Quarterly Global Outlook 3Q 2022

A Volatile And Rocky 2H22
As Fed Hikes Aggressively

UOB 大华银行

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Email: GlobalEcoMktResearch@UOBgroup.com
URL: www.uob.com.sg/research
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Executive Summary

A Volatile And Rocky 2H22 As Fed Hikes Aggressively

> **“ We are not trying to induce a recession now. Let’s be clear about that ”**
>
> —— Fed Chair Jerome Powell ——
>
> replying to a reporter’s question at the post FOMC press conference on 15 Jun 2022, after the Fed hiked by 75 bps

It has been a rather volatile and tumultuous past quarter for global markets where key asset classes were sold off aggressively across the board as global central banks and investors alike play catch up with further unwelcomed steep rise in inflation. There appears to be nowhere to hide as the recession / stagflation vs runaway inflation debate picked up intensity. Needless to say, it is easy to get carried away by the fear of this potential sharp rise in interest rates in the months ahead. However, there are several key takeaways to watch out for as objective goal posts for the economy and markets for the remaining months of the year.

Key Macro and Market Themes for 2H22

Fed aggressive front loading of rate hikes will lift Fed Fund up to 3.25% to 3.50% range by end 2022	For US, we see slower GDP growth of 1.5% next year from 2.0% this year, but no recession yet	Brent crude oil to climb further towards USD 130 / bbl across 2H22 on supply disruption
Fed terminal rate likely to be 3.75% to 4.00% by 1Q23. Similarly, 10Y UST yield to rise to 3.9%	For China, we see slower GDP growth of 4.1% this year, followed by recovery to 5.5% next year	Copper and industrial metals outlook weaker on growth slowdown concerns
US Dollar to stay bid as Fed leads global monetary policy tightening	For all major economies, inflation is seen higher this year, but will likely moderate next year	Gold is still a long term safe haven hedge. But near term upside limited by strong USD

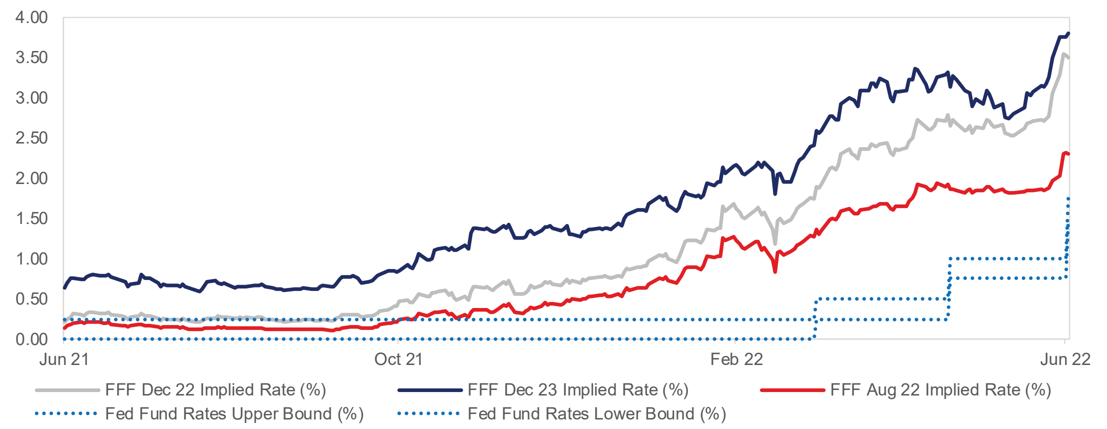
Overall, we now see Federal Funds Target Rate (FFTR) rising to an eventual terminal rate of 3.75% to 4.00% range by 1Q23. Similarly, we see 10-year US Treasuries yield rising to 3.9% by 1Q23.

US Federal Reserve To Lift Fed Fund Rates Up To As High As 4% By 1Q23

In terms of monetary policy, the US Federal Reserve (Fed) has led the race by global central banks to hike rates and tighten liquidity. The Fed in an attempt to contain the runaway inflation narrative, further ramped up their aggressive front loading with a 75 bps rate hike at the recently concluded Jun FOMC and reinforced widespread fears that they will continue to hike aggressively to potentially 3.25% to 3.50% range by end of this year. Overall, we now see Federal Funds Target Rate (FFTR) rising to an eventual terminal rate of 3.75% to 4.00% range by 1Q23. Similarly, we see 10-year US Treasuries yield rising to 3.9% by 1Q23. Kindly refer to Central Bank Policy Focus: When The Fed Aggressively Hikes, How High Can The Asian Central Banks Go? for more details of our updated Fed hiking trajectory outlook.

Fed Fund Futures Imply Aggressive Front Loading To About 3.5% By End 22

Source: Bloomberg, UOB Global Economics & Markets Research



This front loading of aggressive rate hikes is seen across key central banks as well. Specifically, the European Central Bank (ECB) is expected to finally start hiking in Jul and lift rates above negative in Sep to about 1.00% or higher by 1Q23. Both the Bank of England (BoE) and Reserve Bank of Australia (RBA) are also expected to hike to 2.25% by 1Q23 as well. The odd one out in the G7 space remains that of the Bank of Japan (BoJ) with Governor Kuroda stubbornly sticking to easy monetary policy and fighting to keep 10-year Japanese Government Bond (JGB) yields glued to an unrealistic 25 bps amidst the race higher in global benchmark yields.

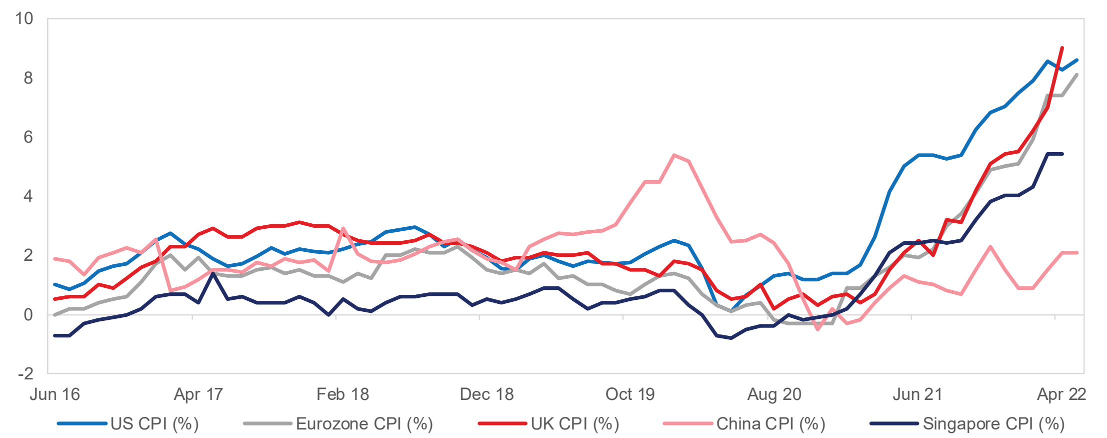
There is widespread and elevated fears of recession or stagflation amidst further rise in inflation. This is especially so when previous high-flying parts of the US economy, particularly in the tech and crypto industry have started to announce widespread job cuts.

Global Growth To Slow Down Further As Runaway Inflation Starts To Bite

With respect to the macroeconomy, there is widespread and elevated fears of recession or stagflation amidst further rise in inflation. This is especially so when previous high-flying parts of the US economy, particularly in the tech and crypto industry have started to announce widespread job cuts. Needless to say, our updated quarterly forecasts call for slower growth and higher inflation in the major economies that we cover.

China Is The Outlier As Headline CPI of Key Economies Shoot Higher

Source: Bloomberg, UOB Global Economics & Markets Research



Specific to the US economy, while we see growth slowdown to 1.5% next year, from 2.0% this year, we do not yet see a widespread recession on the horizon although the risk of a 2023 recession has risen in tandem with the overtly hawkish shift of Fed tightening. For China, while we see minimal growth of 1.1% for 2Q this year, growth is expected to recover from 4.1% this year back up to 5.5% next year.

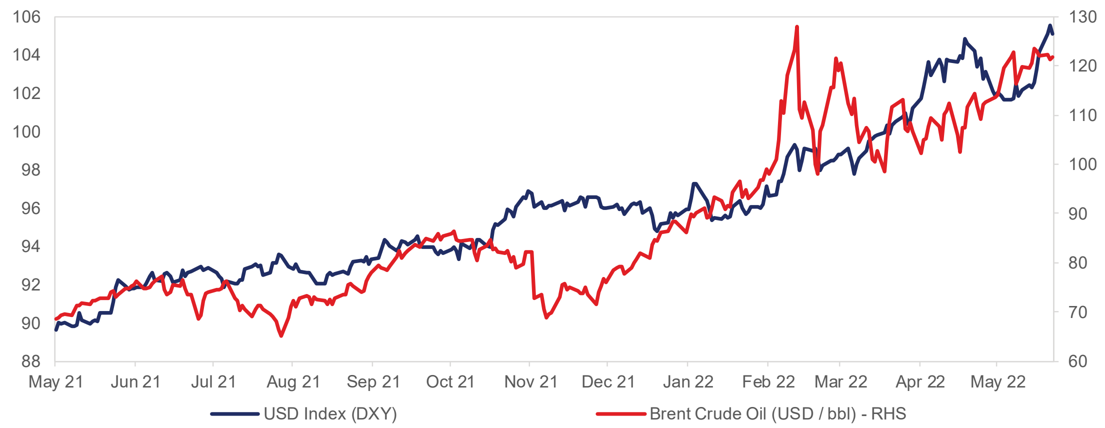
However, it is important to note the following key points. Specific to the US economy, while we see growth slowdown to 1.5% next year, from 2.0% this year, we do not yet see a widespread recession on the horizon although the risk of a 2023 recession has risen in tandem with the overtly hawkish shift of Fed tightening. For China, while we see minimal growth of 1.0% for 2Q this year, growth is expected to recover from 4.1% this year back up to 5.5% next year. In addition, while our updated forecasts all call for higher inflation this year, our macroeconomic team do see inflation moderating next year.

US Dollar To Stay Bid As Crude Oil Climbs Further

As for financial markets, it gives us cold comfort that we were spot on in our core views of a stronger USD and higher rates. Given the strong yield spread support anchored by the aggressive Fed rate hikes, we stick to our positive USD view and can expect the USD to stay bid. In the commodities space, there will be no let up in rising energy prices as Brent crude oil is expected to climb further to test the USD 130 / bbl psychological resistance level amidst on-going supply disruption and falling inventories. Copper is expected to be weighed down by growing concerns of global slowdown, particularly in China. And gold is still seen as a good safe haven hedge, although its potential upside is now capped by the strong USD. Kindly refer to subsequent asset class sections for more details of the respective updated FX Strategy and Commodities Strategy views and forecasts.

USD Index And Brent Crude Oil Both Rallied Strongly In Tandem

Source: Bloomberg, UOB Global Economics & Markets Research



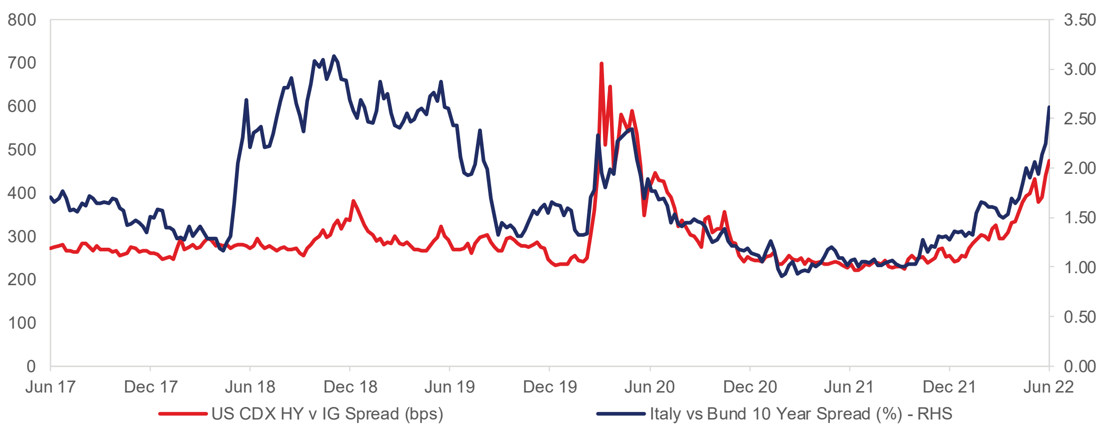
Rising Credit Risk Is Now A Growing Concern As Rate Hikes Start To Bite

There is now a growing and widening credit risk as the weaker parts of the economy is unable to adjust to the sharp rise in interest rates from zero just as recently as a year ago.

Previously, during the onset of Covid-19 in the early months of 2020, the global economy was spared widespread credit default as every government stepped up fiscal support of their respective economies. It is no longer realistic to expect such fiscal support going forward as key economies (with the exception of China) have reopened their borders and removed the Covid-19 related distancing measures. As such, there is now a growing and widening credit risk as the weaker parts of the economy is unable to adjust to the sharp rise in interest rates from zero just as recently as a year ago.

US CDX HY v IG Spread And Italy v Bund 10Y Spread Both Widen Anew

Source: Bloomberg, UOB Global Economics & Markets Research



There are two key related credit spreads that are worth watching. Another space that warrants close monitoring, as funding costs rise in tandem with central banks' continuing policy tightening spree in 2H of this year.

There are two key related credit spreads that are worth watching. First is the credit spread between high yield and investment grade benchmarks in the US. Second is the spread between Italian and German Bund 10-year benchmarks. The former credit spread is a proxy of the health of non-investment grade in the US and its further rise bears closer scrutiny for potential default risk in weaker industry sectors. While the latter spread is strictly a yield spread, it is a key proxy of debt issues in Italy and fragmentation risks in the Eurozone. Overall, there has been a clear rise in both spreads, although both have yet to surpass the high last seen in 1Q20 during the onset of Covid-19. Along with the stagflation/recession risks mentioned earlier, this is yet another space that warrants close monitoring, as funding costs rise in tandem with central banks' continuing policy tightening spree in 2H of this year.

FX Strategy

Don't Fight The Fed And The USD

While it is a less clear-cut case to be a USD bull compared to three months ago as more Major central banks joined in the global tightening bandwagon and is catching up on the Fed's rate hike momentum, the key drivers of USD strength remain intact. The strong US labour market and above-trend US GDP growth gave the Fed the conviction to front-load its monetary tightening considerably in a bid to tame its soaring inflation. So far, the Fed has lived up to its credibility and delivered the markets' expectation of rate hikes. This has helped to underpin the USD strength, together with a slew of global growth downgrades which accentuated the safe haven appeal of the USD. Overall, within the Major FX space, we continue to be bullish USD against the EUR and JPY which will keep the DXY tethered near recent highs. Specific to the EUR, the threat of Eurozone fragmentation where the effects of ECB's tightening aren't felt the same way across the Eurozone may overtake rate differential as the key driver of EUR/USD in the near term which is likely to skew the currency to the downside in the near term. For now, we expect further weakness of EUR/USD towards 1.03 by year end before a rebound next year to 1.06 by 2Q23. While both AUD and GBP have weakened anew over the past quarter, we maintain our modest constructive outlook on both currencies against the USD.

Weighed by the dual headwinds of an aggressive Fed rate hike cycle and a slowing Chinese economy, the Asia Dollar Index (ADXY) fell for a second straight quarter in 2Q22 and is on track for the worst performing quarter in four years. The CNY led losses within the region, falling as much as 7.5% with the quarter to 6.81 /USD in May as the 2-month Shanghai lockdown exacerbated growth concerns. The abrupt weakness in the CNY also triggered a repricing in some of the more resilient Asia FX such as the MYR and IDR. Both currencies weakened to 2020's lows against the USD even as fundamentals remain sound. With Fed pressing on with its front-loaded rate hikes in 2H22, the selloff in Asia FX is far from over. A repeat of the 2018 playbook could see Asia FX subject to portfolio outflows as the Fed hike rates and conduct QT at the same time. Furthermore, concerns about a China slowdown and rising global recession risks will also keep the pressure on Asia FX. We stay negative on Asia FX and downgrade our various forecasts particularly for CNY and SGD further to 6.90 and 1.41 respectively against the USD by 1Q23.

Rates Strategy

Inflation Proving To Be A Formidable Opponent

The US Fed delivered on market expectations with a 75bps hike to the Fed Funds Target Rate (FFTR) in June. Guidance for July's FOMC is that another 75bps remains on the table, which is a reversal of chair-man's Powell's previous stance that 75bps wasn't being actively considered. The updated June Dot plot was shifted higher, and the gap between peak FFTR and long-term neutral FFTR was widened. The updated Dot plot more clearly aligns with the FOMC members' narrative of expeditiously tightening above neutral. On the back of our US macro team's Fed Funds Target Rate (FFTR) forecast update, we have also recalibrated our yield expectations for the rest of the curve higher. Overall, we now see 10Y UST and SGS at 3.80% and 3.40% respectively at the end of 2022. Bond yield gains should begin to taper off into 2023 alongside the peak in monetary policy tightening. We have 3M compounded SOFR and SORA at 2.99% and 2.30% respectively for 4Q 22

Specific to Singapore, if the next couple of core inflation prints were to run hot, we expect that the market narrative will increasingly be focused on the key question of whether the next tightening move by MAS will materialize in October's semi-annual meeting or come in the form of yet another off-cycle move on top of the one that took place in January this year. Two off-cycle moves by MAS in a year will be unprecedented, but no more unprecedented than the outsized monetary policy actions undertaken by a host of major developed market central banks this year. Overall, inflation outcomes in 2Q have increased the possibility of further tightening by MAS this year. If inflation print continues to come in hot over the next couple of months, we think that this will also raise the possibility of another off-cycle tightening move by MAS.

Commodities Strategy

Brent Crude Oil Continues Strong Rally As Supply Crunch Persists

Supporting the on-going strength in crude oil price is a whole series of supply issues. Russian crude oil supply has now been effectively taken off the "mainstream" energy market and will remain so now that the European Union has decided to ban seaborne Russian crude. In addition, OPEC does not seem to be in a hurry at all to step into the supply vacuum. While OPEC has raised its monthly production modestly, Saudi Arabia has negated the move by also hiking immediately thereafter by a large amount its Official Selling Price (OSP) for its crude oil shipments. As a result, global crude oil supply remains tight with clear evidence that inventory levels continue to drop. Therefore, Brent crude oil remains in strong backwardation with the crack spread rallying further to a new historic high. These are indicative of strong price support at current level. Hence, we raise our Brent crude oil forecast further to USD 130 / bbl for 3Q, 4Q22 and USD 120 / bbl for 1Q, 2Q23 and continue to warn of elevated volatility with risks tilted to the upside.

Gold has had a difficult past quarter, with various attempts to rally limited by the strong USD strength. This is especially so when the Fed further ramped up its rate hiking cycle with an outsized 75 bps hike at the recently concluded June FOMC. Overall, we stay positive on gold due to on-going strong safe haven demand. Positioning in global gold ETFs remain strong as well. Possible loosening of Covid-19 distancing measures across China may also lead to higher physical gold jewellery demand in 2H22. However, we note that there are near term headwinds against gold due to the stronger USD. As such, we trim our positive forecast for gold to USD 1,900 / oz for 3Q, 4Q22 and USD 2,100 / oz for 1Q, 2Q23.

LME Copper experienced some weakness, pulling back to the USD 9,500 / MT level. This retreat in LME Copper price makes perfect sense given the on-going Covid-19 related social distancing measures and lockdowns in key cities across China that resulted in a temporary shutdown in manufacturing activity. In fact, given the sharp correction in some macroeconomic indicators like industrial production across the month of April, the witnessed correction in LME Copper price can be said as mild. Despite the slowdown in industrial activity in China across 2Q22, one of the key supportive factors for LME Copper is the on-going tightness in inventory. This is a similar supportive factor for many commodities across 2Q22 as well. Overall, in line with the increasing challenges to global economic growth, we now turn cautious in our outlook for LME Copper and forecast USD 9,000 / MT in 3Q, 4Q22, followed by USD 8,500 / MT in 1Q, 2Q23.

Central Bank Policy Focus

When The Fed Aggressively Hikes, How High Can The Asian Central Banks Go?

With the Fed accelerating its rate hike cycle, more central banks including those in Asia are following suit as inflationary pressures globally are putting policymakers in a bind. Various factors have held back some of the Asian economies from normalizing monetary policies but it will be increasingly challenging for central banks in the region to hold on to their accommodative stance as the Fed accelerates its pace of tightening, thus widening the rate differentials to the point of detrimental financial effects, including risks of disruptive capital outflows and weakening currencies.

We expect the regional economies like Philippines, Thailand and Indonesia, to hike in the coming months, but the pace of hikes is unlikely to match the Fed's. For the Monetary Authority of Singapore (MAS), which was one of the few early movers among its Asian peers in monetary policy tightening, we see risks of another off-cycle move on top of the surprise action that took place earlier in Jan 2022 (report), if core inflation surprises on the upside.

Global FX

USD/JPY: Alongside our expectations of further upside in 10-year US Treasuries yield, we lift our USD/JPY forecast further given that our previous year-end target of 130 is taken out with relative ease. Our latest USD/JPY forecasts are 134 in 3Q22, 135 in 4Q22, and 136 in both 1Q23 and 2Q23. A key risk to our bullish USD/JPY view is a return of the JPY's role as a safe haven if recession fears intensify. Given the JPY's outsized drop in the last couple of months and overly negative positioning, the prospect of a significant short squeeze in that scenario cannot be underestimated.

EUR/USD: The threat of fragmentation where the effects of ECB's tightening aren't felt the same way across the Eurozone may overtake rate differential as the key driver of EUR/USD in the near term which is likely to skew the currency to the downside. For now, we expect further weakness of EUR/USD towards 1.03 by year end before a rebound early next year. Our latest EUR/USD forecasts are 1.04 in 3Q22, 1.03 in 4Q22, 1.05 in 1Q23 and 1.06 in 2Q23.

GBP/USD: Without a new negative catalyst, GBP/USD positioning may find it hard to sustain at the largest net short since Sep 2019. Together with attractive longer-term GBP valuations, we keep to our view of an upward trajectory in GBP/USD. Our updated forecasts are at 1.25 in 3Q22, 1.26 in 4Q22, 1.28 in 1Q23 and 1.30 in 2Q23.

AUD/USD: Overall, AUD/USD is expected to stay supported above 0.70. On the flipside, lingering concerns about a China slowdown and volatility in the risk assets may limit gains in the currency pair. Overall, we maintain an upward trajectory in AUD/USD with updated point forecasts at 0.71 in 3Q22, 0.72 in 4Q22, 0.73 in 1Q23 and 0.74 in 2Q23.

NZD/USD: Beyond the near-term volatility, NZD is expected to find support from aggressive RBNZ rate hikes. The overnight index swaps market is pricing another 260 bps of tightening in the remaining four meetings for this year. If those market expectations come to pass, the NZD will be the highest yielder within the G-10 by the end of the year, with the OCR at 4.60%. Overall, we maintain our bullish outlook of NZD/USD with updated forecasts at 0.65 in 3Q22, 0.66 in 4Q22, 0.67 in 1Q23 and 0.68 in 2Q23.

Asian FX

USD/CNY: With economic risks still skewed to the downside and the easing bias of the PBoC – a stark contrast to the tightening bias of most other major central banks, it is likely we are not done with the normalisation of the CNY to its weaker fundamentals. The full erosion of the yield advantage of the CGB over the US Treasuries since Apr coupled with a cautious risk appetite globally may continue to spur portfolio outflows (since Feb) and keep the pressure on the CNY. Outbound dividend payments by China's overseas listed companies could weigh on the CNY as well as the dividend season gets underway. Overall, we reiterate the view of further weakness in the CNY and our updated USD/CNY forecasts are 6.80 in 3Q22, 6.85 in 4Q22, and 6.90 in both 1Q23 and 2Q23.

USD/SGD: Even with the resilience of the SGD, the broad USD strength is still expected to dominate. Increasingly tight correlation between USD/SGD and a rising USD/CNY will underpin the former as well. However, the prospect of a further tightening by MAS in Oct or another off-cycle tightening (ahead of Oct) will sustain the SGD outperformance and likely cap gains in USD/SGD at 1.40 for now. Overall, we reiterate our view of a modestly higher USD/SGD going forward with updated forecasts at 1.40 in 3Q22 and 1.41 in 4Q22, 1Q23 and 2Q23.

USD/HKD: Increasingly negative USD/HKD forward points – a result of HKD rates lagging US rates in an upward move – incentivise investors to pile on USD carry trades funded with HKD. Also, with the Fed still expected to front-load its rate hikes aggressively in 2H22, we continue to expect USD/HKD to be tethered at 7.85 in the upcoming quarters.

USD/TWD: We continue to see the current pullback in TWD as a normalization of the currency's overvaluation in the last couple of years. Overall, with the USD underpinned by Fed's aggressive rate hikes, we maintain an upward trajectory for USD/TWD with updated forecasts at 30.0 in 3Q22, 30.2 in 4Q22, 30.4 in 1Q23 and 30.5 in 2Q23.

USD/KRW: While BOK is one of the more aggressive Asian central banks in hiking rates, US yields are still rising faster than Korean yields, rendering a modest support for USD/KRW. Overall, we reiterate our view of higher USD/KRW going forward, with updated forecasts at 1300 in 3Q22, 1310 in 4Q22, 1320 in 1Q23 and 1330 in 2Q23.

USD/MYR: Alongside expectations of further CNY weakness, we expect USD/MYR to trade higher as the Fed has only started on its aggressive monetary tightening path. We project USD/MYR at 4.46 in 3Q22, 4.48 in 4Q22, 4.50 in 1Q23 and 4.52 in 2Q23.

USD/IDR: Taking a leaf from the 2018 playbook where the Fed hiked rates and implemented Quantitative Tightening concurrently, IDR is likely to stay on the defensive in the coming quarters. However, a strong rebound in the local economy together with BI raising rates in lockstep with the Fed may limit losses in the IDR. Overall, we update our current set of USD/IDR forecasts to 15,000 in 3Q22, 15,100 in 4Q22 and 1Q23, followed by 15,200 in 2Q23.

USD/THB: On top of external factors, THB is likely to stay on the defensive in the 2H22 as Thailand nursed a current account deficit for a second year while the very modest tightening by BOT this year (relative to the Fed and other Asia central banks) may spur portfolio outflows. As such, we maintain our upward trajectory in USD/THB and update the point forecasts at 35.4 in 3Q22, 35.8 in 4Q22 and 36.2 in both 1Q23 and 2Q23.

USD/PHP: Domestic factors that undermine the performance of PHP include larger current account deficits and still high fiscal deficits projected for 2022 and 2023 as compared to pre-pandemic levels. Also, the narrowing interest rate differentials with US rates and elevated inflation expectations at home will make some Philippine investment assets less attractive, leading to foreign capital outflows. Hence, we maintain our upward trajectory for USD/PHP at 54.0 in 3Q22, 54.5 in 4Q22, and 55.0 in both 1Q23 and 2Q23.

USD/VND: Going forth, we expect Asia emerging currencies such as the VND, weighed by the risk off sentiment as the Fed looks set to front load its rate hikes further in 2H22. As such, we update our USD/VND forecasts to reflect a steeper upward trajectory. Our updated forecasts are at 23400 in 3Q22, 23500 in 4Q22, 23550 in 1Q23 and 23600 in 2Q23.

USD/INR: Overall, we reiterate the view of higher USD/INR going forward, in line with the expected weakness of regional currencies as the Fed stays the course of aggressive rate hikes in the 2H22 together with rising concerns of a China slowdown. Our updated USD/INR forecasts are at 79.00 in 3Q22, 80.00 in 4Q22, 80.50 in 1Q23 and 81.00 in 2Q23.

CENTRAL BANK OUTLOOK

Our Projection For Policy Rates

Central Bank	Total Hike/Cut Quantum Since Start of 2022	3Q22F	4Q22F	Total Quantum Hike/Cut For 2022	Projected Policy Rate By End 2022
PBOC^	10bps cut	15bps cut		25bps cut	3.55
RBI	90bps hike	50bps hike	25bps hike	165bps hike	5.65
BI	-	50bps hike	50bps hike	100bps hike	4.50
BOJ	-	-	-	-	-0.10
BNM	25bps hike	50bps hike	-	75bps hike	2.50
BSP	50bps hike*	50bps hike	50bps hike	150bps hike*	3.50
BOK	75bps hike	50bps hike	25bps hike	150bps hike	2.50
CBC	37.5bps hike	12.5bps hike	12.5bps hike	62.5bps hike	1.75
BOT	-	-	25bps hike	25bps hike	0.75
SBV	-	-	-	-	4.00
RBA	75bps hike	40bps hike	50bps hike	165bps hike	1.75
ECB	-	75bps hike	--	75bps hike	0.75
RBNZ	125bps hike	50bps hike	50bps hike	225bps hike	3.00
BOE	100bps hike	50bps hike	50bps hike	200bps hike	2.25
FED	150bps hike	100bps hike	75bps hike	325bps hike	3.50

Source: UOB Global Economics and Markets Research estimates and forecasts
^ Refers to 1Y Loan Prime Rate
* A total of 50bps hike including our projection for BSP to hike by 25bps at the upcoming 23 Jun policy meeting

KEY EVENTS
3Q 2022

30 June

Philippine Presidential Inauguration
President-Elect Ferdinand Marcos Jr will take office and serve until 2028, with the incumbent President Rodrigo Duterte's daughter, Sara Duterte-Carpio, as his Vice President.

01 July

Hong Kong's Chief Executive
Hong Kong's next Chief Executive John Lee will be taking office.

25 July

Japan's House of Councillors (Upper House) Election
To be held no later than 25 Jul 2022. The Liberal Democratic Party (LDP) Secretary General Toshimitsu Motegi indicated (on 4 Jun) that the campaign period will start on 22 Jun, adding to growing expectations the upper house election will be held on 10 Jul if the current parliamentary session ends on 15 Jun as scheduled.

31 July

Malaysia's MOU On Transformation And Political Stability Expires
The memorandum of understanding (MOU) was signed between the government and main opposition bloc (on 13 Sep 2021) for the sake of political stability at the height of the pandemic. Part of the agreement was not to dissolve parliament and hold a general election before 31 Jul 2022. As such, expiry of the agreement paves the way for early general elections. The next election has to be called by July 2023.

July/August

China's Beidaihe Meeting
The meeting dates of the annual retreat of China's top leaders are not announced beforehand. The meeting this year will be particularly important given the challenging economic environment and leading up to the twice-a-decade Party Congress in Nov when President Xi is expected to secure his historic third-term and important personnel changes will be announced.

25-27 August

Jackson Hole Economic Symposium
The 46th annual Economic Policy Symposium will be the key central bank event in August and the topic of this year's symposium is " Reassessing Constraints on the Economy and Policy". In the past, the Jackson Hole Symposium has occasionally been used as a platform to signal major Fed policy changes.

13-27 September

UN General Assembly
The first day of the high-level General Debate will be on 20 Sep.

OUR FORECASTS

Real GDP Growth Trajectory

y/y% change	2021	2022F	2023F	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22F	3Q22F	4Q22F
China	8.1	4.1	5.5	18.3	7.9	4.9	4.0	4.8	1.0	4.9	5.7
Hong Kong	6.3	1.3	3.5	8.0	7.6	5.4	4.7	-4.0	2.2	2.9	4.0
India	8.3	6.9	6.6	2.5	20.1	8.4	5.4	4.1	14.0	6.3	4.5
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	1.5	1.4	-1.7	7.3	1.2	0.4	0.4	0.6	2.4	2.3
Malaysia	3.1	5.5	4.8	-0.5	15.9	-4.5	3.6	5.0	5.8	6.0	5.2
Philippines	5.7	6.5	6.5	-3.8	12.1	7.0	7.8	8.3	6.3	6.4	5.2
Singapore	7.6	3.5	2.0	2.0	15.8	7.5	6.1	3.7	3.2	3.6	3.3
South Korea	4.1	2.7	2.6	2.2	6.2	4.0	4.2	3.0	2.7	2.9	2.3
Taiwan	6.6	3.6	3.5	9.2	7.8	4.4	5.3	3.1	3.3	4.2	3.9
Thailand	1.6	3.2	3.7	-2.4	7.7	-0.2	1.9	2.2	2.0	5.3	3.2
Vietnam	2.6	6.5	7.0	4.7	6.6	-6.0	5.2	5.0	6.0	7.6	7.2
Australia	4.9	4.0	2.9	1.3	9.7	4.1	4.4	3.3	3.5	6.1	3.0
Eurozone	5.4	2.6	2.3	-0.9	14.7	4.0	4.7	5.4	3.0	1.3	1.5
New Zealand	5.3	2.4	3.0	3.8	17.3	-1.6	1.7	0.4	1.1	5.2	3.0
United Kingdom	8.2	3.7	1.2	-5.0	24.6	6.9	6.6	8.7	2.9	2.1	1.2
United States (q/q SAAR)	5.7	2.0	1.5	6.3	6.7	2.3	6.9	-1.5	1.6	1.0	0.8

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	4.8	2.1	48.1	5.9	78.8	2.1	181.0	-3.8
India	4.1	7.0	54.6	7.1	-24.3	-1.6	44.7	-9.9
Indonesia	5.0	3.6	50.8	5.8	2.9	0.1	20.1	-4.0
Malaysia	5.0	2.3	50.1	3.9	2.9	0.7	6.8	-6.4
Philippines	8.3	5.4	54.1	5.7	-4.8	-5.0	10.5	-8.6
Singapore	3.7	5.4	50.4	2.2	1.8	20.3	99.1	1.4
Thailand	2.2	7.1	51.9	1.5	-1.9	-1.3	11.4	-6.1
Vietnam	5.1	2.9	54.7	2.5	-1.7	3.8	15.7	-4.5

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

OUR FORECASTS

FX, Interest Rates & Commodities

FX	16 Jun 22	3Q22F	4Q22F	1Q23F	2Q23F
USD/JPY	133	134	135	136	136
EUR/USD	1.05	1.04	1.03	1.05	1.06
GBP/USD	1.23	1.25	1.26	1.28	1.30
AUD/USD	0.70	0.71	0.72	0.73	0.74
NZD/USD	0.63	0.65	0.66	0.67	0.68
DXY	104.04	104.4	104.8	103.3	102.5
USD/CNY	6.70	6.80	6.85	6.90	6.90
USD/HKD	7.85	7.85	7.85	7.85	7.85
USD/TWD	29.73	30.0	30.2	30.4	30.5
USD/KRW	1,289	1,300	1,310	1,320	1,330
USD/PHP	53.44	54.0	54.5	55.0	55.0
USD/MYR	4.40	4.46	4.48	4.50	4.52
USD/IDR	14,768	15,000	15,100	15,100	15,200
USD/THB	35.15	35.4	35.8	36.2	36.2
USD/VND	23,200	23,400	23,500	23,550	23,600
USD/INR	78.08	79.0	80.0	80.5	81.0
USD/SGD	1.38	1.40	1.41	1.41	1.41
EUR/SGD	1.46	1.46	1.45	1.48	1.49
GBP/SGD	1.71	1.75	1.78	1.80	1.83
AUD/SGD	0.97	0.99	1.02	1.03	1.04
SGD/MYR	3.17	3.19	3.18	3.19	3.21
SGD/CNY	4.84	4.86	4.86	4.89	4.89
JPY/SGDx100	1.04	1.04	1.04	1.04	1.04

RATES	16 Jun 22	3Q22F	4Q22F	1Q23F	2Q23F
US Fed Fund Rates (Upper Bound)	1.75	2.75	3.50	4.00	4.00
USD SOFR	0.51	2.05	2.99	3.64	3.91
USD 3M LIBOR	2.03	3.00	3.65	4.10	4.10
US 10Y Treasuries Yield	3.26	3.60	3.80	3.90	3.90
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.75	0.75	1.00	1.00
GBP Repo Rate	1.25	1.75	2.25	2.25	2.25
AUD Official Cash Rate	0.85	1.25	1.75	2.25	2.25
NZD Official Cash Rate	2.00	2.50	3.00	3.50	3.50
CNY 1Y Loan Prime Rate	3.70	3.55	3.55	3.55	3.65
HKD Base Rate	2.00	3.00	3.75	4.25	4.25
TWD Official Discount Rate	1.50	1.63	1.75	1.88	1.88
KRW Base Rate	1.75	2.25	2.50	2.50	2.50
PHP O/N Reverse Repo	2.25	3.00	3.50	3.75	4.00
SGD SORA	0.61	1.53	2.29	2.78	2.96
SGD 3M SIBOR	1.56	2.15	2.75	3.10	3.10
SGD 3M SOR	1.77	2.20	2.75	3.10	3.10
SGD 10Y SGS	3.11	3.30	3.40	3.50	3.50
MYR O/N Policy Rate	2.00	2.50	2.50	2.75	3.00
IDR 7D Reverse Repo	3.50	4.00	4.50	4.75	5.00
THB 1D Repo	0.50	0.50	0.75	1.00	1.00
VND Refinancing Rate	4.00	4.00	4.00	4.00	4.25
INR Repo Rate	4.90	5.65	5.65	5.65	5.65

COMMODITIES	16 Jun 22	3Q22F	4Q22F	1Q23F	2Q23F
Gold (USD/oz)	1,845	1,900	2,000	2,100	2,100
Brent Crude Oil (USD/bbl)	119	130	130	120	120
LME Copper (USD/mt)	9,075	9,000	9,000	8,500	8,500

Central Bank Policy Focus

When The Fed Aggressively Hikes, How High Can The Asian Central Banks Go?

- With the Fed accelerating its rate hike cycle, more central banks including those in Asia are following suit as inflationary pressures globally are putting policymakers in a bind.
- Various factors have held back some of the Asian economies from normalizing monetary policies but it will be increasingly challenging for central banks in the region to hold on to their accommodative stance as the Fed accelerates its pace of tightening, thus widening the rate differentials to the point of detrimental financial effects, including risks of disruptive capital outflows and weakening currencies.
- We expect the regional economies like Philippines, Thailand and Indonesia, to hike in the coming months, but the pace of hikes is unlikely to match the Fed's. For the Monetary Authority of Singapore (MAS), which was one of the few early movers among its Asian peers in monetary policy tightening, we see risks of another off-cycle move on top of the surprise action that took place earlier in Jan 2022 (report), if core inflation surprises on the upside.

On The Headwinds Of A 75bps Fed Rate Hike

At the start of the year, when the stirrings that the US Federal Reserve (Fed) could be behind the curve to tighten monetary policy in the face of accelerating inflation began rumbling louder, it was hard to imagine that the Fed would deliver a 50bps rate hike in May. Not only that, it topped that further with a 75bps hike subsequently in Jun, and that the Fed is not done yet, by a good measure of more hikes in the next nine months (till 1Q 2023).

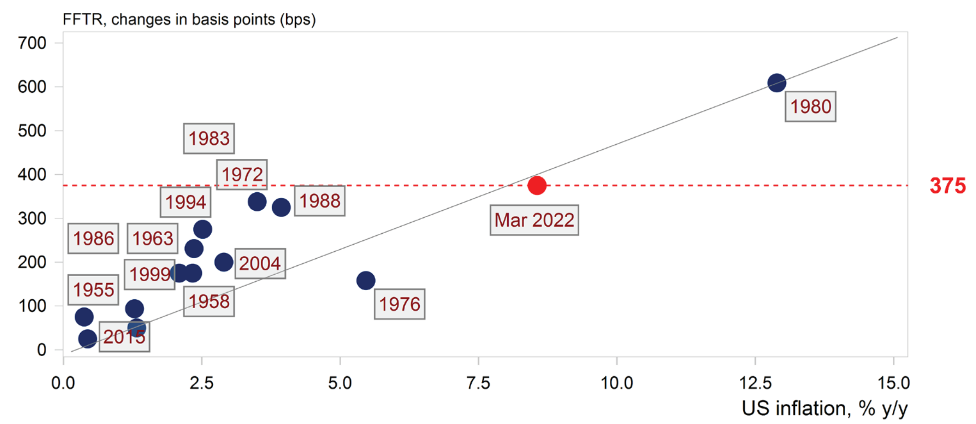
As a re-cap, the Fed in its 14/15 Jun 2022 FOMC accelerated its rate hike cycle by lifting the policy Fed Funds Target rate (FFTR) by 75bps to 1.50-1.75% (report), and it signaled clearly that ongoing rate hikes will be appropriate with its focus on reining in inflation. The hike was bigger than the original 50bps hike touted by senior Fed officials up till just before the FOMC blackout period (4-15 Jun). FOMC Chair Jerome Powell, during his post-FOMC decision press conference, explained that when he offered guidance of 50bps hike at the previous meeting, he had said that if data came in worse than expected, the Fed would consider more aggressive move which was what they did in Jun FOMC. Indeed, the latest May CPI inflation rose above expectations, to a fresh 40-year high of 8.6% y/y (report), while the University of Michigan's preliminary Jun sentiment index unexpectedly fell to 50.2, the lowest on record, and several surveys also showed near term inflation expectations on the rise.

Part of the reason for the Fed's need for an accelerated pace of hikes was the earlier underestimations about inflation developments and unexpected Russia-Ukraine conflict with its unintended and pervasive impact to inflation via the energy and food commodities prices.

Part of the reason for the Fed's need for an accelerated pace of hikes was the earlier underestimations about inflation developments and unexpected Russia-Ukraine conflict with its unintended and pervasive impact to inflation via the energy and food commodities prices. Indeed, during his Jun FOMC press conference, Powell made multiple mentions about the Ukraine conflict (which was not something that the Fed can do anything about) and its effect on prices that he warned may be with us for the years to come.

Chart 1: US Fed: Behind The Curve?
Inflation At Start Of Cycle And Rates Tightening After One Year

Source: Macrobond, UOB Global Economics & Markets Research



The other key focus was the latest Dot-plot chart which showed FOMC policymakers pivoting to an even faster pace of tightening as they now gravitate towards the view of the Fed policy rate at 3.4% by end 2022 (markedly higher from 1.9% in Mar 2022 FOMC) which implies at least three more 50bps and one 25bps rate hikes in the remaining four FOMC meetings in 2022 (i.e. Jul, Sep, Nov and Dec). As shown in the chart, such quantum of (expected) rate hikes in the current cycle would put the Fed in a much more tenable position compared to its past cycles, though less aggressive than some of its past experiences.

Reflecting the Fed's underestimations about inflation, the headline PCE inflation forecasts in its Jun Summary of Economic Projections (SEP) were again adjusted materially higher to 5.2% for 2022 (from 4.3% in Mar FOMC).

But it was growth revisions that caught the attention. The Fed's growth outlook has been revised markedly weaker again in the Jun FOMC, likely a reflection of the negative impact on growth due to the elevated inflation situation and consequently, the more aggressive monetary policy stance to rein in inflation (at the expense of growth). The 2022 GDP growth outlook has been revised markedly lower to 1.7% (from 2.8% made in Mar FOMC) and is forecast to remain low at 1.7% in 2023 (from 2.2% in Mar FOMC), both below trend growth. The labour market outlook was also not spared in the latest report, likely reflecting the negative impact of the Fed's accelerated rate hikes on the US labor market situation, with jobless rate forecast to exceed 4% by 2024. For details, please see our report "US Jun 2022 FOMC: Accelerating Tightening Cycle With 75bps Hike in Jun" dated 16 Jun 2022.

After its biggest single hike in 28 years, the Fed signaled clearly that ongoing rate hikes will be appropriate with its focus on reining in inflation. But the question is how aggressive will the Fed be in Jul and the rest of this year?

After 75bps, What's Next For The Fed?

After its biggest single hike in 28 years, the Fed signaled clearly that ongoing rate hikes will be appropriate with its focus on reining in inflation. But the question is how aggressive will the Fed be in Jul and the rest of this year?

Citing again from his Jun FOMC press conference, FOMC Chair Powell reiterated that the US economy is well-positioned to deal with higher rates and said "*Either a 50 basis point or a 75 basis point increase seems most likely in our next meeting [Jul]*" but he also added that "I do not expect moves of this size [75bps] to be common…" Powell emphasized that the pace of rate increases will be dependent on incoming data and that the Fed officials are "highly attentive to inflation risks" (repeating a phrase found in the FOMC statement).

One of the most extraordinary comments he made (in our view) was that while core inflation is what policy makers are looking at as a predictor of future price developments, he noted that peoples' expectations [of future inflation] is anchored on the headline CPI print which is what the people are experiencing. Powell said while most measures still show that Americans expect inflation to return to normal in the coming years, there were some signs of stress and the Fed is determined to keep inflation expectations "anchored at 2%".

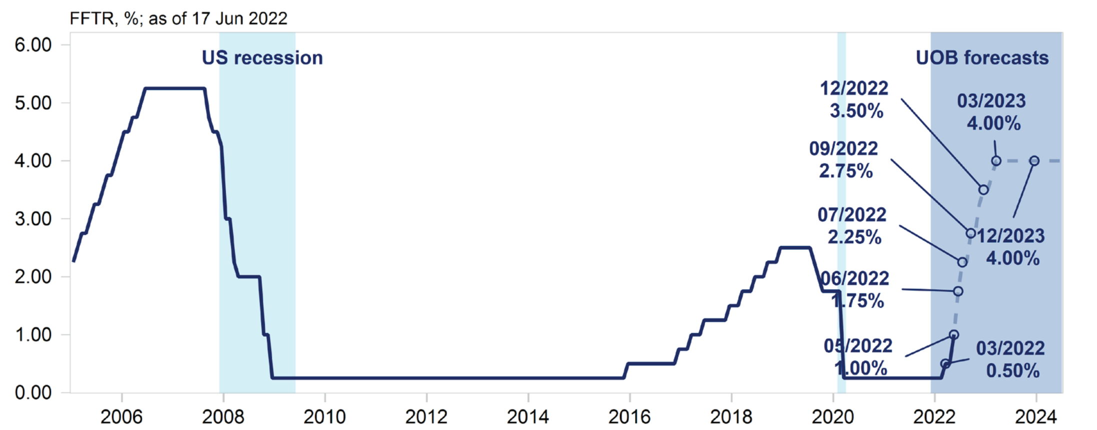
Inflation is still elevated and accelerating sequentially but the headline print will be off its peak (i.e. lower at 8.4% versus 8.6%), so that will warrant a 50bps hike for July, in our view.

Given the hawkish trajectory spelt out in the Jun FOMC, we now expect the FFTR to be hiked faster in 3Q 2022, either in clips of 50bps or 75bps. And as Powell has now clearly highlighted the importance of headline CPI to inflation expectations (and by that extension, to Fed policy), we will mark the Jun CPI (due on 13 Jul 2022, 8:30pm SGT) as the key determinant of whether we get a 50 bps or 75bps hike at the next FOMC on 26/27 Jul. Currently, we are projecting US CPI inflation coming in at 0.8% m/m, 8.4% y/y in Jun (from 1% m/m, 8.6% y/y in May). Thus, inflation is still elevated and accelerating sequentially but the headline print will be off its peak (i.e. lower at 8.4% versus 8.6%), so that **will warrant a 50bps hike for July, in our view**. However, if inflation accelerates more than 0.8% m/m, and prints above 8.6% y/y for Jul, then that will mean a stronger response from the Fed is required, i.e. 75bps.

We expect another two more 50 bps rate hikes in Sep and Nov FOMC before ending the year with a 25bps hike in Dec. Including the 25bps hike in Mar, the 50bps hike in May and the latest 75bps hike in Jun, this implies a cumulative 325bps of increases in 2022, bringing the FFTR higher to the range of 3.25-3.50% by end of 2022, a range largely viewed as above the neutral stance (which is seen as 2.25-2.50%, the Fed's long run projection of FFTR). We maintain our forecast for two more 25bps rate hikes in 2023, but likely to be brought forward to the first three months of 2023, bringing our terminal FFTR to 3.75-4.00% by end 1Q-2023 (versus the previous terminal rate forecast of 3.00-3.25% by mid-2023).

Chart 2: UOB's Projected US Federal Funds Target Rate Trajectory (As Of 16 Jun 2022)

Source: Macrobond, UOB Global Economics & Markets Research



Policy Rate Outlook For Developed And Asian Economies
Mostly Higher But At Varying Speeds

To be sure, the Fed was not the first major central bank from the developed markets to make the leap to policy normalization. It was the Norges Bank and the Reserve Bank of New Zealand that took the lead followed by the Bank of England.

In Asia, it was Bank of Korea (Aug 2021) and then the Central Bank of Taiwan (Mar 2022) and Bank Negara Malaysia (May 2022) that took the lead. And the key motivation was the same as the Fed and elsewhere: dealing with mounting inflationary pressures.

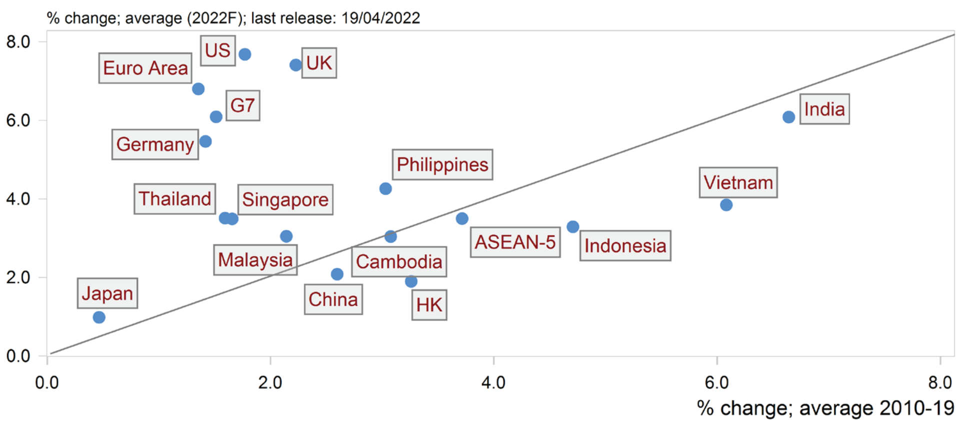
Specifically for Asia, it will be increasingly challenging for central banks in the region to hold on to their accommodative monetary policies as the Fed accelerates its tightening cycle, widening the rate differentials to the point of detrimental financial effects, including risks of disruptive capital outflows and weakening currencies.

Specifically for Asia, it will be increasingly challenging for central banks in the region to hold on to their accommodative monetary policies as the Fed accelerates its tightening cycle, widening the rate differentials to the point of detrimental financial effects, including risks of disruptive capital outflows and weakening currencies.

That said, we do not expect the regional central banks to increase their policy rates in lock-step with the Fed and there are valid reasons including the impact on economic growth as their economies emerge more cautiously from COVID-19, and the generally more subdued rates of inflation (as compared to that of US and Europe), based on IMF's latest projections of inflation rates for 2022.

Chart 3: Selected Economies' Inflation (Historic and Forecasts), IMF

Source: Macrobond, UOB Global Economics & Markets Research



Another mitigating factor for some Asian economies is that many of the governments have been providing subsidies on certain essential goods to help households and to keep inflation down. Some Asian countries, notably Indonesia, Malaysia and to some extent Vietnam, are themselves commodities producers and able to cushion or benefit from the spikes in commodities prices.

However, with most economies having experienced the drastic impact of COVID-19 (between 2020 and 2021) and the respective governments consequently dishing out various fiscal measures to cushion the economies and support households, there are accompanying concerns on fiscal burdens ahead. With a significant strain on their fiscal positions, and if the latest inflation shock to the system is expected to be somewhat prolonged/persistent, then it would not be tenable for them to run long-term and wide-ranging subsidy programmes. So eventually, inflation will catch up and monetary policy will need to be tightened in tandem, which means higher policy rates.

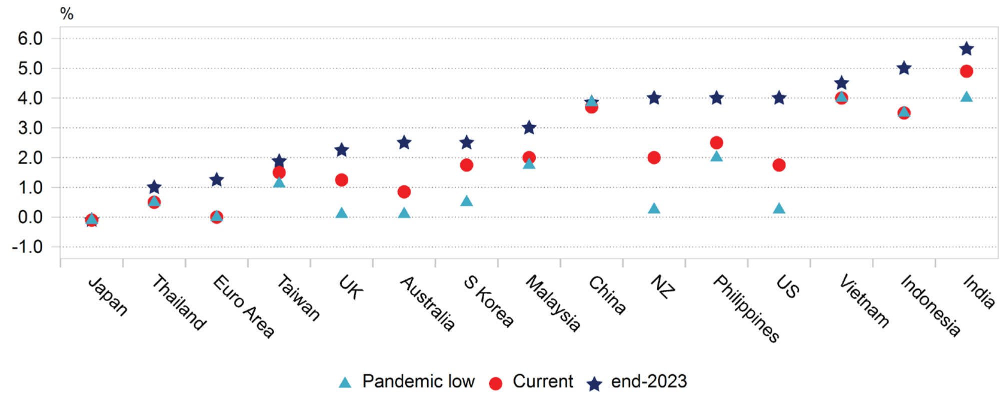
Following the footsteps of South Korea, Singapore, Taiwan and Malaysia, we expect the regional economies like Philippines, Thailand and Indonesia, to start increasing their policy rates in the coming months, some sooner than others, but the pace and quantum of rate hikes is unlikely to match the Fed's.

Due to the significant time gap between now and Oct while core inflation may see further near term acceleration, we do see a risk of another off-cycle move on top of the one that took place earlier this year.

And as for Singapore which has its monetary policy based on its exchange rate, the Monetary Authority of Singapore (MAS) has led the region in policy tightening since Oct 2021 (well ahead of the Fed), and is poised to continue the tightening stance in the next meeting in Oct. That said, due to the significant time gap between now and Oct while core inflation may see further near term acceleration, we do see a risk of another off-cycle move on top of the one that took place earlier this year on 25 Jan.

Chart 4: Central Bank Policy Rates: How High Can They Go?

Source: Macrobond, UOB Global Economics & Markets Research



Among the biggest economies, China is the outlier and is expected to ease monetary policy further in 2022, as domestic inflation remains moderate and its outlook is fragile due to its challenging zero COVID-19 policy. But set against the backdrop of accelerated Fed hikes, we believe that PBoC will tread cautiously with measured easing.

As a final word, while policy rates for most central banks are expected to trend higher, there will be some very notable exceptions. Among the biggest economies, China is the outlier and is expected to ease monetary policy further in 2022, as domestic inflation remains moderate and its outlook is fragile due to its challenging zero COVID-19 policy. But set against the backdrop of accelerated Fed hikes, we believe that PBoC will tread cautiously with measured easing.

Meanwhile, Japan is set apart from its G7 peers as the BOJ kept its preference for ultra-easy monetary policy in its Jun policy decision on 17 Jun, and is expected to maintain that stance through 2022. Even against that background, the Swiss National Bank (SNB) joined the other major central banks and finally hiked its policy rate by 50bps to -0.25% for the first time in 15 years (on 16 Jun) with potentially more hikes to come. On the other hand, the BOJ will likely be the last among the majors to join that bandwagon eventually, but unlikely this year.

FX Strategy

Don’t Fight The Fed And The USD

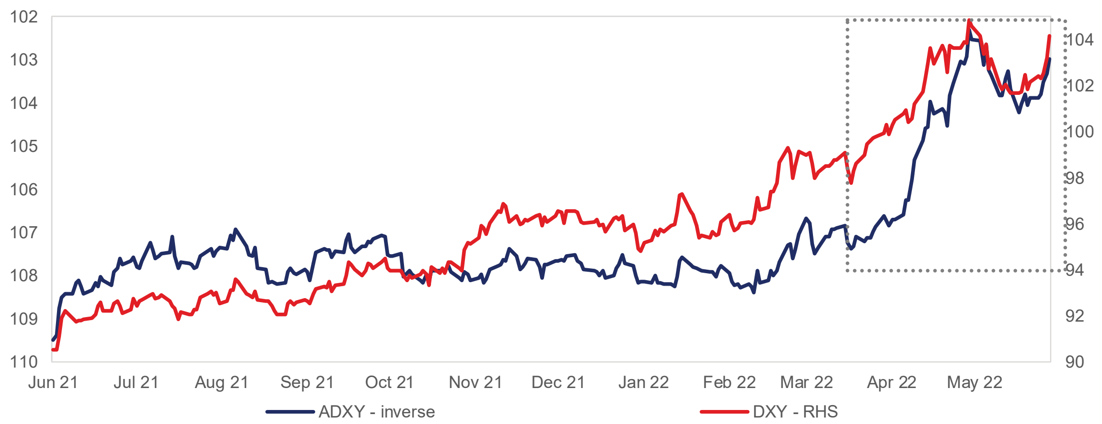
- Expect Aggressive Fed To Continue To Underpin USD Strength
- Remain Bullish USD Against EUR & JPY In Major FX Space
- CNY To Fall Further In 2H22 As Economic Outlook Darkens

We expect USD appreciate against the EUR and JPY within the Major FX space and against most Asia FX in the coming quarters.

Boosted by aggressive Fed rate hike expectations, the King Dollar extended its winning streak to a fourth straight quarter in 2Q22. With US consumer prices at the highest in over four decades, the Fed is set to stay the course of front-loaded monetary tightening in the 2H22. While getting inflation under control could cause some pain, the prospect of a US recession in 2022 remain low as we still expect above-trend US growth of 2.0% this year – slightly above Fed’s long term 1.8% growth - this year. Overall, we expect USD appreciate against the EUR and JPY within the Major FX space and against most Asia FX in the coming quarters.

Chart 1: USD Gains Against Majors And Asia FX Accelerated In 2Q22

Source: Bloomberg, UOB Global Economics & Markets Research



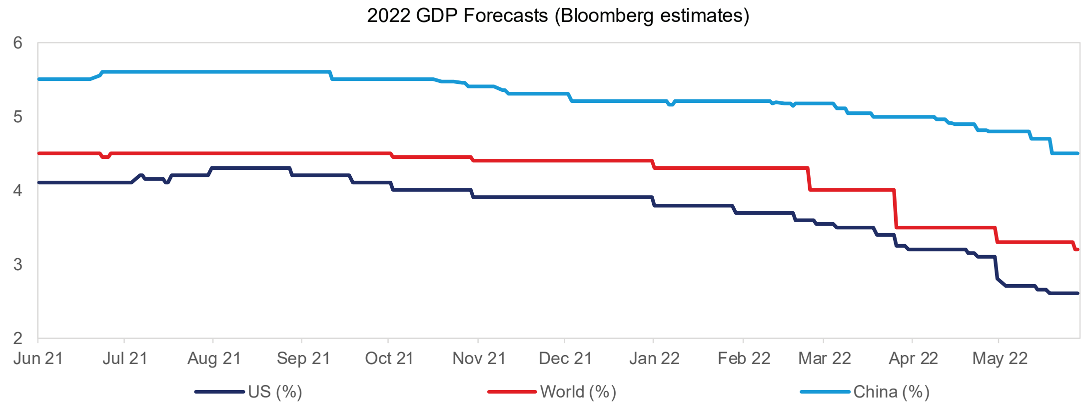
The sheer determination demonstrated from the Fed to tame inflation means the USD will probably keep its wide interest rate advantage over most of its G-10 peers, anchoring the US Dollar Index (DXY) near recent highs.

While the Fed is no longer the only game in town when it comes to monetary tightening, it remains the most aggressive. We expect the Fed to deliver another 175 bps of rates hike in the 2H22, on top of the 150 bps of increases in the 1H22. At the landmark FOMC Jun meeting where the Fed hiked 75 bps, the largest increase since 1994, Fed chair Powell signaled the optionality of another 75 bps hike in Jul, though such moves are not expected to be common. The sheer determination demonstrated from the Fed to tame inflation means the USD will probably keep its wide interest rate advantage over most of its G-10 peers, anchoring the US Dollar Index (DXY) near recent highs. Another tailwind for the USD comes in the form of a gradual run down of the Fed’s balance sheet – also known as Quantitative Tightening (QT) – which commenced in Jun and is said to be equivalent to a couple of rate hikes.

Weighed by the dual headwinds of an aggressive Fed rate hike cycle and a slowing Chinese economy, the Asia Dollar Index (ADXY) fell for a second straight quarter in 2Q22 and is on track for the worst performing quarter in four years. The CNY led losses within the region, falling as much as 7.5% with the quarter to 6.81 /USD in May as the 2-month Shanghai lockdown exacerbated growth concerns. The abrupt weakness in the CNY also triggered a repricing in some of the more resilient Asia FX such as the MYR and IDR. Both currencies weakened to 2020’s lows against the USD even as fundamentals remain sound.

Chart 2: A Slew Of Growth Downgrades In 1H22 But 2022 Recession Risks Remain Low

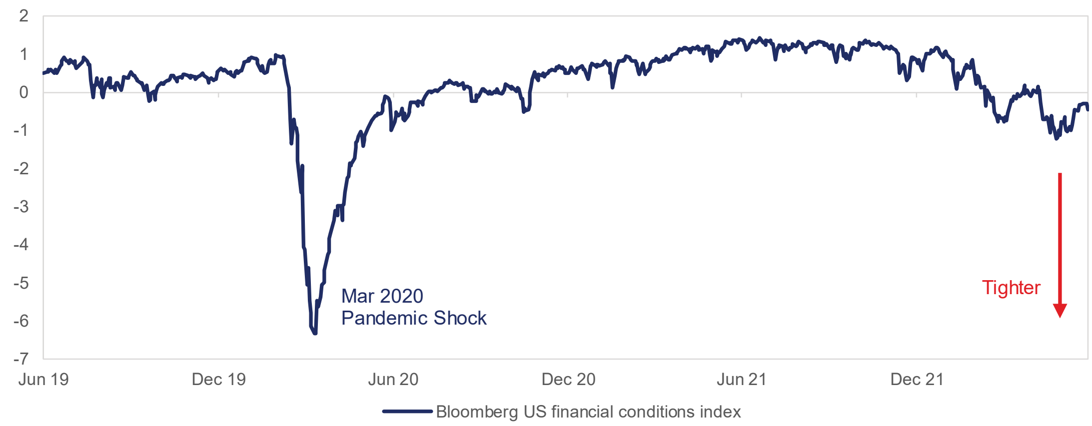
Source: Bloomberg, UOB Global Economics & Markets Research



With Fed pressing on with its front-loaded rate hikes in 2H22, the selloff in Asia FX is far from over. A repeat of the 2018 playbook could see Asia FX subject to portfolio outflows as the Fed hike rates and conduct QT at the same time. Furthermore, concerns about a China slowdown and rising global recession risks will also keep the pressure on Asia FX.

Chart 3: US Financial Conditions Have Tightened Alongside Fed Rate Hikes

Source: Bloomberg, UOB Global Economics & Markets Research



Major FX Outlook

Varying FX Outcomes As More Major Central Banks Tighten

Within the Major FX space, we continue to be bullish USD against the EUR and JPY which will keep the DXY tethered near recent highs.

While it is a less clear-cut case to be a USD bull compared to three months ago as more Major central banks joined in the global tightening bandwagon and are catching up on the Fed's rate hike momentum, the key drivers of USD strength remain intact. For more detail, pls refer to Monthly FX + Rates Strategy: Too Early To Call For A Top In The USD Or Long Term Yield published 30 May 2022. The strong US labour market and above-trend US GDP growth gave the Fed the conviction to front-load its monetary tightening considerably in a bid to tame its soaring inflation. So far, the Fed has lived up to its credibility and delivered the markets' expectation of aggressive rate hikes in our view. This has helped to underpin the USD strength, together with a slew of global growth downgrades which accentuated the safe haven appeal of the USD. Overall, within the Major FX space, we continue to be bullish USD against the EUR and JPY which will keep the DXY tethered near recent highs.

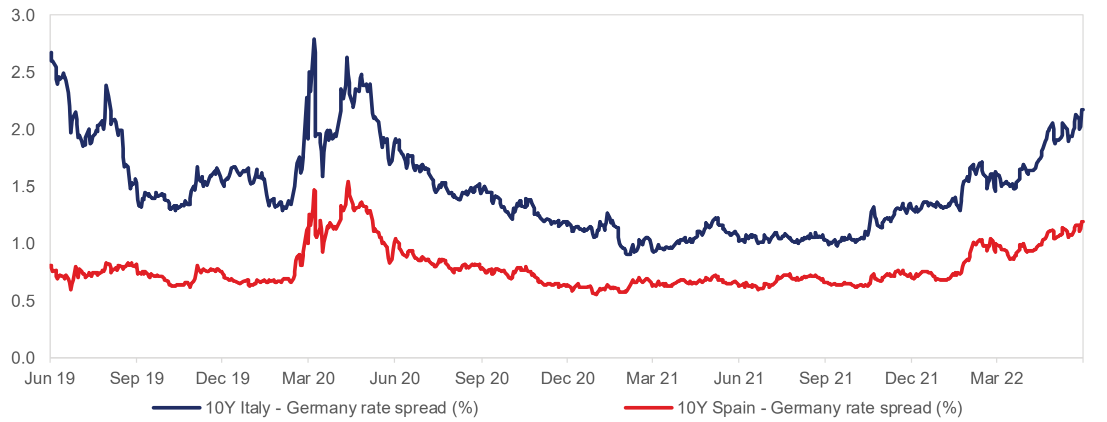
The latest European Central Bank (ECB) meeting in Jun has set the stage for a symbolic rate lift-off in Jul and exiting negative interest rate policy (NIRP) by the end of 3Q22. Due to the ECB's hawkish shift, the wide interest rate differential with that of the Fed is also showing signs of closing. Concurrently, we also noted that the largest year-to-date net short EUR/USD positioning in early May has since rebounded to a modest net long position.

For now, we expect further weakness of EUR/USD towards 1.03 by year end before a modest rebound early next year.

That said, we think it may be too early to conclude EUR/USD is out of the woods as the outlook is complicated by the economic fallout in the Eurozone due to the prolonged Russia-Ukraine conflict. More importantly, weaning off 8 years of NIRP can be challenging for policymakers without triggering a bond market rout. It is worthy to note that peripheral spreads have also widened to the most since the early days of the pandemic. The threat of fragmentation where the effects of ECB's tightening are not felt the same way across the Eurozone may overtake rate differential as the key driver of EUR/USD in the near term which is likely to skew the currency to the downside in the near term. For now, we expect further weakness of EUR/USD towards 1.03 by year end before a modest rebound early next year. Our latest EUR/USD forecasts are 1.04 in 3Q22, 1.03 in 4Q22, 1.05 in 1Q23 and 1.06 in 2Q23.

Chart 4: Fragmentation Risks May Be A Key Driver Of EUR/USD Going Forth

Source: Bloomberg, UOB Global Economics & Markets Research

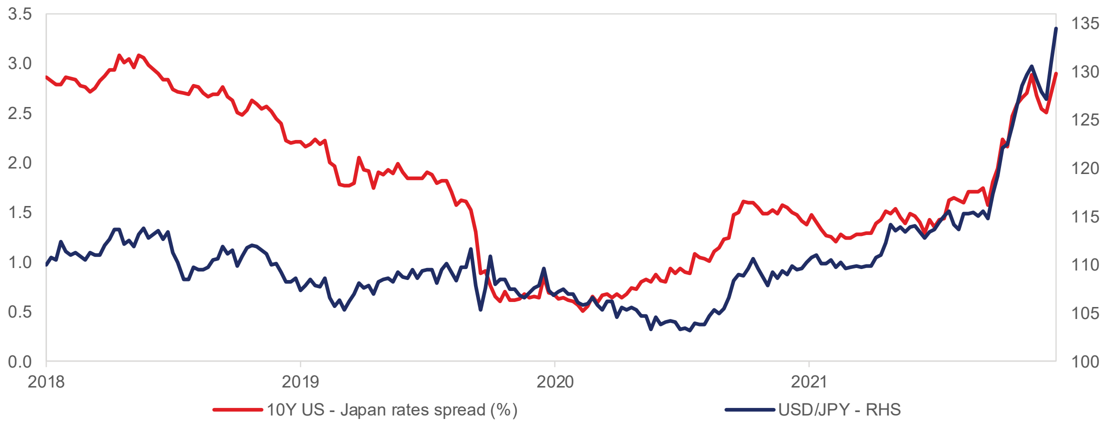


Even after plummeting over 15% against the USD since Mar, there appears to be no immediate risk of intervention from the BOJ to shore up the JPY.

There is still no respite for the JPY. After a brief rebound in May, the JPY weakened anew in Jun and touched fresh 20-year lows of 135.59 /USD. Driven the wide monetary policy divergence between Fed and the Bank of Japan (BOJ), USD/JPY continues to mirror moves in the 10-year US Treasuries yield. Rising oil prices which will balloon Japan's energy imports bill and worsen its trade deficit is another pain point for the JPY. On the flow side, another source of JPY weakness are Japanese lifers' plans to reduce their hedge ratio of their existing foreign bond holdings due to rising hedging costs. Even after plummeting over 15% against the USD since Mar, there appears to be no immediate risk of intervention from the BOJ to shore up the JPY. Alongside our expectations of further upside in 10-year US Treasuries yield, we lift our USD/JPY forecast further given that our previous year-end target of 130 is taken out with relative ease. Our latest USD/JPY forecasts are 134 in 3Q22, 135 in 4Q22, and 136 in both 1Q23 and 2Q23. A key risk to our bullish USD/JPY view is a return of the JPY's role as a safe haven if recession fears intensify. Given the JPY's outsized drop in the last couple of months and overly negative positioning, the prospect of a significant short squeeze in that scenario cannot be underestimated.

Chart 5: Supported By Widening Rates Spread, The Relentless Rally In USD/JPY Continues

Source: Bloomberg, UOB Global Economics & Markets Research

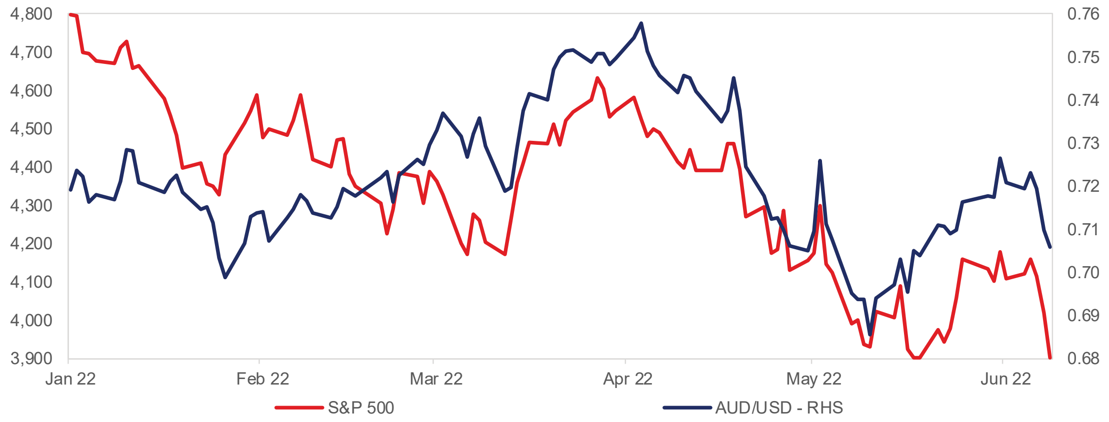


Without a new negative catalyst, GBP/USD positioning may find it hard to sustain at the largest net short since Sep 2019. Together with attractive longer-term GBP valuations, we keep to our view of an upward trajectory in GBP/USD.

GBP/USD briefly fell below the key 1.20 level after the Bank of England's (BOE) warning of a sharp growth slowdown in the second half of the year added further weight on top of broad USD strength. However, most of the bad news may have already been factored in the price of the GBP. UK Prime Minister Boris Johnson surviving a no-confidence vote in early Jun could help allay concerns about political uncertainty. The BOE is also expected to keep pace with the Fed in terms of tightening, with both central banks hiking over 175 bps in 2H22 according to the overnight index swaps market. This gives the GBP some form of interest rate support. Without a new negative catalyst, GBP/USD positioning may find it hard to sustain at the largest net short since Sep 2019. Together with attractive longer-term GBP valuations, we keep to our view of an upward trajectory in GBP/USD. Our updated forecasts are at 1.25 in 3Q22, 1.26 in 4Q22, 1.28 in 1Q23 and 1.30 in 2Q23.

Chart 6: AUD/USD Correlation To Risk Assets (SPX) Has Tightened Recently

Source: Bloomberg, UOB Global Economics & Markets Research



AUD/USD is expected to stay supported above 0.70. On the flipside, lingering concerns about a China slowdown and volatility in the risk assets may limit gains in the currency pair.

After a sharp 5.6% selloff in Apr amidst global risk aversion, AUD/USD rebounded to trade around 0.70 after the Reserve Bank of Australia (RBA) joined the global tightening bandwagon with a bang. The central bank delivered back-to-back rate hikes of 25bps in May and 50bps in Jun, the latter being the biggest increase in over two decades. This lifted the Official Cash Rate (OCR) to 0.85%, more than fully unwind the emergency rate cuts that took place in 2020 amid the COVID-19 pandemic. Amongst the G-10 central banks, market expectations on RBA is one of the most hawkish, pricing in close to 300 bps of rate hikes in 2H22. The AUD may also draw strength from rising commodity prices as a prolonged Russia-Ukraine conflict intensified supply-side disruptions and shortages. Overall, AUD/USD is expected to stay supported above 0.70. On the flipside, lingering concerns about a China slowdown and volatility in the risk assets may limit gains in the currency pair. Overall, we maintain an upward trajectory in AUD/USD with updated point forecasts at 0.71 in 3Q22, 0.72 in 4Q22, 0.73 in 1Q23 and 0.74 in 2Q23.

Asia FX Strategy

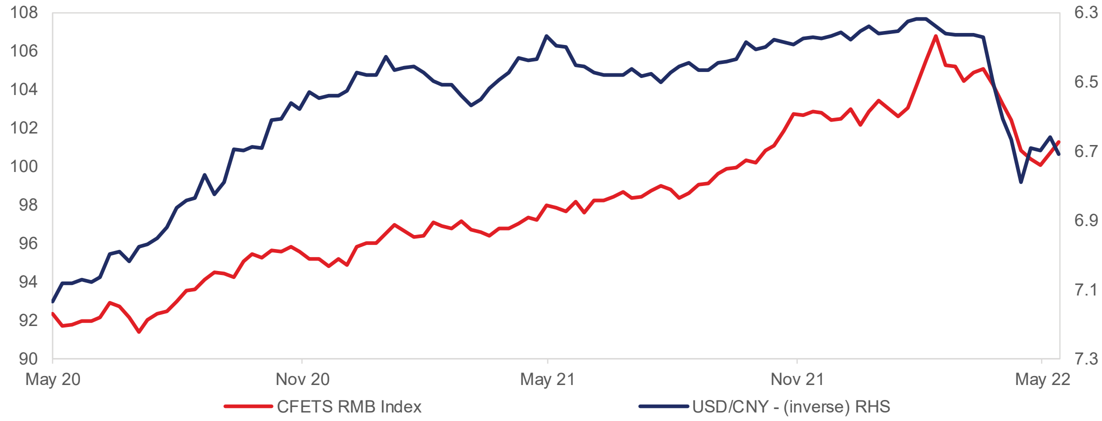
When China Sneezes, Asia Catches A Cold

Reeling from the fallout of the Shanghai lockdown, the CNY gave back almost all the gains it has accumulated since 4Q20. At the peak of the selloff, CNY tumbled over 7% on the quarter to 6.81 / USD, matching the pace of declines last seen during the US-China trade conflict in 2018.

What a sharp turnaround it has been for the CNY in the 2Q22! Reeling from the fallout of the Shanghai lockdown, the CNY gave back almost all the gains it has accumulated since 4Q20. At the peak of the selloff, CNY tumbled over 7% on the quarter to 6.81 /USD, matching the pace of declines last seen during the US-China trade conflict in 2018. While latest macroeconomic figures indicate that the worst of the sharp slowdown in Apr may be over, the recovery may still be tentative and fragile especially when the Chinese government pressed on with its prohibitive virus containment measures. Premier Li Keqiang also recently warned about the economic toll of China's stringent COVID-19 policies and said the economy is in some respects faring worse than in 2020 when the pandemic first emerged. In a way, it is increasingly challenging to hit the government's GDP target of 5.5% this year. Our macro team has also downgraded China's 2022 GDP forecast further to 4.1% from 4.9% previously.

Chart 7: Price Action In 2Q22 Solidified The RMB's Peak In Mar

Source: Bloomberg, UOB Global Economics & Markets Research



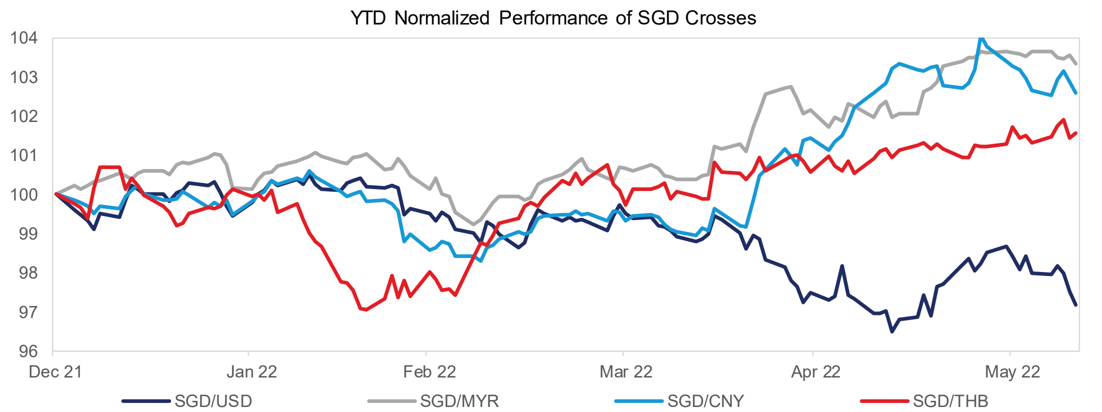
With economic risks still skewed to the downside and the easing bias of the People's Bank of China (PBoC) – a stark contrast to the tightening bias of most other major central banks, it is likely we are not done with the normalisation of the CNY to its weak fundamentals. The full erosion of the yield advantage of the China Government Bond (CGB) over the US Treasuries since Apr coupled with a cautious risk appetite globally may continue to spur portfolio outflows and keep the pressure on the CNY. Outbound dividend payments by China's overseas listed companies could weigh on the CNY as well as the dividend season gets underway. Overall, we reiterate the view of further weakness in the weakness in the CNY and our updated USD/CNY forecasts are 6.80 in 3Q22, 6.85 in 4Q22, and 6.90 in both 1Q23 and 2Q23.

The prospect of a further tightening by MAS in Oct or another off-cycle tightening (ahead of Oct) will sustain the SGD outperformance and likely cap gains in USD/SGD at 1.41 for now.

On the opposite end of the spectrum, the effects of Monetary Authority of Singapore (MAS) latest double-tightening move (in Apr) on the SGD is getting clearer. The SGD outperformed the region and narrowed its quarter-to-date losses to about 1.38 /USD after almost touching 1.40 in mid-May. The Singapore Dollar Nominal Effective Exchange Rate (S$NEER) also rose to a new record high of about 130 in early Jun, effectively recouping all its losses sustained during the pandemic. Even with the resilience of the SGD, the broad USD strength still expected to dominate. Increasingly tight correlation between USD/SGD and a rising USD/CNY will underpin the former as well. However, the prospect of a further tightening by MAS in Oct or another off-cycle tightening (ahead of Oct) will sustain the SGD outperformance and likely cap gains in USD/SGD at 1.41 for now. Overall, we reiterate our view of a modestly higher USD/SGD going forward with updated forecasts at 1.40 in 3Q22 and 1.41 in 4Q22, 1Q23 and 2Q23.

Chart 8: SGD Outperformed Against Most Asian Peers, Underpinned By MAS's Double-Tightening In Apr

Source: Bloomberg, UOB Global Economics & Markets Research



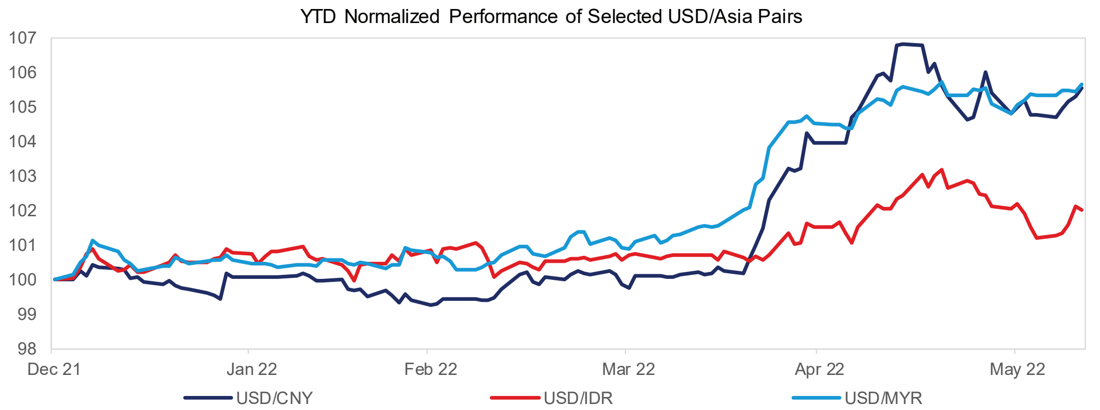
On top of external factors, THB is likely to stay on the defensive in the 2H22 as Thailand nursed a current account deficit for a second year while the projected very modest tightening by BOT this year (relative to the Fed and other Asia central banks) may spur portfolio outflows.

Alongside most Asian peers, THB fell against the USD in the 2Q after registering a modest gain (+0.5%) in the 1Q. On top of broad USD strength due to the Fed's aggressive rate hike trajectory, the THB is also weighed by intensifying China's growth concerns as the Shanghai lockdown dragged across most part of the 2Q. On top of external factors, THB is likely to stay on the defensive in the 2H22 as Thailand nursed a current account deficit for a second year while the projected very modest tightening by Bank of Thailand this year (relative to the Fed and other Asia central banks) may spur portfolio outflows. As such, we maintain our upward trajectory in USD/THB and update the point forecasts at 35.4 in 3Q22, 35.8 in 4Q22 and 36.2 in both 1Q23 and 2Q23.

Since mid-Apr, USD/MYR traced the sharp rise in USD/CNY and tested a two-year high of about 4.42 in Jun. With China being Malaysia's top export destination, it is no surprise that the currency or economic woes in the former would also pass through to MYR. During the US-China trade conflict across 2018-2019, we had seen the tight correlation between CNY and MYR come into play. This time round, it seems no difference as well. The dwindling yield advantage over US Treasuries given the higher rate hike profile of the Fed relative to BNM is likely to weigh on the MYR. Alongside expectations of further CNY weakness, we expect USD/MYR to trade higher as the Fed has only started on its aggressive monetary tightening path. We project USD/MYR at 4.46 in 3Q22, 4.48 in 4Q22, 4.50 in 1Q23 and 4.52 in 2Q23.

Chart 9: The Abrupt Jump In USD/CNY In Apr Catalyzed Moves In Other More Resilient Pairs

Source: Bloomberg, UOB Global Economics & Markets Research



Taking a leaf from the 2018 playbook where the Fed hiked rates and implemented QT concurrently, IDR is likely to stay on the defensive in the coming quarters. However, a strong rebound in the local economy together with Bank Indonesia raising rates in lockstep with the Fed may limit losses in the IDR.

The resilient IDR finally started to retreat to the pressure of an abrupt weakening of the CNY in Apr on top of broad USD strength due to aggressive Fed rate hike repricing. USD/IDR broke out of its year-to-date consolidation between 14,250 and 14,420 and touched a 20-month high of 14,800. Continued outflow from the local bond markets in the 2Q22 also weighed on the IDR. Taking a leaf from the 2018 playbook where the Fed hiked rates and implemented QT concurrently, IDR is likely to stay on the defensive in the coming quarters. However, a strong rebound in the local economy together with Bank Indonesia raising rates in lockstep with the Fed may limit losses in the IDR. Overall, we update USD/IDR forecasts which are at 15,000 in 3Q22, 15,100 in 4Q22 and 1Q23, followed by 15,200 in 2Q23.

Rates Strategy

Inflation Proving To Be A Formidable Opponent

- US Fed delivered 75bps hike in Jun and sent a more unambiguous "tightening above neutral" message in its updated Dot plot.
- Global monetary tightening momentum expected to persist into 2023.
- Next move by MAS is to tighten further, if core inflation prints continue to run hot, then it may affect when the trigger is pulled, i.e. another off-cycle.

2Q 2022 Recap

Inflation has been the most utilized word over the past quarter as investors wrestled with the view of peaked/not peaked trend in prices. This was last resolved dramatically, in terms of financial assets re-pricing, in favour of the inflation is still not yet under control camp when the May US CPI surprised on the upside with broad based and large month on month gains.

Things got "real" in 2Q as the entirety of the shift higher in 10Y UST yield was driven by repricing in the real yield component. As of 16 Jun, the magnitude of yield gain by 10Y US TIPs on a quarterly basis is almost on par with 2013's taper tantrum episode. That said, while rates volatility has certainly picked up in 2Q, the quarterly spike in the MOVE index has not yet gotten close to challenging its 2013 highwater mark.

Chart 1: Monthly Change (30 May to 16 Jun)

Source: Bloomberg, UOB Global Economics & Markets Research

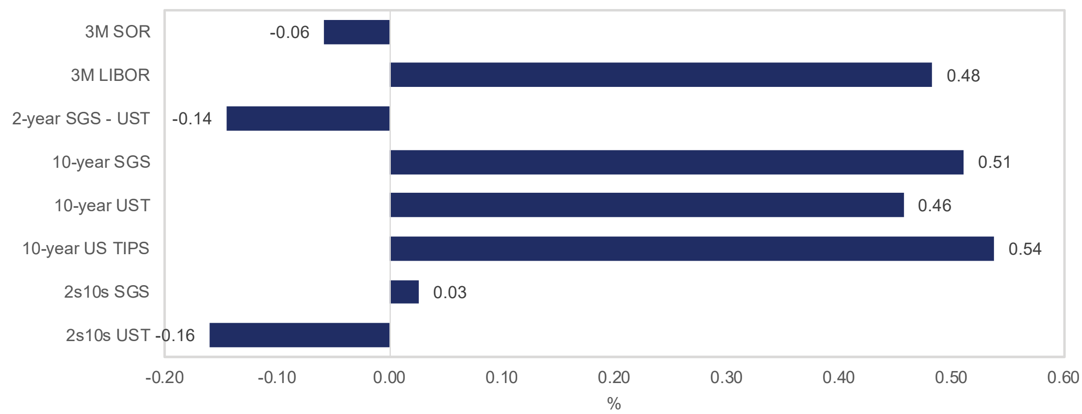
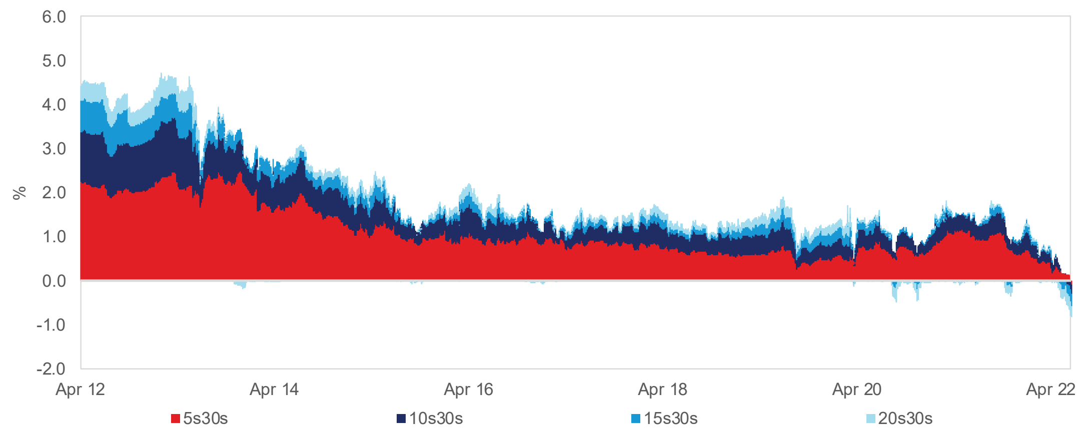


Chart 2: SGS Yield Curve Inversion

Source: Bloomberg, UOB Global Economics & Markets Research



The SG rates market also marked a few historic milestones of its own in 2Q. 10Y SGS yield broke past its 2018 peaks as well as taking out the psychological 3% level on its way to yield level not seen since 2008. The SGS yield curve has flattened significantly over 2Q, starting from the back end of the curve and spreading down to the shorter maturities over time. For the first time in its history, the 5s30s SGS yield curve has also inverted.

June FOMC Takeaways

The US Fed delivered on market expectations with a 75bps hike to the Fed Funds Target Rate (FFTR) in June. Guidance for July's FOMC is that another 75bps remains on the table, which is a reversal of chairman's Powell's previous stance that 75bps wasn't being actively considered.

The updated June Dot plot was shifted higher, and the gap between peak FFTR and long-term neutral FFTR was widened. This was in line with what we had laid out in our May Monthly FX + Rates report. Peak FFTR median now stands at 3.75% and there are 5 members who have it above 4.00%. The updated Dot plot more clearly aligns with the FOMC members' narrative of expeditiously tightening above neutral.

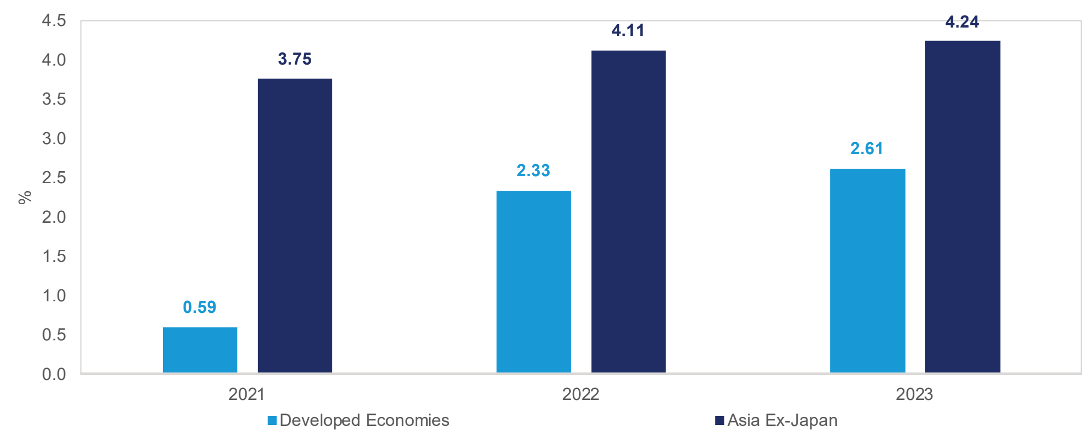
The message from June's FOMC has not changed our cyclical market views on the yield curvature and the SG vs. US yield spreads. We continue to see the upside potential being capped on both (i.e. curve steepening and SG discount narrowing) in the near term.

Overall, the message from June's FOMC has not changed our cyclical market views on the yield curvature and the SG vs. US yield spreads. We continue to see the upside potential being capped on both (i.e. curve steepening and SG discount narrowing) in the near term.

On the back of our US macro team's Fed Funds Target Rate (FFTR) forecast update, we have also recalibrated our yield expectations for the rest of the curve higher.

Chart 3: Central Bank Rate Forecasts (year end GDP weighted)

Source: Bloomberg, UOB Global Economics & Markets Research

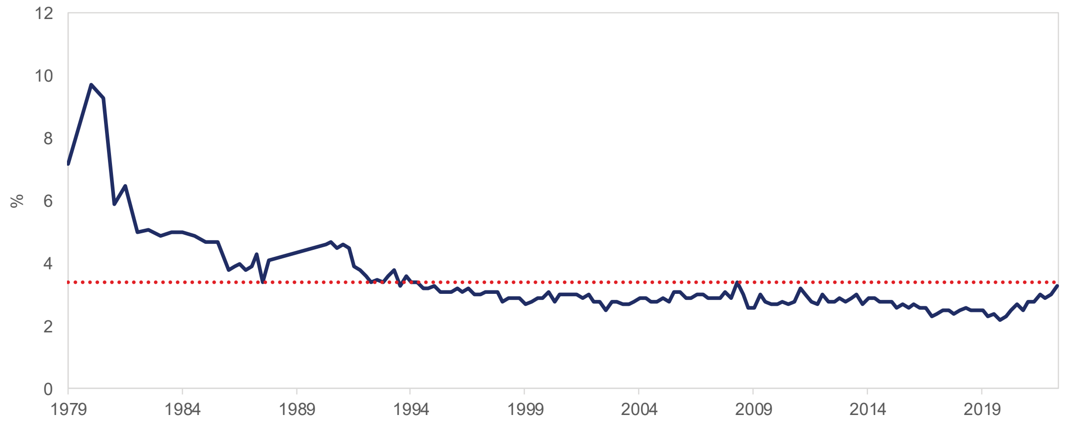


Broadly Expecting Tighter Monetary Policies This Year And The Next

In addition to the US, monetary policy tightening cycles are on average are also set to extend into 2023 for most of the world, with China as the prominent exception. Based on the GDP weighted central bank rate of analysts' forecasts we can expect to see the developed economies block increase their policy rates by a larger quantum compared to the Asia ex-Japan region in 2022 as well as 2023. This difference in pace of monetary tightening ties in with regional inflation outcomes.

Chart 4: University of Michigan Survey Expected Price Change 5 to 10 Years

Source: Bloomberg, UOB Global Economics & Markets Research



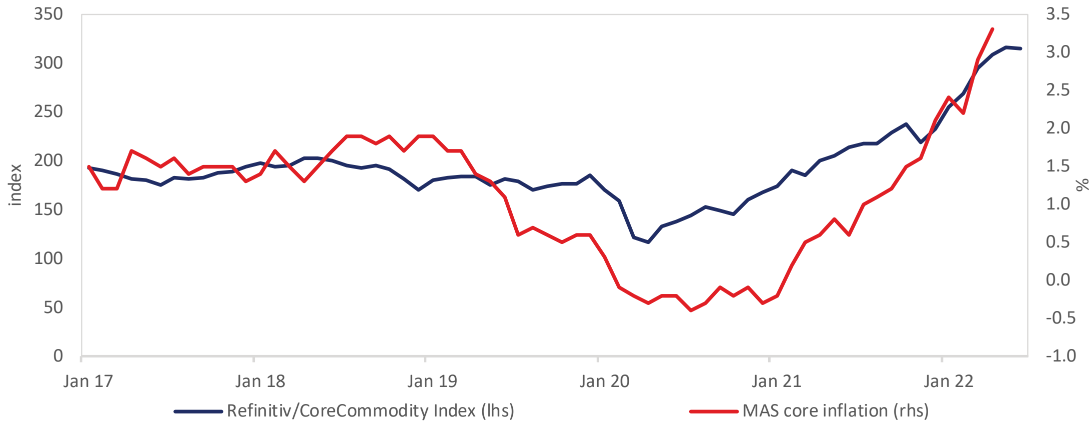
Baring a catastrophic growth shock, the primary fight remains getting inflation under control. The overriding objective is to prevent price expectations from getting unhinged which can then result in a self-fulfilling wage-price spiral. To this end, it does appear that the runway for the US Fed may be running short seeing as the latest University of Michigan survey shows that medium term expectations could be on the verge of breaking out. Policy makers everywhere will undoubtedly be closely monitoring their own measures of price expectations and calibrating their response.

SG Core Inflation At Decade Highs, Another Off-Cycle Shift By MAS?

Domestic inflation outcomes have also ticked higher in 2Q. The MAS y/y core inflation (which excludes accommodation and private road transport) printed at a decade high of 2.9% in March and was immediately surpassed by April's 3.3% reading. The next update for MAS core inflation for the month of May will come on 23 Jun, and domestic price pressures could remain elevated given the absence of a pullback in commodity prices.

Chart 5: Commodities Keeping Inflation Elevated

Source: Bloomberg, UOB Global Economics & Markets Research



MAS projected range for core inflation in 2022 started out at 1.0-2.0% in their Oct 21 monetary policy statement, this was raised to 2.0-3.0% in Jan 22, and revised higher to 2.5-3.5% in Apr 22. This shift higher in MAS core inflation projections was not surprising given macro developments and also because policy makers had already alluded to upside risks as well as their expectation for inflation to pick up significantly in the middle of the year in their recent monetary policy statements.

At the same time, policy makers have also assumed that inflation will moderate in the later part of the year. But with April's print of 3.3% running close to the upper end of their projection, what is the MAS tolerance for overshooting by core inflation in the short term before they see a need to tamp down on the brake once again?

If the next couple of core inflation prints were to run hot, we expect that the market narrative will increasingly be focused on the key question of whether the next tightening move by MAS will materialize in October's semi-annual meeting or come in the form of yet another off-cycle move on top of the one that took place in January this year. Two off-cycle moves by MAS in a year will be unprecedented, but no more unprecedented than the outsized monetary policy actions undertaken by a host of major developed market central banks this year.

The latest private survey of Singaporean's inflation expectations has increased significantly for both the short term and medium term. This outcome was also echoed by the MAS quarterly survey of professional forecasters. Given the consensus around inflation expectations, it is notable that when polled, Singaporeans have expressed a slight negative tilt towards the government's handling of inflation thus far. There is a chance that we could see a supplementary budget being pushed through to provide some relief for the inflation pain point, however this will still leave the underlying inflation dynamics unaddressed.

Inflation outcomes in 2Q have increased the possibility of further tightening by MAS this year. If inflation print continues to come in hot over the next couple of months, we think that this will also raise the possibility of another off-cycle tightening move by MAS.

Overall, inflation outcomes in 2Q have increased the possibility of further tightening by MAS this year. If inflation print continues to come in hot over the next couple of months, we think that this will also raise the possibility of another off-cycle tightening move by MAS.

Looking For A Flatter USDSGD FX Swap Curve

We think that the environment is not conducive for a being a contrarian, i.e. pause/slowing in monetary policy impulse, over the next couple of months. Instead, we see monetary policy makers as more likely to surprise on the hawkish side. The potential for a more hawkish US and SG monetary policy, leads us to favour a flatter 1m vs. 6m USDSGD FX swap curve (1s6s curve).

Chart 6: USDSGD FX Swap (cumulative change)

Source: Bloomberg, UOB Global Economics & Markets Research

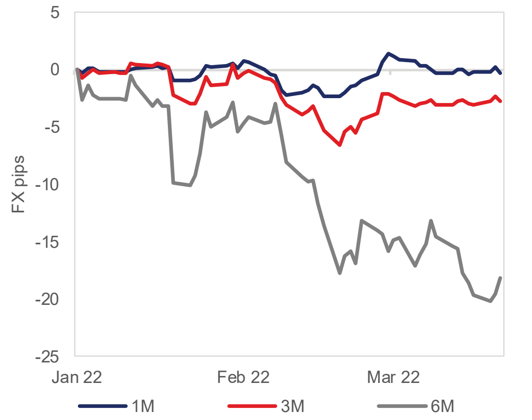
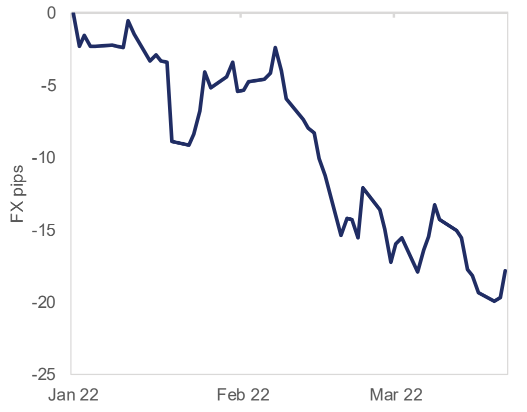


Chart 7: 1m vs 6m USDSGD FX Swap Curve (cumulative change)

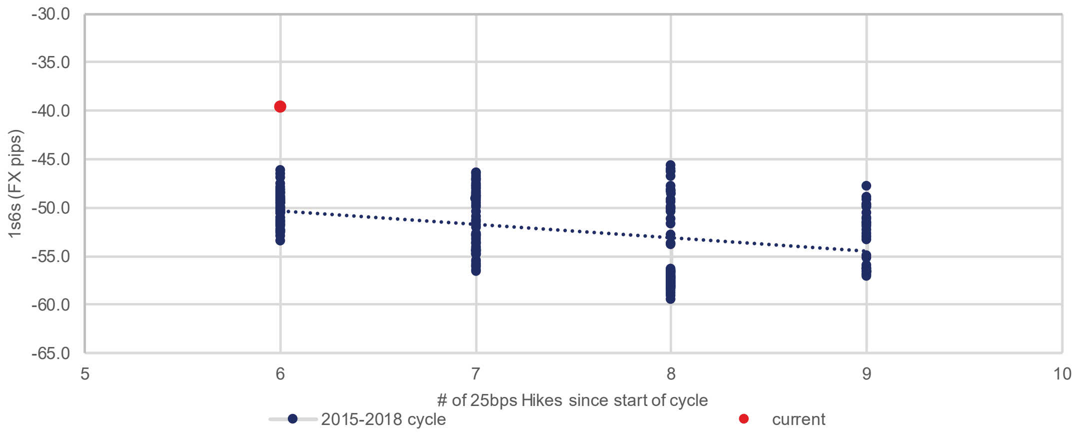
Source: Bloomberg, UOB Global Economics & Markets Research



The 1s6s curve between January's off-cycle MAS tightening to April's scheduled meeting flattened by around 20 pips led by the 6m tenor. Even if we do not get an off-cycle event from MAS, the 1s6s curve will still be pressured lower from US rate hikes.

Chart 8: 1m vs 6m USDSGD FX Swap Curve And Fed Funds Hikes

Source: Bloomberg, UOB Global Economics & Markets Research



Furthermore, the prevailing 1s6s curve is also on the higher end of the range when benchmarked to the 2015-2018 US rate hike cycle and after taking into consideration consensus estimates for US Fed funds rate at the end of 2022.

Summary of Our Views

We now see 10Y UST and SGS at 3.80% and 3.40% respectively at the end of 2022. Bond yield gains should begin to taper off into 2023 alongside the peak in monetary policy tightening. We have 3M compounded SOFR and SORA at 2.99% and 2.30% respectively for 4Q22.

Summary of Our Views	
Outright Yield	Yield top for longer maturities might come in early 2023. Until then, upside spikes are still possible, but the pace of gains should slow going forward.
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	16 Jun 22	3Q22F	4Q22F	1Q23F	2Q23F
US Fed Funds Target	1.75	2.75	3.50	4.00	4.00
3M Compounded SOFR	0.51	2.05	2.99	3.64	3.91
3M USD LIBOR	2.03	3.00	3.65	4.10	4.10
10Y UST	3.31	3.60	3.80	3.90	3.90
3M Compounded SORA	0.60	1.53	2.30	2.78	2.96
3M SGD SOR	1.77	2.20	2.75	3.10	3.10
10Y SGS	3.21	3.30	3.40	3.50	3.50

Source: UOB Global Economics & Markets Research forecasts

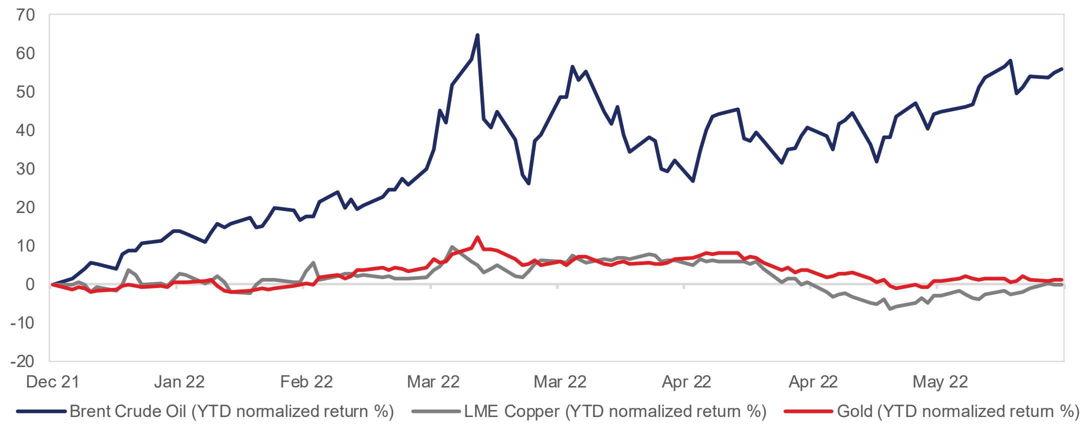
Commodities Strategy

Brent Crude Oil Continues Strong Rally As Supply Crunch Persists

As we reach the mid-year mark for 2022, it is increasingly apparent that Brent crude oil has broken ahead of the pack and has continued its strong price rally across 2Q22. Year-to-date gains in Brent crude oil are just north of 50% as it rallied from USD 80 / bbl at the start of the year to around USD 120 / bbl by mid June. On the other hand, both gold and LME Copper have struggled to sustain their gains and are both pretty much back to where they started the year at USD 1,850 / oz and USD 9,300 / MT respectively. What has happened to cause this bifurcation in price action?

On-Going Supply Concerns Power Crude Oil's Strong Rally Across 1H22

Source: Bloomberg, UOB Global Economics & Markets Research



In the case of Brent crude oil, the positive drivers for its strong price rally are crystal clear. Specifically, the on-going supply disruption continues and has yet to improve. Brent has now recouped most of its interim correction across March and continues to climb further as OPEC has done little to replace the "lost supply" from Russian crude that has been taken off the global stage. How high will crude oil prices climb? Will the supply crunch be alleviated in the months ahead?

In distinct contrast is the price action in LME Copper which is the opposite of Brent crude oil as it corrected across 2Q22 and pulled back below USD 10,000 / MT to as low as USD 9,000 / MT. The negative driver for LME Copper is that of marked slowdown in industrial activity across China. In essence, the divergence in price action between Brent crude oil and LME Copper reflects the intensifying debate between rising inflation risk versus elevated growth slowdown concerns. Will LME Copper price stabilize from here on?

As for gold, a clear-cut case for strong price gains due to elevated safe haven demand amidst rising geopolitical risks is now struggling amidst opposing downward pressure from rising interest rates as well as increasing USD strength. Will gold continue to be a reliable safe haven asset despite aggressive front loading of monetary policy tightening from the US Federal Reserve (Fed)?

GOLD

Still See Safe Haven Demand But USD Strength May Limit Near Term Gains

UOB's Forecast	3Q22F	4Q22F	1Q23F	2Q23F
Gold (USD/oz)	1,900	2,000	2,100	2,100

Against high hopes, gold had a tough quarter across 2Q22. After the unsuccessful attempt to recover the USD 2,000 / oz handle in mid-April, gold pulled back to seek support at the USD 1,800 / oz level across May, before recovering modestly by mid Jun to about USD 1,850 / oz.

The key headwind against gold appears to be the broadening strength and intensity of the USD. While gold was somewhat immune to USD strength previously, the further climb in the USD Index (DXY) above 100 started to weigh down on gold. This comes at a time when the US Federal Reserve (Fed) has committed to ramp up and front load its interest rate hikes, stepping up the pace with an outsized 75 bps hike most recently at the Jun FOMC.

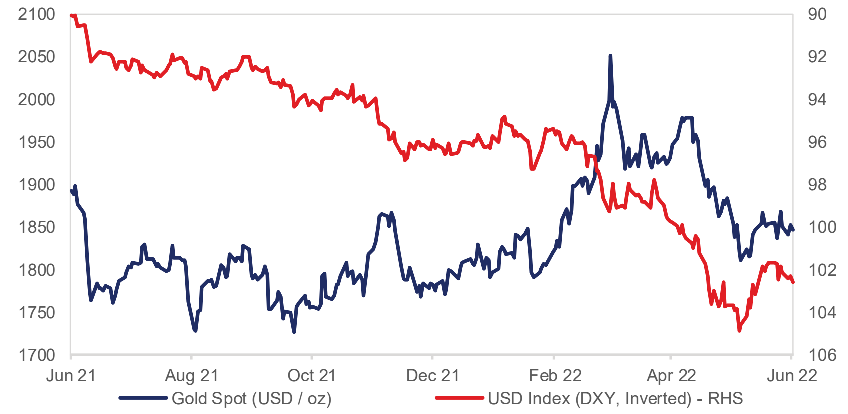
Given the onset of the latest rate hiking cycle, investors are rightfully worried that aggressive tightening from the Fed will be negative for gold. To that point, it is worth noting that in the previous rate hiking cycle across 2016 to 2018, gold was largely unaffected and was range trading within the USD 1,200 to 1,400 level.

Across 2Q22, it is noted that global gold ETF tonnage remains at a strong 105 mio oz, while the amount of net long CFTC positioning in gold has dropped to a cycle low. This makes sense given the strong safe haven buying demand into gold ETFs, while CFTC positioning for gold is cautiously light amidst the rate hiking cycle.

Overall, we stay positive for gold due to on-going strong safe haven demand. Possible loosening of Covid-19 distancing measures across China may also lead to higher physical gold jewellery demand in 2H22. However, we note that there are near term headwinds against gold due to the stronger USD. As such, we trim our positive forecast for gold to USD 1,900 / oz for 3Q22, USD 2,000 / oz for 4Q22" and USD 2,100 / oz for 1Q, 2Q23.

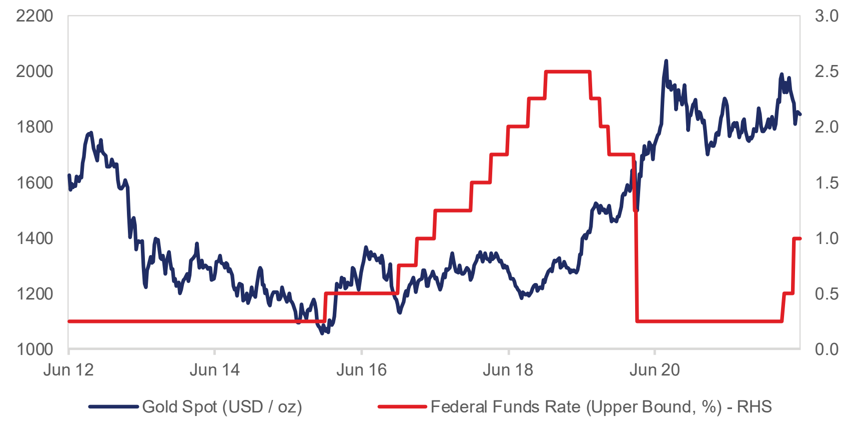
Return of Dollar Strength as Headwind Against Gold

Source: Bloomberg, UOB Global Economics & Markets Research



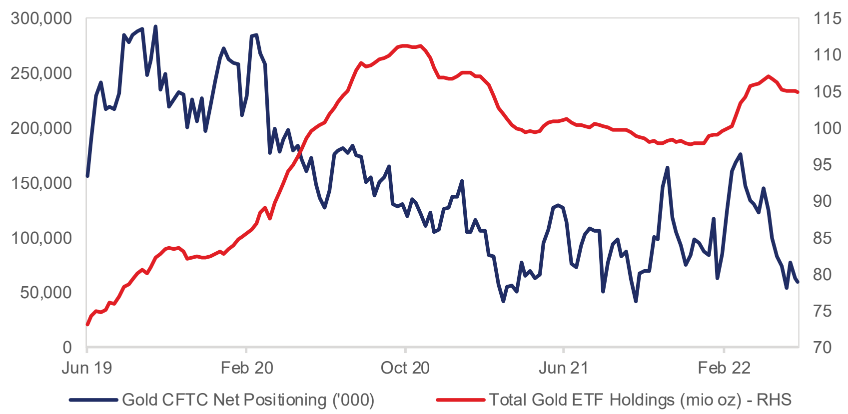
Previous Round of Fed Rate Hikes Did Not Have Much Negative Impact on Gold

Source: Bloomberg, UOB Global Economics & Markets Research



Gold ETF Holdings Stay Buoyant as CFTC Positioning Pulls Back to Recet Low

Source: Bloomberg, UOB Global Economics & Markets Research



BRENT CRUDE OIL

Tight Supply Supports Near Term Price Strength Above USD 120 / bbl

UOB's Forecast	3Q22F	4Q22F	1Q23F	2Q23F
Brent Crude Oil (USD/bbl)	130	130	120	120

In the previous Quarterly Global Outlook report for 2Q22, amidst the onset of Russia's invasion of Ukraine, we warned that crude oil will settle into a "Brave New World Above USD 100 / bbl". That forecast is now seen as conservative given that Brent crude oil has now climbed steadily higher to around USD 120 / bbl.

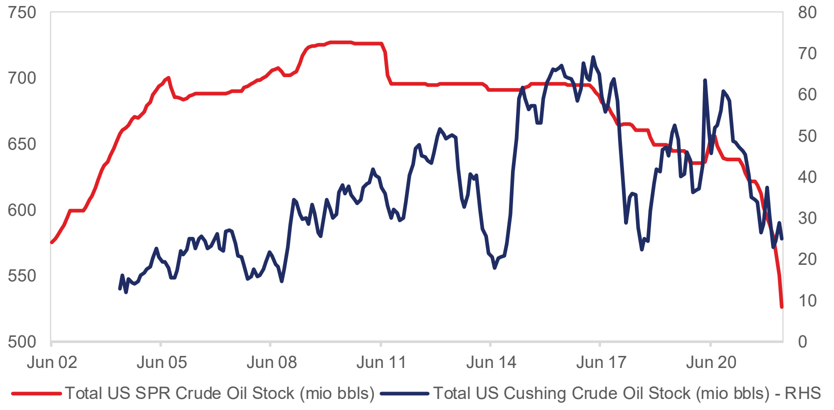
Supporting the on-going strength in crude oil price is a whole series of supply issues. Russian crude oil supply has now been effectively taken off the "mainstream" energy market and will remain so now that the European Union has decided to ban seaborne Russian crude. In addition, OPEC does not seem to be in a hurry at all to step into the supply vacuum. The latest OPEC decision to raise production by a larger-than-expected 648k bpd for the months of Jul and Aug is seen as a token gesture that is unlikely to alleviate the global supply issue. And it is immediately negated by the large Official Selling Price (OSP) hikes by Saudi Arabia for many of its crude oil shipments for the upcoming month.

As a result, global crude oil supply remains tight with clear evidence that inventory levels continue to drop. Specifically, the amount of crude oil inventory at Cushing, US has now dropped to cycle lows. And given the large drawdowns, it will be difficult for the Biden Administration to greenlight further releases of the Strategic Petroleum Reserve (SPR).

Therefore, Brent crude oil remains in strong backwardation with the crack spread rallying further to a new historic high. These are indicative of strong price support at current level. Hence, we raise our Brent crude oil forecast further to USD 130 / bbl for 3Q, 4Q22 and USD 120 / bbl for 1Q, 2Q23 and continue to warn of elevated volatility with risks tilted to the upside.

Both US SPR Stock And Cushing Commercial Stock At Uncomfortably Low Levels

Source: Bloomberg, UOB Global Economics & Markets Research

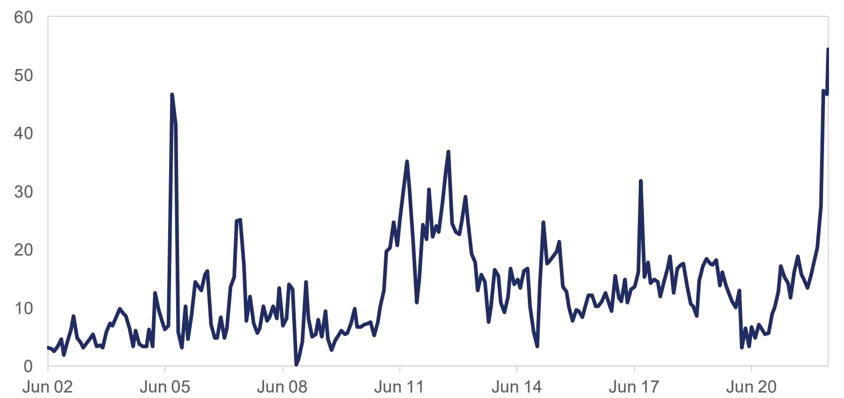


Brent Crude Oil's Backwardation Remains Near Historic Extreme Level

Source: Bloomberg, UOB Global Economics & Markets Research

Crude Oil 3-2-1 Crack Spread Jumps to New Historic High

Source: Bloomberg, UOB Global Economics & Markets Research



LME COPPER

Lower Copper vs Crude Oil Ratio Hints Of Slower Global Growth

UOB's Forecast	3Q22F	4Q22F	1Q23F	2Q23F
LME Copper (USD/mt)	9,000	9,000	8,500	8,500

After consolidating under USD 10,500 / MT across April, LME Copper encountered a wave of selling and retreated to about USD 9,000 / MT in mid-May before stabilizing somewhat at current levels above USD 9,500 / MT by mid-Jun.

This pull-back in LME Copper price makes perfect sense given the on-going Covid-19 related social distancing measures and lockdowns in key cities across China that resulted in a temporary shutdown in manufacturing activity. In fact, given the sharp correction in some macroeconomic indicators like industrial production across the month of April, the witnessed correction in LME Copper price can be said as mild.

Despite the slowdown in industrial activity in China across 2Q22, one of the key supportive factors for LME Copper is the on-going tightness in inventory. This is a similar supportive factor for many commodities across 2Q22 as well. Specific to LME Copper, while the near-term cash premium has cooled down, the amount of on-warrant stock in LME warehouses remain near decade low and has yet to recover meaningfully.

It is worth noting that the Copper vs Crude Oil Ratio has dropped from about 125x at the start of the year to 80x now. Historically, a pullback in the Copper vs Crude Oil Ratio would imply weaker industrial demand and consequently, weaker global economic growth going forward. This is in line with increasing investor concern of global recession risk in 2023 amidst a further rise in energy prices and sharp rise in interest rates.

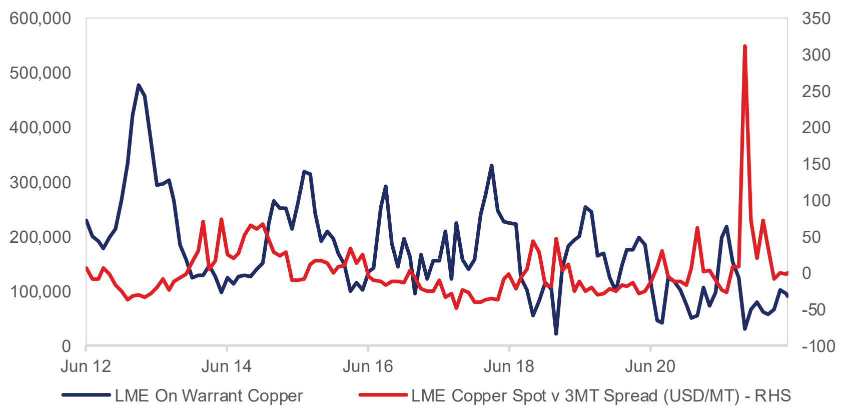
Overall, in line with the increasing challenges to global economic growth, we now turn cautious in our outlook for LME Copper and forecast USD 9,000 / MT in 3Q, 4Q22, followed by USD 8,500 / MT in 1Q, 2Q23.

LME Copper Price Has Held Up Relatively Well Despite China Slowdown

Source: Bloomberg, UOB Global Economics & Markets Research

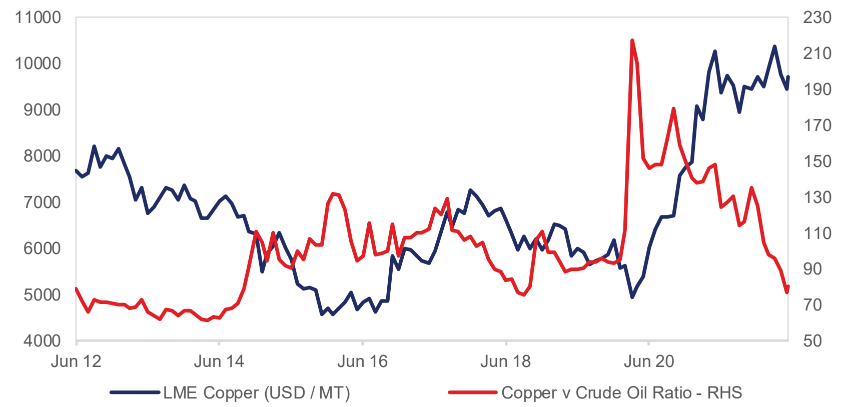
Global Copper Inventory at Multi Year Low Pior to Ukraine War

Source: Bloomberg, UOB Global Economics & Markets Research



Copper vs Crude Oil Ratio has Fallen Back to Recent Cycle Low

Source: Bloomberg, UOB Global Economics & Markets Research



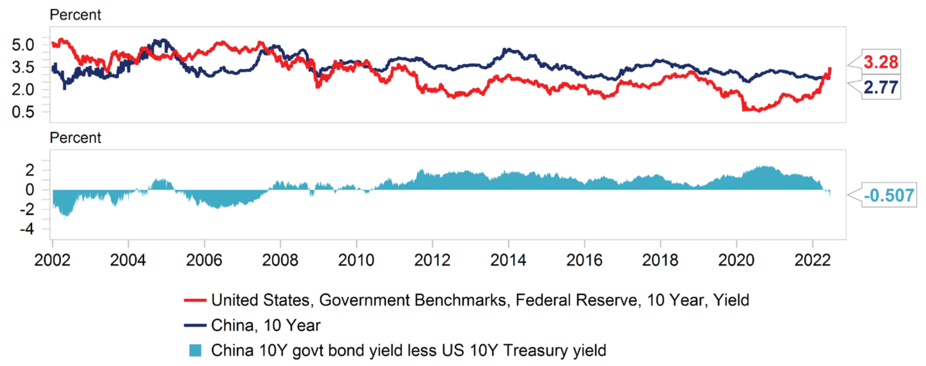
CHINA

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/CNY	6.80	6.85	6.90	6.90
CNY 1Y Loan Prime Rate	3.55	3.55	3.55	3.65

Economic Indicators	2020	2021	2022F	2023F
GDP	2.2	8.1	4.1	5.5
CPI (average, y/y %)	2.5	0.9	2.5	2.5
Unemployment Rate (%)	5.2	5.1	5.3	5.2
Current Account (% of GDP)	1.7	1.8	1.4	1.2
Fiscal Balance (% of GDP)	-6.2	-3.8	-5.0	-4.0

Yield Spread Of CGB-UST Flipped To Negative

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Bottomed Out But Uncertainties Remain

China's economic data improved in May after tumbling in Apr as authorities eased the impact of the pandemic lockdown in Shanghai particularly on the logistics. The data were better than expected but had remained weak especially for retail sales which continued to contract in May.

Industrial production has shown greater resilience as it returned to expansion in May. However, retail sales will likely take longer to recover as we have seen even during the first COVID outbreak in Wuhan during 2020, which took eight months then before retail sales returned to y/y expansion. This time round, the added concerns of the domestic real estate market downturn could prolong the weakness in consumer sentiment. Data from China Real Estate Information Corp. showed sales at China's top 100 developers slumping by 59.4% y/y in May despite some cities relaxing their property measures.

We have yet to see a recovery in the labour market in May. The urban surveyed jobless rate moderated to 5.9% from 6.1% in Apr (still above the official target of 5.5%) but the 31 major cities jobless rate climbed further to a fresh record high of 6.9% in May from 6.7% in Apr and this has far exceeded the 5.9% at its peak in 2020. The government is expected to prioritise labour market stabilisation and we see the jobless rate easing in the coming months as local COVID measures are being relaxed.

Meanwhile, investments will find support from accelerated infrastructure investment rollout in the later part of the year following the frontloading of the special local government bond issuances by Jun. This is part of a set of 33 measures announced in May to revive growth that include additional tax cuts of CNY 140 bn, deferment of social security payments, doubling of the relending quota and cuts to passenger car purchase taxes etc.

Shanghai has exited its lockdown on 1 Jun and while we expect activities in China to pick up further, China's zero-COVID policy will continue to pose downside risks to its economic recovery in 2H22. Regular COVID mass testing implemented by cities including Shanghai and disruptive lockdowns to deal with more contagious virus strains will hamper a quick economic recovery as compared with the initial outbreak in Wuhan in early 2020. Furthermore, there is now increasing headwinds to global growth as higher inflation is prompting central banks to step up their monetary policy tightening which will inevitably slow the economies.

Accounting for the data in Apr-May, we think China's economy will avoid a contraction in 2Q22 during which we are now expecting growth of around 1.0% y/y (1Q22: 4.8%). Thereafter, a lower comparison base and government's stimulus will boost GDP growth to slightly above 5% y/y in 2H22. Our revised forecast for China's GDP growth is now at 4.1% for 2022, down from previous projection of 4.9% and far missing the growth target of "around 5.5%".

CENTRAL BANK

Mild Inflation Backdrop Allows PBoC To Continue Easing

CPI Inflation averaged 1.5% in Jan-May. Although we expect further upside pressure to persist due to elevated global commodity prices while the high base in food prices dissipates, the weaker domestic outlook could cushion the impact on overall inflation. Our full-year 2022 and 2023 CPI forecasts are moderate at 2.5% but that would still entail inflation rising towards 3% in coming months. However, producer price gains will continue to moderate from the high base last year to average around 6.0% for the full-year in 2022 from 8.1% y/y in Jan-May.

As the outlook is still fragile, we maintain our view that there is room for further monetary policy easing including a cut to the banks' reserve requirement ratio (RRR) as the MLF maturities increase in 2H22. We also expect the 1Y LPR to move lower to 3.55% by end-3Q22 from current 3.70% following earlier easing measures by the People's Bank of China (PBoC). The accelerated tightening pace by the Fed will see PBoC treading cautiously as the yield premium of the CGB over UST flipped to negative in Apr for the first time since 2010.

CURRENCY

Further Normalisation In CNY To Fundamentals

With economic risks still skewed to the downside and the easing bias of the PBoC – a stark contrast to the tightening bias of most other major central banks, it is likely we are not done with the normalisation of the CNY to its weaker fundamentals. The full erosion of the yield advantage of the CGB over the US Treasuries since Apr coupled with a cautious risk appetite globally may continue to spur portfolio outflows (since Feb) and keep the pressure on the CNY. Outbound dividend payments by China's overseas listed companies could weigh on the CNY as well as the dividend season gets underway. Overall, we reiterate the view of further weakness in the CNY and our updated USD/CNY forecasts are 6.80 in 3Q22, 6.85 in 4Q22, and 6.90 in both 1Q23 and 2Q23.

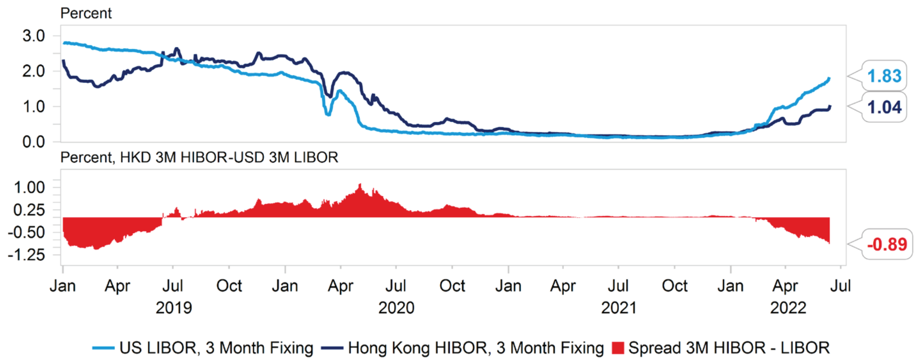
HONG KONG

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/HKD	7.85	7.85	7.85	7.85
HKD Base Rate	3.00	3.75	4.25	4.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.5	6.3	1.3	3.5
CPI (average, y/y %)	0.3	1.6	2.2	2.0
Unemployment Rate (%)	6.6	4.0	4.0	3.6
Current Account (% of GDP)	7.0	11.3	7.2	6.0
Fiscal Balance (% of GDP)	-8.7	1.0	-2.0	1.5

Hibor-Libor Spread Continues To Widen As Fed Tightening Picks Up Pace

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Challenging Outlook

Hong Kong's economy contracted in 1Q22 for the first time since end-2020, by a steep -4.0% y/y as the fifth COVID wave hit. While the government resisted a city-wide lockdown, the strict containment measures between Feb to Apr still had a significant impact throughout the economy. Except for government consumption, all the other major expenditure components contracted in 1Q22, including gross fixed capital formation, private consumption expenditure, exports and imports of goods and services. The unemployment rate surged to 5.4% for the three months ended Apr from 3.9% at the start of the year as total employment fell 145.9k YTD in Apr.

Further reflecting weaker domestic sentiment and concerns over rising interest rates, Hong Kong's residential property market has softened. As of Apr, the property price index has fallen 2.5% year-to-date compared to a gain of 3.7% for the whole of 2021.

However, there have been encouraging signs of recovery in Hong Kong's economy with the easing of the COVID curbs and distribution of the first batch of government's consumption vouchers in early Apr together with the support scheme for employment and temporary unemployment relief scheme.

Retail sales in value terms rebounded by 11.7% y/y in Apr, from average contraction of 14.2% y/y in Feb-Mar. Exports also surprised on the upside with a small gain of 1.1% y/y in Apr from -8.9% y/y in Mar despite the lockdown in Shanghai. Furthermore, the PMI recovered strongly to above 50 in Apr and May, signalling an expansion of the economy after contracting in Jan-Mar.

As such, we expect Hong Kong's GDP to recover to above 2% growth in 2Q22. Our full-year growth forecast remains at 1.3%, within the government's revised outlook of 1-2% (from previous 2.0-3.5%).

While the outlook has stabilised, Hong Kong's economic recovery continues to face headwinds from many fronts. First, mainland China's economy is not out of the woods yet. Secondly, the border control measures will be a major constraint, and in the longer term its attractiveness as an international hub will also be challenged. Hong Kong's population has declined by 117.4k between 2020 to 2021 and likely accelerated following the recent pandemic outbreak. Third, the global economy is losing steam from stagflation risks. Last but not least, rising domestic interest rates are expected to dampen demand.

Higher import prices have been largely offset by the subdued domestic cost pressures due to a slow wage growth and falling rentals. The headline and underlying (after netting out the effects of all Government's one-off relief measures) inflation averaged 1.5% and 1.6% respectively in Jan-Apr, and this was led mainly by higher prices of food and energy-related items.

High global commodity prices could continue to put upward pressure on inflation but relative HKD stability due to its peg to the dollar as well as a subdued domestic demand may keep price gains in check. We expect headline inflation to pick up to average 2.2% this year, slightly higher compared to the government's forecast for headline and underlying inflation of 2.1% and 2.0% respectively.

CENTRAL BANK

Hibor-Libor Spread Widening As Fed Accelerates Hikes

Hibor has moved higher in tandem with rising global interest rates but the increase has continued to lag Libor, leading to a negative Hibor-Libor spread since Feb ahead of the US Fed's lift-off in Mar. This could persist given ample interbank liquidity. Despite concerns over Hong Kong's tighter COVID controls vs. most other economies in the region, the risk of massive capital outflows is contained for now. China's easing stance towards regulatory crackdown in sectors such as tech and gaming will help in the recovery of sentiment. Hong Kong's aggregate balance recorded HK$320 bn in early Jun despite coming off its all-time high of more than HK$450 bn.

CURRENCY

HKD To Stay At 7.85 /USD

Underpinned by the aggressive Fed rate hike trajectory and sustained strength in the USD, the USD/HKD pair has touched the top end of the Convertibility Undertaking (CU) at 7.85 in May. To maintain the peg, the HKMA has intervened for the first time in 18 months to shore up the HKD, buying a total of HKD5.668b (USD722m equivalent) on 11 May. Increasingly negative USD/HKD forward points – a result of HKD rates lagging US rates in an upward move – incentivise investors to pile on USD carry trades funded with HKD. Also, with the Fed still expected to front-load its rate hikes aggressively in 2H22, we continue to expect USD/HKD to be tethered at 7.85 in the upcoming quarters.

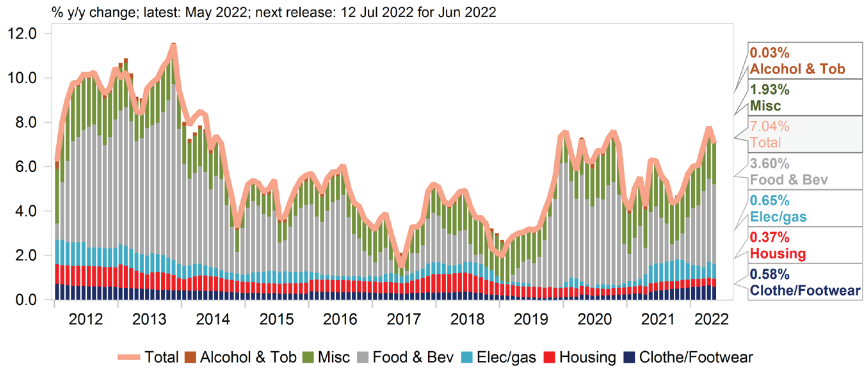
INDIA

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/INR	79.0	80.0	80.5	81.0
INR Repo Rate	5.65	5.65	5.65	5.65

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.6	8.7	7.1	7.4
CPI (average, y/y %)	6.2	5.5	6.6	5.2
Current Account (% of GDP)	0.9	-1.6	-3.1	-2.7
Fiscal Balance (% of GDP)	-12.8	-10.4	-9.9	-9.1

India: Contributions to Inflation, Monthly

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Activities To Recover In 1QFY23 But Upside Constrained

In the Jan-Mar quarter (i.e. 4QFY22), India's economy expanded 4.1% y/y, the weakest quarterly performance of FY22. Activities during the quarter were weighed down by COVID-19 restrictions in place during the second half of the fiscal year when the Omicron variant spread rapidly, and amidst the unprecedented Russia-Ukraine conflict, which elevated prices of commodities and disrupted further the global supply chains.

Recent data suggest that the pace of recovery is likely to quicken in the Apr-Jun quarter (i.e. 1QFY23), although high commodities prices, supply chain disruptions, and tighter monetary policy domestically and by the US Federal Reserve are likely to constrain growth from its upside bias for now. India's industrial production growth topped forecasts for a second straight month at 7.1% y/y in Apr (Mar: 2.2%), marking the biggest gain since Aug 2021, with the PMI rising to the highest in 3 months.

Central bank governor Shaktikanta Das noted during the Jun policy meeting that manufacturing capacity utilisation increased further to 74.5% in the Jan-Mar quarter from 72.4% in the previous one. Das said that in FY23, capacity utilisation is likely to increase further, and that investment activity is thus expected to strengthen, driven by rising capacity utilisation, the government's capex push, and deleveraged corporate balance sheets.

For the fiscal year ending Mar 2022, India's real GDP grew 8.7%, in -line with consensus estimate but slower than the 8.9% expansion projected by the Statistics Ministry earlier in the year. Nevertheless, this was a robust rebound from the historic 6.6% contraction in FY21.

At the Jun policy meeting, Reserve Bank of India (RBI) kept its GDP growth forecast for FY23 at 7.2%, while noting downside risks from geopolitical tensions, commodity prices, rising input costs, tightening global financial conditions, and slowdown in the world economy. RBI laid out the quarterly GDP projections for FY23 as follows: 1QFY23 at 16.2% y/y; 2Q at 6.2%; 3Q at 4.1%; and 4Q at 4.0%. GDP report for 1QFY23 is due on 31 Aug.

Consumer price inflation eased slightly in May, but remained above RBI's upper band, to 7.04% y/y vs 7.79% in Apr, which was the fastest since May 2014. Core CPI was stable at 6.09% y/y (Apr: 6.07%). Food prices, which account for over half of CPI basket, gained 7.97% y/y in May. fuel and electricity prices jumped 9.54% clothing and footwear was up 8.85%.

RBI expects inflation to stay above its upper tolerance band of 6% through the first 3 quarters of FY23. With the assumptions of crude oil price averaging USD105/bbl (Indian basket) and a normal monsoon in 2022, RBI raised its inflation rate projection to 6.7% in 2022-23, from previous forecast of 5.7%. The quarterly projections are: 1Q at 7.5% y/y; 2Q at 7.4%; 3Q at 6.2%; and 4Q at 5.8%, with risks "evenly balanced".

CENTRAL BANK

Rate Hikes To Continue Through 2H22

With mounting inflationary pressures that exceeded the upper bound of central bank target, the RBI lifted its benchmark repo rate by 50 bps to 4.90% at its 6-8 Jun policy meeting, as widely expected. The move came after the surprise, unscheduled 40bps hike on 4 May, just before the US Federal Reserve (Fed) raised its policy rate for the second time this year.

For fiscal year (FY) 2022-23, there are four remaining Monetary Policy Committee (MPC) meetings: 2-4 Aug, 28-30 Sep, 5-7 Dec, and 6-8 Feb 2023. We expect the RBI to hike 50bps at the meeting in Aug, and then a further 25bps in Sep, before pausing for the rest of the FY. This would add a further 75bps, to bring the repo rate to 5.65% by end-2022. RBI had previously noted that repo rate below 5.15% (the pre-pandemic level) for India constitutes ultra-accommodative policy. However, the risks are biased towards further rate actions if inflation rates in the months ahead diverge from RBI's assumed trajectory to the upside.

CURRENCY

INR Fell To New Record Lows

The INR fell to a new record low of 78/USD in mid-Jun as aggressive Fed rate hikes stoked fears of more portfolio outflows. Year-to-date, foreigners have withdrawn over USD24bn and USD2bn from India's stock and bond markets respectively. A widening current account deficit due to rising oil and commodity prices ballooning India's import bill is another pain point for the INR. On the positive side, the RBI can draw upon its mammoth USD600bn of FX reserves to smooth the volatility of the INR.

Overall, we reiterate the view of higher USD/INR going forward, in line with the expected weakness of regional currencies as the Fed stays the course of aggressive rate hikes in the 2H22 together with rising concerns of a China slowdown. Our updated USD/INR forecasts are at 79.00 in 3Q22, 80.00 in 4Q22, 80.50 in 1Q23 and 81.00 in 2Q23.

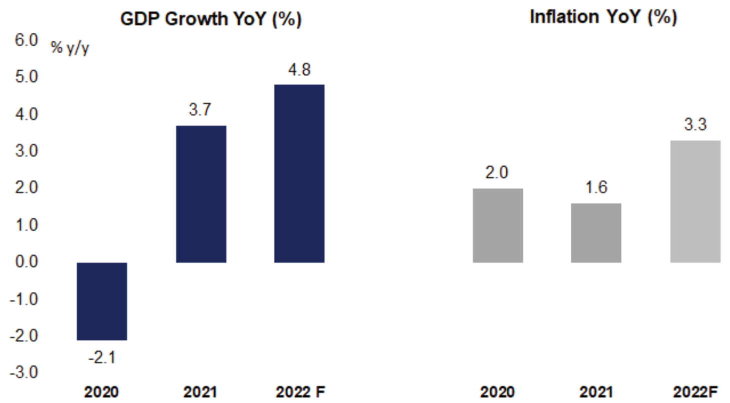
INDONESIA

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/IDR	15,000	15,100	15,100	15,200
IDR 7D Reverse Repo	4.00	4.50	4.75	5.00

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	-0.2	-1.0
Fiscal Balance (% of GDP)	-6.1	-4.6	-4.0	-3.0

Economic Recovery To Sustain In 2Q22

Source: Statistics Indonesia, UOB Global Economics & Markets Research



ECONOMY

Recovery To Sustain In 2Q22 And Thereafter

Indonesian economy grew 5.01% y/y in 1Q22, slightly lower than 4Q21's reading of 5.02%, but above our forecast of 4.9%. This marked the second straight quarter of steady economic expansion. All expenditure components grew except for government consumption that posted a contraction. Household consumption growth increased to 4.3% y/y in 1Q22 as compared to 3.6% y/y in 4Q21 amid the easing of restrictions on mobility and activities to manage the spread of COVID-19 infections and its corresponding risks to the healthcare systems and a determined transition towards an endemic state that allowed economic growth to remain steady. Meanwhile, investment spending growth slowed from 4.5% y/y to 4.1% y/y due to the slowdown in China's growth and the escalating tension between Russia and Ukraine. Export growth remained robust at 16.2% y/y in 1Q22, while imports rose 15% y/y in 1Q22. Meanwhile, Indonesia's current account posted a surplus of USD0.2bn (0.1% of GDP) in 1Q22, a decline compared to surplus of USD1.5bn (0.5% of GDP) in 4Q21. Higher services account deficit as overseas travel picked up, including pilgrimage-related travel, and lower remittances resulted in a lower current account surplus. The surplus in the trade balance also helped to support the current account surplus and provided stronger external sector resilience. From Jan 2022 until Apr 2022, Indonesia has booked USD16.9bn trade surplus. Higher than expected export growth has resulted in a sharp increase in the trade surplus in Apr. Higher commodity prices will also boost export performance and keep the trade surplus at an elevated level. Indonesia's trade surplus hit an all-time high in Apr 2022 to reach USD7.5bn (vs USD4.5bn in Mar), higher than market expectation of USD3.3bn as exports surged. Import growth slowed to 21.97% y/y in Apr (vs 30.8% in Mar), lower than market expectation of 34.9% y/y. Meanwhile, exports gained 47.8% in Apr (vs 44.4% y/y in Mar), which was higher than market consensus of 35.9%.

Going forward, as the economy reopens more sustainably and durably, with many sectors have returned to pre-pandemic output levels, economic growth is expected to be stronger this year. After the contraction in 2020 and positive growth in 2021, we are optimistic that 2022's GDP growth will strengthen further. Growth is set to speed up in 2022, on the back of accelerating household spending and private investment. Easing of Covid-19 restrictions, and supportive fiscal and monetary policies, should also fuel domestic demand. Moreover, the external sector stands to strengthen due to higher commodity prices. We continue to hold the view that the economic recovery will sustain this year and for GDP to register a growth in our forecast range of 4.6%-5.0% (mid-point of 4.8%) in 2022 compared to 3.7% in 2021. Nevertheless, downside risk remains amid the ongoing global uncertainty as the Russia-Ukraine conflict has resulted in higher food and energy prices, weaker China economic growth that is likely to reduce Indonesia's key exports to China, and tighter monetary conditions globally that is likely to put pressure on domestic economic growth. Our inflation forecast has also been revised from 2.4% to 3.3% to reflect the likely implications from those factors and developments mentioned before. Higher inflation would weigh on the extent of recovery of consumer spending, despite the positive effect from higher global commodity prices on net exports contribution to the overall growth. We are positive on investments that should continue to recover, supported by rising FDI and recent government efforts to ease business licensing.

CENTRAL BANK

BI Might Start Normalizing 2H22

Bank Indonesia (BI) kept its benchmark rate (7-Day Reverse Repo) unchanged at 3.50% at its May MPC meeting. We reiterate our view that Indonesia's rate hike cycle will begin soon, with our forecast that BI will start to hike its benchmark interest rates in the latter half of 2022. Our forecast is for two 25bps hikes in 3Q22 to 4.00%, followed by another two 25bps hikes in 4Q22 to 4.50%. As inflation remains within the 2 - 4% of the Central Bank's target range, BI will have the policy space to remain accommodative to support the economic recovery despite strong expectations of imminent US Fed rate hikes.

CURRENCY

USD/IDR Still Biased Higher

The resilient IDR finally cratered to the pressure of an abrupt weakening of the CNY in Apr on top of broad USD strength due to aggressive Fed rate hike repricing. USD/IDR broke out of its year-to-date consolidation between 14,250 and 14,420 and touched a 20-month high of 14,800. Continued outflow from the local bond markets in the 2Q22 also weighed on the IDR.

Taking a leaf from the 2018 playbook where the Fed hiked rates and implemented Quantitative Tightening concurrently, IDR is likely to stay on the defensive in the coming quarters. However, a strong rebound in the local economy together with BI raising rates in lockstep with the Fed may limit losses in the IDR. Overall, we update our current set of USD/IDR forecasts to 15,000 in 3Q22, 15,100 in 4Q22 and 1Q23, followed by 15,200 in 2Q23.

JAPAN

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/JPY	134	135	136	136
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10

Economic Indicators	2020	2021	2022F	2023F
GDP	-4.5	1.6	1.5	1.4
CPI (average, y/y %)	0.0	-0.2	3.5	2.0
Unemployment Rate (%)	3.0	2.8	2.4	2.6
Current Account (% of GDP)	3.3	2.8	2.0	2.0
Fiscal Balance (% of GDP)	-17.3	-12.2	-8.0	-6.0

ECONOMY

Uncertain Recovery Amidst Inflation Headwinds

Japan's 1Q GDP contraction was revised to a smaller -0.5% q/q seasonally adjusted annualized rate (from the prelim -1%), due to a bigger than expected jump in private inventories (0.5ppt from 0.2ppt in prelim estimate) and while private consumption spending turned slightly positive (0.1% from -0.1%), it did not materially add to growth. However, the business spending recovery took a hit as it was revised from a 0.5% q/q rise to a 0.7% decline in 1Q. Public demand was also revised weaker, especially public investment (at -3.9% q/q from prelim's -3.6%). Net exports continued to weigh on the GDP, extracting -0.4ppt from the change in GDP as imports (+3.3% q/q) outstripped exports (+1.1% q/q).

The smaller q/q setback in the first quarter was due to the wave of COVID-19 infections attributed to the Omicron variant as the government quickly implemented (less restrictive) measures to curb the domestic spread of the infection and tourists remained largely absent as Japan promptly closed its borders upon news of Omicron.

We expect Japan's economy to rebound in 2Q although the extent will be curbed by stronger inflation impacting domestic demand. Adding to the inflation woes is the weaker yen which is a two-edged sword for Japan as it makes Japan's exports more attractively priced, but it will worsen the import bill along with the surging commodity prices. In the first five months of 2022, Japan recorded a trade deficit of JPY6.5 trillion (well above the JPY1.7 trillion deficit in whole of 2021). And it all boiled down to surging fuel costs which drove up imports by nearly 36% y/y in the first 5 months of 2022, outstripping the 14% export increase, leading to the ballooning trade deficit. We now expect Japan to run a wider trade deficit of JPY5.5tn in 2022 (up from previous estimate of JPY4tn). Meanwhile, weaker growth outlook in Japan's key trading partners (especially Eurozone) will also imply weaker demand for Japan's exports, adding further downside to growth.

Japan has been slow to re-open borders to tourism, compared to its G7 peers and many of the Asian economies. That said, it will finally reopen its borders to international travellers after a 2-year hiatus, starting 10 Jun, but at a gradual pace, initially accepting visitors on guided tours with vaccine-differentiated guidelines from the 98 low-risk countries and regions. The key reason for the government's cautious reopening efforts is due to the very divisive nature of this issue ahead of the upcoming 21 Jul Upper House election. After the elections, we expect to see an accelerated pace of re-opening which will boost the domestic demand recovery. We expect Japan to resume its growth trajectory but at a moderate pace of 2.2% q/q SAAR in 2Q (from previous forecast of 3.9%). We now project Japan's full-year 2022 GDP growth at 1.5%, from 1.7% in 2021. The growth outlook will still be clouded by the on-going Russia-Ukraine situation.

Japan's headline CPI inflation surged to 2.5% y/y in Apr (from 1.2% in Mar). Excluding fresh food, the core inflation rose by 2.1% y/y (from 0.8% in Mar), the first above 2% print for core inflation since Mar 2015. That said, if we further exclude energy items, the core-core inflation rose by 0.8% y/y in Apr (from -0.7% in Mar), while not near the 2% objective, it is the first positive inflation since Mar 2021. Factoring the commodity price surge, worsening trade factors and fading of the 2021 drag of mobile charge fees, both CPI headline and core inflation will spike well above 2% in 2H 2022, above the Bank of Japan's (BOJ) 2% inflation target. But it will be temporary and not for the desired reason as wage driven inflation remains largely elusive. We upgraded headline CPI inflation to average 3.5% (from previous forecast of 2.5%) while core inflation will average 2.8% (from 2.2%) in 2022.

CENTRAL BANK

BOJ At Odds With G7 As Easy Stance Stays

In its 17 Jun MPM, the BOJ kept policy rates unchanged and the current stance is appropriate. In a stark divergence with its G7 peers, the BOJ kept its preference for easing ("The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner" and "it expects short- and long-term policy interest rates to remain at their present or lower levels.") It included a rare statement that the BOJ will "pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices", a clear reference to the recent slump in the JPY. 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

Relentless Rally In USD/JPY Continues

There is still no respite for the JPY. After a brief rebound in May, the JPY weakened anew in Jun and touched fresh 20-year lows of 135.59 /USD. Driven by the wide monetary policy divergence between Fed and BOJ, USD/JPY continues to mirror moves in the 10-year US Treasuries yield. Rising oil prices which will balloon Japan's imports bill and worsen its trade deficit is another pain point for JPY. On the flow side, another source of JPY weakness are Japanese lifers' plans to reduce their hedge ratio of their existing foreign bond holdings due to rising hedging costs. Even after plummeting over 15% against the USD since Mar, there appears to be no immediate risk of intervention from BOJ to shore up the JPY.

Alongside our expectations of further upside in 10-year US Treasuries yield, we lift our USD/JPY forecast further given that our previous year-end target of 130 is taken out with relative ease. Our latest USD/JPY forecasts are 136 in 3Q22, 137 in 4Q22, and 138 in both 1Q23 and 2Q23. A key risk to our bullish USD/JPY view is a return of the JPY's role as a safe haven if recession fears intensify. Given the JPY's outsized drop in the last couple of months and overly negative positioning, the prospect of a significant short squeeze in that scenario cannot be underestimated.

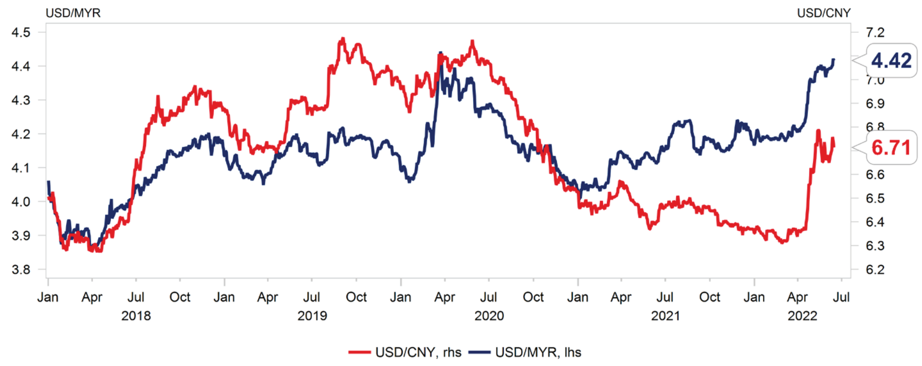
MALAYSIA

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/MYR	4.46	4.48	4.50	4.52
MYR O/N Policy Rate	2.50	2.50	2.75	3.00

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 Weakness In Tandem With CNY

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Growth is On Track

Economic momentum started off strong with GDP growth of 5.0% y/y or 3.9% q/q seasonally adjusted in 1Q22. This is encouraging amidst the effects of Omicron wave and floods. GDP levels have exceeded pre-pandemic levels in 1Q19 by 5.2%. Key sectors leading the rebound were services, manufacturing and agriculture. Growth was also supported by higher consumption and investment activities as the economy reopened and restrictions were eased.

As the economy transitions to endemicity, borders reopened, and all restrictions eased from mid-May onwards, growth should stay robust in 2Q-3Q. The low base effect will also provide a fillip to growth. Key downside risks include broader risks related to Russia-Ukraine crisis, effects of Fed's aggressive tightening path, slowdown in China's economy, global supply chain disruptions, higher inflation pressures, and potential threat of new COVID variants. We expect full-year GDP growth of 5.5% (2021: 3.1%, official est: 5.3%-6.3%).

While higher oil prices are a boon for Malaysia's commodity exports and fiscal revenues, prolonged elevation of commodity prices is hurting fiscal balances due to the burgeoning fuel subsidy bill this year, which is estimated at MYR30bn (vs. MYR11bn in 2021). Owing to the higher cost of imported oil for domestic fuel consumption, Malaysia was a net oil importer in Mar-Apr. Higher imported goods due to rising costs and demand led to a narrower current account surplus of MYR3.0bn or 0.7% of GDP in 1Q22.

Government officials are working on a subsidy rationalisation program with a targeted subsidy system to manage the rising operating costs.

CENTRAL BANK

BNM Raises OPR

Bank Negara Malaysia (BNM) lifted the Overnight Policy Rate (OPR) by 25bps to 2.00% in May. This marks the first rate hike since 2018. We think there is room for BNM to follow-through with another 25bps rate hike at both the July and Sep meetings. Thus our updated OPR forecasts are 2.50% by end-2022 and 3.00% by mid-2023 (vs. 2.25% and 2.50% previously).

BNM signalled a more positive view on Malaysia's economy amid signs of firmer economic growth which is supported by the easing of restrictions and reopening of international borders. Investment prospects have improved and the labour market has strengthened further.

The improvement in economic activity is expected to lift core inflation higher to average 2.0%-3.0% this year while headline inflation is expected to average 2.2%-3.2%. However, these forecasts do not account for potential revisions to electricity and water tariffs as well as subsidies.

Ground checks suggest that price pressures are building with more cost pass-through anticipated in coming months. Food inflation recorded its largest annual increase since 2017 at 4.2% in Apr. Price control measures have affected food supplies, in particular chicken, that led to a temporary ban on chicken exports and lifting of permits for selected food imports. Higher minimum wages (w.e.f. May) and labour market improvements would further fan demand-pull inflation.

CURRENCY

MYR Selloff Alongside CNY

Since mid-Apr, USD/MYR traced the sharp rise in USD/CNY and tested a two-year high of about 4.42 in Jun. With China being Malaysia's top export destination, it is no surprise that the currency or economic woes in the former would also pass through to MYR. During the US-China trade conflict across 2018-2019, we had seen the tight correlation between CNY and MYR came into play. This time round, it seems no difference as well. The dwindling yield advantage over US Treasuries given the higher rate hike profile of the Fed relative to BNM is likely to weigh on the MYR. Alongside expectations of further CNY weakness, we expect USD/MYR to trade higher as the Fed has only started on its aggressive monetary tightening path. We project USD/MYR at 4.46 in 3Q22, 4.48 in 4Q22, 4.50 in 1Q23 and 4.52 in 2Q23.

PHILIPPINES

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/PHP	54.0	54.5	55.0	55.0
PHP O/N Reverse Repo	3.00	3.50	3.75	4.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-9.5	5.7	6.5	6.5
CPI (average, y/y %)	2.4	3.9	5.0	4.0
Unemployment Rate (%)	10.4	8.0	5.7	5.2
Current Account (% of GDP)	3.2	-1.8	-4.5	-3.7
Fiscal Balance (% of GDP)	-7.6	-8.6	-7.6	-6.1

ECONOMY

Recovery Prospects Intact

The Philippines' economy got off to a strong start this year, with 1Q22 real GDP growth accelerating to a three-quarter high of 8.3% y/y (from 7.8% in 4Q21). It was propelled by a persistent expansion across all sectors, the strongest household consumption growth on record, robust investment and continued stock replenishment activities regardless of the Omicron wave hit during the quarter.

On a seasonally adjusted q/q basis, the economy expanded for the third straight quarter by 1.9% (4Q21: +3.5%), with the absolute GDP value (of PHP4.9tn) surpassing pre-pandemic levels, faster than our expectation for a return by 3Q22. This third quarter of seasonally adjusted q/q expansion also indicates that the nation's economic recovery is on a firmer footing following the re-opening of the economy and country borders in Feb amid the continuation of targeted government policy support.

Other positive growth catalysts include the world's transition to endemicity and broad policy continuity after President-Elect Ferdinand Marcos Jr. takes office at the end of Jun. Marcos Jr. has said he will keep most of the outgoing President Rodrigo Duterte's economic policies including ongoing "Build, Build, Build" infrastructure programs. Furthermore, Marcos Jr. has a "super majority" in Congress that will also allow him to push through legislation, chiefly the passage of the national budget and tax measures, to boost economic growth and attract foreign investments in the short to medium term.

Taken together, we expect the Philippine economy to sustain its growth momentum through 2022 and into 2023 amid intensified external challenges, logging full-year GDP growth of 6.5% in both 2022 and 2023 (official est: 7.0%-8.0% for 2022 and 6.0%-7.0% for 2023, 2021: +5.6%). Having said that, downside risks to the growth outlook could emanate from the ongoing war in Ukraine, slowing economic growth in China, heightened global financial volatility, as well as scarcity of materials and supply bottlenecks.

CENTRAL BANK

BSP Likely To Speed Up Its Rate Hike Path

The national headline inflation is poised to stay above 5.0% for the rest of 2022 and into 1Q23 after breaching the 5.0% level for the first time since Dec 2018 at 5.4% y/y in May (Apr: +4.9%). This comes as the domestic economy continues to reopen, external supply shocks persist, and higher minimum wages further intensify second-round effects on inflation. It will lead to a higher inflation rate of 5.0% for the entire year of 2022 (BSP est: 4.6%, 2021: 3.9%) and 4.0% for 2023 (BSP est: 3.9%).

The latest strong inflation outturn in May and rising inflation expectations would validate a second 25bps hike in the overnight reverse repurchase (RRP) rate by Bangko Sentral ng Pilipinas (BSP) at the upcoming monetary policy meeting on 23 Jun. This Jun rate hike has been telegraphed by both outgoing BSP Governor Benjamin Diokno and incoming BSP Governor Felipe Medalla last month (May). Post the release of May inflation data on 7 Jun, the incoming Governor Felipe Medalla reiterated that "it's almost a sure thing to everyone that we will raise in Jun", and there is 90% chance of another rate hike in Aug. These successive hikes will lift the RRP rate to 2.75% from 2.25% currently. He added that increases beyond 2.75% before 2023 will be data dependent.

Besides emerging price inflation risks, the continued improvement in domestic economic activities, an increasing expectation for more aggressive hikes in the US Fed Funds rate for the rest of this year, and other central banks' faster policy tightening pace are also strengthening the case for back-to-back BSP rate increases and moving in near lockstep with US rates. Hence, we have revised our BSP rate hike call to 25bps at every remaining meeting of this year (vs +25bps each in 3Q22 and 4Q22 previously). Including the 25bps hike in May, this implies a total of 150bps increases this year, doubling our previous estimate of 75bps (vs cumulative 275bps cuts between 2019 and 2020). This will bring the RRP rate to 3.50% by the end of 2022, leaving a zero interest rate gap with US (vs a minimum of +75bps between 1998 and 2021).

Regarding the reserve requirement ratio (RRR), the incoming BSP Governor Medalla said on 7 Jun that the RRR will be lowered by 200bps to 10% about a month or two before a rule that allows lending to small businesses be counted as compliance to the requirement expires in Dec 2022. A 200bps RRR cut would release liquidity that is roughly equal to the total funds that is currently counted as alternative compliance.

CURRENCY

PHP To Remain On A Weakening Trend

The Philippines Peso (PHP) has been on a depreciation trend since Dec 2021, weakening by 4.6% year-to-date to 53.45 against USD as of 15 Jun 2022. This depreciation trend is expected to persist through 2H22 given a continuation of strong USD backdrop and several domestic contributing factors to a weak currency. The combination of aggressive front loading of US rate hikes, faster Quantitative Tightening by the US Fed, and growing concerns about a global recession will continue to drive investors toward safe-haven assets including USD in the near term.

Domestic factors that undermine the performance of PHP include larger current account deficits and still high fiscal deficits projected for 2022 and 2023 as compared to pre-pandemic levels. Also, the narrowing interest rate differentials with US rates and elevated inflation expectations at home will make some Philippine investment assets less attractive, leading to foreign capital outflows.

Hence, we maintain our upward trajectory for USD/PHP at 54.0 in 3Q22, 54.5 in 4Q22, and 55.0 in both 1Q23 and 2Q23.

SINGAPORE

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/SGD	1.40	1.41	1.41	1.41
SGD 3M SIBOR	2.15	2.75	3.10	3.10

Economic Indicators	2020	2021	2022F	2023F
GDP	-4.1	7.6	3.5	2.0
CPI (average, y/y %)	-0.2	2.3	5.0	3.0
Unemployment Rate (%)	3.3	2.4	1.9	2.0
Current Account (% of GDP)	14	18.6	17.0	15.9
Fiscal Balance (% of GDP)	-4.6	-0.9	-0.5	2.0

ECONOMY

Inflation & External Risks

Singapore's 1Q22 GDP growth was revised higher to 3.7% y/y (0.7% q/q) from prelim estimate of 3.4% y/y (0.4% q/q). Unsurprisingly, manufacturing anchored growth again as the sector expanded by 7.1% y/y in 1Q, the seventh straight quarter of increase, led by electronics, transport engineering and general manufacturing. Construction (2.1% y/y) and services (4.2% y/y) sectors that were previously negatively affected by the COVID-19 pandemic continued to rebound in 1Q.

External trade, lifeblood for Singapore's economy, has been robust since 2021 and a key pillar in supporting overall growth. The non-oil domestic exports (NODX) expanded for its 17th straight month in Apr (6.4% y/y), led by broad expansions in both electronic (12.8% y/y) and non-electronic (4.6% y/y) shipments, while demand from key trading partners has also stayed buoyant as NODX rose y/y in 7 out of 10 key export destinations.

Domestic consumption in 2Q were boosted by the easing of dine-in restrictions and further relaxation of COVID-19 rules for travellers as borders reopen further, with retail sales improving to 12.1% y/y in Apr (from 8.8% in Mar). Domestic retail sales will continue to stay supported in 2H22, in line with the positive economic outlook and tightening labour market while on the external front, we expect the retail sector will benefit as borders reopen, complementing the recovery in domestic activities. Overall, we expect retail sales to grow by 6% in 2022.

Beyond the positives mentioned above, there are several well-telegraphed external risks that have weakened Singapore's outlook; 1) the on-going Russia-Ukraine conflict and its impact on commodity prices (and the resulting elevated inflation risks and potentially crimping of domestic demand), 2) global supply chain disruptions, 3) monetary policy tightening stance in the advanced economies, and 4) COVID-19 risks.

Taking into account of these risk factors, we remain confident that Singapore will be well placed to transition into a COVID-19 endemic state and return closer to normalcy which will be positive for the services and construction sectors, while manufacturing continues to underpin growth outlook. We are concerned about the tight labour market situation but the expected increase in foreign labour supply as borders reopen will augment the existing labour supply within Singapore's labour-intensive industries such as maritime, construction, selected manufacturing and services industries. **We keep our growth outlook for Singapore at 3.5% for 2022**, against MTI's forecast of between 3–5%, which the MTI said in its latest assessment that it is now expecting GDP growth "likely to come in at the lower half of the forecast range." We lower our 2023 growth to 2% (from previous forecast of 3.5%) to reflect the uncertain external outlook next year.

The key detrimental factor resulting from the Russia-Ukraine conflict has been the rising commodity prices and consequently elevated inflation threat. Brent crude prices remained well above US$100/bbl since the onset of the conflict, from US$77.8/bbl at the start of 2022. Singapore imports almost all of its energy needs, with petroleum representing 86% of the economy's energy consumption, followed by natural gas (13%) while coal and renewables account for the remaining 1%. Inflation is also magnified by the higher food-related-commodity prices while domestically, the tight labour market situation resulting in upside wage pressures also bears watching. We now expect headline inflation to average 5.0% (up from previous forecast of 4.5%) and core inflation at 4.0% (up from previous forecast of 3.5%) in 2022. This is in line with the official outlook for headline CPI (4.5 – 5.5%) but exceeds the core inflation forecast range (2.5% - 3.5%), and the risks are tilted to the upside.

CENTRAL BANK

MAS To Stay On Tightening Course With Risk Of Another Off-Cycle

As discussed earlier, inflation pressures are expected to persist and accelerate in 2022 on the back of higher import prices and domestic wage growth. More pertinent perhaps, is that core inflation is also projected to remain well above 2.0% for the rest of this year. This is important especially because core inflation is a measure that "MAS monitors most closely, among the range of indicators" and MAS views core inflation to be "just under 2%" as a level that is defined to be consistent with overall price stability. After the Jan and Apr rounds of policy tightening, we believe the central bank is not done yet. **We expect MAS to further steepen the S$NEER gradient in its upcoming Oct 2022 policy statement**, while leaving the width of the band and the level at which it is centred unchanged. We estimate the current slope of the S$NEER to be 1.5% appreciation per annum and has room to go higher when we look at historical episodes of MAS policy decisions. Our expectation is for it to be raised to 2% in Oct. But the risk of another double-tightening or a steeper slope or perhaps, most importantly, another off-cycle tightening (ahead of Oct) cannot be ruled out especially if core inflation accelerates well above 4% in the next few months.

CURRENCY

USD/SGD Targets 1.40

The effects of MAS' latest double-tightening move (in Apr) on the SGD is getting clearer. The SGD outperformed the region and narrowed its quarter-to-date losses to about 1.38 /USD after almost touching 1.40 in mid-May. The S$NEER also rose to a new record high of about 130 in early Jun, effectively recouping all its losses sustained during the pandemic. Even with the resilience of the SGD, the broad USD strength is still expected to dominate. Increasingly tight correlation between USD/SGD and a rising USD/CNY will underpin the former as well. However, the prospect of a further tightening by MAS in Oct or another off-cycle tightening (ahead of Oct) will sustain the SGD outperformance and likely cap gains in USD/SGD at 1.41 for now. Overall, we reiterate our view of a modestly higher USD/SGD going forward with updated forecasts at 1.40 in 3Q22 and 1.41 in 4Q22, 1Q23 and 2Q23.

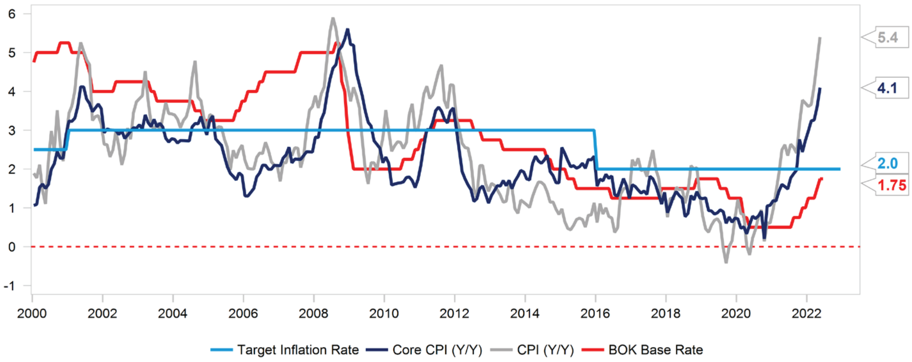
SOUTH KOREA

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/KRW	1,300	1,310	1,320	1,330
KRW Base Rate	2.25	2.50	2.50	2.50

Economic Indicators	2020	2021	2022F	2023F
GDP	-0.7	4.1	2.7	2.6
CPI (average, y/y %)	0.5	2.5	4.3	2.5
Unemployment Rate (%)	4.5	3.8	3.6	3.7
Current Account (% of GDP)	4.6	4.9	3.5	4.0
Fiscal Balance (% of GDP)	-4.4	-4.4	-3.5	-3.5

Stronger-Than-Expected Inflation Strengthens The Case For Further Rate Hikes

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Growth To Moderate In Subsequent Quarters

South Korea's GDP rose sequentially for the 7th consecutive quarter though momentum has moderated in 1Q22 to 0.6% q/q from 1.3% in 4Q21, on a seasonally adjusted basis. Exports of goods & services continued to drive the growth in 1Q22 but momentum has turned negative for gross fixed capital formation and private consumption amidst the uncertainty from higher commodity and food prices. Export gains were supported by strong demand for semiconductors, coal & petroleum products and chemical products.

As the external demand outlook weakens, South Korea's exports and investments will find it increasingly more difficult to outperform. However, private consumption will likely be lifted as the country moves towards endemicity with pent-up demand and improvements in the labour market underlying the recovery. The unemployment rate has stayed at its record low of 2.7% for three consecutive months in Apr aided by the government's temporary job creation program. And since Apr, South Korea has allowed vaccinated travellers to enter without quarantine and removed restrictions on restaurant opening hours and size limit for private gatherings.

An expansionary fiscal policy is an added boost. The Finance Ministry passed a second supplementary package for 2022 in May that is worth KRW62tn (3.0% of GDP) to increase financial support to small businesses and COVID-19 related healthcare expenses and also included KRW23.0tn budget to raise local government subsidies. The first supplementary budget passed in Feb was worth KRW16.9tn (0.8% of GDP). The supplementary packages to date are higher than KRW49.8tn passed in 2021. The second extra budget is expected to boost GDP growth by 0.2ppt-0.3ppt.

Overall, risks are biased to the downside due to the sustained gains in global commodity prices, an acceleration in monetary policy tightening, slower growth in China and geopolitical tensions. From 3.0% y/y in 1Q22, we expect GDP growth to moderate in the subsequent quarters with full-year growth averaging around 2.7%.

Key driver for the faster and larger pace of rate hikes is the higher inflation trajectory as its large imports of oil makes South Korea more susceptible to imported inflation. This has also worsened its trade balance which recorded large deficits in three out of five months to-date. Other than elevated commodity and food prices, the weaker Korean won (KRW), supplementary budgets and recovery in tourism may also contribute to greater inflationary pressures, but weaker global growth may mitigate that to some extent.

In May, the BOK raised its headline inflation forecast for 2022 sharply higher to 4.5% from 3.1% and to 2.9% from 2.0% for 2023. Our forecast for headline inflation is at 4.3% and 2.5% for 2022 and 2023 respectively.

May's headline inflation is at a 14-year high of 5.4% y/y while core inflation (excluding agricultural products & oils) is above 4% for the first time since May 2009. We expect headline inflation to stay above 5% in the next few months and only ease below 3% by 2Q23.

CENTRAL BANK

BOK Likely To Hike Three More Times This Year

To tame inflation, BOK has raised its base rate five times since Aug 2021 with a cumulative 125bps hike as of May 2022.

The BOK's inflation forecasts indicate an elevated inflation view into 2023, strengthening the case for further monetary policy tightening. We have thus revised our forecast and now expect the central bank to hike its base rate by 25bps at each of the three subsequent meetings in Jul, Aug and Oct before pausing at its last meeting this year in Nov, at 2.50%. Governor Rhee Chang-yong who chaired his first monetary policy meeting in May has turned out to be more hawkish than we expected as he called for further tightening to get real interest rates to a neutral level but without specifying where it is. Notably, changing inflation and growth trajectory will cause the neutral rate to shift.

CURRENCY

No Respite For KRW

Being a high beta currency sensitive to global growth expectations, the KRW continued its losing streak in the 2Q22 on concerns that the rapid tightening pace of global central banks would slow global growth. A prolonged Russia-Ukraine conflict and missile testing by North Korea also dented sentiments on the KRW. As such, USD/KRW rose as much as 6.6% within the quarter to 1291, close to its pandemic peak of 1293 in Mar 2020. While BOK is one of the more aggressive Asian central banks in hiking rates, US yields are still rising faster than Korean yields, rendering a modest support for USD/KRW.

Overall, we reiterate our view of higher USD/KRW going forward, with updated forecasts at 1300 in 3Q22, 1310 in 4Q22, 1320 in 1Q23 and 1330 in 2Q23.

TAIWAN

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/TWD	30.0	30.2	30.4	30.5
TWD Official Discount Rate	1.63	1.75	1.88	1.88

Economic Indicators	2020	2021	2022F	2023F
GDP	3.4	6.6	3.6	3.5
CPI (average, y/y %)	-0.2	2.0	3.0	2.0
Unemployment Rate (%)	3.7	3.7	3.7	3.6
Current Account (% of GDP)	14.2	14.8	13.0	13.0
Fiscal Balance (% of GDP)	-1.0	-2.2	-1.0	-0.8

ECONOMY

In Need Of A More Balanced Recovery

Taiwan's real GDP grew by 3.14% y/y in 1Q22, moderating from 5.32% y/y in 4Q21 against a high base of comparison. The largest contributions to the headline 1Q22 GDP growth were from gross fixed capital formation (+1.5% point) and net exports (+1.5% point) while the marginal gains from private consumption (+0.2% point) offset a slowdown in government consumption (-0.1% point).

Taiwan's Omicron COVID outbreak worsened in Apr and new domestic infections have continued to stay elevated in Jun. This likely dampened private consumption recovery in 2Q22 as residents cut back on social activities even as the government backs away from its earlier zero-COVID stance. As more regional countries move to lift border restrictions, Taiwan has also relaxed its quarantine requirements for visitors. Meanwhile, the pandemic lockdown in Shanghai has led to a surprise contraction in Taiwan's export orders in Apr for the first time since Feb 2020 as logistics disruption and material shortages affected orders. These factors likely weighed on the growth in 2Q22.

Looking ahead, the economy will continue to derive its growth momentum from export demand for semiconductors which are needed to support new technological applications, digitalisation as well as for inventory building amid supply disruption risks. Investment is expected to remain strong due to the positive outlook for the semiconductor industry as well as ongoing reshoring of Taiwan's overseas companies but the high base last year will cap the growth performance in particular for 2H22.

Private consumption may have more room to rebound due to stronger wage growth as well as a low base of comparison, having contracted for two consecutive years in 2020-21. The unemployment rate has remained stable at 3.7% over the last six months while total employment has fallen since the start of the year due to a pick-up in domestic COVID infections. Increasing confidence to pursue COVID endemicity is crucial to expand Taiwan's growth drivers given the reliance on investments and exports for its recovery so far while the growth remains unbalanced as tourism related and services sectors are lagging.

We are maintaining our forecast for Taiwan's GDP growth at 3.6% for 2022, slightly lower than the central bank's revised forecast of 3.75% (vs. 4.05% in Mar). GDP growth is likely to come in at around 3.3% y/y in 2Q22 and 4.1% y/y in 2H22 as the high base eases. Increasing risks in the external environment from higher commodity and food prices, supply disruptions and accelerated pace of global monetary policy tightening as well as domestic COVID situation and geopolitical tension with China are the main risks to Taiwan's outlook.

Headline inflation has been accelerating to reach its decade high at 3.4% y/y in Apr and May, staying well above the 2% threshold of the Central Bank of the Republic of China (Taiwan) (CBC) for the 10th consecutive month. Meanwhile, core inflation is at its highest since Jan 2009 at 2.6% y/y in May.

Higher food and transport prices are the key inflation drivers but consumer goods and services inflation are also strengthening. We think the headline inflation may only ease below 3% in 4Q22 and average 2% next year. Our forecast for inflation is at 3.0% for this year, higher than the CBC's 2.83%. The upside risks to inflation would warrant the CBC to continue tightening its monetary policy until clear signs emerge that the inflation is peaking.

CENTRAL BANK

CBC Delivered Back-To-Back Hikes In Mar And Jun

The CBC announced a combination of interest rate hike and quantitative tightening in Jun. The central bank raised its benchmark discount rate by 12.5 bps to 1.50%, a more moderate pace compared to consensus forecast for a 25 bps increase. It also lifted the reserve requirement ratios (RRR) by 25 bps, effective from 1 Jul. Taken together, these moves suggest that the CBC is maintaining its hawkish bias.

The Jun rate increase was the first back-to-back hikes since 2011, bringing the discount rate to its highest since Mar 2016 when it was at the same level. The uncertainties in the global environment, including the downside growth risks underlie CBC's preference for a slower tightening trajectory and followed its larger than expected 25 bps hike in Mar.

Our base case is for the CBC to continue to raise interest rates at its usual pace of 12.5 bps per quarter until 1Q23. This will bring the discount rate to 1.625% by 3Q22, 1.75% by 4Q22 and top out at 1.875% by 1Q23, assuming that inflation starts to taper by then. Given the upside risks to global inflation, we think there remains the possibility that the CBC will need to accelerate its interest rate tightening in 2H22 by hiking 25 bps at either the Sep or Dec meeting.

CURRENCY

USD/TWD To Trade Above 30

Once one of Asia's most resilient currencies during the pandemic years, the TWD has flipped to become a laggard, dropping about 7% year-to-date against the USD. The local currency faced a multitude of headwinds ranging from weaker growth outlook, domestic COVID-19 situation and geopolitical tension with China. We noted the strong correlation of TWD with technology stock prices. With the Nasdaq Composite peaking last Nov and have entered a bear market in 2Q22, the TWD has fallen in tandem. We continue to see the current pullback in TWD as a normalization of the currency's overvaluation in the last couple of years.

Overall, with the USD underpinned by Fed's aggressive rate hikes, we maintain an upward trajectory for USD/TWD with updated forecasts at 30.0 in 3Q22, 30.2 in 4Q22, 30.4 in 1Q23 and 30.5 in 2Q23.

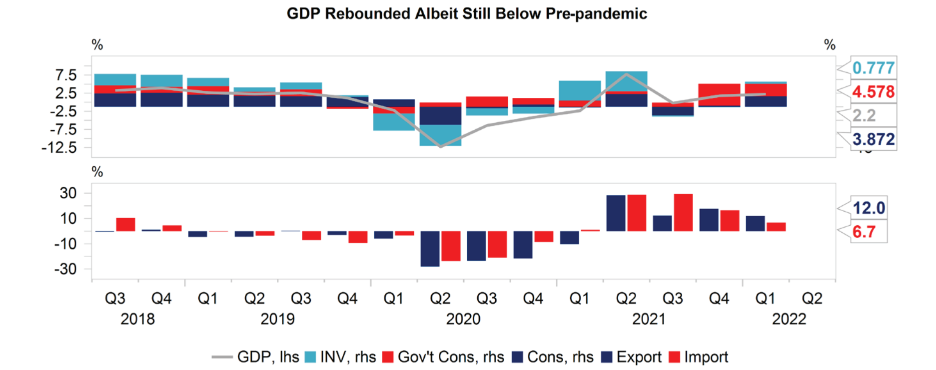
THAILAND

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/THB	35.4	35.8	36.2	36.2
THB 1D Repo	0.50	0.75	1.00	1.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.2	1.6	3.2	3.7
CPI (average, y/y %)	-0.8	1.2	6.0	2.7
Unemployment Rate (%)	1.9	1.6	1.4	1.2
Current Account (% of GDP)	0.3	-1.6	-0.8	2.8
Fiscal Balance (% of GDP)	-3.0	-3.7	-4.6	-3.8

Thailand's GDP Expanded 2.2% In 1022 but Will Pick Up pace in 3Q onwards

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Tourism Key For Recovery

Thailand's economy fared better than expected in 1Q22 as the slew of relaxation in Covid-19 restrictions bode well for the tourism industry. GDP registered a 2.2% y/y growth (from 1.8% in 4Q21), marking the strongest increase since 2Q21. Private consumption growth accelerated to 3.9% y/y in 1Q22 from the previous quarter's 0.4% increase. Investment rebounded, growing 0.8% in 1Q, reversing the 0.2% contraction in 4Q21. Government consumption growth slowed to 4.6% (1.8% in 4Q21). Exports of goods and services increased 12.0% y/y, which was below 4Q21's 17.6% and imports growth moderated to 6.7% (16.4% in 4Q21). As such, given an outlook of moderating exports growth accompanied by a pickup in imports, we now revise our current account projection from a surplus into a small deficit of 0.8% of GDP for 2022.

However, with only a gradual opening taking place now, 2Q22 GDP is expected to remain soft. We expect the pace of economic growth to pick up pace in the latter part of this year, underpinned by higher tourism inflows that will further support the recovery of domestic household spending amid a tight labor market and expansionary fiscal & monetary policies. Runaway inflationary effects from the supply chain disruptions stemming from China's stringent Covid-19 policy pose downside risks on growth. On balance, we expect growth to double its momentum to 3.2% in 2022 vs. 1.6% back in 2021 and then to accelerate further to 3.7% in 2023.

CENTRAL BANK

Rate Hike In Nov Likely, With Chance Of An Earlier Move

Inflation jumped higher again to 7.1% y/y after slowing to 4.6% y/y in Apr, marking the highest inflation rate since 2008 where inflation edged to as high as 9.2%. In the details, prices for food and non-alcoholic beverages as well as energy prices increased at a quicker pace though prices for housing and furnishing were steady. Raw food and energy account for one-third of Thailand's CPI basket. The key direct impact from the Russia-Ukraine conflict is likely to further elevate the already higher inflation climate in 2022. Core inflation was stable at 2.3% in May, in line with the slow and gradual recovery of domestic demand.

On account of higher food and energy prices and to factor in some extent of uncertainty ahead, we have revised up our 2022 inflation significantly to 6.0% in 2022, up from 4.0% previously before easing to 2.7% in 2023, which was also an upward revision from 2.0% before. BOT's inflation forecast for 2022 and 2023 stands at 6.2% and 2.5% respectively. Our revised inflation forecast assumes that inbound tourism will start to positively induce higher domestic economic activities, while demand-pull inflation will start to pull both core and headline inflation northward. Additionally, we also have witnessed a widening gap between PPI and CPI, and we believe that the spillover effects from much higher PPI prices into domestic CPI is imminent.

Higher inflation reading in May is well above the upper bound of BOT's 1-3% target range, and BOT's latest MPC minutes does present a less dovish stance, despite its latest meeting on 8 Jun, where the BOT MPC held the policy rate at the record low of 0.50% for the 16th consecutive meeting to lend continuing support to the economy amidst upsurging inflationary pressures. Therefore, we forecast BOT to hike in the coming quarter. However, looking at the balance of focus on growth amid mounting inflationary pressures, we revise our BOT policy rate forecast and now call for BOT to hike at the Nov MPC meeting (vs our previous expectation of first lift-off in Jun). That said, we may see the first hike delivered earlier either at the Aug or Sep meeting), likely by 25bps. Our view is also supported by a persistent observation that the negative real rates have been continuously kept in place despite fast rising inflationary pressure that has been building up since 3Q21. By keeping prolonged negative real rates, we view such stance as a pro growth-supportive monetary policy action. Besides, dramatic increase in the headline inflation is mainly caused by supply disruption and not strong comeback in demand, as suggested by tepid and rather steady core inflation thus far.

CURRENCY

THB Stays Defensive

Alongside most Asian peers, THB fell against the USD in the 2Q after registering a modest gain (+0.5%) in the 1Q. On top of broad USD strength due to the Fed's aggressive rate hike trajectory, the THB is also weighed by intensifying China's growth concerns as the Shanghai lockdown dragged across most part of the 2Q.

On top of external factors, THB is likely to stay on the defensive in the 2H22 as Thailand nursed a current account deficit for a second year while the very modest tightening by BOT this year (relative to the Fed and other Asia central banks) may spur portfolio outflows.

As such, we maintain our upward trajectory in USD/THB and update the point forecasts at 35.4 in 3Q22, 35.8 in 4Q22 and 36.2 in both 1Q23 and 2Q23.

VIETNAM

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
USD/VND	23,400	23,500	23,550	23,600
VND Refinancing Rate	4.00	4.00	4.00	4.25

Economic Indicators	2020	2021	2022F	2023F
GDP	2.9	2.6	6.5	7.0
CPI (average, y/y %)	3.2	1.8	3.7	5.0
Unemployment Rate (%)	2.4	3.6	2.3	2.2
Current Account (% of GDP)	4.4	0.0	1.3	0.6
Fiscal Balance (% of GDP)	-4.0	-4.1	-4.7	-4.8

ECONOMY
Steady As She Goes But External Risks Weigh

Vietnam's real GDP grew 5.03% y/y in 1Q22, extending the 5.22% pace in 4Q21 as services sector rebounded after more parts of its economy were reopened with relaxation of mobility and distancing restrictions. Manufacturing sector continued to take the lead, and most significantly, overall services sector expanded 4.58% y/y, from 1.22% in 4Q21 and 3.62% in 1Q last year. It was clearly that services activities were able to benefit from the lifting of COVID-19 restrictions imposed during 2H21.

Recent data suggest that Vietnam's underlying growth momentum remained intact in 2Q22. Manufacturing sector continued to power on, registering 9.24% y/y gain in May YTD, vs. 8.28% in Apr, and the strong performance of 12.59% in May 2021. This performance is also reflected in the purchasing managers' index (PMI), which was in its 8th month expansion in May.

A forward indicator, foreign direct investment (FDI) inflows, pared back somewhat in May amid uncertainty from the Russia-Ukraine conflict and elevated commodities prices. Registered FDI recorded a decline of 16.3% y/y YTD to USD11.71 bn, the fourth straight month of negative readings. High base from the strong inflow of registered FDI in 2021 at USD31.15 bn also resulted in subdued readings so far. Annualizing the YTD inflows would give an amount of USD28 bn, matching the figure achieved in the pandemic-stricken year of 2020.

On the consumer side, lifting of domestic COVID-19 restrictions and reopening of cross border travels have injected new vigour in the services sector. Overall retail trade accelerated 9.69% y/y YTD in May, vs 6.54% in Apr and well ahead of the 3% drop in 2021, led by travel services (+34.7% YTD in May) and accommodation and catering (15.75% rise). We expect tourism dependent sectors such as accommodation & food will return to growth in 2Q22 after 9 straight quarters of declines.

With the latest data as well as the headwinds ahead, we are keeping our 2022 GDP growth forecast for Vietnam at 6.5%, in line with official projection of 6.0-6.5%. Our forecast assumes GDP growth in 2Q22 to pick up its pace to 6% y/y and then further to 7.6% in 3Q22.

However, several external risks are posing challenges to this outlook: 1) the Russia-Ukraine conflict and its impact on commodity prices (and the resulting inflation risks on domestic and external demand), 2) global supply chain disruptions, 3) policy tightening globally, and 4) COVID-19 risks.

After touching the lowest in nearly a year at 1.4% y/y in Feb, inflation in Vietnam has been trending up since to 2.86% in May which is still below the State Bank of Vietnam's (SBV) target of 4%. Elevated prices of global energy and food as well as supply chain disruptions have contributed to the jump in Vietnam's inflation. Particularly, transport-related costs have been rising at double digit y/y pace in the past 14 months.

As Vietnam is able to supply food stuffs domestically, the upside pressure on prices is largely dominated by the transport-related components of the consumer price basket, accounting for about 3/4 of the inflation thus far, compared to an average of 50% in 2021.

With the Russia-Ukraine conflict stretching beyond 100 days and showing no signs of easing of tensions and sanctions, we expect Vietnam's headline inflation rate at 3.7% in 2022 and rising further to 5% in 2023.

CENTRAL BANK
Accommodative Stance To Support Growth

With the uncertain outlook from geopolitics and domestic inflation remaining well managed, the SBV can afford to keep its policy rate steady for now to support the recovery efforts.

We expect the current refinancing rate at 4.0% and rediscounting rate at 2.5% to remain at these record low levels until at least end-2022. However, with the US Federal Reserve poised to be more aggressive in its policy tightening, we anticipate the SBV to lean towards beginning its rate hiking cycle from 2Q23 or earlier, if growth momentum stays intact and external risks less concerning.

CURRENCY
Further Weakness In VND

The VND is not spared from the Asia-wide weakness inflicted by the aggressive repricing in Fed rate hike expectations and concerns of a deeper China slowdown. USD/VND rose about 1.7% in 2Q22 to 23,215, the highest level since Aug 2020. Cushioned by a strong growth outlook and domestic inflation remaining under control, the VND weakness is modest when compared to the Asia Dollar Index (ADXY) which fell over 4% in the quarter.

Going forth, we expect Asia emerging currencies such as the VND, weighed by the risk off sentiment as the Fed looks set to front load its rate hikes further in 2H22. As such, we update our USD/VND forecasts to reflect a steeper upward trajectory. Our updated forecasts are at 23400 in 3Q22, 23500 in 4Q22, 23550 in 1Q23 and 23600 in 2Q23.

AUSTRALIA

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
AUD/USD	0.71	0.72	0.73	0.74
AUD Official Cash Rate	1.25	1.75	2.25	2.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-2.1	4.9	4.0	2.9
CPI (average, y/y %)	0.9	2.9	5.0	3.1
Unemployment Rate (%)	6.5	5.1	3.8	3.7
Current Account (% of GDP)	2.6	3.5	2.9	1..2
Fiscal Balance (% of GDP)	-8.0	-6.5	-3.1	-2.9

ECONOMY

Faster Monetary Policy Tightening Possible Because Of Resilient Economy

Australia's GDP growth slowed to 0.8% q/q in 1Q22, from the revised reading of 3.6% q/q in 4Q21 (3.4% q/q previously). However, the latest reading came in slightly above expectations for a 0.7% q/q reading. From a year earlier, the economy expanded by 3.3% y/y, also higher than an estimated 3.0% y/y increase, but much lower from last quarter's revised reading of 4.4% y/y (4.2% y/y previously).

Following a rough start to the year, the subsquent two quarters (2Q22 and 3Q22) will likely be positive to Australia's economic growth this year, as it moves past the domestic disruptions, which we have pencilled in at 4.0%, while 4Q22 will likely see some loss of momentum as rising interest rates start to bite. This will set the scene for slower growth in 2023, currently forecast at 2.9%. The downside risks to our forecasts are of growing concerns on global economic growth, uncertainty over the normalisation of supply chains and commodity prices, as well as higher interest rates on economic activity.

The labour market continues to show resilience with latest figures showing the unemployment rate staying unchanged at 3.9% for May, the lowest level since 1974. Seasonally adjusted employment growth was strong, with 60,600 over the month, well above expectations for 25,000, and Apr's revised reading of 4,400 (4,000 previously), making this the seventh consecutive monthly rise. Meanwhile, 1Q22 wage price index came in at an annual 2.4%, trailing expectations of 2.5%, and coming in well below headline inflation of 5.1%.

Considering that firms are reporting labour shortages and Australia's border restrictions have been preventing them from accessing the global labour pool, wages will likely drift higher. Nevertheless, in real terms, wage gains over the medium-term are set to remain negative given high inflation.

CENTRAL BANK

RBA Serious About Inflation

The Reserve Bank of Australia (RBA), at its Jun meeting, announced a bigger-than-expected increase in the official cash rate (OCR) by 50bps to 0.85%. It also increased the interest rate on Exchange Settlement balances by 50bps to 0.75%.

Once again, the RBA cited strong inflationary pressures and a resilient economy in its accompanying statement, deeming that this is a "further step in the withdrawal of the extraordinary monetary support that was put in place to help the Australian economy during the pandemic". Indeed, the latest move more than fully unwind the emergency rate cuts that took place in 2020 amid the COVID-19 pandemic, and it is also the first rate hike under new Prime Minister Anthony Albanese.

When the RBA first hiked at its May meeting, it guided that further rate hikes will be required to achieve its over 2% inflation target. But the larger-than-expected move in Jun reflects the RBA's increased discomfort regarding accelerating inflation. Australia's CPI had risen to 5.1% y/y in 1Q22, the highest annual rate since 2001. Since then, we have also seen a mild acceleration of wage growth to 2.4% y/y and 0.7% q/q non-annualized; but more importantly, better-than-expected 1Q22 GDP growth and strong retail sales in Apr.

The RBA concluded that "the Board expects to take further steps in the process of normalising monetary conditions in Australia over the months ahead. The size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market. The Board is committed to doing what is necessary to ensure that inflation in Australia returns to target over time".

Several uncertainties were flagged by the RBA, including how household spending will be impacted by higher inflation. The tightening, after all, is a test of consumer sentiment, which has been steadily sliding on concerns of higher mortgage repayments, further weighing on heavily indebted households. Meanwhile, other global uncertainties the RBA highlighted include the Russia-Ukraine war and its impact on commodity prices, China's economic outlook, as well as the ongoing COVID-19 situation.

The RBA has already ended QE purchases of Australian bonds (in Jan), chosen to end reinvestment of maturing bonds (in May) and provided explicit guidance that it views outright bond sales as only a remote possibility. Although it had been previously slow to recognise the strong inflationary pressures, the RBA has now embarked on a more aggressive front-loading hiking cycle. We continue to expect a series of rate hikes over the coming months. We now see the RBA hiking by another 90bps for the remainder of 2022 to bring the OCR to 1.75% by year-end (compared to 1.25% previously), before continuing to rise more gradually over 2023. We retain the same peak of 2.50%, but now expect this to be reached sooner (around mid-2023) than previously forecast (around end-2023).

CURRENCY

Stay Bullish On AUD

After a sharp 5.6% selloff in Apr amidst global risk aversion, AUD/USD rebounded to trade around 0.70 after the RBA joined the global tightening bandwagon with a bang. The central bank delivered back-to-back rate hikes of 25bps in May and 50bps in Jun, the latter being the biggest increase in over two decades. This lifted the OCR to 0.85%, more than fully unwind the emergency rate cuts that took place in 2020 amid the COVID-19 pandemic. Amongst the G-10 central banks, market expectations on RBA is one of the most hawkish, pricing in over 200 bps of rate hikes in 2H22. The AUD may also draw strengths from rising commodity prices as a prolonged Russia-Ukraine conflict intensified supply-side disruptions.

Overall, AUD/USD is expected to stay supported above 0.70. On the flipside, lingering concerns about a China slowdown and volatility in the risk assets may limit gains in the currency pair. Overall, we maintain an upward trajectory in AUD/USD with updated point forecasts at 0.71 in 3Q22, 0.72 in 4Q22, 0.73 in 1Q23 and 0.74 in 2Q23.

EUROZONE

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
EUR/USD	1.04	1.03	1.05	1.06
EUR Refinancing Rate	0.75	0.75	1.00	1.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.4	5.6	2.6	2.3
CPI (average, y/y %)	0.3	2.6	7.0	2.8
Unemployment Rate (%)	8.0	7.7	6.9	6.8
Current Account (% of GDP)	1.9	2.4	2.0	2.1
Fiscal Balance (% of GDP)	-7.1	-5.1	-4.6	-3.0

ECONOMY
Growth vs Inflation?

The Eurozone economy grew at a faster pace than initially estimated in 1Q22, despite the spread of the Omicron virus and the Russian-Ukraine war. According to the final estimate, GDP grew 0.6% q/q, up from a second estimate of 0.3% q/q, and beating the previous quarter's 0.2% q/q rise. Household consumption expenditure decreased 0.7% q/q and government expenditure fell 0.3% q/q, while investment increased 0.1% q/q. The contributions from the external balance were positive. Exports increased 0.4% q/q, while imports fell 0.6% q/q. On a year-on-year basis, the economy grew 5.4%, compared with the 5.1% y/y expansion expected, and in the second estimate.

Eurozone CPI rose to an all-time high of 8.1% y/y in May, up from 7.5% y/y in Apr. The acceleration was driven by food and energy largely affected by the impact from Russia's invasion of Ukraine. Core CPI rose to 3.8% y/y, up from 3.5% y/y in Apr. Month-on-month, inflation in the bloc came in at 0.8%, above expectations and the previous month's reading of 0.6%.

The European Central Bank (ECB) unveiled new forecasts at the Jun meeting, where growth was revised down significantly to 2.8% in 2022 and 2.6% in 2023, but revised up slightly to 2.1% in 2024. We are now pencilling in growth of 2.6% for this year, followed by 2.3% in 2023.

The ECB also raised the inflation outlook for the Eurozone to 6.8% in 2022 (from 5.1%), before it is projected to decline to 3.5% in 2023 (from 2.1%) and 2.1% in 2024 (from 1.9%), higher than the Mar projections of 5.1% in 2022, 2.1% in 2023 and 1.9% in 2024. Inflation excluding energy and food is projected to average 3.3% in 2022, 2.8% in 2023 and 2.3% in 2024, also higher than Mar projections.

CENTRAL BANK
Rates To Rise; But A Bigger Problem Haunts The ECB

At the Jun meeting, the ECB kept its monetary policy unchanged, but made a few key announcements. First, net asset purchases under its asset purchase programme (APP) will end as of 1 Jul 2022. Second, reinvestments of the Pandemic Emergency Purchase Programme (PEPP) will continue at least until end-2024 and will remain the main instrument against a widening of yield spreads. More importantly, the ECB pre-announced a 25bps hike in rates in Jul and 25bps hike in rates again in Sep. In fact, the door for a rate hike of 50bps in Sep is wide open as the statement stated that "If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the Sep meeting".

All in all, the ECB has brought about more clarity than expected, as far as forward guidance is concerned. There are four more meetings left for this year: Jul, Sep, Oct and Dec. Previously we noted that with recent rhetoric among ECB policymakers, 25bps moves in Jul and Sep seem like a done deal. Indeed, the latest ECB statement has confirmed the first move will be a 25bps rate hike. For Sep, the ECB has left open the possibility of a 50bps increase in Sep, the size of which is said to depend on the updated medium-term inflation outlook at that time. We have also pencilled in a 50bps rate hike for Sep but will be closely monitoring incoming economic data. We prefer to maintain a cautious view, as we are mindful that doing too much too soon would be a riskier strategy for the ECB in light of a weakening economic growth backdrop.

Perhaps, the more pressing issue, is the "punishing" sell-off in peripheral Eurozone sovereigns, led by Italy. The country's 10-year borrowing cost has now reached above 4%, its highest level since 2014 and quadruple where it started the year, while the spread over the German equivalent is now at its widest since May 2020, as worries regarding debt sustainability have reignited.

While there was little mention at the Jun ECB meeting of what might be introduced to fight bond market stress led by "fragmentation", the ECB surprised financial markets by announcing an emergency meeting on 15 Jun. To tackle the recent surge in bond yields, the ECB said it will reinvest redemptions from its PEPP in a flexible way and it will ask its team to "accelerate the completion of the design of a new anti-fragmentation instrument".

Indeed, the memory of the Eurozone debt crisis a decade ago, when Italy's yield climbed above 7%, has come back to haunt. Then, ECB President Mario Draghi managed with a combination of strong rhetoric that he will do "whatever it takes" to preserve the euro and an ultimately unused program called Outright Monetary Transactions (OMTs). For now, financial markets await details of a new tool to tackle the risk of Eurozone fragmentation.

CURRENCY
Fragmentation Risks Weigh On EUR

Due to the ECB's hawkish shift, the wide interest rate differential with that of the Fed is also showing signs of closing. Concurrently, we also noted that the largest year-to-date net short EUR/USD positioning in early May has since rebounded to a modest net long position. That said, we think it may be too early to conclude EUR/USD is out of the woods as the outlook is complicated by the economic fallout in the Eurozone due to the prolonged Russia-Ukraine conflict.

More importantly, weaning off 8 years of negative rates can be challenging for policymakers without triggering a bond market rout. It is worthy to note that peripheral spreads have also widened to the most since the early days of the pandemic. The threat of fragmentation where the effects of ECB's tightening aren't felt the same way across the Eurozone may overtake rate differential as the key driver of EUR/USD in the near term which is likely to skew the currency to the downside. For now, we expect further weakness of EUR/USD towards 1.03 by year end before a rebound early next year. Our latest EUR/USD forecasts are 1.04 in 3Q22, 1.03 in 4Q22, 1.05 in 1Q23 and 1.06 in 2Q23.

NEW ZEALAND

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
NZD/USD	0.65	0.66	0.67	0.68
NZD Official Cash Rate	2.50	3.00	3.50	3.50

Economic Indicators	2020	2021	2022F	2023F
GDP	-1.0	5.3	2.4	3.0
CPI (average, y/y %)	1.7	3.9	5.5	2.4
Unemployment Rate (%)	4.6	3.8	3.3	3.6
Current Account (% of GDP)	-1.0	-4.0	-5.3	-4.0
Fiscal Balance (% of GDP)	-10.6	-1.7	-4.3	-3.4

ECONOMY

To Recover From Omicron Impact

GDP unexpectedly contracted by 0.2% q/q in 1Q22, in contrast to the 3.0% q/q gain in 4Q21, and against expectations for a print of +0.6% q/q. The quarter was largely marked by the community spread of the Omicron COVID-19 variant, which saw low travel due to border restrictions. Compared to the same period one year ago, GDP rose by 1.2% y/y, following a 3.1% y/y print in 4Q21, and just half of expectations for a gain of 2.4% y/y.

Primary industries drove the decrease in GDP, down 1.2% q/q, following a fall of 1.8% q/q in 4Q21. Goods-producing industries experienced a slight decline, down 0.1% q/q, following an increase of 6.2% q/q in 4Q21. Manufacturing was the largest contributor to the fall, down 1.4% q/q. Following an increase of 2.6% q/q in 4Q21, the service industries group was flat in 1Q22, although there were varying movements in specific industries.

Going forward, we expect a stronger pickup in the subsequent two quarters (2Q22 and 3Q22) as the economy moves past the domestic COVID-19 disruptions. However, 4Q22 will likely see some loss of momentum as rising inflation and consequently interest rates start to bite spending. This will set the scene for slower growth in 2023.

While the economy remains resilient on the back of solid balance sheets of households and businesses, supportive fiscal policy, as well as elevated prices for the nation's exports; economic activity is expected to soften due to global uncertainties, high inflation which will dampen consumers' spending power and sentiment, rising interest rates, and fallling house prices. Our GDP forecast for growth in 2022 has been lowered to 2.4% from 3.6% previously. For 2023, our forecast remains broadly unchanged at 3.0%.

Meanwhile, New Zealand's jobless rate held at 3.2% in 1Q22, the lowest in the history of the quarterly employment data back to 1985. Employment rose 0.1% q/q, following an unchanged 4Q21. Compared to a year ago, employment was 2.9% higher. Hours worked fell 0.2% from 4Q21, reflecting the impact of Omicron's spread. Still, hours were 1.3% higher than a year earlier. Pay growth was in line with expectations, with private-sector wages rising 0.7% from the prior quarter. Pay was 3.1% higher than a year earlier, the fastest growth since 2009.

CENTRAL BANK

More Rate Hikes To Come

In line with our expectations, the Reserve Bank of New Zealand (RBNZ) decided to raise its official cash rate (OCR) by 50bps to 2.00% in May. This was the first time the RBNZ had delivered back-to-back half-point increases since the OCR was introduced in 1999, and takes its accumulated amount of tightening to 1775bps since Oct 2021. In the accompanying statement, the RBNZ stated that "the Committee agreed it remains appropriate to continue to tighten monetary conditions at pace to maintain price stability and support maximum sustainable employment. The Committee is resolute in its commitment to ensure consumer price inflation returns to within the 1 to 3 percent target range".

May's monetary policy meeting was accompanied by a press conference, as well as updated forecasts via its Monetary Policy Statement, which shows the OCR peaking at 3.95% in 3Q23. Back in Feb, the RBNZ had forecast a peak of 3.35% in 2024. The new track shows the OCR starting to gradually decline from around mid-2024. The RBNZ clearly remains determined in containing inflation risks.

New Zealand's CPI climbed 1.8% q/q in 1Q22, an increase from 1.4% q/q in 4Q21, but a tad below expectations for a gain of 2.0% q/q. Compared to the same period a year ago, CPI advanced 6.9% y/y, an acceleration from 5.9% y/y in 4Q21. The outcome was also slightly below expectations for a reading of 7.1% y/y. Nonetheless, this is the largest price movement since a 7.6% annual increase in the Jun 1990 quarter. The main driver was the housing and household utilities group, influenced by rising prices for construction and rentals for housing.

The RBNZ projected that inflation will slow to 3% in the second half of 2023 from a peak of 7% in the current quarter. We expect inflation to reach 5.5% for this year, before easing towards 2.4% in 2023. Inflation is not seen returning to the 2% midpoint of the target band until 2025. Meanwhile, the RBNZ sees annual average economic growth of 3.2% in the year through Mar 2023, then slowing to 1.3% in the following 12 months through Mar 2024. Previously, it had expected 2023-24 growth of 2.2%.

There are four more monetary policy meetings for this year, with the next one on 13 Jul. Following the two back-to-back half-point increases, we expect the RBNZ to tune back to the more usual pace of 25bps hikes from Jul onwards as monetary policy tightening should get some traction by then, and amid likely evidence that demand will cool and the housing market will soften further. This would see the OCR at 3.00% by year-end. Subsequently, we look for the OCR to reach a peak of 4.00% by end-2023. That said, we are not ruling out the possibility of more aggressive rate hikes, especially if upside inflationary pressures remain persistent.

CURRENCY

NZD To Find Interest Rate Support

After a strong start to the year (+1.8% vs USD) in the 1Q22, the NZD has underperformed within the Major FX space in the 2Q22, weighed by global risk aversion. The NZD/USD pair slumped over 10% to about 0.62, the lowest since May 2020.

Beyond the near-term volatility, NZD is expected to find support from aggressive RBNZ rate hikes. The overnight index swaps market is pricing another 260 bps of tightening in the remaining four meetings for this year. If those market expectations come to pass, the NZD will be the highest yielder within the G-10 by the end of the year, with the OCR at 4.60%. Overall, we maintain our bullish outlook of NZD/USD with updated forecasts at 0.65 in 3Q22, 0.66 in 4Q22, 0.67 in 1Q23 and 0.68 in 2Q23.

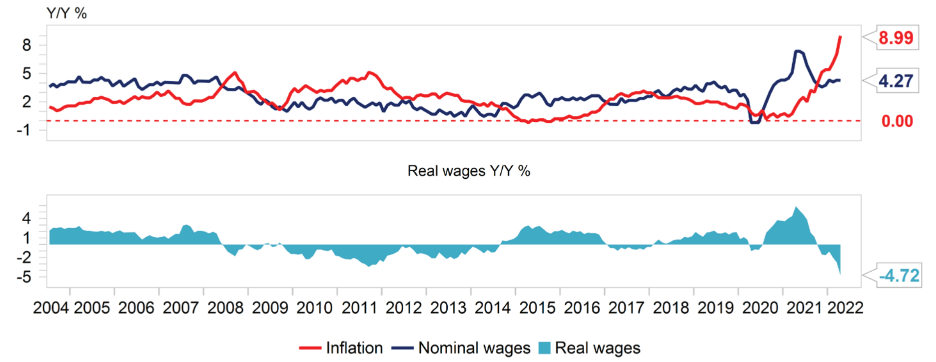
UNITED KINGDOM

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
GBP/USD	1.25	1.26	1.28	1.30
GBP Repo Rate	1.75	2.25	2.25	2.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-9.3	8.2	3.7	1.2
CPI (average, y/y %)	0.9	2.6	8.1	4.3
Unemployment Rate (%)	4.5	4.6	3.9	4.1
Current Account (% of GDP)	-2.3	-3.4	-3.9	-3.5
Fiscal Balance (% of GDP)	-12.5	-7.6	-4.2	-2.7

United Kingdom Income Squeeze

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Dim Outlook Continues

The UK economy contracted for a second consecutive month in Apr, by 0.3% m/m, slightly worse than estimate of +0.1% m/m and against a previous -0.1% m/m print. In the details of the breakdown of monthly GDP, services fell by 0.3% m/m. This was mostly driven by a contraction in health output, which fell 5.6% m/m. Offsetting the decline was wholesale and retail trade, which grew by 2.7% m/m in Apr. Manufacturing and construction output also declined, falling 1% m/m and 0.4% m/m, respectively.

Meanwhile, inflation surged again in Apr, with CPI rising 9.0% y/y, from 7.0% y/y in Mar. The reading was slightly below the consensus estimate of 9.1%. The main reason behind the increase was a 47% jump in household utility prices. That reflected a hike in the energy price cap, set by industry regulator Ofgem. The total contribution from energy, including fuel, to headline price growth rose to 3.2ppts, from 1.7ppts in Mar. Our inflation forecasts have been pushed up to 8.1% from 5.0% for this year, and to 4.3% from 2.7% for 2023.

The UK is facing a huge cost-of-living crisis as rising inflation continues to squeeze households. The wage-price spiral fear is compounded by an exceptionally tight jobs market. The number of employees on payrolls increased by a strong 90,000 in May, vacancies rose to another record-high, underlying wage growth held up; and more importantly, participation rose by a sizable 130,000, the first quarterly gain since late-2021. The chart illustrates how inflation has outpaced nominal wage growth in the last several years. UK real wages fell for almost five years following the global financial crisis and are falling again as inflation surges higher.

Previously, we expected the hit to the economy to be felt in 2H22 when the impact of consumption retrenchment will weigh heavily. However, Chancellor Rishi Sunak's fiscal policies worth GBP15bn, announced in late-May to help families with rising costs, while supporting the most vulnerable in society; are expected to provide some support in 2H22. This will be on top of the GBP22bn announced in the spring. The BOE estimated that the package will raise the level of output by around 0.3%, and inflation by 0.1ppt, in the next 12 months "with some upside risks around these estimates". Our GDP forecast for the UK in 2022 has nonetheless been lowered to 3.7% from 3.9% previously. For 2023, our GDP forecast is also lower at 1.2%, compared to 2.1% previously.

CENTRAL BANK

To Act Forcefully

As widely expected, the BOE's Monetary Policy Committee (MPC), at its meeting in Jun, voted by a majority of 6-3 to increase the Bank Rate by 25bps to 1.25%. This is the fifth consecutive policy meeting since Dec that the BOE has raised its key interest rate, taking it to the highest level since 2009. Once again, the members in the minority, namely Mann, Saunders and Haskel, had voted for a 50bps rise.

As reflected in the Monetary Policy Summary and Minutes, the MPC will take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. The scale, pace and timing of any further increases in Bank Rate would reflect the Committee's assessment of the economic outlook and inflationary pressures. The Committee will be particularly alert to indications of more persistent inflationary pressures, and will, if necessary, act forcefully in response.

Importantly, the forward guidance language for higher interest rates was much stronger, endorsed by all the BOE's voters. In comparison, two members had declined to put forth guidance that more hikes were needed in May.

Therefore, we are now pencilling in more rate hikes in the coming months. The fiscal measures unveiled to help households cope with soaring energy bills, as well as the latest jobs data, will give the BOE room to further deliver more hikes, even as evidence mounts that the economy is losing steam. We look for an additional 100bps hike for the rest of this year, after which we expect the BOE to press pause on its hiking cycle. This should see the Bank Rate at 2.25% by year-end.

CURRENCY

Higher GBP/USD

GBP/USD briefly fell below the key 1.20 level after the BOE's warning of a sharp growth slowdown in the second half of the year added further downward pressure on top of broad USD strength. However, most of the bad news may have already been factored in the price of the GBP. UK PM Johnson surviving a no-confidence vote in early Jun could help allay concerns about political uncertainty. The BOE is also expected to keep pace with the Fed in terms of tightening, with both central banks hiking over 175 bps in 2H22 according to the overnight index swaps market. This gives the GBP some form of interest rate support. Without a new negative catalyst, GBP/USD positioning may find it hard to sustain at the largest net short since Sep 2019. Together with attractive longer-term GBP valuations, we keep to our view of an upward trajectory in GBP/USD. Our updated forecasts are at 1.25 in 3Q22, 1.26 in 4Q22, 1.28 in 1Q23 and 1.30 in 2Q23.

UNITED STATES

FX & Rates	3Q22F	4Q22F	1Q23F	2Q23F
DXY	104.4	104.8	103.3	102.5
US Fed Funds Rate	2.75	3.50	4.00	4.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-3.4	5.7	2.0	1.5
CPI (average, y/y %)	1.4	4.7	7.5	2.5
Unemployment Rate (%)	6.7	3.9	3.7	3.9
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

Rampant Inflation Endangering Growth

1Q 2022 GDP growth was revised to a steeper decline of 1.5% q/q SAAR (slightly worse than advance estimate of -1.4%), from +6.9% in 4Q, the first decline in nearly two years since 1Q 2020 and that was despite the upwardly revised private consumption expenditure (PCE – the biggest US GDP component) to 3.1% (from prelim est of 2.7%) solely due to widespread increases in services while business spending grew by 9.2%.

However, the main drags to GDP were, 1) the sky-high trade deficit which saw net exports of goods and services (which knocked 3.2ppts off headline GDP growth), followed by 2) the reversal of private inventories (which subtracted 1.1ppt in 1Q versus adding 5.3ppts in 4Q) and 3) weaker government consumption and investment (-2.7%, -0.5ppt) reflecting the diminishing COVID-19 pandemic relief money from the government to businesses, state and local governments and households.

One of the significant casualties of the latest 1Q GDP revision was the savings rate which fell further to 5.6% (from the prelim est of 6.6%) versus 7.9% in 4Q. We had anticipated saving rates will normalise further (from the highs of 2021) as consumption spending picks up in tandem with personal mobility and fuelled by pent-up demand. But the relatively moderate 1Q PCE increase coupled with the lower savings rates, was seen as a sign how the accelerating inflation is eating into spending, affecting discretionary consumption demand. With inflation likely to accelerate further in 2Q-3Q, it will further impair spending. Separately, US Jun consumer confidence took a dive as the surge in inflation weighed heavily on sentiment that was previously inundated by waves of COVID-19.

Elevated broad-based inflation: US CPI headline inflation surged further by 8.6% y/y in May, a new record pace in 40 years since Dec 1981 while core inflation came further off its high recorded in Mar, coming in at 6.0% y/y for May, from 6.2% y/y in Apr. Both measures of inflation not only accelerated on m/m basis but also remained broad-based and notably, all of the main categories within the CPI basket (except education and communications) saw m/m price increases and the biggest contributions of the 1% m/m increase for headline CPI in May came from shelter, food and gasoline. An ominous sign that inflation has yet to peak came from the index for used cars and trucks (which has been a prominent inflation driver and considered a bellwether of the latest round of inflation surge). After declining m/m for three months, the index sprang back to life in May (as did gasoline prices and apparel costs), dashing hopes of moderating prices amidst the uncertain and on-going impact from the supply disruptions emanating from China's COVID-19 lockdowns and Ukraine's war.

After recording its first m/m decline in Apr since Nov 2020, goods inflation surged again in May while services inflation – a far bigger and thus more important component of CPI at 60.3% weight – continued to accelerate at 5.7% y/y, the fastest y/y increase since Mar 1991, and a reflection of growing US wage pressures feeding into services costs.

We expect US inflationary pressures to stay elevated into 3Q 2022, underpinned by upside to commodity prices (especially energy and food), supply chain disruptions and housing costs. The abovementioned ominous sign that inflation has yet to peak allowed us to reassess US price developments and we further raised our headline CPI inflation forecast to average 7.5% (from 6.5% previously) while the core CPI inflation to average 6.5% (from 6.0%) for 2022 The balance of risk on inflation remains on the upside and may require further upward revision to our inflation forecasts.

Tighter US labour markets: The forecast for US unemployment rate was revised up likely reflecting the negative impact of the Fed's accelerated rate hikes on the US labor market situation. Unemployment rate is expected to climb to 3.7% by end-2022 (from 3.5% in Mar FOMC) where it is likely to edge higher to 3.9% for 2023, and marginally higher to 4.1% in 2024.

Downgrading 2022 GDP growth outlook again: With the unexpected magnitude of the drag of net exports, the reversal of private inventories, and most importantly, sharply higher inflation, we will further lower our US GDP growth forecast for 2022. Additional downside risks to growth will be due to the expiring fiscal COVID-19 support while elevated inflation will eat into demand, and more aggressive Fed hikes further damaging the growth outlook. Even as 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. There is again a glimmer of hope for the passage of President Biden's Build Back Better (BBB) plan which will be helpful to the growth outlook while the review and potential rollback of Trump Administration's China trade tariffs could be helpful to relief some price pressures for the US. Note the Fed's 2022 GDP growth forecast was marked down to 1.7% in the Jun FOMC (from 2.8% in Mar) likely a reflection of their worsening assessment of the negative impact on growth due to the elevated inflation situation and the aggressive Fed rate hikes.

We now expect GDP growth to be lower by 1 ppt to 2.0% in 2022 (from previous forecast of 3.0%) and easing further to 1.5% in 2023 (from 2.3% previously) which is below trend growth. That said, the risk of a 2023 recession has risen in tandem with the overtly hawkish shift of Fed tightening.

CENTRAL BANK

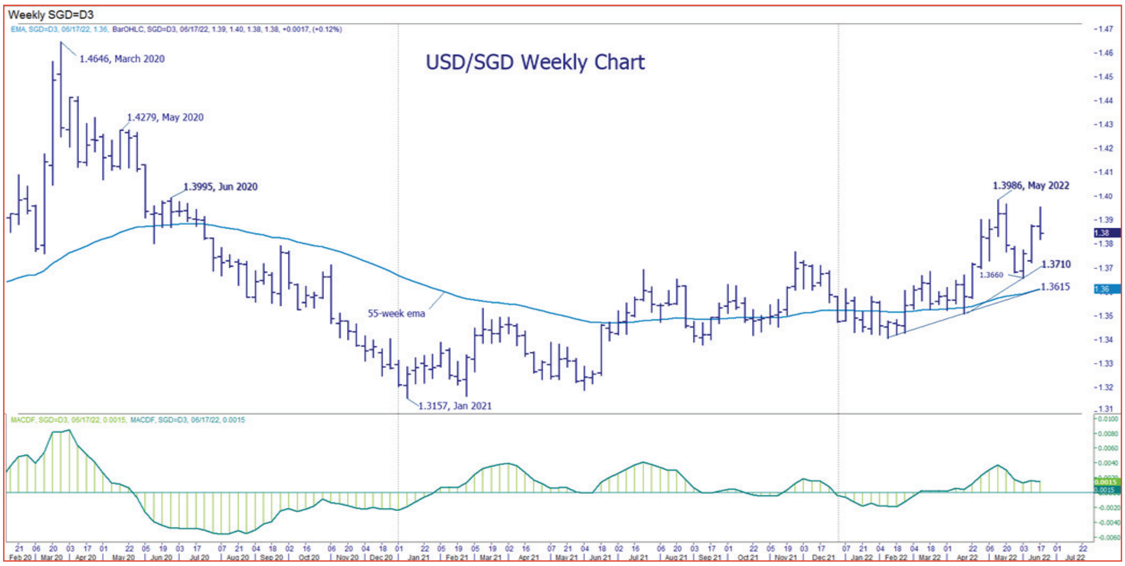
Accelerated Pace Of Tightening

Please refer to "Central Bank Policy Focus: When The Fed Aggressively Hikes, How High Can The Asian Central Banks Go?" on page 14.

FX Technicals

USD/SGD: 1.3845

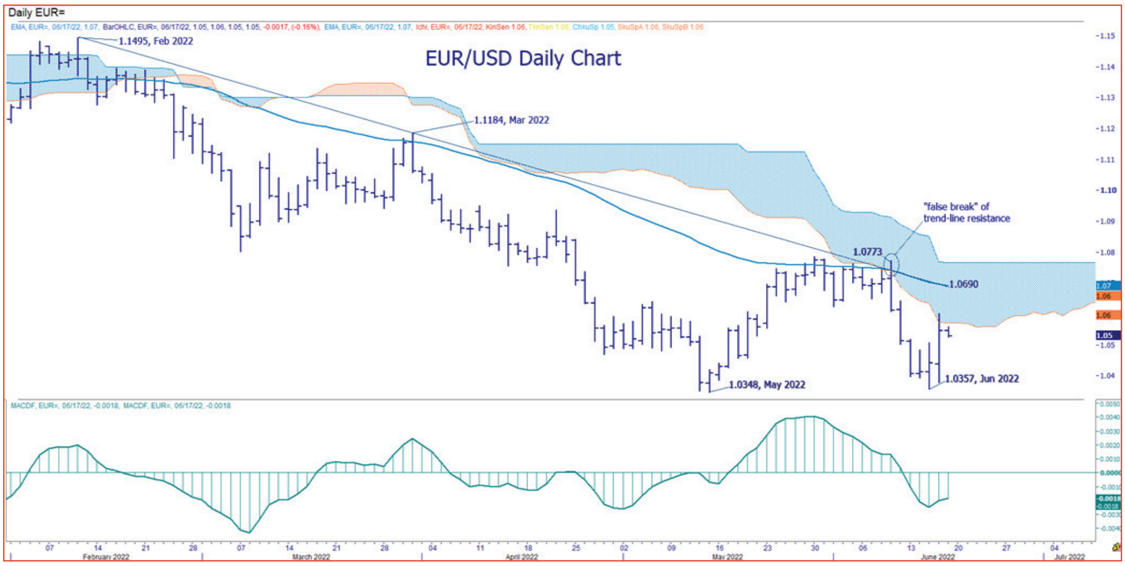
Risk for USD/SGD in 3Q22 is tilted to the upside but the levels between 1.3985 and 1.4000 are expected to offer solid resistance.



USD/SGD dropped to a low of 1.3660 in late May before rebounding. While shorter-term upward momentum is building, the levels between 1.3985 and 1.4000 are expected to offer solid resistance. Overall, as long as USD/SGD does not break below 1.3710, the risk for 3Q22 is tilted to the upside. A break of the 1.3985/1.4000 resistance zone could lead to a rise to 1.4070. On the downside, the next support below 1.3710 is at 1.3615, the 55-week exponential moving average as well as rising trend-line support. This solid support is unlikely to come under threat, at least not within the early parts of 3Q22.

EUR/USD: 1.0540

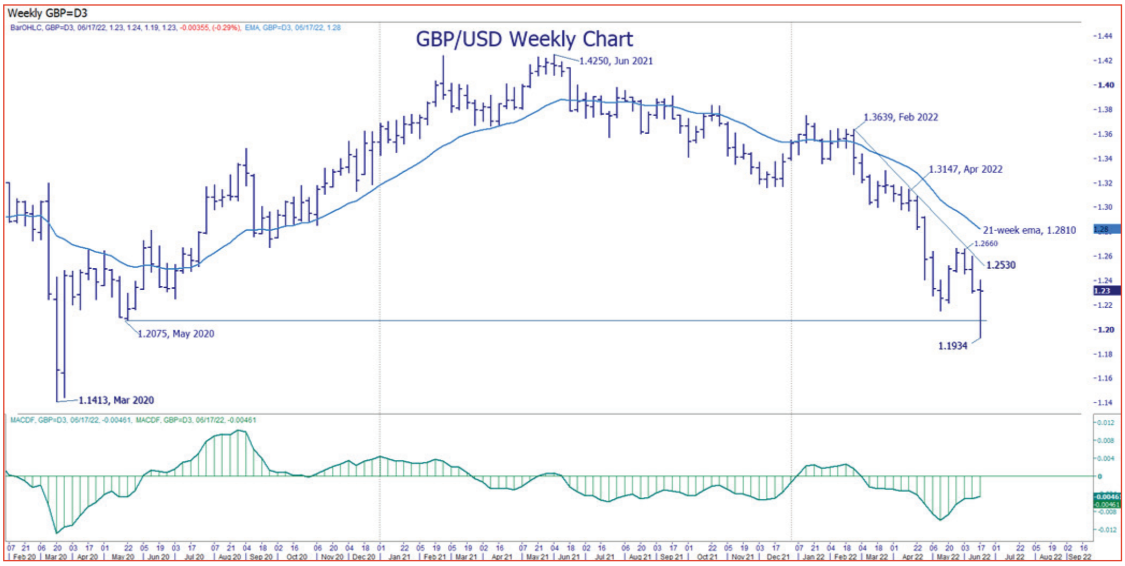
Risk for EUR/USD is still on the downside but any decline is expected to encounter solid support at 1.0350.



EUR/USD rose slightly (and briefly) above the declining trend-line resistance connecting the highs of Feb and Mar 2022 in early Jun before plunging sharply to a low of 1.0357. At the time of writing in mid-Jun, EUR/USD staged a strong and sharp rebound. Despite the sharp rebound, EUR/USD is not out of the woods just yet. That said, any decline is expected to encounter solid support near 1.0350. Overall, only a break of 1.0690 would indicate that the downside risk has dissipated.

GBP/USD: 1.2320

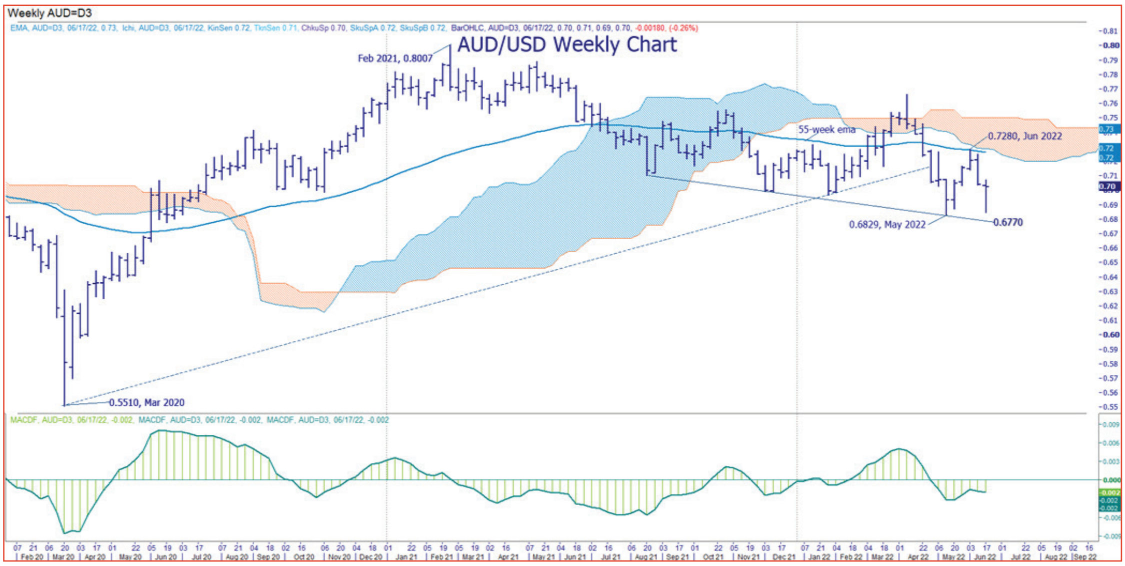
Strong rebound amidst oversold conditions has decreased the chance for further GBP/USD weakness in 3Q22.



GBP/USD dropped below the May 2020 low of 1.2075 in mid-Jun and plummeted to a low of 1.1934. The decline was short-lived as GBP/USD rebounded strongly from the low. The strong rebound amidst oversold conditions decreased the chance for further GBP/USD weakness in 3Q22. However, only a break of the 21-week exponential moving average (level is at 1.2810) would indicate that the weakness in GBP/USD has stabilized. On a shorter-term note, the declining trend-line resistance at 1.2530 is already a strong resistance level.

AUD/USD: 0.7030

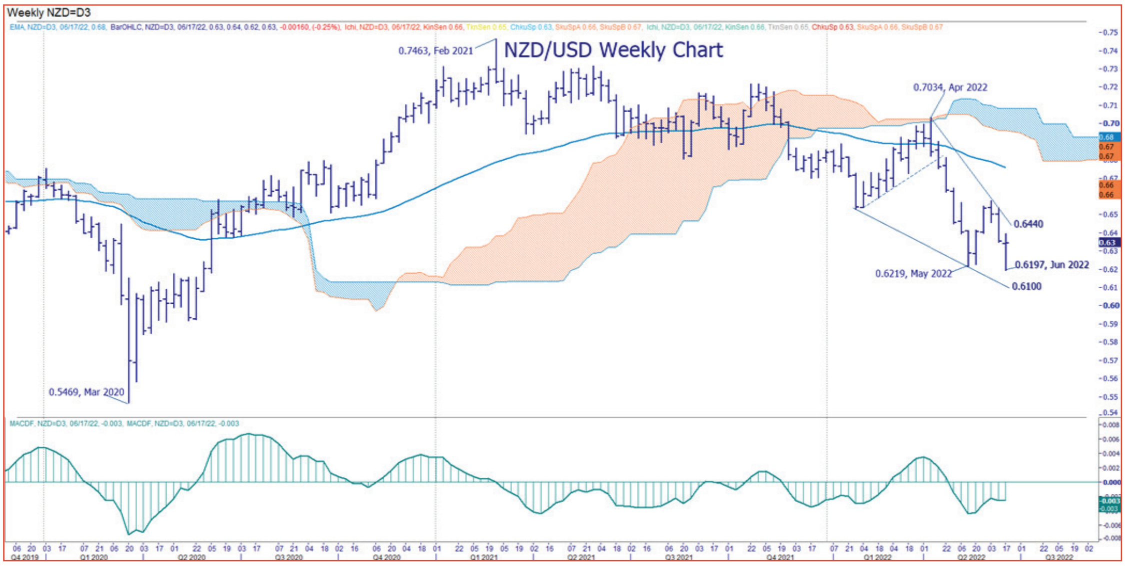
AUD/USD is likely to weaken but the chance for a sustained decline below 0.6770 is not high.



AUD/USD dropped to 0.6829 in mid-May before rebounding. The rebound was thwarted by the 55-week exponential moving average (high of 0.7280 in early Jun). The rapid pullback from 0.7280 suggests AUD/USD is likely to weaken towards the strong support at 0.6770. Barring a surge in downward momentum, a sustained decline below 0.6770 appears unlikely (next support is at 0.6500). Overall, only a break of 0.7280 would indicate that the downside risk has dissipated.

NZD/USD: 0.6345

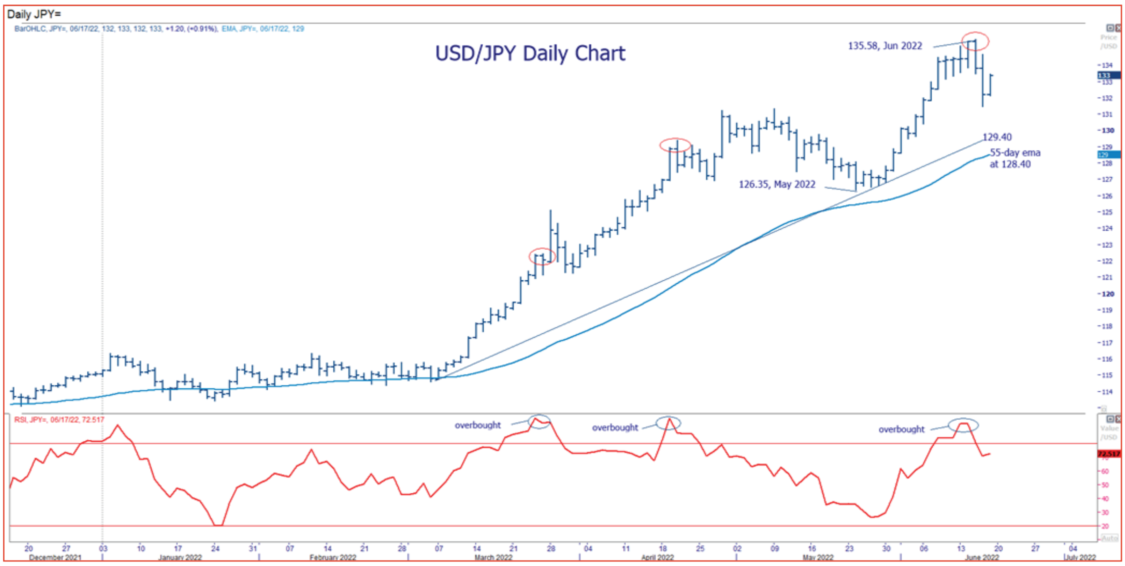
Risk for NZD/USD in 3Q22 is tilted to the downside towards 0.6100.



NZD/USD edged slightly above the top of the weekly Ichimoku cloud (high of 0.7034 in early April) before plunging to a low in 0.6219 in May. NZD/USD subsequently rebounded but at the time of writing in mid-Jun, NZD/USD dropped to a fresh 2022 low of 0.6197. While downward momentum is not strong, the risk for 3Q22 is tilted to the downside towards 0.6100. On the upside, a break of 0.6440 would indicate that the weakness in NZD/USD has stabilized.

USD/JPY: 133.45

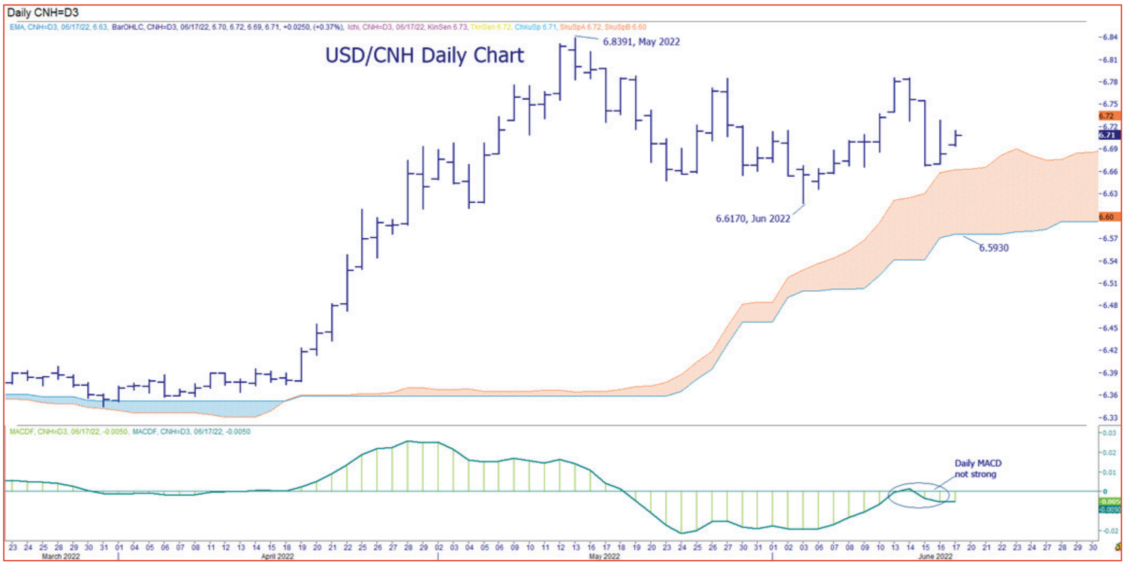
Strong rally in USD/JPY is taking a breather, USD/JPY is likely to trade sideways between 129.40 and 135.60.



USD/JPY rallied sharply a high of 135.58 in mid-Jun before pulling back sharply. The pullback amidst deeply overbought conditions suggests that the strong rally in USD/JPY is taking a breather. Going into the early parts of the third quarter, USD/JPY is likely to trade sideways between 129.40 (rising trend-line support) and the high near 135.60. Looking ahead, a break above 135.60 would suggest USD/JPY could rise towards 138.00. Conversely, a break of the rising trend-line would indicate a deeper pullback towards the 55-day exponential moving average (at the time of writing, the level is at 128.40).

USD/CNH: 6.7100

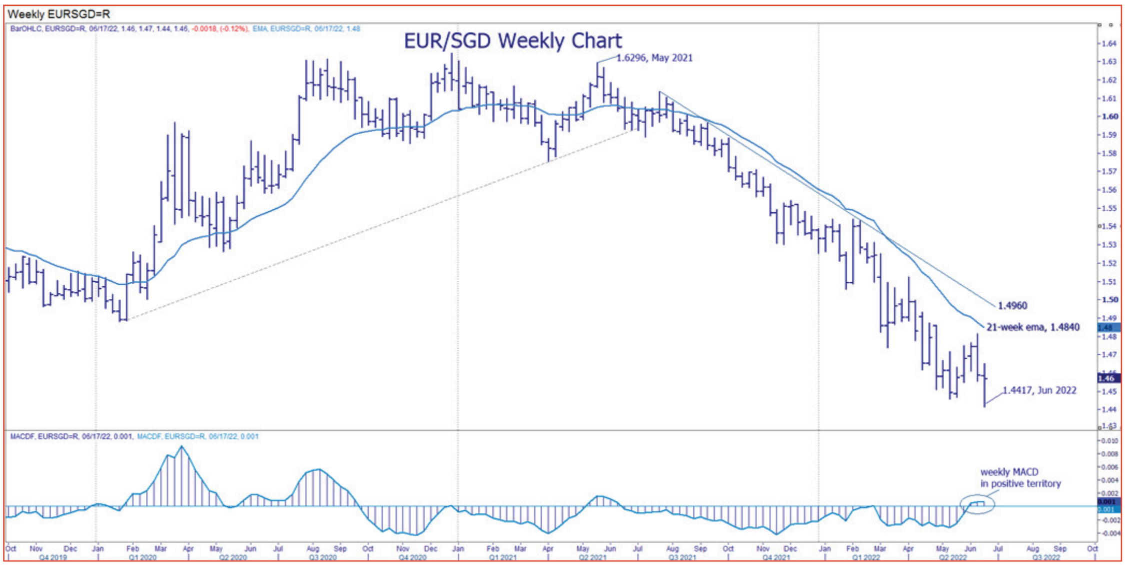
USD/CNH is likely to trade sideways between 6.5930 and 6.8400 in 3Q22.



After rallying sharply to a high of 6.8391 in May, USD/CNH pulled back to a low of 6.6170 in Jun. The subsequent advance from the low lacks momentum (note that daily MACD is not strong) and the overall price actions appear to be part of a consolidation phase. In other words, USD/CNH is likely to trade sideways in 3Q22, likely between 6.5930 and 6.8400 in 3Q22.

EUR/SGD: 1.4590

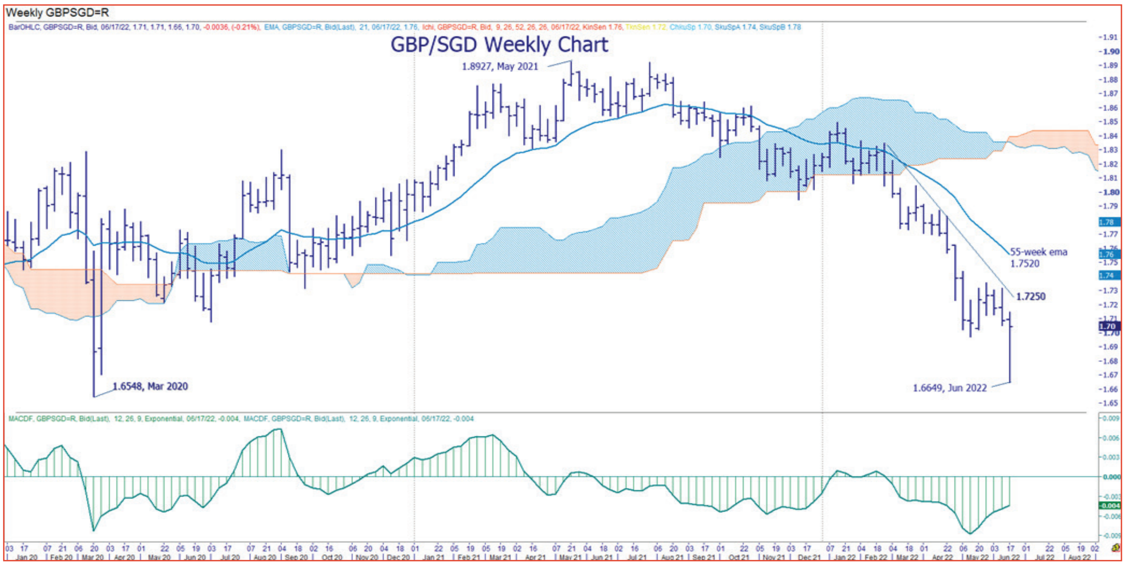
Waning downward momentum coupled with oversold conditions has increased the risk of EUR/SGD bottoming.



At the time of writing in mid-Jun, EUR/SGD dropped to a low of 1.4417 before rebounding strongly. Despite the decline to fresh multi-year low (note that the record low in EUR/SGD is at 1.4350 in Jun 2015), weekly MACD is in positive territory. In other words, downward momentum is waning and this coupled with oversold conditions has increased the risk of EUR/SGD bottoming. Resistance is at 1.4840 (the 21-week exponential moving average) but confirmation of a bottom is only upon a break of the declining trend-line (at the time of writing, the resistance is at 1.5000).

GBP/SGD: 1.7050

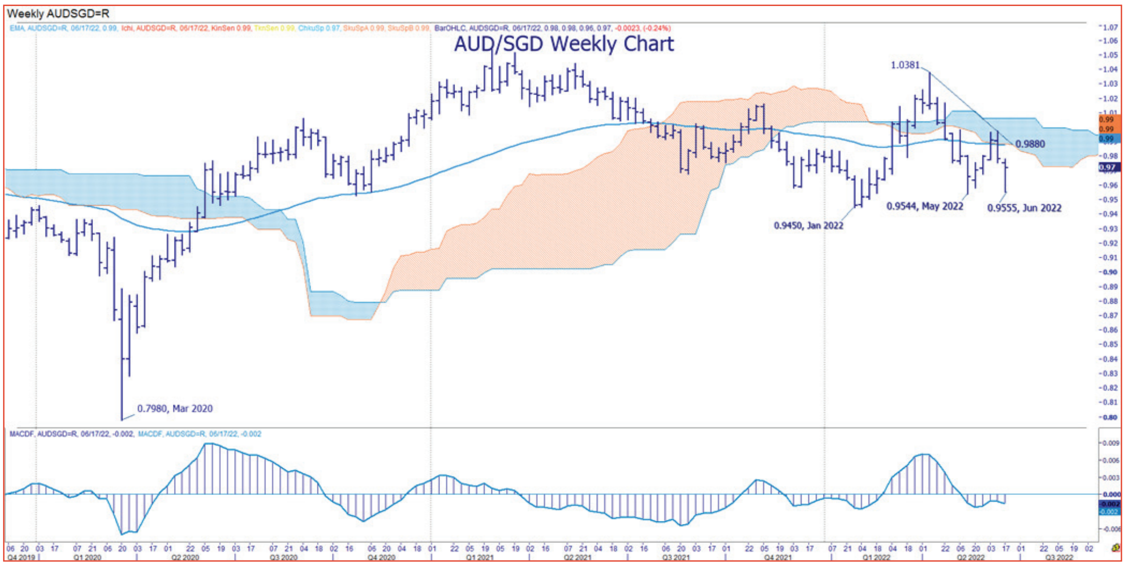
There is still risk, albeit a slim one for GBP/SGD to stage another leg lower towards the 2020 low near 1.6550.



GBP/SGD dropped sharply at the time of writing in mid-Jun but rebounded strongly from a low of 1.6649. Downward momentum is beginning to wane and a break of the trend-line resistance at 1.7250 would indicate that the weakness in GBP/SGD that started in early 2022 has stabilized. As long as the trend-line is not breached, there is still risk, albeit a slim one for GBP/SGD to stage another leg lower towards the 2020 low near 1.7550.

AUD/SGD: 0.9700

Bias for AUD/SGD is on the downside but any weakness is expected to encounter solid support at 0.9450.



At the time of writing in mid-Jun, AUD/SGD dropped to 0.9555 (close to the May's low of 0.9544) before rebounding. Despite the rebound, the bias for AUD/SGD in 3Q22 is still on the downside. A break of the strong support near 0.9550 would not be surprising but any further decline is expected to encounter solid support at 0.9450 (the year-to-date low). On the upside, a break of 0.9880 would indicate that AUD/SGD is unlikely to weaken further in 3Q22.

JPY/SGD: 1.0335

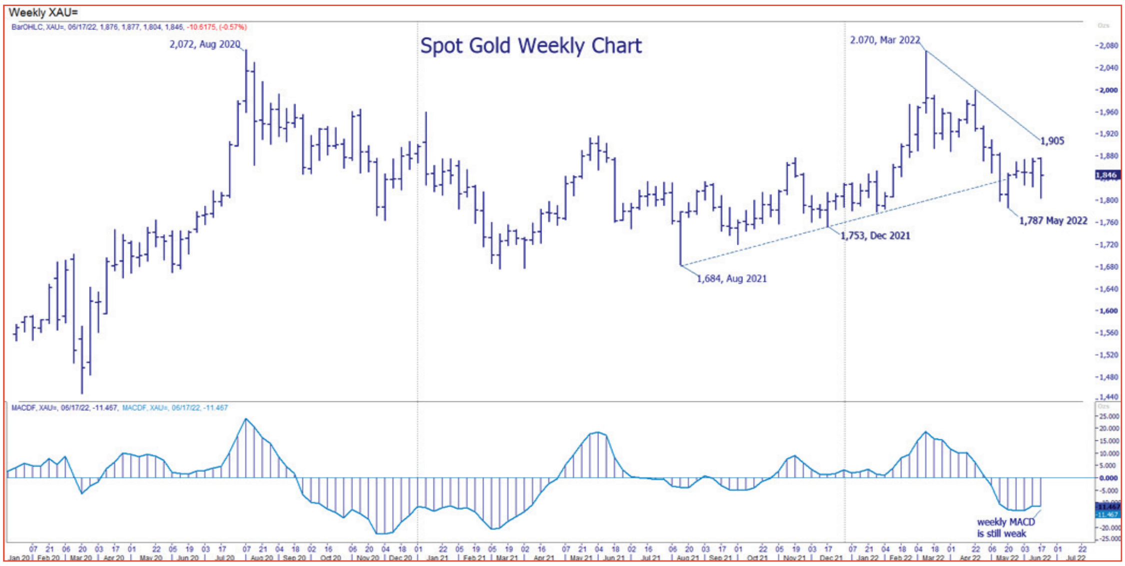
Risk for JPY/SGD in 3Q22 is still on the downside but any decline is unlikely to break the psychological round-number support of 1.0000.

JPY/SGD dropped sharply and almost continuously from mid-May to early Jun. While downward momentum is beginning to wane as JPY/SGD rebounded strongly from 1.0224, only a break of the trend-line resistance near 1.0550 would indicate that the multi-month weakness has stabilized. As long as the trend-line is not broken, the risk for JPY/SGD in 3Q22 is still tilted to the downside. However, in view of the waning downward momentum, any decline is unlikely to break the psychological round-number support of 1.0000.

Commodities Technicals

SPOT GOLD $1,840/OZ

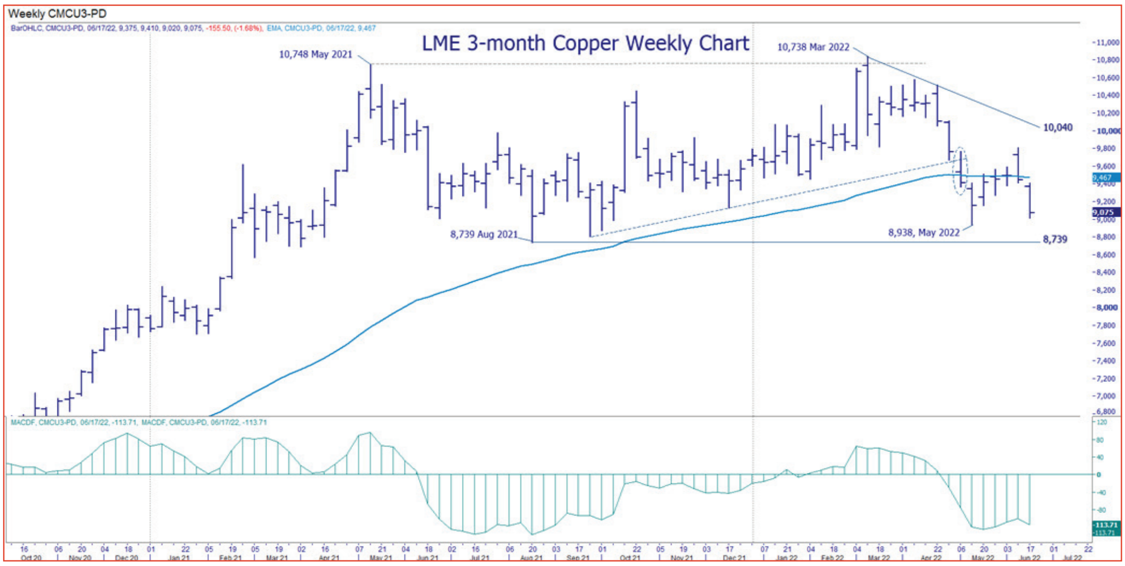
Spot gold is likely to trade with a downward bias towards the Dec 2021 low at $1,753.



The pullback in spot gold from the Mar 2022 high of $2,070 dropped below the rising trend-line support connecting the lows of Aug 2021 and Dec 2021. Despite breaking the trend-line support, there is hardly any follow through as gold subsequently rebounded from $1,787. Weekly MACD still appears to be weak and spot gold is likely to trade with a downward bias towards the Dec 2021 low at $1,753. On the upside, a break of $1,905 would indicate that the downward pressure has dissipated.

LME 3M COPPER $9,075/MT

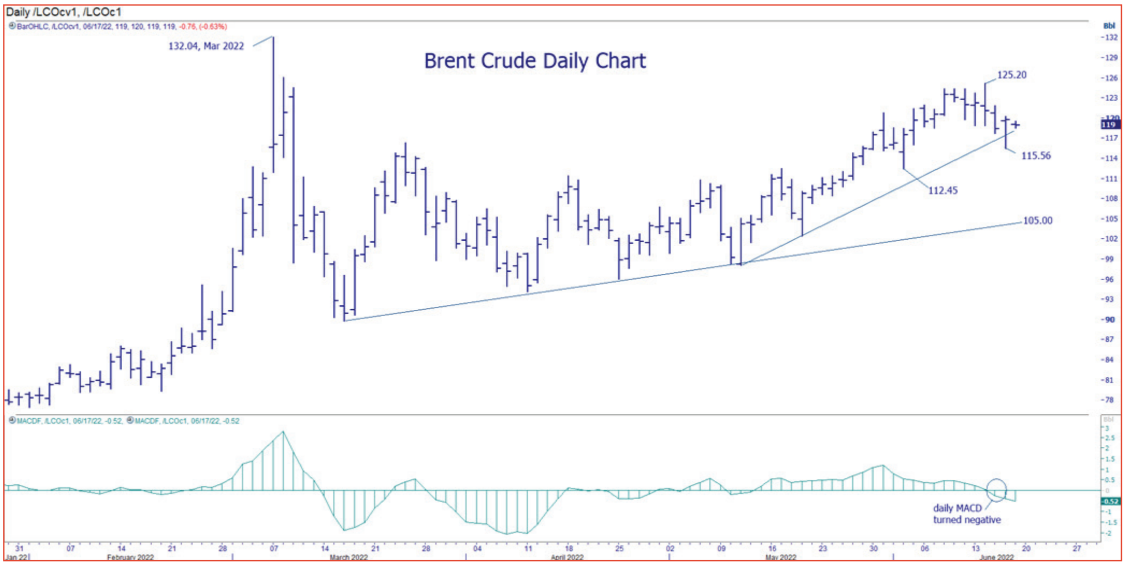
Risk for copper in 3Q22 is on the downside but any weakness is expected to encounter solid support at $8,740.



Copper dropped sharply to a low $8,938 in May 2022 before rebounding. Despite the rebound, the risk for 3Q22 is on the downside. That said, downward momentum is not that strong and any decline is expected to encounter solid support near $8,740 (the low in Aug 2021). Resistance is at $9,800 but the key resistance is at the declining trend-line (at the time of writing, the level is at $10,040).

BRENT CRUDE $119.00/BBL

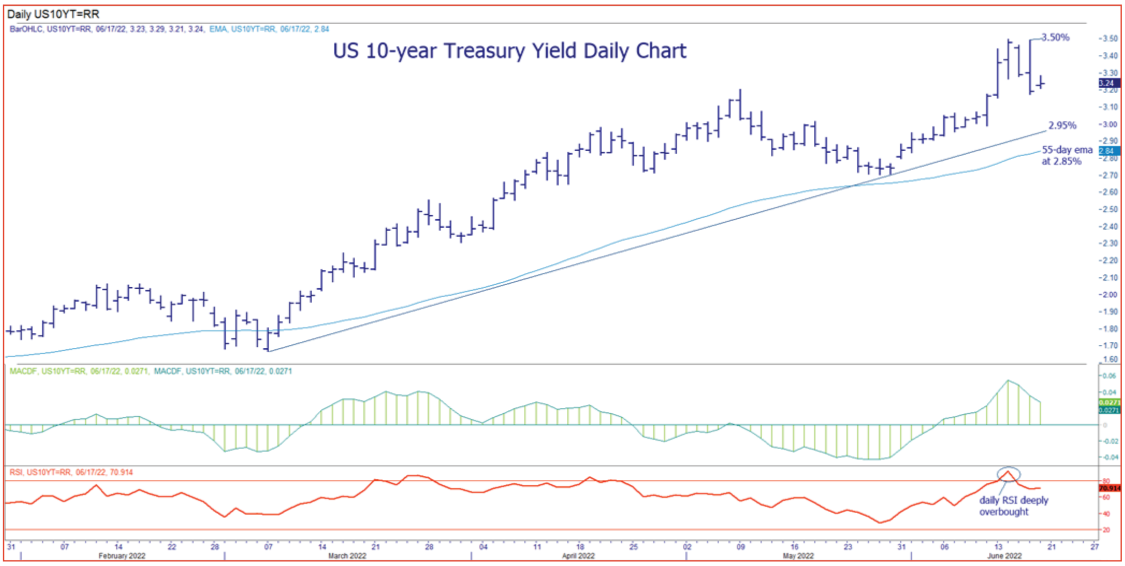
Premature to expect a major and sustained pullback in Brent but a dip to $112.45 would not be surprising.



While Brent crude traded with an upward trajectory for most of 2Q22, it dropped below the rising trend-line support at time of writing in mid-Jun. Daily MACD has turned negative and a dip to $112.45 would not be surprising. At this stage, it is premature to expect a major and sustained pullback (the next trend-line support at $105.00 is unlikely to come into the picture within 3Q22). On the upside, a clear break of $125.20 would suggest Brent could head higher towards $127.00, possibly $129.00.

10Y UST Yield 3.240%

Deeply overbought conditions suggest that the odds for a sustained advance above 3.50% are not high.



At the time of writing in mid-Jun, US 10-year treasury soared to a high 3.50% before pulling back sharply. While it is too early to expect a top, deeply overbought conditions suggest that the odds for a sustained advance above 3.50% are not high. All in, the short-term pullback could dip below the rising trend-line support at 2.95% but only a break of the 55-day exponential moving average at 2.85% would indicate a more 'durable' top is in place.

MEET THE TEAM

Global Economics & Markets Research

Suan Teck Kin, CFA
Head of Research
(65) 6598 1796
Suan.TeckKin@UOBgroup.com

Alvin Liew
Senior Economist
(65) 6598 1797
Alvin.LiewTS@UOBgroup.com

Ho Woei Chen, CFA
Economist
(65) 6598 1793
Ho.WoeiChen@UOBgroup.com

Heng Koon How, CAIA
Head of Markets Strategy
(65) 6598 1798
Heng.KoonHow@UOBgroup.com

Quek Ser Leang
Market Strategist
(65) 6598 1795
Quek.SerLeang@UOBgroup.com

Lee Sue Ann
Economist
(65) 6598 1792
Lee.SueAnn@UOBgroup.com

Peter Chia
Senior FX Strategist
(65) 6598 1754
Peter.ChiaCS@UOBgroup.com

Victor Yong
Interest Rate Strategist
(65) 6598 1799
Victor.YongTC@UOBgroup.com

Tan Lena
Business Data Designer
(65) 6598 1794
Lena.Tan@UOBgroup.com

Julia Goh
Senior Economist (Malaysia)
(60)3 2776 9233
Julia.GohML@uob.com.my

Loke Siew Ting
Economist (Malaysia)
(60)3 2772 6221
Jasrine.LokeST@uob.com.my

Enrico Tanuwidjaja
Economist (Indonesia)
Enrico.Tanuwidjaja@UOBgroup.com

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Company Registration No.: 193500026Z

Head Office
80 Raffles Place
UOB Plaza
Singapore 048624
Telephone: (65) 6533 9898
Facsimile: (65) 6534 2334

www.uobgroup.com

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