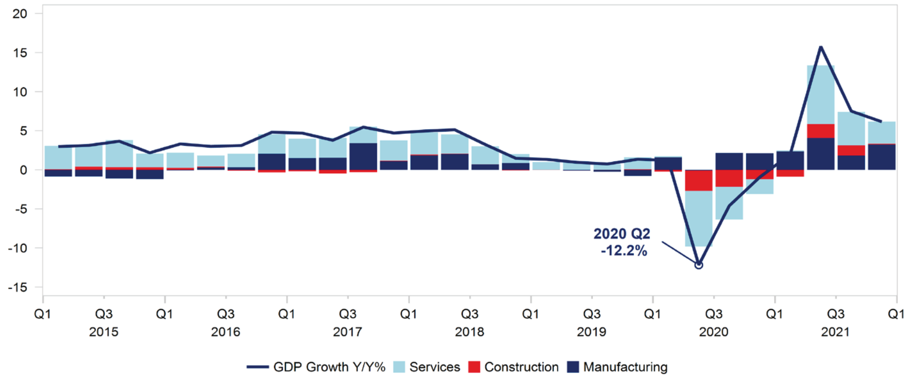
SINGAPORE

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/SGD	1.38	1.39	1.40	1.40
SGD 3M SIBOR	1.15	1.55	1.95	2.10

Economic Indicators	2020	2021	2022F	2023F
GDP	-4.1	7.6	3.5	3.5
CPI (average, y/y %)	-0.2	2.3	3.5	3.0
Unemployment Rate (%)	3.3	2.4	2.2	2.1
Current Account (% of GDP)	14.0	18.6	17.0	15.9
Fiscal Balance (% of GDP)	-4.6	-0.9	-0.5	2.0

A Favourable Prognosis As Singapore's GDP Recovers In 2021 Despite COVID-19 Risks

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Back To Pre-Pandemic Levels, But Geopolitical Risks In 2022 Could Weigh

Latest economic data continued to suggest the resilience of Singapore's economy despite COVID-19-related risks. The economy expanded 7.6% for the whole of 2021, following a revised 6.1% y/y growth in 4Q21. Moreover, the pace of growth has outpaced the 4.1% contraction in 2020, suggesting that the economy in real terms, has recovered to its pre-pandemic levels.

High-frequency data in 1Q also reinforced Singapore's robust growth prognosis for 2022. Non-oil domestic exports (NODX) surged 9.5% y/y in Feb 2022, while industrial production gained 2.0% y/y in Jan despite seasonal factors such as the Lunar New Year holidays. According to the latest Monetary Authority of Singapore (MAS) survey of professional forecasters, respondents signalled that Singapore's GDP growth is expected to come in at 4.0% and 3.0% in 2022 and 2023, respectively, while NODX is expected to climb 7.8% in 2022.

For the year ahead, policies and initiatives from the Budget will likely support economic growth. With an overall deficit of S$3.0bn for FY2022, the budget remains an expansionary one which included both immediate support for businesses, households and job-seekers, as well as medium-to-long-term measures to reinforce Singapore's foundation for sustainable finances. For more details, please read our Macro Note - Singapore: A Prudent, Yet Expansionary Budget 2022.

Notwithstanding the positive macro data, inflation risks are also becoming more tangible. The above-mentioned MAS survey also highlighted that consumer prices are expected to rise 3.6% in 2022, from a previous forecast of 2.1%. As commented by Senior Minister Tharman Shanmugaratnam "higher-for-longer inflation is now very likely." Based on higher commodity prices seen to-date as a result of the Russia-Ukraine conflict, we raise our inflation forecast to 3.5% in 2022, from the previous 2.0% forecast.

On GDP, we keep our growth outlook for Singapore at 3.5%, leaning towards the lower bound of MTI's growth outlook of between 3 – 5 %. Despite the ongoing Russia-Ukraine conflict, Singapore has very limited direct exposure to Russia. For instance, Singapore banks were found to have minimal direct exposure to Russia, as highlighted by Foreign Affairs Minister Vivian Balakrishnan, while investment firm Temasek cited that its underlying exposures to Russia and Ukraine are "insignificant". Nonetheless, we remain cautious given that any further exacerbation will inject second-order growth risks and higher inflation for the year ahead as shown in our Focus article in this report

Domestically, the manufacturing sector is expected to underpin growth given the growing demand for semiconductors and its related products which will support further strength in Singapore's electronics and precision engineering clusters. Moreover, we think that tourism-related clusters such as retail, transport and hospitality will likely see further recovery especially as many global economies stay on track to reopen their respective borders on the back of the growing vaccination rates.

CENTRAL BANK

Further Steepening On The Cards In Apr To Keep Inflation In Check

The MAS responded in an off-cycle policy shift in Jan 2022 to the elevated inflation environment. In the statement, policymakers raised the S$NEER policy slope "slightly", while keeping the width of the policy band and the level at which it is centred unchanged.

For the scheduled Apr 2022 monetary policy release, we expect the MAS to further steepen the S$NEER gradient "slightly". This is estimated to bring the policy band gradient to an appreciation of 1.5% then. That said, there will also be a material risk for added tightening by policymakers via a recentring of the policy mid-point, given that the S$NEER has already appreciated within the upper half of the policy band since Oct 2021's policy meeting.

CURRENCY

USD/SGD Targets 1.40

Even after the MAS surprise off-cycle move to increase the policy slope late Jan, we opined that our expectations of higher USD/SGD were not derailed. Furthermore, we pointed out that a rising S$NEER can coexist with a higher USD/SGD as long as there is broad-based USD strength, as seen in the last Fed rate hike cycle. Our view appears prescient as USD/SGD did not make further ground below 1.34 after MAS's move (compared to about 1.3460 immediately before) and the subsequent Russian invasion jolted the pair above 1.3600. While the MAS is expected to tighten policy further in Apr in response to rising inflation, the knee-jerk strength in the SGD is likely to be limited, considering the current challenging risk backdrop. Also, front-loaded Fed rate hikes will continue to underpin broad USD strength. Overall, we maintain an upward trajectory in USD/SGD and update the point forecasts to 1.38 in 2Q22, 1.39 in 3Q22, and 1.40 in both 4Q22 and 1Q23.

SOUTH KOREA

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/KRW	1,250	1,260	1,270	1,280
KRW Base Rate	1.50	1.75	1.75	1.75

Economic Indicators	2020	2021	2022F	2023F
GDP	-0.9	4.0	2.7	3.0
CPI (average, y/y %)	0.5	2.5	3.3	2.0
Unemployment Rate (%)	4.5	3.8	3.7	3.7
Current Account (% of GDP)	4.6	4.9	3.5	4.0
Fiscal Balance (% of GDP)	-4.4	-4.4	-4.0	-3.5

ECONOMY

Sustained High Commodity Prices Add Downside Risk

The South Korean economy recovered by 4.0% in 2021 from a contraction of 0.9% in 2020. Primarily driven by external demand, government spending and capital investment, the recovery has broadened out to private consumption which contributed 2.8% point of the 4.2% y/y GDP growth in 4Q21.

Outlook for private consumption and exports have continued to hold up even as the country braved the Omicron wave of COVID-19 infection surge since Feb. Consumer confidence has dipped to 103.1 in Feb from 104.4 in Jan, but still marked the 12th straight month of expansion (defined as a reading above 100). The resilience in consumer sentiment has tracked improvements in the labour market as employment rose a further 485k in the first two months of the year, helped by a temporary expansion in the medical workforce and government programs.

The impact of COVID-19 on economic activities has eased as South Korea's government continues to push for an exit from the pandemic restrictions amidst a high vaccination rate. More than 86% of the population received two vaccine doses while around 62% of the population had booster shots. The presidential election went ahead in Mar despite high daily caseloads and fully vaccinated foreign visitors may be exempted from mandatory quarantine from 1 Apr. The reopening of borders will help to drive a more sustained rebound in private spending this year, subject to the government's ability to keep local infections under control. The current pandemic outbreak in China, its largest export market, may however contribute to weaker demand outlook for South Korea in the near-term.

Another key risk stems from the Russia-Ukraine conflict. South Korea has joined efforts to sanction Russia. The country was Russia's largest trade partner in Asia after China. Russia accounted for 2.2% of South Korea's total trade with the latter's exports comprising mainly cars and machinery while South Korea imported mostly oil, seafood and iron/steel from Russia.

The largest impact is expected to come in the form of significant pressures on inflation as global energy and food price rise which may drag private consumption and external demand if prices stay elevated for the rest of the year. The high energy and raw material import bill also weighs on the country's trade balance, seen in the record trade deficit in Jan. This will contribute to the narrowing of the current account surplus and increase South Korea's vulnerability to external volatilities. The Bank of Korea (BOK) has upgraded its 2022 inflation forecast sharply to 3.1% from 2.0%. We now see further upside risks and therefore adjust our forecast to 3.3%. Headline inflation will likely stay above 3% through the first three quarters of 2022.

Fiscal policy has remained expansionary to cushion the economy from higher growth risks. President-elect Yoon Suk-yeol has campaigned on jobs and housing issues, and will be expected to introduce more stimulus measures after taking office in May. South Korea has already passed its first supplementary budget of 2022 on 21 Feb. The amount of KRW16.9 tn (0.8% of GDP) will be used for compensating losses for small businesses, relief payments and to support COVID-19 control measures. This is expected to bring the projected fiscal deficit to more than 3.3% of GDP for 2022.

Taking into account of the increased near-term growth risks, we have downgraded our forecast for South Korea's 2022 GDP growth to 2.7% from 3.0% previously. We expect GDP growth to moderate to 2.6% y/y in 1Q22 and 2.4% y/y in 2Q22 before recovering to 2.9% y/y in the second half of this year.

CENTRAL BANK

BOK To Hike By Another 50-75 bps This Year

The BOK has hiked its benchmark base rate three times, by a total of 75 bps since Aug 2021 to restore the rate to its level before the pandemic at 1.25%. Although concerns over financial imbalances have slightly abated, the higher commodity and food prices which may be further exacerbated by supply disruption has underpinned expectations that the BOK will resume its rate normalisation in Apr/May. Governor Lee Ju-yeol said that the degree of monetary policy accommodation has grown with stronger inflation. Having said that, we note the current view may not hold for future meetings as the new governor takes office.

Our base case remains for 25 bps hike each in 2Q and 3Q to bring the base rate to 1.75% by 3Q but the higher inflation risk may warrant a further 25 bps increase in 4Q (not in our base case yet).

CURRENCY

KRW Still Biased Weaker

Being a high beta currency sensitive to global growth expectations, the KRW has taken a beating after the Russia-Ukraine conflict exacerbated inflationary pressures and dimmed the global growth outlook. USD/KRW broke out of its key resistance at 1,212 and went straight to 1,240, the highest level in almost two years. Other domestic headwinds denting sentiments on the KRW include the South Korea's persistently high COVID-19 case counts and reports of North Korea preparing to launch a missile. The USD is also expected to be broadly supported as the Fed has kicked started its interest rate cycle in Mar.

Overall, USD/KRW is still biased higher and we have updated our point forecasts to 1250 in 2Q22, 1260 in 3Q22 and 1270 in 4Q22 and 1280 in 1Q23.

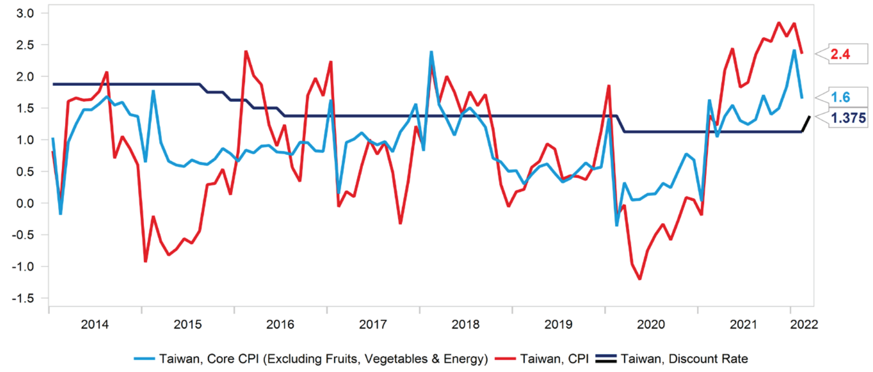
TAIWAN

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/TWD	28.6	28.8	29.0	29.2
TWD Official Discount Rate	1.38	1.38	1.38	1.38

Economic Indicators	2020	2021	2022F	2023F
GDP	3.4	6.4	3.6	3.9
CPI (average, y/y %)	-0.2	2.0	2.5	2.0
Unemployment Rate (%)	3.7	3.7	3.7	3.6
Current Account (% of GDP)	14.2	15.0	10.0	13.0
Fiscal Balance (% of GDP)	-1.0	-2.1	-1.2	-1.0

Taiwan: CBC Frontloaded Rate Hike In Mar Due To Higher Inflation Risk

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Resilient Outlook To Stay

Taiwan's economy has maintained its resilience through 2021 with full-year growth at 6.4% (2020: 3.4%), having rebounded swiftly from its worst COVID-19 outbreak in mid-May last year. This is the fastest annual growth pace since 2011 despite the absence of a low base in 2020. The economy was boosted by strong capital investments, exports, inventory building and government spending while private consumption turned around in 4Q21 after two preceding quarters of contraction, helped by the easing of COVID-19 restrictions and distribution of consumption vouchers starting in Oct 21.

The outlook for 2022 will be supported by capacity expansion of semiconductor manufacturers and ongoing reshoring activities. Private consumption is also expected to contribute more strongly to growth this year.

On the other hand, global supply shock due to a prolonged conflict in Ukraine is likely one of the greatest risks for Taiwan given its extensive manufacturing sector and dependence on trade. There is also the risk of demand destruction if energy and food prices stay elevated and eventually hurt consumer sentiment. The Central Bank of the Republic of China (Taiwan), CBC, estimated that the GDP impact from the war in Ukraine will be 0.3 ppt to 0.4 ppt.

Furthermore, pandemic resurgence risk will remain as Taiwan's pandemic curbs are being relaxed even though Taiwan has recently said that it is unlikely that quarantine requirement will be removed before end-2022. The slowdown in China's economy is also a potential growth headwind. These factors underpin our more cautious outlook as we downgrade our forecast for Taiwan's GDP growth for 2022 to 3.6% from 3.9%. This is below CBC's updated forecast of 4.05% and the government's 4.42%.

Headline inflation has stayed above the CBC's 2% threshold for the 7th straight month in Feb and there are signs that the inflationary pressure is becoming more broad-based as core inflation picked up. The government has adopted measures to cap inflationary pressure including temporarily removing business taxes on imported corn, wheat and soybeans and reducing commodity taxes on gasoline and diesel. But inflation risk likely remains to the upside.

The CBC has raised its 2022 CPI forecast to 2.37% from 1.59% and core inflation forecast to 1.93% from 1.45%. Our forecast for headline inflation is now at 2.5% from 1.9% previously.

CENTRAL BANK

CBC More Hawkish Than Expected

The CBC surprised with a 25 bps hike to its benchmark discount rate to 1.375% in Mar. The CBC said the rate decision had considered factors including the rise in global commodity prices, pressure from domestic imported inflation on the CPI trajectory, recovering demand for the services industry, improvement in the labour market situation and the rate normalisation in other economies such as the US.

With the benchmark rate back to its pre-COVID level, CBC's view of the longevity of higher inflationary pressure will determine its next course of action. Addressing concerns over higher prices due to the Russia-Ukraine conflict, CBC Governor Yang Chin-long has said that inflation is "controllable" and is not likely to exceed 2.5% this year.

Nonetheless, the CBC has kept the door open for more rate hikes ahead, by saying that the upward risk of global inflation is still high and it will continue to conduct its monetary policy in a timely manner to maintain price and financial stability. The next CBC meeting will be on 16 Jun which will provide some time to assess the impact of the current rate hike as well as the trajectory of domestic inflation and growth. We are maintaining our forecast for the benchmark rate at 1.375% through 2022 for now. Having said that, we think there is scope for another 25 bps hike for the rest of this year should growth remain robust and inflation stays more persistent ahead.

CURRENCY

The Calmness In TWD Has Been Broken

The one-way appreciation of the TWD since Aug 2019 was dealt a reality check by Russian invasion of Ukraine in late Feb. USD/TWD jumped from 27.86 to a 1-year high of 28.66 in a matter of weeks, one of the fastest pace of gains in recent years. Also, 3-mth implied volatility of USD/TWD has spiked to over 7%, matching the high during the initial pandemic shock in Mar 2020. Despite recent losses, the TWD still screens as one of the most overvalued currency (+2.2 standard deviation) in Asia, according to the BIS's measure of real effective exchange rate (REER). This probably suggests further scope for TWD weakness, especially given the very challenging global macro backdrop. Overall, we keep to our cautious view on TWD. Given that our previous year-end USD/TWD target of 28.60 has been met, we update our point forecasts to 28.60 in 2Q22, 28.80 in 3Q22, 29.00 in 4Q22 and 29.20 in 1Q23.

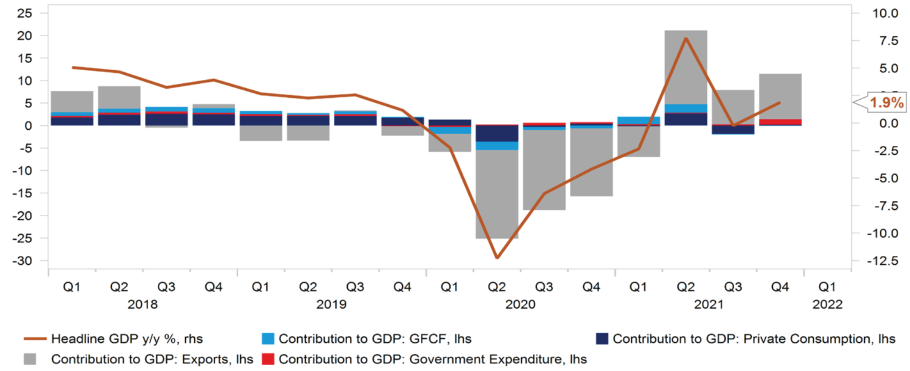
THAILAND

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/THB	33.8	34.0	34.2	34.4
THB 1D Repo	0.50	0.75	0.75	1.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.2	1.6	3.5	3.6
CPI (average, y/y %)	-0.8	1.2	4.0	2.0
Unemployment Rate (%)	1.9	1.6	1.4	1.2
Current Account (% of GDP)	0.3	-1.6	0.7	3.5
Fiscal Balance (% of GDP)	-3.0	-3.8	-4.6	-3.8

Thailand's GDP Expanded 1.6% In 2021; Geopolitical Risks Will Likely Weigh In 2022

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Weathering Geopolitical Risks, Inflation, & COVID-19

Thailand's economy expanded by 1.6% in 2021, as compared to -6.2% in 2020 (deepest contraction since the Asian Financial Crisis: -7.6% in 1998). The data suggested that the economic recovery remained uneven as private consumption and investment were insufficient to fully negate the contraction seen in 2020. Specifically, private consumption was up by merely 0.3% for the whole of 2021, as compared to a 1.0% contraction in 2020. Alongside, Gross Fixed Capital Formation (GFCF) rose 3.4% in 2021 (2020: -4.8%). On the flipside, government expenditure accelerated to a full-year growth of 3.2% in 2021 (2020: +1.4%).

We remain cautious over Thailand's growth dynamics in 2022 for three reasons: First, GDP growth in 2021 has been underpinned by government spending, rather than its traditional growth engines such as consumption, net exports and investment. Second, it remains to be seen if the private sector is able to drive the recovery in 2022 given COVID-19 risks, rising inflation, and supply disruptions. And third, rising debt levels, both private and public, has been a key concern ever since the onset of COVID-19, limiting upside recovery in domestic consumption

Even so, fresh geopolitical risks surrounding Russia and Ukraine may also drag Thailand's growth recovery. We see several drivers that could affect Thailand's growth. For one, geopolitical tensions are expected to impact Thailand's tourism market, where Russia is the third-largest tourism revenue receipt generator in 2019. Moreover, while Thailand's direct trade exposure to Russia is limited (0.5% of total trade in 2021), second-order exposure mainly to Russia's key trading partners such as China, EU28 and Japan, account for 32.1% of exports in the 12 months into Jan 2022. On this, note that Finance Minister Arkhom Termpittayapaisith commented that the escalating tensions between Russia and Ukraine will make it difficult for Thailand to reach its 4.0% growth target in 2022. As such, we keep to our growth outlook at 3.5% with downside risks.

The key direct impact from the conflict perhaps, will come from the higher inflation pressure in 2022. Consumer prices rose 5.3% y/y in Feb 2022, the fastest pace since Sep 2008, on the back of rising food and energy prices, exacerbated by the fact that raw food and energy account for one-third of Thailand's CPI basket. As such, we have upgraded our inflation forecast to 4.0% in 2022, from f 2.0% previously.

CENTRAL BANK

A Token Rate Hike In 3Q22 To Stem Inflation & Fund Outflows

The Bank of Thailand (BOT) kept its one-day repurchase rate unchanged at 0.50% for its 14th consecutive meeting on 9 Feb 2022. The last time it made a move was in May 2020, when the benchmark rate was cut by 25bps.

Policy manoeuvres are now increasingly challenging given the slower growth dynamics and higher inflation climate. Moreover, BOT would also need to account for higher global rates especially led by rate hikes by the US Federal Reserve. We note that Thailand had been vulnerable to fund outflows during the previous FOMC rate tightening cycle. In the period between 2015 – 2018 during which the US Federal Reserve embarked on its tightening cycle, investors pulled out US$5.0bn of equity and bond funds in 2015 alone, marking the largest outflow since available data as of 2009.

As such, we expect BOT to deliver a token 25bps rate hike in 2022, possibly as early as 3Q22, in response to higher inflation risk and the faster-than-anticipated FOMC rate hike for the year ahead. Notwithstanding the projected 25bps hike later this year, we continue to view the monetary policy stance of BOT to be accommodative, especially against the backdrop of potentially higher global interest rates.

CURRENCY

THB Likely To Weaken Further

Geopolitical risks have dented to what had been a strong start to a year for THB. After rising by as much as 3.4% to 32.09 /USD on strong bond inflows, THB pared gains as the Russian invasion started. Higher oil prices cast considerable uncertainty to the expected recovery of Thailand's current account back to surplus this year. The pace of the bond outflows in the last couple of weeks due to geopolitical tension is concerning and bears close watching especially now that the Fed has started its rate hike cycle. Overall, we keep to our defensive view of THB and expect USD/THB at 33.8 in 2Q22, 34.0 in 3Q22, 34.2 in 4Q22 and 34.4 in 1Q23.

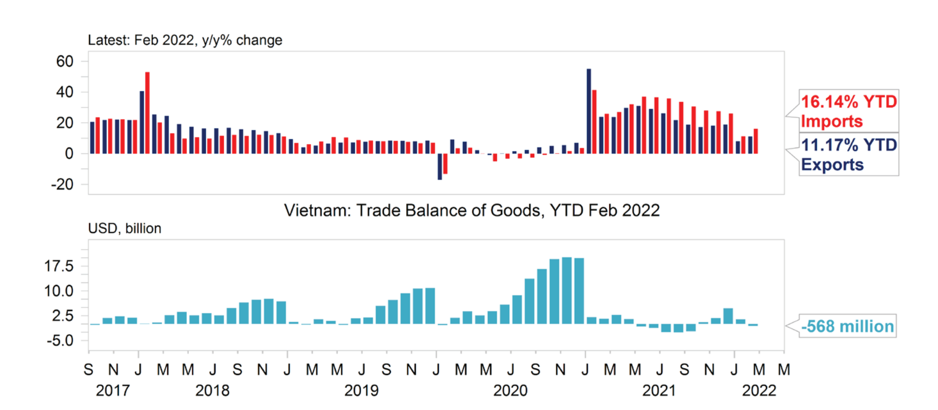
VIETNAM

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/VND	23,000	23,100	23,200	23,300
VND Refinancing Rate	4.00	4.00	4.00	4.00

Economic Indicators	2020	2021	2022F	2023F
GDP	2.9	2.6	6.5	7.0
CPI (average, y/y %)	3.2	1.8	4.1	5.5
Unemployment Rate (%)	2.4	3.6	2.9	2.5
Current Account (% of GDP)	3.7	-0.3	0.2	0.2
Fiscal Balance (% of GDP)	-3.9	-4.7	-4.5	-4.5

Vietnam, Foreign Trade, Monthly, YTD Feb 2022

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Geopolitics Is The Main Uncertainty Ahead

Economic activities in Vietnam rebounded sharply in 4Q21 after suffering from disruptions and lockdowns as a result of the COVID-19 pandemic during most of 3Q21. Real GDP growth accelerated to 5.22% y/y in 4Q21, reversing from the record contraction of -6.02% in 3Q21. The recovery is largely supported by external sectors while domestic sectors especially services continued to underperform amidst the pandemic. For 2021, Vietnam's economy expanded 2.58%, slowing from a 2.91% growth in 2020, but slightly above the government's forecast of 2.5%.

In the first two months of 2022, activities continued to improve despite the raging of Omicron variant, which is mitigated by the widespread vaccination of its population. Vietnam had gone from having the second lowest COVID-19 vaccine coverage in ASEAN in mid-Aug 2021, with only 7.5% of adults having received at least one dose, to 90% fully vaccinated by end-Feb 2022. Activities have resumed to resemble normalcy and the country ended the quarantine requirement for international travelers starting from 16 Mar. This is an important milestone, as the resumption of inbound tourism will help to rejuvenate Vietnam's domestic sector. Tourism receipts accounted for about 10% of GDP in 2018 with 18 million of inbound tourists. Retail sales remained muted so far, expanding 1.6% y/y in the first two months of 2022, less than half of the 5.5% pace in Jan-Feb 2021.

External facing sectors remained resilient and performed strongly in early 2022. Exports gained 11% y/y YTD Feb 2022, driven by smartphones, electronics, machinery and garments, which accounted for more than 53% share of exports. Foreign direct investment (FDI) inflows were healthy. Purchasing Managers Index (PMI) has been on an uptrend and stayed above the 50-mark for the 5th straight month in Feb 2022. Industrial production rose for the fourth straight month, with a gain of 8.5% y/y, the second biggest increase since May 2021.

Just as the global economy is making its recovery after two years of pandemic, the outbreak of the Russia-Ukraine conflict in late Feb 2022 caused significant chaos to the global commodities markets and added some uncertainty to Vietnam's growth outlook.

As postulated in our Focus article, there is a high probability (60%) that the conflict and sanctions against Russia could stay for some months. This means disruptions to Russia's (and Ukraine's) key exports such as energy, agricultural and other commodities. Elevated commodities prices are likely to feed into inflation globally and impact on consumer demand and investment demand at some point though it is unclear the extent of the shift, just as major central banks are tightening their policy.

With these headwinds ahead, we are trimming Vietnam's 2022 GDP growth forecast marginally to 6.5% from previous projection of 6.8%, bringing in line with official projection of 6.0-6.5%.

CENTRAL BANK
Staying On Hold As A Precaution

Vietnam's inflation rate has been trending down since hitting the peak of 2.9% y/y in May 2021, to 1.4% in Feb 2022. Nevertheless, the jump in fuel costs has been the main contributing factor with double digit y/y increases on a monthly basis in the past 9 months. The elevated commodity prices especially food and energy are likely to hit consumer prices fairly quickly. Against the backdrop of a stretched out conflict, we are adjusting upward our inflation forecast for 2022 to 4.1% from our previous projection of 3.2%.

With the uncertain outlook posed by geopolitical development, the State Bank of Vietnam (SBV) is likely to keep its policy rate steady to support the recovery efforts. While the US Fed and other ASEAN central banks will embark on their rate hike cycles this year, we anticipate both the refinancing rate at 4.0% and rediscounting rate at 2.5% to remain at their record lows for now.

CURRENCY
VND To Weaken Gradually

USD/VND has been gradually recovering from its late Jan's lows of about 22,630 after the Fed shifted into a hawkish mode in the month and signaled a first rate liftoff in Mar. Sentiments on Asia FX, which include VND, took a further hit after Russia's invasion into Ukraine. Potential portfolio outflows from Vietnam due to global de-risking triggered by both the start of the Fed rate hike cycle and geopolitical tensions give ground for a more cautious outlook for the VND. As the VND continues to weaken at a modest pace that we envisaged earlier, we will keep our USD/VND forecasts unchanged this time round. Our USD/VND forecasts are at 23000 at 2Q22, 23100 at 3Q22, 23200 at 4Q22 and 23300 at 1Q23.

AUSTRALIA

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
AUD/USD	0.73	0.74	0.75	0.75
AUD Official Cash Rate	0.10	0.25	0.50	0.75

Economic Indicators	2020	2021	2022F	2023F
GDP	-2.2	4.8	3.9	3.5
CPI (average, y/y %)	0.9	2.9	3.3	2.5
Unemployment Rate (%)	6.5	5.0	4.0	3.9
Current Account (% of GDP)	2.2	3.7	1.8	1..2
Fiscal Balance (% of GDP)	-8.0	-6.5	-3.9	-3.1

ECONOMY

Rising Inflation, Floods, Russia-Ukraine Crisis To Weigh on Outlook

Australia's 4Q21 GDP rebounded 3.4% q/q, a reversal from 3Q21 (when GDP was down 1.9% q/q). Although the latest reading came in slightly below expectations for a 3.5% q/q reading, it was the strongest quarterly growth in 46 years. From a year earlier, the economy expanded by 4.2%. This was more than double the pre-pandemic pace of around 2%, slightly higher than an estimated 4.1% y/y increase, and also higher from last quarter's revised reading of 4.0% y/y (3.9% y/y previously).

Weighed by the COVID-19 pandemic, the Australian economy was seen contracting in three out of the last seven quarters. This includes a contraction of 1.9% q/q in 3Q21 due to the lockdowns in NSW and Victoria. Hence, the latest GDP numbers are certainly encouraging and bode well for the rest of 2022. Both international trade and domestic services spending are likely to recover with the reopening of international borders. This will be a much-needed boost for PM Scott Morrison ahead of an election due by May. He has been struggling on the political front due to COVID-19 testing and supply-chain shortages. We now see 2022 GDP at 3.9% (vs 3.7% previously).

The latest job report also underscores the strength of the labour market. The unemployment rate fell to 4.0% in Feb, the lowest since Aug 2008. Employment rose by 77,400, led by full time roles. The participation rate also moved higher to a new record-high of 66.4%. We previously highlighted that the pace of the rebound in hours worked and the level of employment will be crucial indicators, given the large shifts in labour force participation over recent months. A sizeable improvement in labour participation is likely to exert upward pressure on stubbornly sluggish wage inflation.

CPI accelerated in 4Q21, with the headline print coming in at 1.3% q/q or 3.5% y/y, while core CPI rose 1.0% q/q or 2.6% y/y. While it is worth emphasising that the Reserve Bank of Australia (RBA) has a lower inflation target of 2%-3% than most other developed central banks; there has not been any significant escalation in wage inflation in Australia. That said, the inflationary backdrop is being threatened by domestic floods, and more importantly, the Russia-Ukraine conflict, which has led to a significant spike in energy prices.

At this juncture, the duration of the conflict, and the resulting impact on energy prices, are highly uncertain. But we expect strong inflationary pressures to persist in the near-term. While inflation prints for the Mar and Jun quarters (due on 27 Apr and 27 Jul, respectively) will be closely eyed, we have revised higher our inflation forecasts. We now see headline CPI prints of around 3.3% for 2022 (vs 2.5% previously), before some easing towards 2.5% by end-2023.

CENTRAL BANK

RBA To Hike Earlier

At its meeting in Mar, the RBA decided to maintain the cash rate target at 0.10% and the interest rate on Exchange Settlement balances at 0%. In its accompanying statement, the RBA stated that the "*Board is committed to maintaining highly supportive monetary conditions to achieve its objectives of a return to full employment in Australia and inflation consistent with the target. The Board will not increase the cash rate until actual inflation is sustainably within the 2%-3% target range. The Board is prepared to be patient as it monitors how the various factors affecting inflation in Australia evolve*".

The RBA has repeatedly said that wage growth beyond 3% is needed to help convince it that inflation is back within the 2%-3% target band. Australia's wage price index rose 0.7% q/q in seasonally adjusted terms for 4Q21. The quarterly increase was in line with estimates, and a tad higher than 3Q21's reading of 0.6% q/q. On an annual basis, the index was up 2.3% y/y, slightly higher than the previous reading of 2.2% y/y. Expectations were for a 2.4% y/y pace. Private-sector wages rose 0.7% q/q or 2.1% y/y.

But there are two issues that could test the RBA's patience in waiting for a pickup in wage growth, and instead, prompt it to move earlier. First, the persistence of supply-side shocks from the COVID-19 pandemic, and how developments of the Russia-Ukraine conflict add to these supply-side inflation pressures. Second, how labour costs in Australia evolve. In fact, in his keynote address to the Australian Financial Review Business Summit on 9 Mar on Recent Economic Developments, RBA Governor Philip Lowe said that in the current uncertain environment, where Australia's wage growth and underlying inflation are weaker than elsewhere, the RBA can take the time to assess incoming information and review how uncertainties resolve. However, he added that given the outlook, it is plausible that the cash rate will be increased later this year.

The upgrade to our inflation forecasts, alongside an even tighter labour market, has led us to bring forward our rate hike call. We now see the cash rate target being lifted by 15bps in Aug and then by 25bps in Nov. This will see the cash rate target at 0.50% by the end of 2022.

CURRENCY

Turning Bullish On AUD

Commodity prices which have been on a tear since the start of the Russian invasion has been a strong tailwind for AUD. Australia is amongst the world's top exporters of liquefied natural gas (LNG), iron ore and wheat which saw prices jumping of late. The increased correlation to higher commodity prices has helped AUD to outperform within G-10 space. Even against a deteriorating global risk backdrop and a scramble for the USD, the AUD/USD rallied to a 4-month high of 0.7441 on 7 Mar before paring some gains.

With our base case being a protracted Russia-Ukraine war, it is likely that high commodity prices will be with us for a while longer, a bone for AUD bulls. Another positive factor for the AUD probably comes in the form of the RBA bowing to markets' expectations of a rate liftoff this year given the sudden commodity price shock. We have also brought forward our RBA rate hike call and now expect a 15bps liftoff in Aug and another 25bps rate hike in Nov. Taken together, we are now shifting to a positive trajectory for AUD/USD, with point forecasts updated at 0.73 in 2Q22, 0.74 in 3Q22, 0.75 in both 4Q22 and 1Q23.

EUROZONE

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
EUR/USD	1.08	1.07	1.06	1.06
EUR Refinancing Rate	0.00	0.00	0.00	0.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.4	5.6	3.4	2.9
CPI (average, y/y %)	0.3	2.6	5.4	2.1
Unemployment Rate (%)	8.0	7.7	7.1	6.8
Current Account (% of GDP)	1.9	2.6	2.4	2.2
Fiscal Balance (% of GDP)	-7.2	-6.9	-4.1	-2.8

ECONOMY

Stagflation Looms As War Significantly Impedes Outlook

Russia's war on Ukraine is a "watershed moment for Europe". This was the description the European Central Bank (ECB) used at its first meeting since Russia invaded Ukraine. One of the biggest risks the Eurozone economy faces is stagflation. As it is, inflation has been more persistent than expected in recent months, largely due to the ongoing COVID-19 pandemic, which has exacerbated the imbalance between supply and demand by slowing the former and skewing the latter further in the overheated goods sector.

Eurozone CPI rose by a fresh record-high of 5.8% in Feb from 5.1% in Jan. Core inflation that excludes energy, food, alcohol and tobacco jumped to 2.7% from 2.3% in the previous month. On a monthly basis, the harmonised index of consumer prices moved up by 0.9%. These figures had not yet taken into account the war, which is adding a significant supply shock (with both price increases as well as physical limitations of supply of goods) on top of what already was impeding the economy in the first place.

The ECB unveiled new forecasts that raised the inflation outlook for the Eurozone this year to 5.1% (from 3.2%). But it also warned that Eurozone inflation could reach 7.1% this year under a "severe" scenario that seeks to capture the consequences of a worsening backdrop from the war. Economic growth would be crimped to 2.3%, compared to 3.7% in the ECB's base case.

Wars are inherently unpredictable. Whether the sanctions change the short-term dynamics on the battlefield remains to be seen. But we are assuming a moderate scenario, which encompasses a prolonged conflict, tougher Western response and disruptions to Russia's oil and gas exports, which would lead to further energy price increases. We have revised down growth from 4.6% to 3.7% for 2022, in part due to the impact of Omicron, which has turned out to be more severe; and also because of higher energy inflation, which will reduce households' spending and businesses' sentiment. We see Eurozone inflation this year at 5.4%.

CENTRAL BANK

ECB Faces Tough Balancing Act

Two things, in particular, stood out for us from the ECB's meeting in Mar. First, the Asset Purchase Programme (APP) was unexpectedly tapered at a faster pace than previously guided and purchases are conditionally guided to end sometime during 3Q22. In comparison, the previous guidance in Feb had stated that "*monthly net purchases under the APP will amount to EUR40bn in 2Q22 and EUR30bn in 3Q22. From Oct onwards, the Governing Council will maintain net asset purchases under the APP at a monthly pace of EUR20bn for as long as necessary to reinforce the accommodative impact of its policy rates*". Lagarde emphasized during the Mar press conference that the conditional ending of the APP could occur at any time in 3Q22 from Jul through the Sep meeting.

Second, the guidance on interest rates was tweaked in a manner, that leaves all options on the table, in terms of lift-off timing. In comparison, the previous guidance stated that the APP would end "*shortly*" before raising rates. The latest statement stated that raising rates could happen "*some time*" after ending APP purchases. On this, Lagarde did not repeat language around how a 2022 hike would be "*very unlikely*" like how she previously did. Instead, she mentioned that "*some time after is all encompassing" and "it could be the week after*" or *"it could be months after*". Nonetheless, she somewhat defensively noted that the latest decisions were not about accelerating the pace of normalization, but rather "*to progress step-by-step and to acknowledge uncertainty and add optionality in order to be able to respond in all circumstances in an agile way*".

It may have indeed been a hawkish tilt, given that the ECB sped up the APP taper, brought forward its conditional end and guided that hikes could commence as soon as right after. But, in our view, it also created a lot of flexibility around the timing of the hike by breaking the automatic link between winding down stimulus and raising interest rates.

We recognise that the situation remains very fluid. How the war evolves and the impact that has on energy prices will be crucial. While monetary policy would have to respond to an inflationary demand shock by moving interest rates higher, an inflationary supply shock poses a conflict of objectives. If the ECB wanted to combat higher inflation with higher interest rates, it would further curb growth, which has already been reduced by the supply shock. On the other hand, the ECB cannot resolve the supply constraints by lowering interest rates. This would only encourage demand and thus exacerbate the inflationary backdrop. For these reasons, we are not expecting any changes in key interest rates for now. Rather, any policy tightening by the ECB this year, will solely be in terms of ending its QE programs.

CURRENCY

EUR Being The Proxy Hedge For War

The short-euro trade has emerged as investors' default choice to hedge against increasing geopolitical uncertainties. The bloc's geographical proximity to the military conflict and Europe's strong dependence on Russian gas exports means the EUR is most exposed within G-10 to the economic fallout of the Russian invasion. Indeed, by the second week of the invasion, EUR/USD has plunged over 3% to almost 1.08, the lowest level since May 2020. With the tentative post-COVID economic recovery under threat, the ECB is almost certain to double down on its patience on rates liftoff, which we expect to only occur in 1Q23. As such, the widening EU-US rates differential will continue to weigh on EUR/USD. Also, the current net long EUR/USD positioning lends a long runway for additional geopolitical hedges to be deployed before positioning becomes excessive.

With this sudden jolt of geopolitical risks, our previous 1.08 year-end target for EUR/USD is now outdated. Overall, with a multitude of headwinds hitting the EUR, we expect further weakness in EUR/USD. Our updated point forecasts are 1.08 in 2Q22, 1.07 in 3Q22, and 1.06 in both 4Q22 and 1Q23.

NEW ZEALAND

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
NZD/USD	0.68	0.69	0.70	0.70
NZD Official Cash Rate	1.50	2.00	2.25	2.50

Economic Indicators	2020	2021	2022F	2023F
GDP	-1.0	5.3	3.6	3.0
CPI (average, y/y %)	1.7	3.9	4.0	2.1
Unemployment Rate (%)	4.6	3.8	3.0	3.4
Current Account (% of GDP)	-1.0	-4.0	-3.7	-3.2
Fiscal Balance (% of GDP)	-10.6	-1.7	-5.7	-0.5

ECONOMY

Returning To Growth

GDP rebounded by 3.0% q/q in 4Q21, as COVID-19 restrictions loosened. This was in contrast to the revised 3.6% q/q decline (-3.7% q/q previously) in 3Q21, which was marked by the nationwide alert level 4 lockdown. Still, the latest reading disappointed expectations for a higher print of +3.3% q/q. Compared to the same period one year ago, GDP rose by 3.1%, following a revised 0.2% decline in 3Q21 (-0.3% previously). It also came in below expectations for a gain of 3.3%.

Overall, the latest GDP numbers showed that the New Zealand economy has been rebounding from the lockdowns, but still below pre-pandemic levels. The widespread transmission of the Omicron variant is still underway and will continue to weigh on economic activity in 1Q22. Our GDP growth forecast for 2022 is pencilled in at 3.6% (vs 4.1% previously). The recovery will largely depend on the revival of international tourism and education when New Zealand reopens its international borders from May onwards, as well as the labour market holding it together.

New Zealand's 4Q21 unemployment rate fell to a record low of 3.2% from a revised 3.3% in 3Q21 (3.2% previously), the lowest since records began in 1986. Meanwhile, employment growth failed to meet expectations, rising just 0.1% from the previous three months. Still, it has risen for five straight quarters and surged 1.9% in the three months through Sep, the most in four years. We expect the labour market to tighten further, and now see the unemployment rate falling to a low of 3.0%, before gradually rising to 3.4% in 2023 as higher interest rates bite.

As for inflation, CPI surged 1.4% q/q in 4Q21, above expectations for a gain of 1.3% q/q, but easing from the 2.2% q/q print in 3Q21. Compared to the same period a year ago, CPI advanced 5.9%, from 4.9% in 3Q21. The outcome was above expectations for a reading of 5.7%, which was also the Reserve Bank of New Zealand (RBNZ)'s forecast in its Nov Monetary Policy Statement. Measures of core inflation also rose, now sitting between 3.8% and 5.4% y/y. Overall, the full-year inflation rate for 2021 was at 3.9%, well surpassing our expectation for 3.3%. We have revised higher our 2022 inflation forecast to 4.0% (vs 2.6% previously).

CENTRAL BANK

More Aggressive Moves By RBNZ

The monetary policy tightening cycle is already well underway in New Zealand. In Feb, the RBNZ increased its Official Cash Rate (OCR) to 1.00%. It also announced that it will begin quantitative tightening in Jul, selling down its holdings of government bonds at a rate of NZD5 bn per year. Maturities will not be reinvested.

Two things stood out at the Feb meeting. First, the RBNZ had considered a 50bps hike. Second, new forecasts published by the RBNZ show the OCR rising to 2.50% over the next 12 months and peaking at about 3.25% at the end of 2023. In Nov, the bank had forecast a lower peak of about 2.50%.

Previously, our view was for 25bps hike in May, Aug and Nov (meetings which coincide with the release of a Monetary Policy Statement) this year, taking the OCR to 1.25% by mid-2022, and for it to reach 1.75% by end-2022. We were looking for slow and steady hikes considering several downside risks, including COVID-19 developments, the domestic housing market and the external geopolitical environment.

However, the extraordinary circumstances from the Russia-Ukraine conflict have led to surging commodity prices and as such, a higher inflation trajectory compared to our initial expectation. We have thus revised our OCR call and are now anticipating more aggressive rate hikes ahead, in view of our updated inflation forecasts for this year. We are also mindful of the pre-emptive nature of the RBNZ, and the fact that it has also flagged out the possibility of 50bps increases ahead.

We now look for a hike of 50bps at the 13 Apr meeting, with the view that the RBNZ will see it as unnecessary to wait for 1Q22 CPI data due on 21 Apr and instead opt to "frontload" in Apr instead of in May. Subsequently, we see the RBNZ hiking again by 50bps in Aug, by which time the RBNZ will have had more data at hand (including 1Q22 GDP data due on 16 Jun, and more importantly, 2Q22 CPI data due on 18 Jul). Assuming the geopolitical situation stabilises, we then see steady 25bps hikes in every quarter of 2023. This also brings us in line with the RBNZ's forecast of 3.25% at the end of 2023.

OCR Trajectory For 2022

Dates	Event	Projection	OCR
13 Apr	MPR	50bps hike	1.50%
21 Apr	1Q CPI	-	
25 May	MPR*	No change	
16 Jun	1Q GDP	-	
13 Jul	MPR	No change	
18 Jul	2Q CPI	-	
17 Aug	MPR*	50bps hike	2.00%
5 Oct	MPR	No change	
20 Nov	MPR*	25bps hike	2.25%

Source: UOB Estimates
*Monetary Policy Review (MPR) that coincides with the release of a Monetary Policy Statement (MPS)

Of course, there is still plenty of scope for surprises given how fluid the situation is. The dilemma of central banks in the face of the Russia-Ukraine war will only mean that more caution is warranted, even for the RBNZ. Also, of particular interest will be the domestic housing market, where the slowdown has arrived sooner than expected. The dampening effect on demand could have implications on the extent of monetary policy tightening by the RBNZ.

CURRENCY

Turning Bullish On NZD

The NZD has benefited from a sharp run up in commodity prices since the start of the Russian invasion of Ukraine. During the period, the NZD/USD was flat at 0.6765 while all other G-10 peers slipped against the USD.

Given our base case of a prolonged military conflict, commodity prices are expected to stay elevated, hence anchoring the NZD. The prospect of larger-than-usual RBNZ rate hikes of 50bps in Apr and Aug may boost the NZD further. If our rate hike expectations come to pass, the NZD will probably be the highest yielder within the G-10 by the end of the year.

Taken together, we are no longer bearish on the NZD/USD and now factor in a gradual rise from current levels. Our updated forecasts are 0.68 in 2Q22, 0.69 in 3Q22 and 0.70 in both 4Q22 and 1Q23.

UNITED KINGDOM

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
GBP/USD	1.30	1.32	1.34	1.36
GBP Repo Rate	1.00	1.00	1.00	1.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-9.4	8.2	3.9	2.1
CPI (average, y/y %)	0.9	2.6	5.0	2.7
Unemployment Rate (%)	4.4	4.6	4.0	4.0
Current Account (% of GDP)	-2.3	-3.2	-3.6	-3.4
Fiscal Balance (% of GDP)	-12.7	-8.1	-4.2	-2.7

ECONOMY

Outlook Clouded By War

The UK economy expanded by 0.8% m/m in Jan, beating expectations for a gain of 0.1% m/m. Services grew by 0.8% m/m with wholesale and retail accounting for 0.25ppt of the rise, showing the return of consumers following a lull in Dec when COVID-19 cases spiked. Accommodation and food service activities also surged. Meanwhile, the manufacturing sector expanded by 0.8% while the construction industry grew by 1.1%. Both provide tentative evidence that the supply chain challenges, which put the brakes on the recovery last year, continued to improve. Meanwhile, the latest employment figures show the jobless rate fallling to 3.9% in the three months to Jan, the lowest reading since the beginning of 2020. Employers were seen adding 275,000 jobs in Feb, more than double the estimated 125,000.

Unfortunately, the strength in the jobs market would offer little reprieve, as wage growth is lagging behind inflation. Annual growth in regular pay, excluding bonuses, fell by 1% in the three months to Jan, after adjusting for its preferred measure of inflation. This is the biggest fall since Jul 2014. Average total pay, including bonuses, rose slightly by just 0.1% amid a bumper bonus in the finance sector. This certainly adds to the cost of living crisis, as a surge in taxes and energy bills are seen adding to the inflationary backdrop.

CPI surged by 5.5% y/y in Jan, up from 5.4% y/y in Dec. Goods prices were again the driving factor, reflecting global demand and supply imbalances. Our inflation forecast has been pushed up to 5.0% from 3.6% for this year. Core inflation (excluding food and energy) is expected to decline over the course of the year, as households are forced to spend more of their disposable income on higher food and energy bills. In fact, the huge squeeze on living standards could see the economy losing steam as households face a triple threat of consumption squeeze by inflation, higher interest rates and increased national insurance contributions.

We think the hit to the economy is likely to be visible in 2H22 when the impact of consumption will weigh heavily. We have brought lower our GDP forecast for this year to 3.9% (vs 4.2% previously). The downgrade is largely on the back of the continued rise in energy prices, most of which has so far not been passed on to households, thanks to the government's energy price cap. UK energy regulator, Ofgem recently announced that the cap on variable tariffs for typical home energy consumption will rise by 54% in Apr. However, continued wholesale price increases are likely to result in a further 42% rise in Oct, at the next energy fixing.

Focus will now turn to Chancellor Rishi Sunak, who is under pressure to ease the mounting cost of living crisis. He will be delivering his Spring Statement to Parliament on 23 Mar, accompanied by new economic forecasts from the Office for Budget Responsibility, the fiscal watchdog.

CENTRAL BANK

A Cautious BOE

The Bank of England (BOE), at its Mar meeting, voted by a majority of 8-1 to increase the Bank Rate by 25bps to 0.75%. Deputy Governor Jon Cunliffe voted to keep the Bank Rate at 0.50%. This is the third consecutive meeting that the BOE has raised rates, marking the quickest pace of tightening since 1997, and taking its policy rate back to pre-pandemic levels.

However, the BOE struck a more dovish tone. This was evident in a couple of aspects. First, the 8-1 split in Mar turned out to be far more dovish than in Feb, when four members had voted in favour of a 50bps hike. Second, as reflected in the latest statement, the BOE retained reference to "some further modest tightening in monetary policy" but softened it this time by stating that it "may be appropriate", rather than "is likely" in Feb's statement. The BOE also highlighted that "there are risks on both sides of that judgement depending on how medium-term prospects for inflation evolve". Third, the BOE even flagged that "further out, inflation was expected to fall back materially, and possibly to a greater extent than had been expected in the Feb Report, as energy prices stopped rising and as the squeeze on real incomes and demand put significant downward pressure on domestically generated inflation".

Clearly, the Russian-Ukraine conflict has been the game-changer, and this has resulted in a very difficult balancing act for the BOE. In Feb, the BOE had upped its forecast for inflation to a 7.25% peak in Apr, against a backdrop of strong growth and a robust labour market. Now, the BOE expects inflation to increase further in the coming months to around 8% in the second quarter of 2022, and perhaps even higher later in the year. Yet, the war could have a significant impact on economic growth, especially if the BOE were to raise rates too quickly.

Even before the escalation of the war, we had felt that financial markets were a little carried away and that expectations of rate hikes were overdone. Going forward, we believe the BOE will tread very carefully as it considers the trade-off between strong inflation and weakening growth. We see room for a further 25bps hike, due to the strength of the labour market and upward revisions to our inflation outlook (5.0% for 2022 vs 3.6% previously). For now, we have pencilled in the next hike at the 5 May meeting. We then look for a pause for the rest of this year (given that active gilt sales should begin after the Bank Rate reaches 1.00%) before looking for the BOE to tighten again in 2023.

CURRENCY

Temporary Setback

GBP/USD fell to a post-Brexit era low of almost 1.30 as part of a broader risk selloff amidst the Russian invasion. Geopolitics-inflicted volatility and a scale back of the aggressive rate expectations in the wake of BOE's dovish hike in Mar may weigh on GBP/USD in the near-term, but longer-term valuation of GBP remains attractive. The Real Effective Exchange Rate (REER) valuation of GBP is still stuck at its lowest quartile over the last four decades and we expect the structural Brexit discount to continue to unwind.

Overall, we keep to our bullish outlook for GBP/USD but have dropped the point forecasts to reflect the newly injected geopolitical risks. The updated GBP/USD forecasts are 1.30 in 2Q22, 1.32 in 3Q22, 1.34 in 4Q22 and 1.36 in 1Q23.

UNITED STATES

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
DXY	99.6	99.9	100.3	100.1
US Fed Funds Rate	1.00	1.50	2.00	2.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-3.4	5.7	3.3	2.3
CPI (average, y/y %)	1.4	4.7	6.0	2.5
Unemployment Rate (%)	6.7	3.9	3.5	3.4
Current Account (% of GDP)	-3.1	-3.6	-3.5	-3.3
Fiscal Balance (% of GDP)	-18.7	-12.5	-7.0	-4.0

ECONOMY

Growth Moderately Slower, Inflation Much Faster

The 4Q 2021 GDP growth was revised higher to 7.0% q/q SAAR (in line with Bloomberg estimate, and slightly better than the advance estimate of 6.9%), a marked improvement from 2.3% in 3Q. For 2021 as a whole, the US economic growth came in at 5.7% (the highest since 1984) following its worst contraction since 1946, at -3.4% in 2020.

Growth in 4Q was again attributed to private consumption as well as business and residential investments but it was inventories that played an outsized role in 4Q, responsible for nearly 5% points of the 7% growth. Two components, net exports of goods and services, and government spending dragged on US headline GDP, but the recovery in exports helped cushion the net exports decline to less than 0.1% point while the expiry of several federal programs likely worsened the fiscal spending component.

Our 2022 GDP growth outlook is for slower pace of increase in 1Q due to the temporary impact from the Omicron wave of COVID-19 infections, but growth will resume subsequently, and still be above potential (estimated at 2.0-2.5%) for the full year of 2022. However, the downside risks to growth will be due to the expiring fiscal COVID-19 support measures which will act as a drag on growth this year while inflation will now be magnified by the soaring commodity prices and renewed supply chain disruptions amidst the Russia-Ukraine conflict risks. We assess the Russia-Ukraine impact to be greater on US inflation compared to growth, because of the lower US reliance on Russia exports and the lower importance of Russia as an end market for US goods. While the elevated inflation and consumer prices may curb some US consumer spending as real disposable income is eroded by rising prices, we note the US households still have significant excess savings (thanks to the various rounds of COVID-19 fiscal stimulus packages) to support consumption. In addition, the energy price surge will help drive greater investments in the US energy sector, offsetting some of the declines in other sectors. We are no longer holding our breath for the passage of President Biden's Build Back Better (BBB) plan given the political difficulties and the elevated inflation environment. We now expect GDP growth to be lower by 0.2ppt to 3.3% in 2022 (from previous forecast of 3.5%) and easing further to 2.3% in 2023. Note the Fed's 2022 GDP growth forecast was severely marked down to 2.8% in the Mar FOMC (from 4% in Dec) likely a reflection of their assessment of the Russia-Ukraine uncertainty and the immediate negative impact on growth due to the elevated inflation situation.

Tighter US labour markets: The forecast for US unemployment rate was the least impacted in the latest FOMC report, reflecting the positive outlook on the US labour market situation by the central bank. Unemployment rate is expected to ease to 3.5% by end-2022 (unchanged from Dec FOMC) where it is likely to remain at for 2023 before edging marginally higher to 3.6% in 2024.

Elevated inflation: US CPI headline inflation surged further by 7.9% y/y in Feb, a new record pace in 40 years since Jan 1982 while core inflation also rose further to 6.4% y/y, highest since Aug 1982. Both measures of inflation not only accelerated but also remained broad-based with price pressures spreading further among the main categories within the CPI basket. While goods inflation remained elevated in Feb, services inflation – a far bigger and thus more important component of CPI – rose markedly as well (4.8% y/y in Feb), the fastest in decades and a reflection of growing US wage pressures feeding into services costs.

The confluence of Omicron-related factors (in terms of temporary but significant disruption to supply chains, worsening logjams and labour shortages) and war-driven commodity price spike & raw material shortages, means that we likely have underestimated the upside risk to US inflation previously. So despite the highly uncertain developments on the war front, we are upgrading our CPI inflation forecast to average 6% (from previous forecast of 5%) while the core CPI inflation average is also higher at 5.5% (from previous forecast of 4.5%) in 2022, both forecasts revised higher by 1 full ppt. Subsequently, we expect both headline and core inflation to ease in 2023 to average 2.5%. The balance of risk on inflation remains on the upside and may require further upward revision to our inflation forecasts.

CENTRAL BANK

Faster, Higher, Shorter

Given the explicit hawkish trajectory spelt out in the Mar FOMC, we now expect the FFTR to be hiked faster by clips of 25bps in every remaining meeting of this year. Including the Mar FOMC's 25bps hike, this implies a cumulative 175bps of increases in 2022, bringing the FFTR higher to the range of 1.75-2.00% by end of 2022 (from our previous forecast of 150bps hikes to 1.50-1.75% by end 2022). We also see a risk that the Fed could still surprise with a more aggressive 50bps hike in May, especially if Mar CPI inflation (due on 12 Apr) prints well above 8% y/y.

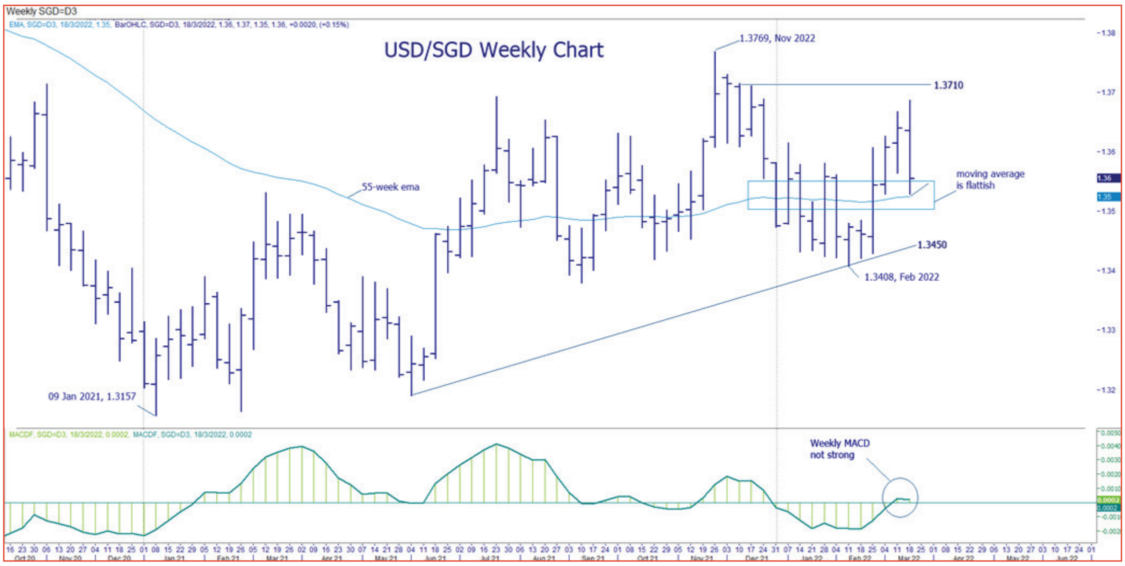
We also project three more 25bps rate hikes in 2023 before the Fed concludes its current rate hike cycle, bringing the terminal FFTR to 2.50%-2.75% by 3Q 2023 (an earlier and higher end to the hiking cycle compared to the previous terminal rate forecast of 2.25-2.50% by early 2024).

As for the reduction of the Fed's significant balance sheet (i.e. balance sheet reduction/runoff [BSR] also termed as Quantitative Tightening, [QT]), we expect the Fed to issue the addendum to the Policy Normalization Principles and Plans in the upcoming May 2022 FOMC, followed by the formal announcement of QT to be made in the Jun 2022 FOMC and to start in Jul 2022 (much shorter time gap between QE taper and the first policy rate hike when compared to the 2017-2019 episode which was 3 years apart). See Table A in our Mar 2022 FOMC report.

FX Technicals

USD/SGD: 1.3555

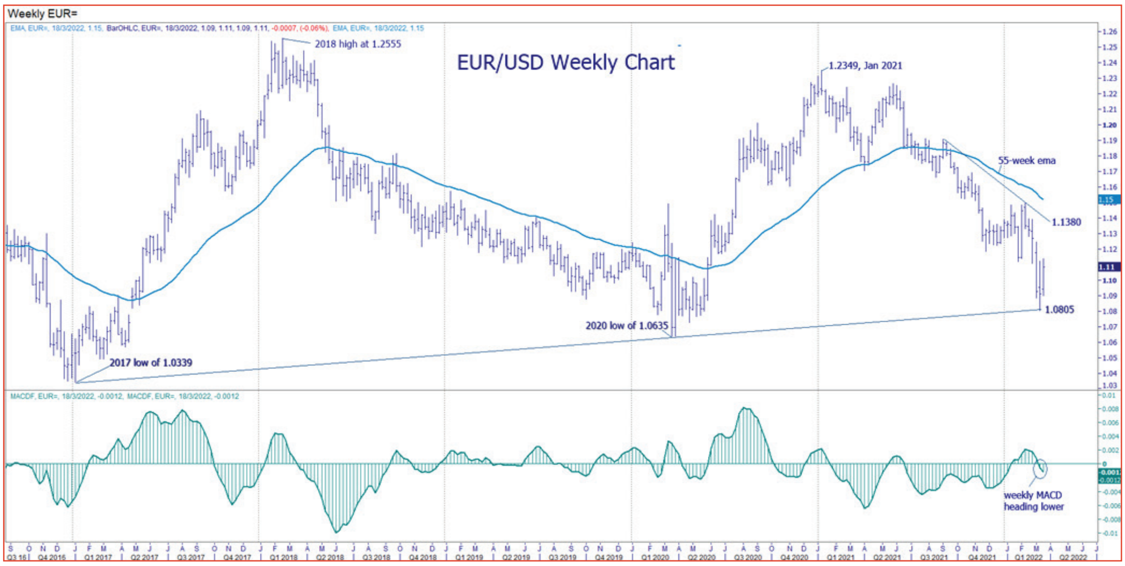
USD/SGD could trade sideways in 2Q22, likely within a range of 1.3450/1.3710.



USD/SGD dropped to 1.3408 in Feb 2022 and rebounded from the low. While there was an initial build-up in momentum, the upward pressure was not sustained. Note that weekly MACD is not strong and moving average is flattish. The price actions suggest that USD/SGD could trade sideways in 2Q22, likely within a range of 1.3450/1.3710.

EUR/USD: 1.1080

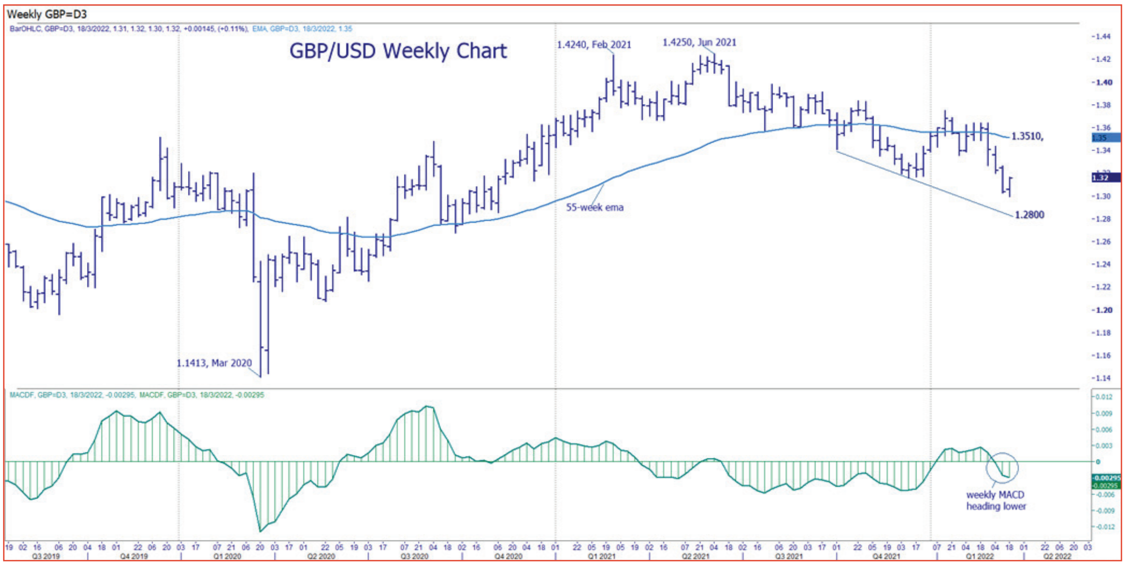
Risk is on the downside; EUR/USD has to break the long-term support at 1.0805 first before further weakness is likely.



In early March 2022, EUR/USD dropped to the long-term rising trend-line support connecting the lows of 2017 and 2020. EUR/USD did not clearly break the long-term support at 1.0805 (low of 1.0804). While EUR/USD subsequently rebounded from the low, the risk for 2Q22 is still on the downside. That said, EUR/USD has to break 1.1805 first before further weakness is likely. The next support below 1.0805 is at 1.0635, the low in 2020. In order to maintain the current downward momentum, EUR should ideally not move above 1.1200 or the chance for a break of the trend-line would diminish considerably. The next resistance above 1.1200 is at 1.1380.

GBP/USD: 1.3155

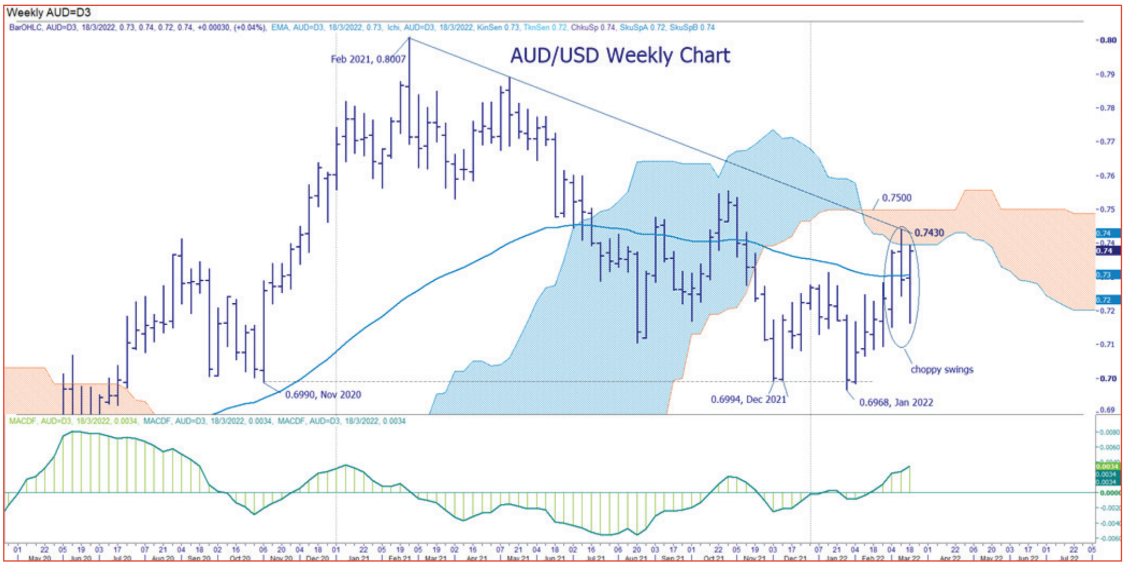
GBP/USD could weaken in 2Q22 but any weakness is expected to encounter solid support at 1.2800.



GBP/USD dropped sharply in early Mar 2022 and downward momentum is improving quickly. GBP/USD could weaken in 2Q22 but any decline is expected to encounter solid support at 1.2800. The downside risk is intact as long as GBP/USD does not move above the 55-week exponential moving average (at the time of writing in mid-March, the average is at 1.3510).

AUD/USD: 0.7375

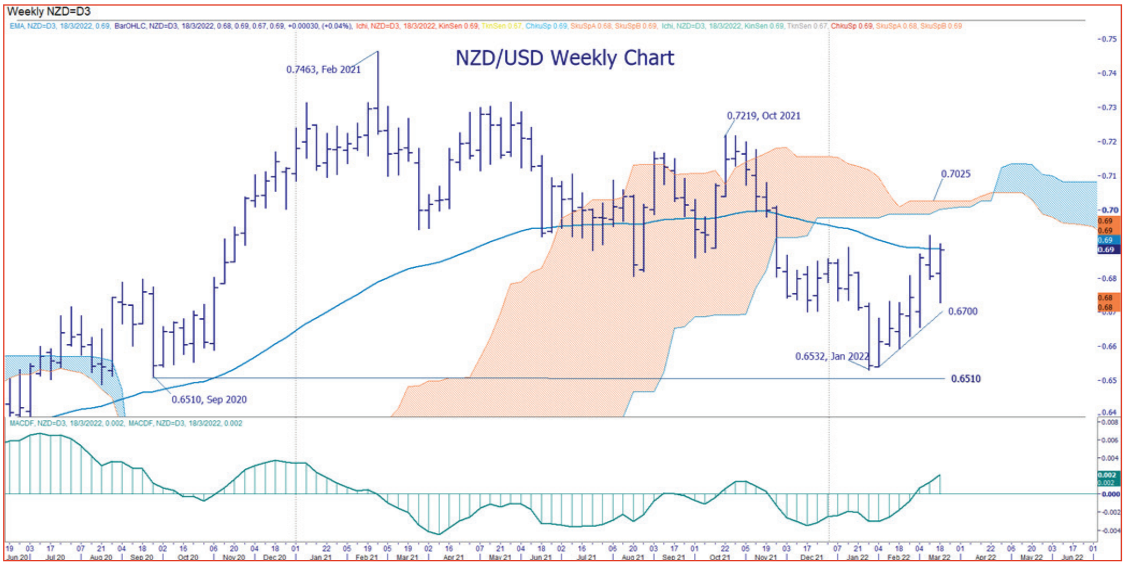
Risk appears to be tilted to the upside but any advance in AUD/USD is expected to face solid resistance at 0.7430, 0.7500.



While AUD/USD dipped below the major support near 0.6990 in Jan 2022, it was unable to maintain a foothold below this level (low has been 0.6968). AUD/USD subsequently rebounded and in early March, it spiked higher before retreating quickly (the advance did not break the declining trend-line coming off the high of Feb 2021). While the choppy price actions have resulted in a mixed outlook, the overall risk appears to be tilted to the upside. That said, the declining trend-line remains as a solid resistance (at the time of writing, the level is at 0.7430). Looking ahead, the top of the weekly Ichimoku cloud at 0.7500 is another formidable resistance level.

NZD/USD: 0.6880

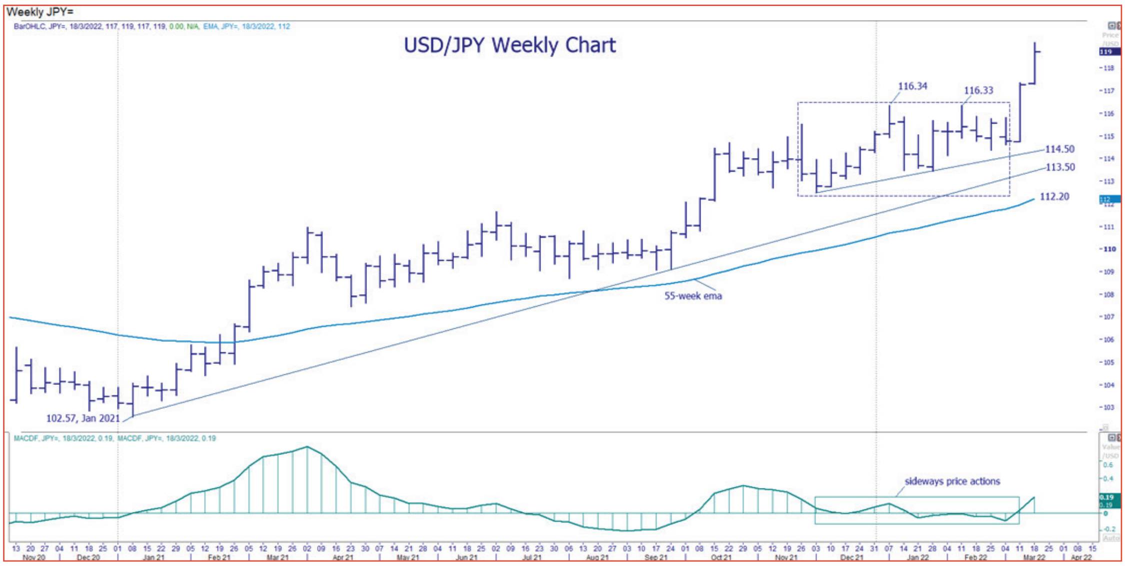
Rebound in NZD/USD from Jan 2020 low could extend but it is premature to expect a break of the solid resistance at 0.7025.



The Sep 2020 low of 0.6510 is a solid support in NZD/USD. In mid-Jan 2022, NZD/USD dropped to 0.6532 before rebounding. The rebound is gathering momentum and has scope to extend. That said, it is premature to expect NZD/USD to break the solid resistance at the top of the weekly Ichimoku cloud (at the time of writing in mid-Mar, the top of the cloud is at 0.7025). On the downside, a breach of 0.6700 would suggest NZD/USD is not ready to move towards 0.7025.

USD/JPY: 118.80

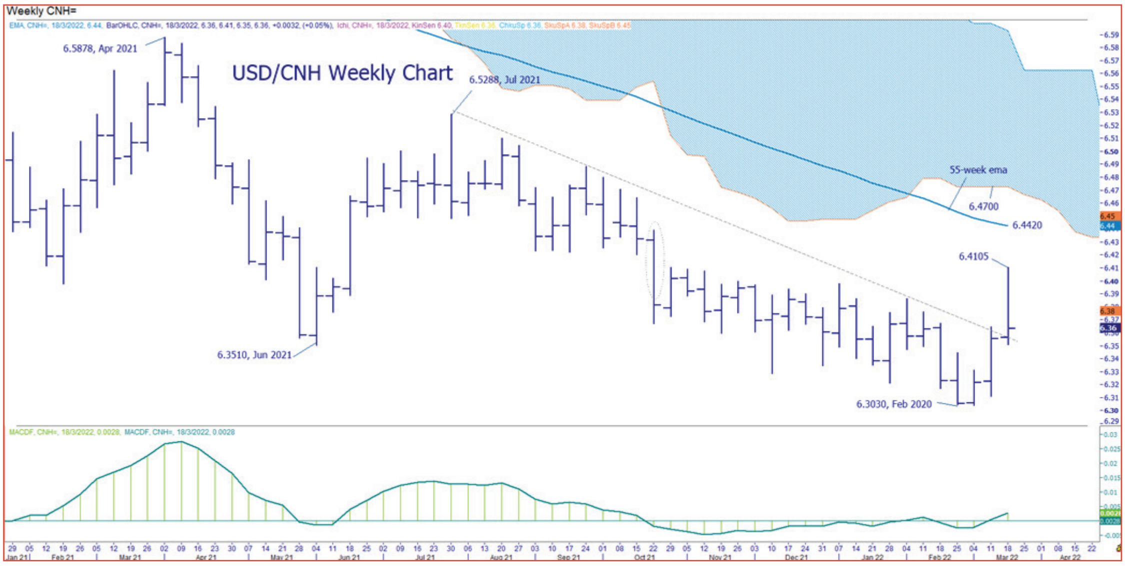
Ample room for rally in USD/JPY to extend; resistance levels are at 120.00 and 121.50.



USD/JPY traded mostly sideways since late 2021. In early March, USD/JPY blasted above the major resistance near 116.35 and rocketed higher. There appears to be ample room for the rally to extend. The next resistance level of note is at 120.00 followed by the 2016 high at 121.50. On the downside, solid support can be found at 113.50 but in order to maintain the strong upward momentum, USD/JPY should ideally stays above 114.50. The 55-week exponential moving average (at the time of writing, the average is at 112.20) is not expected to come into the picture, at least for several months.

USD/CNH: 6.3650

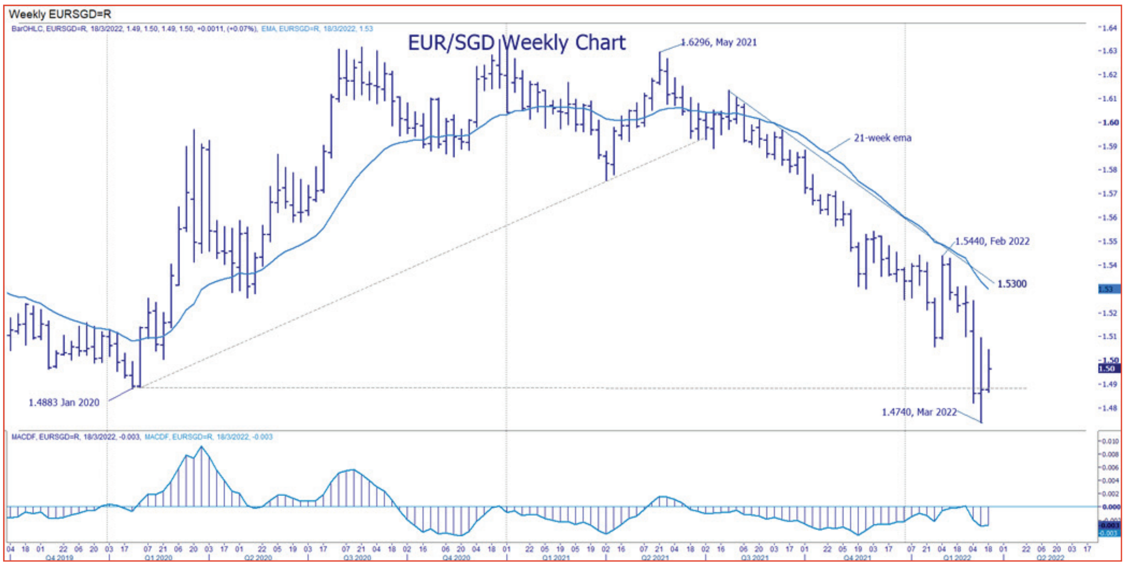
Premature to expect a bullish reversal in USD/CNH but the Feb 2022 low at 6.3030 is likely to hold, at least in the early part of 2Q22.



At the time of writing in mid-Mar, USD/CNH blew past the declining trend-line resistance coming off the Jul 2021 high of 6.5288 and surged to 6.4105. The rally was however short-lived as it pulled back quickly and sharply from 6.4105. While it is premature to expect a bullish reversal, the price actions suggest that the Feb 2022 low at 6.3030 could hold, at least in the early part of 2Q22. To look at it another way, it may take a while before USD/CNH can muster enough momentum to challenge the 55-week exponential moving average (currently at 6.4420). Above the moving average, the bottom of the weekly Ichimoku cloud at 6.4700 is another solid resistance level.

EUR/SGD: 1.5020

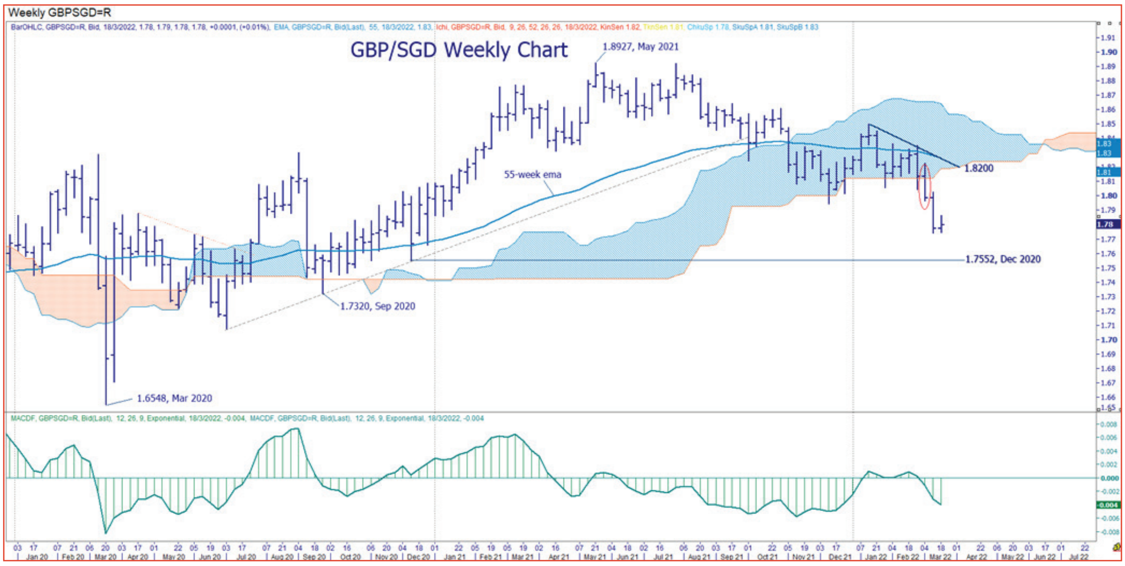
Oversold weakness in EUR/SGD has scope to drop below 1.4740; next support at 1.4600 is unlikely to come into the picture.



EUR/SGD traded in a volatile manner during the first quarter of 2022 as it popped to a high of 1.5440 in Feb before crashing below the Jan 2020 low of 1.4883 (low of 1.4740 in early Mar). While the rapid and outsized decline in EUR/SGD appears to be overdone, the weakness has not stabilized. Only a move above the declining trend-line resistance (at the time of writing, the trend-line is at 1.5300, close to the 21-week exponential moving average) would indicate that the weakness has stabilized. Until then, there is room for EUR/SGD to drop below 1.4740. That said, the next support at 1.4600 is unlikely to come into the picture.

GBP/SGD: 1.7870

GBP/SGD could weaken towards the Dec 2020 low near 1.7550.



After trading within the weekly Ichimoku cloud for a few months, GBP/SGD closed below the bottom of the cloud support in Feb 2022 and subsequently dropped sharply. The break of the solid support coupled with weekly MACD turning lower suggests GBP/SGD could weaken towards the Dec 2020 low near 1.7550. At this stage, it is premature to expect a drop to the next support at 1.7320. On the upside, 1.8200 (bottom of the weekly Ichimoku cloud as well as declining trend-line) is acting as key resistance.

AUD/SGD: 0.9990

Outlook is mixed; AUD/SGD could trade in a choppy manner but is likely to stay between the two major levels of 0.9450 and 1.0160.

AUD/SGD broke the support at 0.9530 (low in Oct 2020) in Jan but the decline was short-lived. After dropping to a low of 0.9450, AUD/SGD rallied strongly and came close to taking out the Nov 2021 high of 1.0160. AUD/SGD subsequently pulled back sharply from the high. The outsized but short-lived swings have resulted in a mixed outlook. For the second quarter of 2022, AUD/SGD could continue to trade in a choppy manner but is likely to stay between the two major levels of 0.9450 and 1.0160.

JPY/SGD: 1.1420

Overall risk for JPY/SGD is on the downside towards 1.1250. The next major support at 1.1050 is likely out of reach.

JPY/SGD plummeted in mid-March and at the time of writing, it is holding not far above the 1.1400 support. Weekly MACD is heading lower and a breach of 1.1400 would not be surprising. Overall, the risk for 2Q22 is on the downside towards 1.1250. The next major support at 1.1050 is likely out of reach. The downside risk is intact as long as JPY/SGD does not move above the declining trend-line resistance (currently at 1.1780). The 55-week exponential moving average is unlikely to come into the picture, at least for a few months.

Commodities Technicals

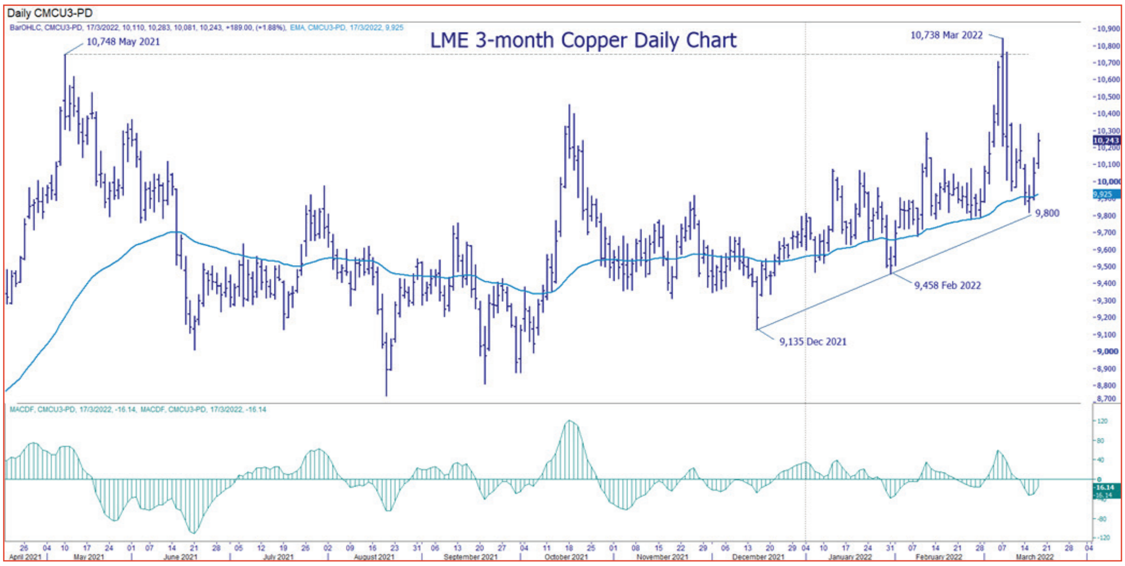
SPOT GOLD $1,935/OZ

Pullback from the $2,070 high has room to extend but a sustained decline below the major support zone at $1,877/$1,885 is unlikely.

Spot gold cracked the major resistance at $1,916 and rocketed to a high of $2,070 in early Mar 2022. The high was not far from the record level of $2,072. However, the rally ran out of fuel quickly as gold plunged back below $1,916. Despite the sharp pullback from $2,070, it is premature to expect the start of a sustained decline. While there is room for the pullback to extend, a sustained decline below major support zone at $1,877/$1,885 is unlikely. Note that there is another support at $1,854.

LME 3M COPPER $10,240/MT

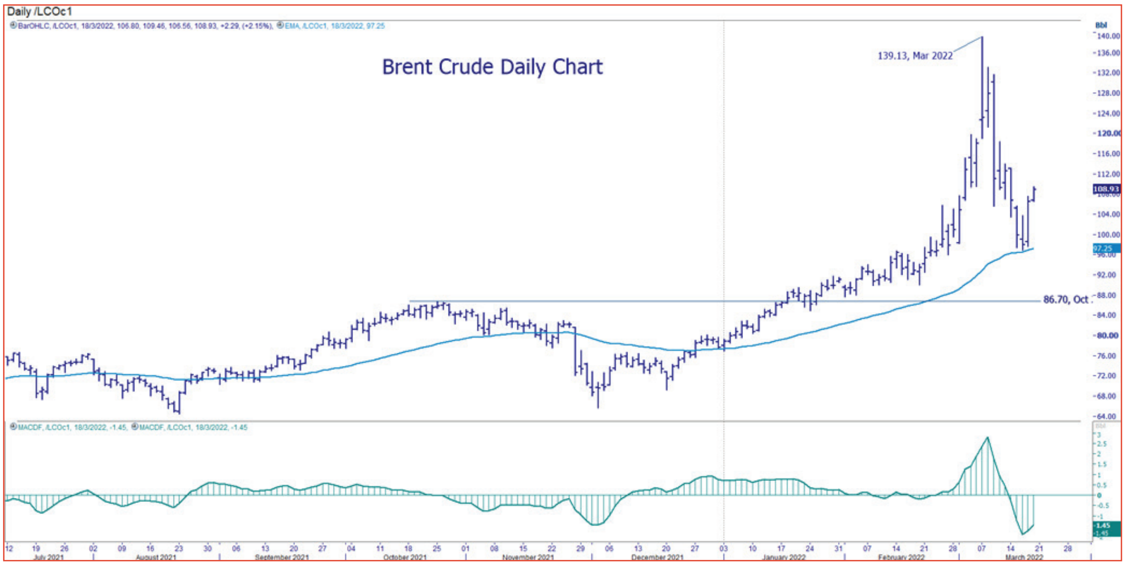
Volatile price actions have resulted in a mixed outlook; copper could trade between $9,600 and $10,600 in 1Q22.



Copper had a torrid two week in late Feb/early March as it rocketed to a record high of $10,738 but the advance was short-lived as it crashed back down quickly. The rapid drop from the high is holding above the trend-line support connecting the lows of Dec 2021 and Feb 2022 (at the time of writing, the trend-line is at $9,800). A breach of this support Is not ruled out but copper is unlikely to challenge the Feb 2020 low of $9,458. Overall, the volatile price actions have resulted in a mixed outlook and copper could trade between $9,600 and $10,600 in 2Q22.

BRENT CRUDE $103.00/BBL

Outlook is mixed; Brent could trade between $90 and $120 for the second quarter of 2022.



Brent crude spiked to a high of $139.13 in early March 2022 but within the span of several days, it gave up most of its outsized gains. The decline from the high is approaching the 55-day exponential moving average support (at the time of writing, the moving average is near $97.00). While Brent could dip below $97.00, the round-number support at $90.00 may not be easy to break. On the upside, resistance levels are at $110.00 and $120.00. All in, the parabolic rise and the subsequent dramatic pullback have resulted in a mixed outlook. Further volatile price actions would not be surprising and Brent could trade between $90.00 and $120.00 for the second quarter of 2022.

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