Quarterly Global Outlook

Q1 2019

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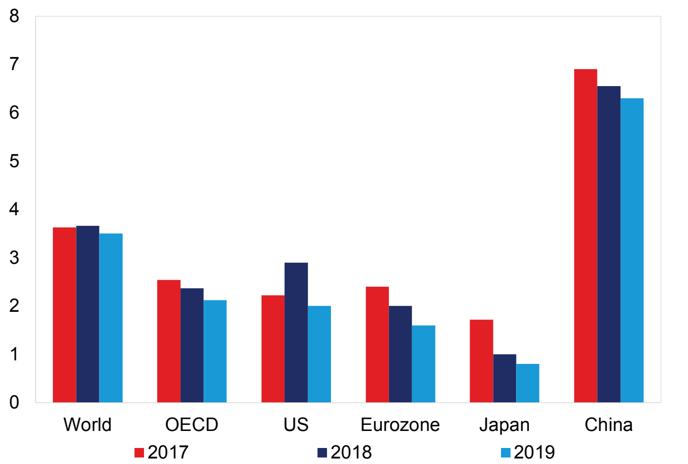
EXECUTIVE SUMMARY
ASEAN Winners In The US-China Trade Conflict

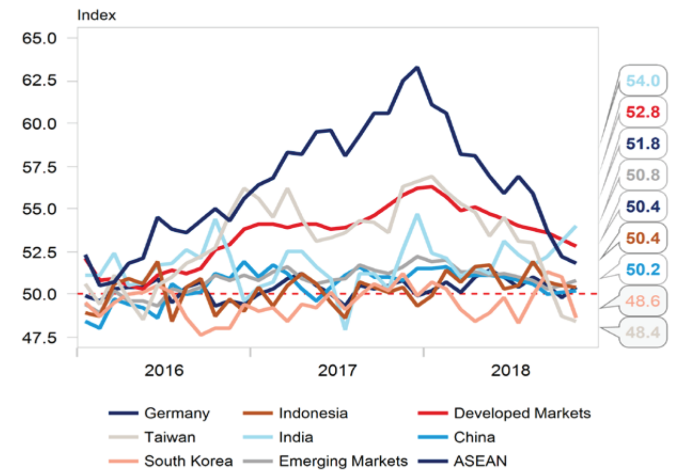
Synchronized Slowdown In 2019

Source: OECD, UOB Global Economics & Markets Research



Emerging Markets Markit Manufacturing PMI, SA

Source: Macrobond, UOB Global Economics & Markets Research



Synchronized Slowdown, But Far From Recession In 2019

Global growth in 2018 turned out to be better than expected, and this was despite the simmering trade tensions between US and China. Heading into the New Year, we expect global pace to slow in 2019 and there is plenty of good reasons for that: moderating trade flows, continued slowdown in manufacturing activity as reflected by the PMIs and global electronic cycle downturn, and global trade tensions can flare up again which may hurt manufacturers both in terms of a slowdown in export orders and weaker business sentiments. China's GDP growth is expected to ease further to 6.3% in 2019, the slowest pace since 1990, and that will weigh on activities in the rest of Asia while European growth is also likely to ease to 1.6%. Japan's outlook in 2019 could be particularly challenging, likely to be dampened to sub-1% given the headwinds of trade issues (i.e. potential auto tariffs) and a looming sales tax hike in Oct.

2018 has been a robust year for US, and the economy is still on track to expand in 2019 and bag a new record for uninterrupted expansion. Underpinning US growth will be the sustained job creation and wage gains but the pace is likely to ease from around 3% in 2018 to 2% in 2019 due to fading effects of fiscal stimulus, softer business spending while US housing market may be another source of weakness.

But to be clear, slower growth does not equate to a recession year. Recent concerns about the US growth outlook was sparked by the first UST yield curve inversion (on 3 Dec) since 2007 as the yield spread by the 5- and 2-year UST turned negative. Meanwhile, the spread between the 10- and 2-year UST – traditionally seen as a good predictor of recession 4 to 6 quarters ahead– has been narrowing (to about 10-11 bps as of 6 Dec) but it is still positive. While it is not inconceivable that the 10s-2s spread may turn negative at some point in 2019, putting a forecast timeframe of 4 to 6 quarters, that implies a recession in 2020/21, not 2019. Like all good things, we believe that US growth will come to an end at some point (i.e. business cycle), but that end is not in 2019, in our view.

As such, the **US Federal Reserve** is almost certain to hike once more in Dec to end 2018 with 4 hikes. We expect the Fed rate trajectory to remain at three more 25bps hikes in 2019 on the back of continued positive growth outlook and US wages. But Fed's likely shift from the well communicated "gradual rate trajectory" to more emphasis on data dependency, will make the policy path more uncertain. If there is a significant weakening of US economic data or re-escalation of trade tensions, then that could warrant a more cautious Fed and the risk could be lesser hikes, from 3 to probably just 2, but certainly not zero.

Meanwhile, across the Atlantic, the European Central Bank is finally on the path of normalization, firstly with the end of QE in Dec 2018 followed by the long-awaited rate hike which we project in 4Q 2019. Bank of Japan is still the least likely to normalize its easy monetary policy anytime soon, especially with its challenges in growth and downside price pressures in 2019. Among Asian central banks, some (like BI and BSP) will follow the Fed but the majority may stay on pause, as growth retreats and inflation ebbs while trade uncertainty still looms. China may cut RRR once by early 2019.

ASEAN Winners In Trade Dispute

We believe the US-China trade negotiation is likely to be a long-drawn process well into 2019 (extend beyond the 90-day ceasefire), and there is significant risk that both parties would fail to overcome their differences, leading to re-escalation in trade tensions. Overall, the trade dispute is bad for export-oriented Asian economies and we have downgraded their growth outlook in 2019.

But even before the US-China trade relations took a turn for the worse, foreign and Chinese companies alike were already looking to the ASEAN countries for investment opportunities due to factors like lower wage and production costs, tax incentives and better access to the regional markets. In our ASEAN focus piece, we noted that further worsening in US-China trade relations may accelerate investment flows to the region and the manufacturing sector in ASEAN could be the biggest beneficiary. Initial signs of investment pickup in Thailand, Taiwan and Vietnam for 3Q 2018 could be a prelude to a shift in supply chains. As part of the CPTPP which will come into effect end-2018, ASEAN countries including Malaysia, Vietnam, Singapore and Brunei may get a further edge to attract these investments.

What To Watch In 2019?

Beyond the on-going specter of President "Tariff Man" Trump, there are several events that will matter in 2019. In Asia, there are a few key elections in India, Indonesia and Thailand while among the G7, the EU will have parliamentary elections in May. ECB will also get a new President after Draghi steps down in Oct. And in Jan when Democrats regain control of the House, perhaps more fireworks in a divided US Congress? Or maybe, Trump can strike a infrastructure deal with them?

FX Strategy

Cracks Start To Appear In The Strong US Dollar Armor

The outlook for the US Dollar for 2019 is clearly less strong than in 2018. Various drivers are now in place to chip away at the US Dollar's strength. Growth in the US is moderating from around 3% this year to 2% next year. The start of the US Treasuries yield curve inversion in the front end has also started to weigh on the USD. While we still see a base case of 3 more FED rate hikes next year, the balance of risks is for fewer rate hikes next year as global trade risks mount.

Amidst this backdrop, the European Central Bank (ECB) will formally conclude its QE by the end of this year and possibly start its first rate hike in 4Q19. As such, 2019 will likely see the transfer of the monetary policy tightening leadership from the FED to the ECB. Consequently, our conviction FX view for 2019 is that of a gradual recovery in the EUR/USD from current level of 1.13 to 1.20. In the sidelines, the AUD/USD may well stabilize and recover moderately from 0.73 to 0.77 as well. But any meaningful strength will be tempered by on-going concerns over China slowdown. On the other hand, GBP/USD will likely stay depressed below 1.30 and possibly test 1.25, given the difficult and frustrating Brexit process.

In the Asia FX space, we see possibly the final leg of US Dollar strength in the first half of 2019. Given ongoing uncertainties over US-China trade relation and on-going slowdown in China, the CNY is still seen weakening past 7.0 to the USD to 7.10 by 3Q19. The rest of Asia FX will likely weaken in tandem by another 2.4% to 4.5% against the USD in 1H19. As such, SGD is still seen weakening past 1.40 to 1.41. Thereafter, USD/Asia may well consolidate across 2H19 as further USD strength will be capped as the FED will be widely seen reaching the tail end of its tightening process by then. However, given the on-going moderation in Asian economic growth prospects, we feel that it is premature to call for a return to outright Asia FX strength in 2H19.

Rates Strategy

Rates Are Still Likely To Head Gradually Higher In 2019

With the elevated global trade tensions and start of yield curve inversion in the front end of the UST curve, risks have indeed increased for an even gradual tightening path from the FED. However, on balance, we think it is premature to call a pause in the tightening cycle and maintain our current view of 3 more rate hikes from the FED in 2019. Notwithstanding recent acute bouts of risk aversion and increasing signs of growth moderation in the US, our expectations for on-going twin tightening by the US Federal Reserve, i.e. gradual rate hikes and Balance Sheet Reduction (BSR) makes it possible that short rates and US Treasuries (UST) yields will continue to head higher.

We expect to see 3M US Libor to head above 3% in 2Q19 to 3.45% by end 2019. Libor vs. OIS spread is expected to remain wider than normal due to tighter liquidity. The widening US fiscal deficit and the Fed's balance sheet outlook will weigh negatively on UST (i.e. higher yields), and we expect to see 10Y UST yield to reclaim the 3% handle and climb to 3.50% by the end 2019.

Singapore money market rates and Singapore Government Securities (SGS) yield are also expected to mirror the gradual rise in their US counterparts. We see both 3M Sibor and 3M SOR rising above 2% in 1Q19 to the 2.5% handle by the end 2019. Concurrently, we see 10Y SGS yield rising above 2.5% in 1Q19 to 2.9% by end 2019.

Commodities Strategy

Crude Oil Takes Over The Volatility Baton From Copper And Gold

2018 has been a very challenging year for the entire commodities space. Across 2018, gold has felt the weight of ever rising interest rates. Amidst this sell-off, net long position in gold has been completely unwound, something not seen since about two decades ago. However, with the FED likely to reach the tail end of its tightening cycle across 2019, we see gradual support emerging for gold. In addition, given renewed support from the abovementioned oversold position, we now upgrade our gold outlook from negative to neutral and see gold consolidating from USD 1,200 / oz to USD 1,300 / oz across 2019.

Copper and the rest of the industrial metals complex also had a challenging year as global growth moderated and trade weighed down by US-China trade conflict. Similarly, net long positioning in Copper was mostly liquidated and global inventory in Copper across LME, COMEX and SHFE has also halved since peaking in April. As such, 3M LME Copper will likely be capped within the USD 6,000 / mt to USD 7,000 / mt trading range across

2019. While strength will be capped by on-going global trade tensions, weakness will be tempered by oversold positioning and inventories.

In the energy space, crude oil suffered an intense bout of sell-off across 4Q, with both Brent and WTI crude oil plunging by more than 1/3 from their respective Oct highs. Further jump in crude oil supply from US, Russia and Saudi Arabia, coupled with the surprised "leniency" from the Trump administration to grant temporary waivers for the import of Iranian crude oil triggered the sell-off. As such, crude oil's 3M implied volatility jumped to as high as 50%, shooting way above copper's implied volatility at around 20% and gold's implied volatility at around 10%. Overall, given lingering oversupply issues, Brent crude oil is likely to be depressed and volatile at its current USD 55 / bbl to USD 65 / bbl trading range. At the moment of writing, OPEC has failed to reach a deal for production cut with Russia.

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

From the UOB Global Economics and Markets Research team, we wish our readers a successful and productive 2019!

Asia Focus
Are We Seeing Trade And Investment Diversion From US-China Trade Rift?

Due to the additional tariffs that were already imposed, trade and investment diversion away from China and the US will be inevitable. This could have a larger impact on China than the US due to the sheer size of Chinese exports compared to the latter. The disruption to the supply chain will quicken if corporates are becoming more convinced that the US-China trade dispute will be long-drawn and therefore warrant adjustments to their medium/long-term strategies. Based on the preliminary data on trade and investment so far, we believe that trade diversion has yet to become evident (due to frontloading activities) whereas there are nascent signs of investment pick-up in places such as Thailand, Taiwan and Vietnam, suggesting diversion of some manufacturing activities into these economies due to the US-China trade tensions. These markets could potentially benefit most from a shift in supply chain if US-China trade tensions drag on.

Singapore Focus
The 2019 SGS Supply Schedule

We expect SGS bonds outstanding to increase in line with the 6% average growth rate experienced since implementation of Liquidity Coverage Ratio (LCR) in 2015. A 6% growth rate equates to around SGD 7bn of net supply or SGD 23bn of gross supply in 2019.

SG rates are expected to continue their track higher in 2019 while the yield curve could see some steepening impulse from supply in the first half of the New Year.

Myanmar Focus
Myanmar In Transition: Opportunities & Challenges

Myanmar is the new frontier for business in ASEAN. A large and populated country just opening its doors to foreign investors, there will be many opportunities in many sectors including labor intensive industries and greenfield investments, particularly in oil, gas, and mining sectors. In order to attract more FDI, the government passed the Myanmar Investment Law 2016 and the Myanmar Companies Law 2018. Nonetheless, Myanmar still presents investors with several economic and technical challenges that need to be addressed by the government.

US Focus
Assessing The Likelihood Of A US Recession In 2019

Based on the latest Fed Reserve's US recession probability and excess bond premium (EBP) forward looking indicators, we are unlikely to see the US economy enter into a downturn in 2019, even as the US Treasury markets saw its first yield curve inversion in more than a decade on 3 Dec 2018.

Looking ahead into 2019, the current US monetary policy cycle will be on course to converge with the long term neutral rate and the UST yield curve will also be approaching an inflection point where flattening is no longer the path of least resistance.

What lies ahead at this late cycle phase will depend on how markets manage the transition into an investment environment that is less forgiving due to diminished liquidity amidst a backdrop of slowing economic activity. The tricky part with transitions, even in the best of times, is that the process is seldom smooth or linear.

GLOBAL FX

USD/JPY: With the BOJ likely to stick to its dovish tone in 2019 due to dimming growth, trade-related uncertainties and inflation still far from its 2% target, we maintain the view that the path of least resistance is for gradual weakness of the JPY. As such, we reiterate our USD/JPY point forecasts at 113 in 1Q19, 114 in 2Q19 and 115 in 3Q and 4Q19. Key risk to our view is a deeper rout in equities which would eventually trigger safe haven funds back into the JPY.

EUR/USD: Overall, with easing headwinds against the EUR and the gradual pricing of monetary tightening in Europe, a sustained recovery in EUR is our conviction view within G10 currencies. Overall, we see EUR/USD bottoming and rising gradually across next year from 1.15 in 1Q19 to 1.20 in 4Q19.

GBP/USD: As Brexit Day looms, implied volatility in the GBP/USD options has risen to the highest levels since July 2016, reflecting the overhang of uncertainties heading into the crucial 11 December vote, and this is likely to persist. Positioning in both spot and options have also gradually deteriorated against the GBP in the recent few months. We are maintaining our negative view on GBP/USD, forecasting the pair at 1.25 across 1Q and 2Q19 before a slight recovery to 1.26 at 3Q19 and 1.27 at 4Q19.

AUD/USD: Although the macro backdrop for both domestic and external remains challenging, it appears that the bulk of the AUD weakness may be behind us. The negative positioning (as per CFTC) against the AUD is already showing signs of reversing from the most extreme levels in over 3 years, setting the stage for a more sustainable recovery in AUD. Going forward, we expect AUD to draw support across 2019 from improved pricing for an eventual rate hike by RBA. Our updated forecasts for AUD/USD are 0.74 in 1Q19, 0.75 in 2Q19, 0.76 in 3Q19 and 0.77 in 4Q19.

NZD/USD: With the recent move, the NZD/USD looks over-extended in the near term. Absent a new positive trigger, further gains in the currency pair are likely to moderate in pace. Overall, we forecast NZD/USD at 0.69 in 1Q19, 0.70 in 2Q19, 0.71 in 3Q19 and 0.72 in 4Q19.

ASIAN FX

USD/CNY: It is probably premature to anticipate sustained weakness in USD/CNY after the recent truce on trade tariffs, especially when details are still lacking and challenges for an eventual resolution remain. There is still clear and wide divergence in economic data and monetary policy between China and US which may continue to underpin a higher USD/CNY. Overall, we maintain our measured trajectory of USD/CNY above 7.00 next year, with point forecasts at 6.95 at 1Q19, 7.00 at 2Q19, 7.10 at 3Q and 4Q19.

USD/SGD: A protracted stand-off between Washington and Beijing on trade is a clear negative driver for the SGD. Also, with the CNY poised to weaken past 7.00 against the USD in 2019, SGD is likely to be followed with a move beyond 1.40/USD, weakest levels since May 2017. Perhaps the dominant factor limiting excessive SGD weakness is the possible increase in policy slope by the MAS in its next biannual meeting in April 2019. Overall, we maintain our view of a gradual rise in the USD/SGD to test above the key 1.40 resistance. Our forecasts for USD/SGD are 1.39 in 1Q19, 1.40 in 2Q19 and 1.41 in 3Q and 4Q19.

USD/HKD: Going forward, Hong Kong's economic growth is expected to moderate further in 2019, to 2.8% from 3.3% in 2018. In addition, the high dependency on trade makes Hong Kong's economy vulnerable to further deterioration in US-China trade relations. Also, a widening gap between local (3M Hibor) and US (3M Libor) rates, currently at 71bp is likely to buoy the USD/HKD towards the top end of its 7.75 to 7.85 convertibility band. Then, the HKMA will need to resume its regular intervention to ensure that the rise in HKD Hibor keeps pace with further projected US rate hikes. As for the USD/HKD, it is still expected to be capped at 7.85 and average 7.80 for the next 4 quarters.

USD/TWD: Our cautious outlook of Taiwan together with a further slowdown in the global electronics cycle are likely to underpin further weakness in the TWD against the USD for the next 4 quarters. However, Taiwan's strong current account balance is likely to cushion the local dollar against acute weakness. Overall, with further rate normalization by the Fed, USD/TWD is likely to rise further to 31.2 in 1Q19, 31.6 in 2Q19 before flattening out at 32.0 in 3Q and 4Q19.

USD/KRW: The KRW still faces a long list of challenges going into next year. Economic growth has moderated starting 3Q18 and should remain weak as the negative effects of the protracted trade dispute between US and China show up more prominently in 2019 (barring a significant breakthrough in negotiations). A concurrent slowdown in the global electronics cycle would also weigh on the KRW. In addition, the KRW is not expected to receive any near-term support from the BoK, which is likely to stay on hold through 1H2019. Overall, we expect KRW to pare recent gains and eventually weaken past 2018 low of 1,145 to the USD. We forecast USD/KRW at 1,130 in 1Q19, 1,150 in 2Q19 and 1,160 in both 3Q and 4Q19.

USD/MYR: There is risk of further MYR weakness beyond 4.20 against the USD, particularly if the weakening trend in RMB and other regional currencies resumes. Despite the sudden plunge in Brent oil from a high of $86.74 / bbl in Oct to current levels of about $60, there had been little pass-through to the MYR. The government also reiterated there will not be any recalibrations to the budget at this juncture in response to falling oil prices. The current account surplus continues to be supported by healthy goods trade surplus. Our revised USD/MYR point forecasts are 4.23 by mid-2019 and 4.25 by end-2019 (from 4.22 and 4.20 previously).

USD/IDR: The macro backdrop behind IDR remains challenging next year. Domestically, Indonesia's current account and fiscal account are expected to remain in deficit albeit some improvements, at -2.5% and -2.0% respectively. This makes the IDR vulnerable alongside other Emerging Market currencies as the Fed continues its gradual rate hikes. Externally, Indonesia is also not spared from trade headwinds due to the protracted trade dispute between US and China. That said, BI matching of the pace of Fed's tightening in 2019 may alleviate pressure on the IDR. Overall, we expect the IDR to continue to weaken alongside other Asian currencies. We forecast USD/IDR at 14,600 in 1Q19, 14,700 in 2Q19 and 14,800 in 3Q and 4Q19.

USD/THB: As the Fed continues its gradual rate hikes in 2019, the THB is likely to remain defensive against the USD but downside risks remain limited due to Thailand's strong fundamentals. Overall, we reiterate mild weakness of THB against the USD, at 33.00 in 1Q19, 33.30 in 2Q, 33.50 in 3Q and 4Q19.

USD/PHP: A short squeeze on oversold EMs currencies such as the PHP caused the currency to rebound aggressively from a 13-year low of 54.43. The recent recovery in PHP could be short-lived. With the USD underpinned by further rate normalization by the US Fed, we maintain a modestly higher trajectory for USD/PHP, expecting the pair to trade up to 54.00 by mid-2019 and 55.00 by end-2019.

USD/VND: US and China are both Vietnam's largest trading partners and next year, first order effects of the trade spat may cause a further drop in Vietnam's exports, denting sentiments on the domestic currency. Going forward, amidst on-going broad USD strength, we can expect further weakness in the VND in the next 4 quarters towards 24,000. As such, we reiterate USD/VND point forecasts at 23,500 in 1Q19, 23,800 in 2Q19 and 24,000 in 3Q and 4Q19.

USD/MMK: Despite a moderation of the pace of decline in 4Q18, the MMK is still expected to weaken next year given that Myanmar's large current account deficit is forecasted to widen further to 5.6% of GDP in 2019 from 5.4% in 2018. Our updated USD/MMK forecasts are 1,560 in 1Q19, 1,580 in 2Q19 and 1,600 in 3Q and 4Q19.

USD/INR: Given that the macro outlook for India remains challenging in 2019, further gains in the INR are unlikely. Also, a widening current-account deficit in 2019 may kick-start weakness in INR again but the weakness would be checked by RBI trying to match the pace of Fed rate hikes. Overall, we think USD/INR may bottom at around 70 in the near term and head higher in 2019. We forecast USD/INR at 71 in 1Q19, 72 in 2Q19 and 73 in 3Q and 4Q19.

GLOBAL INTEREST RATES

FOMC: We still expect another rate hike from the Fed at the 18/19 Dec FOMC to bring the FFTR range to 2.25%-2.50% by end-2018. We also maintain our 2019 rate hike expectation at three 25bps hikes which now implies that we expect the Fed to exceed their long run FFTR at 3.0% by mid-2019. That said, Fed's likely shift from the well communicated "gradual rate trajectory" to more emphasis on data dependency, will make the policy path more uncertain. If there is a significant weakening of US economic data or a significant escalation of trade tensions in 2019, then that could warrant a more cautious Fed and the risk could be lesser hikes, from 3 to probably just 2, but not zero. In the meantime, the Fed's balance sheet reduction (BSR) program will continue as scheduled and that implies the FOMC will not add more rate hikes (beyond what is implied in the dot-plot chart) unless we get a sharp inflation surprise.

ECB: At its 25 October meeting, the ECB reaffirmed that its asset purchase scheme will end in December 2018 and that interest rates could rise after next summer, sticking to guidance first unveiled in June and repeated at every meeting since. We are of the view that the ECB will not be in any rush to give clearer guidance, especially given the uncertain economic backdrop. In fact, we think that economic forecasts will be revised down in December, which will offset an earlier rate hike expectation than what is currently priced in (around October 2019). Nonetheless, we still expect net asset purchases to end in December 2018. As for policy rates, we are not anticipating any rate increases until much later in 2019 – which will lift the deposit rate to 0% (from -0.4% currently) and the refi rate to 0.25% (from 0% currently) by the end of 2019.

BOE: The BoE kept rates at 0.75% again when it met in early November. The quarterly Inflation Report, which accompanied the rate decision, stated: "The economic outlook will depend significantly on the nature of EU withdrawal, in particular the form of new trading arrangements, the smoothness of the transition to them and the responses of households, businesses and financial markets". We see the BoE sitting on the sidelines for now as it waits for greater clarity given the wide and complicated range of Brexit outcomes. We have penciled in a rate rise around mid-2019, but nonetheless, remain very mindful that rates could go in either direction.

RBA: The RBA held its OCR at 1.5% at its last meeting for the year. The concluding paragraph of December's accompanying statement was exactly the same as the one in November, with the RBA saying: "The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time". The latest GDP print is certainly a big miss relative to RBA expectations. Whilst the bigger picture of a gradually tightening labour market and a slow lift in wage growth remains intact, we see no change in policy until at least end-2019.

RBNZ: The RBNZ kept the OCR steady at 1.75% in November. The accompanying press release did not include the line from the previous statement in September that the next move could be "up or down". However RBNZ Governor Orr did say "there are both upside and downside risks to our growth and inflation projections. As always, the timing and direction of any future OCR move remains data dependent". We get the sense that the RBNZ is moving towards a more neutral stance now, whilst remaining accommodative, especially following recent positive data on inflation, and the labour market. We keep to our view that the OCR will remain on hold until at least the end of 2019, before rising slowly thereafter.

BOJ: Among the G10 central banks, BOJ continues to be the least likely to normalize its easy monetary policy anytime soon, and it remains premature for the BOJ to talk about normalizing/tapering its easing program too, because Japan is still some distance away from its 2% inflation target. The projected weaker growth environment and likelihood of downside price pressures in 2019 adds further challenges to BOJ's monetary policy next year. We think that the BOJ may still need to do more "tweaks" to monetary policy to reassert its easy monetary policy position, just like what it did in the July 2018 MPM. This may happen again, possibly in early 2019 although we cannot rule out that the "tweaks" may be brought forward to the last meeting of 2018 on 19/20 Dec.

ASIAN INTEREST RATES

PBoC: We continue to expect another reserve requirement ratio (RRR) cut from the central bank in late 2018-early 2019, after having made its fourth RRR reduction in 2018 alone. This should continue to keep domestic liquidity ample as indicated by relatively low funding costs in the interbank market. Thus, we do not anticipate any policy interest rate cut from PBoC over the next 3-6 months, given that the US Fed is still on the rate hike path and the European Central Bank is moving towards policy normalization. Domestically, consumer price inflation is expected to rise slightly in 2019 even though producer price inflation could come under downward pressure from the trade conflicts. As such, any aggressive cuts in RRR or even policy interest rate cuts would be a signal that the US-China negotiations may not be turning out well.

MAS: Following the "measured adjustment" increase in Oct 2018 MPS and barring "a significant setback in global growth", we believe the MAS could further tighten the current stance at their April 2019 meeting (via another slight increase in the policy slope), due to the growth staying above potential (even as it is projected to moderate in 2019) while average core inflation is likely to creep higher to 1.5-2.5% in 2019.The latest GDP growth projection and MAS inflation outlook do not change our view of further tightening in 2019. The biggest uncertainty for this view is still resting on how US-

China trade tensions will evolve in the months leading up to April 2019.

RBI: The Reserve Bank of India (RBI) has kept its benchmark repo rate unchanged at 6.50% in the last two meetings of 2018 but shifted to "calibrated tightening" stance from "neutral" since October and despite the sharp downward revision in its near-term inflation forecast. Governor Urjit Patel also commented there's the possibility of "commensurate policy actions" if inflation continues to undershoot which seemed to suggest room for policy u-turn to cut interest rates. Looking ahead, any increase in oil trajectory and further Fed monetary tightening will likely keep the door open for more RBI hikes next year. For now, there remains prospect of a 25 bps hike in February 2019, though the possibility has been much reduced due to moderating growth and inflation as well as pressure to ease the credit crunch leading into election next year. Even with less hawkish RBI, we think that rate cuts should be off the table for now.

BI: Bank Indonesia (BI) has thus far raised the BI 7-day Reverse Repo Rate by a cumulative 175bps to reach the current level of 6.00% since May 2018. The series of rate hikes decision remain consistent with BI's pre-emptive, front-loading, and ahead-of-the-curve strategy to anchor the stability of the domestic financial market against increased uncertainty in the global financial markets. Our expectation for the Fed Reserve remains at three 25bps rate hikes in 2019 but the Fed policy path is more uncertain next year as the Fed shifts emphasis to data dependence. So our 75bps cumulative rate hike in 2019 may face some downside risks if US economic data weakens significantly or the US-China trade tension re-escalates. For now, we keep our 25bps/quarter rate hike forecast, each in Q1, Q2, and Q3 consecutively to reach 6.75% by end 2019.

BOK: The Bank of Korea (BOK) raised its benchmark base rate by 25 bps to 1.75% in Nov, a year after its previous hike in Nov 2017. The rate hike was primarily meant to address risk of financial imbalance and also to narrow the gap with US rates. While Governor Lee pointed out that the policy rate is not at a neutral level yet, weaker growth and contained domestic inflation should see the BOK retaining its very gradual pace in monetary normalization. We expect the BOK to stay on hold through 1H2019, assuming no major surprises in domestic economic conditions or rate normalization trajectory in the major economies.

BNM: Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) steady at 3.25% and statutory reserve requirement ratio (SRR) at 3.50% at its final monetary policy meeting this year. The policy rate has been kept on hold since a hike in January. Since then, both growth and inflation has moderated while MYR weakness persists. The floating of domestic fuel prices (which could be implemented by 2H19) and the consumption tax policy is expected to lift next year's inflation albeit at a manageable level. Although growth risks are tilted to the downside, we think BNM is unlikely to reset the path of policy rates for now.

BOT: The Bank of Thailand (BoT) is expected to hike the policy rate from 1.5% to 1.75% in Dec 2018. For 2019, we expect the BoT to slowly raise the benchmark rate from 1.75% to 2%, possibly in 2H19. Gradually reducing monetary policy accommodation will continue to support economic growth and help cap financial stability risks in the future.

BSP: To contain inflation and preserve market confidence, Bangko Sentral ng Pilipinas (BSP), raised its reverse repo rate (RRR) five times this year by a cumulative 175 bps to 4.75% as at end-November. Further rate hikes may resume in 2019 given that there are upside risks to inflation and downside risks to the PHP amidst further USD strength next year. We foresee a possibility of + 50bps hike in the reverse repo rate by BSP in 1H 2019.

SBV: As the economy would be looking in good shape and well able to handle a return to higher interest rates, the SBV will likely hike the policy rate from 6.25% to 6.5% in 2H19 to reduce financial stability risks. Moreover, the monetary policy normalization could help reduce inflationary pressure and keep headline inflation to remain stable next year.

Real GDP Growth Trajectory

y/y% change	2017	2018F	2019F	1Q18	2Q18	3Q18	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F
China	6.9	6.6	6.3	6.8	6.7	6.5	6.4	6.6	6.4	6.2	6.1
Eurozone	2.4	1.9	1.6	2.4	2.2	1.7	1.4	1.5	1.5	1.7	1.7
Hong Kong	3.8	3.3	2.8	4.6	3.5	2.9	2.4	2.5	2.9	2.8	2.8
Indonesia	5.1	5.3	5.2	5.1	5.3	5.2	5.3	5.1	5.3	5.2	5.2
Japan	1.7	1.0	0.8	1.1	1.4	0.4	1.0	1.2	0.7	1.7	-0.3
Malaysia	5.9	4.8	4.8	5.4	4.5	4.4	4.7	4.6	4.7	4.8	4.9
Philippines	6.7	6.2	6.5	6.6	6.2	6.1	6.0	6.4	6.4	6.5	6.5
India	7.1	6.7	7.2	7.7	8.2	7.1	6.8	6.8	6.8	7.2	7.1
Singapore	3.6	3.4	2.5	4.6	4.1	2.1	2.6	1.7	2.5	3.2	2.7
South Korea	3.1	2.5	2.5	2.8	2.8	2.0	2.3	2.4	2.3	2.8	2.5
Taiwan	2.9	2.7	2.3	3.1	3.3	2.3	2.1	2.3	2.1	2.4	2.3
Thailand	3.9	4.2	4.0	4.9	4.6	3.3	4.0	3.7	3.8	4.2	4.2
US (q/q SAAR)	2.2	2.9	2.0	2.2	4.2	2.3	2.5	1.2	2.0	1.2	0.8

Source: CEIC, UOB Global Economics & Markets Research

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	07 Dec 18	1Q19F	2Q19F	3Q19F	4Q19F
USD/JPY	113	113	114	115	115
EUR/USD	1.14	1.15	1.16	1.18	1.20
GBP/USD	1.28	1.25	1.25	1.26	1.27
AUD/USD	0.72	0.74	0.75	0.76	0.77
NZD/USD	0.69	0.69	0.70	0.71	0.72
DXY	96.8	96.1	95.6	94.5	93.3
USD/CNY	6.89	6.95	7.00	7.10	7.10
USD/HKD	7.81	7.80	7.80	7.80	7.80
USD/TWD	30.84	31.20	31.60	32.00	32.00
USD/KRW	1,118	1,130	1,150	1,160	1,160
USD/PHP	52.68	53.00	54.00	55.00	55.00
USD/MYR	4.16	4.19	4.23	4.25	4.25
USD/IDR	14,522	14,600	14,700	14,800	14,800
USD/THB	32.83	33.00	33.30	33.50	33.50
USD/MMK	1,545	1,560	1,580	1,600	1,600
USD/VND	23,310	23,500	23,800	24,000	24,000
USD/INR	70.90	71.00	72.00	73.00	73.00
USD/SGD	1.37	1.39	1.40	1.41	1.41
EUR/SGD	1.56	1.60	1.62	1.66	1.69
GBP/SGD	1.75	1.74	1.75	1.78	1.79
AUD/SGD	0.99	1.03	1.05	1.07	1.09
SGD/MYR	3.04	3.01	3.02	3.01	3.01
SGD/CNY	5.03	5.00	5.00	5.04	5.04
JPY/SGDx100	1.22	1.23	1.23	1.23	1.23

RATES	07 Dec 18	1Q19F	2Q19F	3Q19F	4Q19F
US Fed Funds Rate	2.25	2.75	3.00	3.25	3.25
USD 3M LIBOR	2.77	2.95	3.20	3.45	3.45
US 10Y Treasuries Yield	2.89	3.25	3.35	3.40	3.50
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.25
GBP Repo Rate	0.75	0.75	0.75	1.00	1.00
AUD Official Cash Rate	1.50	1.50	1.50	1.50	1.75
NZD Official Cash Rate	1.75	1.75	1.75	1.75	1.75
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35	4.35
HKD Base Rate	2.50	3.00	3.25	3.50	3.50
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.50
KRW Base Rate	1.75	1.75	1.75	1.75	1.75
PHP O/N Reverse Repo	4.75	5.00	5.25	5.25	5.25
SGD 3M SIBOR	1.77	2.05	2.30	2.50	2.50
SGD 3M SOR	1.91	2.00	2.25	2.45	2.45
SGD 10Y SGS	2.26	2.75	2.80	2.80	2.90
MYR O/N Policy Rate	3.25	3.25	3.25	3.25	3.25
IDR 7D Reverse Repo	6.00	6.25	6.50	6.75	6.75
THB 1D Repo	1.50	1.75	1.75	2.00	2.00
VND Refinancing Rate	6.25	6.25	6.25	6.50	6.50
INR Repo Rate	6.50	6.75	6.75	7.00	7.00

COMMODITIES	07 Dec 18	1Q19F	2Q19F	3Q19F	4Q19F
Gold (USD/oz)	1,239	1,200-1,300	1,200-1,300	1,200-1,300	1,200-1,300
Brent Crude Oil (USD/bbl)	60	55-65	55-65	55-65	55-65
LME Copper (USD/mt)	6,070	6,000-7,000	6,000-7,000	6,000-7,000	6,000-7,000

ASIA FOCUS

Are We Seeing Trade And Investment Diversion From US-China Trade Rift?

- The escalation in trade tensions between US and China resulted in the first tranche of tariffs being implemented on US$50bn of goods by US and China on 6 Jul 2018. The second and latest tranche took effect on 24 Sep when US imposed 10% tariff on US$200bn of Chinese goods and China levied 5-10% tariff on US$60bn worth of US goods in retaliation.

- Despite the temporary ceasefire on trade tariffs as both sides go into a 90-day negotiation period post-G20 (which started on 1 Dec and will close around early March 2019), the lack of consistent details and even differences based on statements from the White House and the Chinese government left markets weighing the prospects of a breakthrough in the trade impasse. While our base case is for a long-drawn negotiation process well into 2019 (i.e. extension to the 90-day negotiation period), we think that there remains significant risk that the US and China would fail to overcome their differences and are not be able to reach an eventual agreement, leading to re-escalation in the trade tensions.

- Given that Chinese goods will now cost more in the US and vice versa due to the additional tariffs that were already imposed, trade and investment diversion away from China and the US will be inevitable. This could have a larger impact on China than the US due to the sheer size of Chinese exports compared to the latter. The disruption to the supply chain will quicken if corporates are becoming more convinced that the US-China trade dispute will be long-drawn and therefore warrant adjustments to their medium/long-term strategies.

- The American Chamber of Commerce in South China published a recent survey report on the impact of the US-China trade tensions on businesses and investment decisions. Not surprisingly, nearly 80% of surveyed companies have experienced “serious impact or negative impact” of the combined tariffs on various business operations. Nearly half of the respondents reported loss in markets to companies from other countries due to the trade dispute. According to the findings, the top three competitor countries are Vietnam, Germany and Japan (in order of importance). This will have impact on their investment decisions as more than 60% of the companies are delaying or canceling investments into China and a similar proportion are considering relocation of some or all manufacturing out of China. Southeast Asia is the first choice for most respondents planning relocation, suggesting some silver lining for the region.

- Even before the US-China trade relations took a turn for the worse, foreign and Chinese companies alike were already looking to the ASEAN countries for investment opportunities, which include the China-led Belt & Road Initiative. The attractiveness of the ASEAN region was due in part to the lower wage and production costs, tax incentives and better access to the regional markets. Any further worsening in US-China trade relations will likely accelerate the flows of investment to the region.

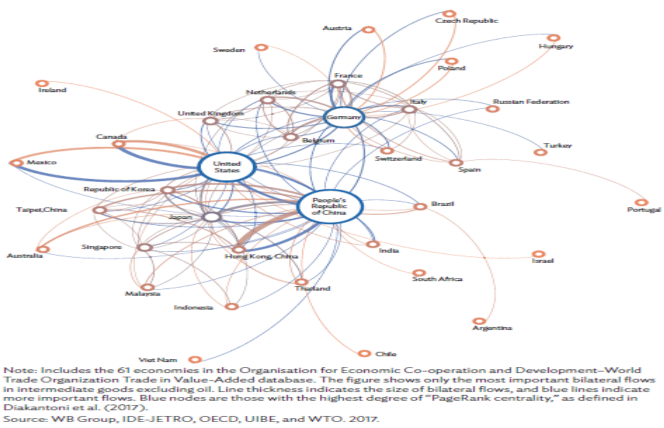
- The manufacturing sector in ASEAN could be the biggest beneficiary, having received the largest share of China’s outward direct investment in the last two years. By industry, the Economist Intelligence Unit (EIU) sees Malaysia and Vietnam as the key beneficiaries in the information and communications technology (ICT) products segment as the presence of major electronics companies in these countries will allow for easier redeployment of production and investment to these destinations. Using the same reasoning, Thailand and Malaysia will stand to gain most in the automotive segment given established export networks in these countries while Vietnam which is already an important garment production centre, will be able to scale up in the midst of the ongoing US-China tensions.

- Based on the preliminary data on trade and investment so far, we believe that trade diversion has yet to become evident (due to front-loading activities) whereas there are nascent signs of investment pick-up in places such as Thailand, Taiwan and Vietnam, suggesting diversion of some manufacturing activities into these economies due to the US-China trade tensions. These markets could potentially benefit most from a shift in supply chain if US-China trade tensions drag on.

- As part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which will come into effect on 30 Dec 2018, ASEAN countries including Malaysia, Vietnam, Singapore and Brunei have a further edge to attract these investments given the additional benefits to exporters and importers operating from these markets.

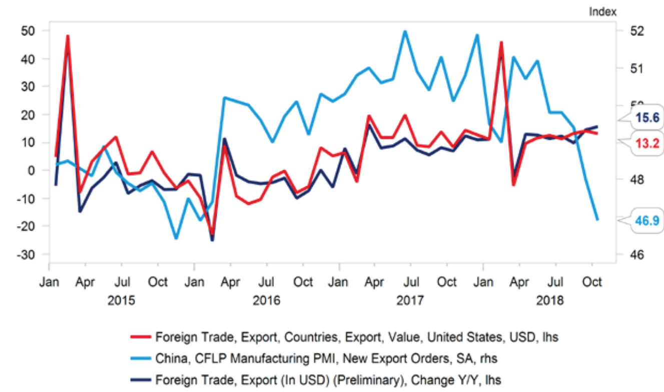
The Scale Of Disruption To The Global Production Chain Will Be Large Given China And The US Are The Main Hubs

Source: Asian Development Bank



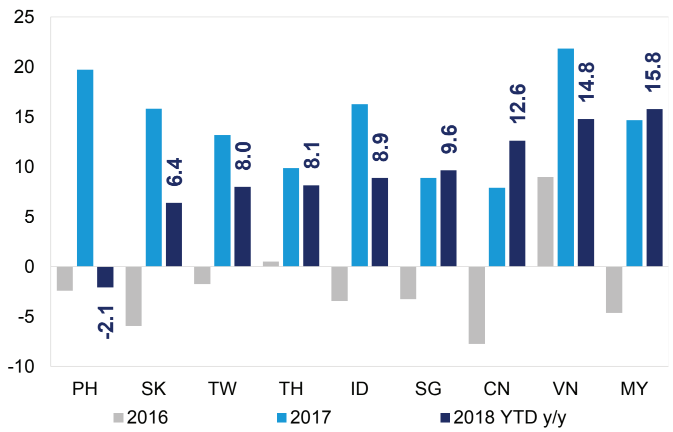
China Export Growth & Manufacturing Outlook

Source: Macrobond, UOB Global Economics & Markets Research



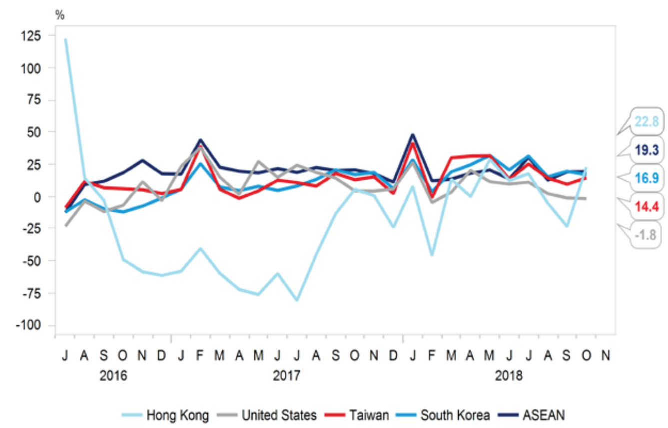
US-China Trade Tension: Export Performance (USD, y/y %)

Source: CEIC, UOB Global Economics & Markets Research



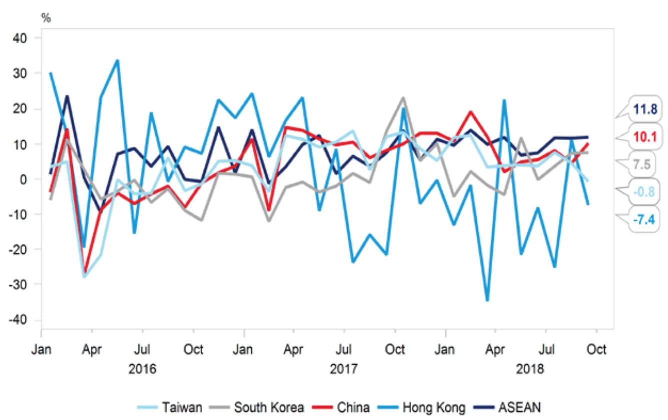
China, Foreign Trade, Import, Countries, Import, Value, USD

Source: Macrobond, UOB Global Economics & Markets Research



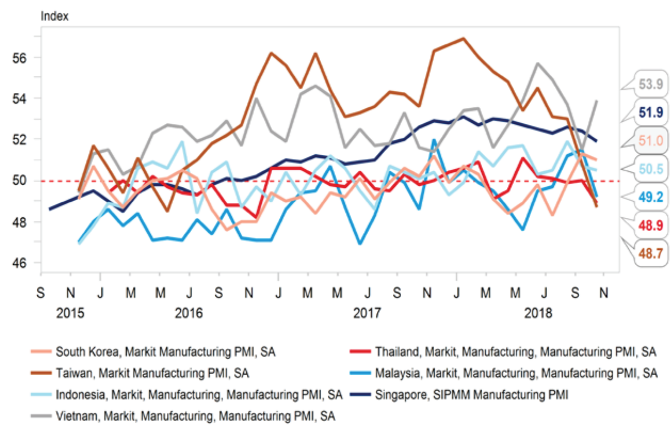
United States, Foreign Trade, Census Bureau, Countries, Import, Goods, USD

Source: Macrobond, UOB Global Economics & Markets Research



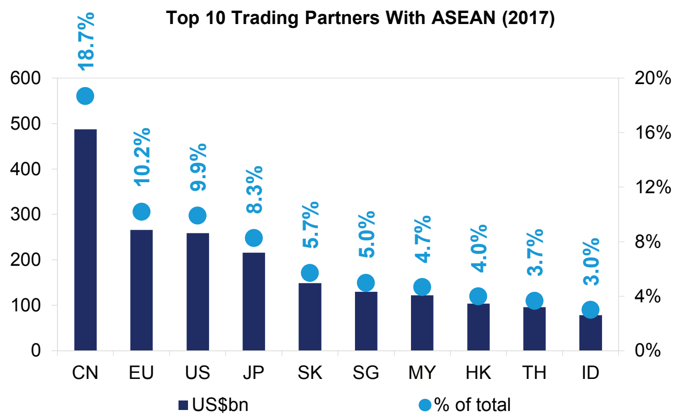
Manufacturing Outlook In Asia Largely Showing Weakening Trend

Source: Macrobond, UOB Global Economics & Markets Research



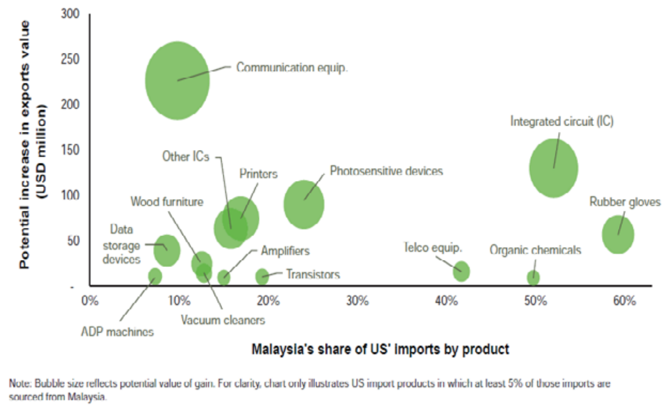
China Is Top Trading Partner With ASEAN

Source: Bloomberg, UOB Global Economics & Markets Research



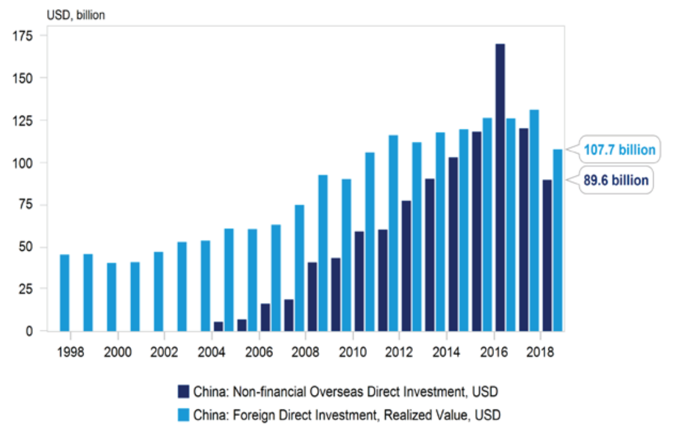
Malaysia's Exports To The US That Could Potentially Gain From Trade Substitution

Source: BNM



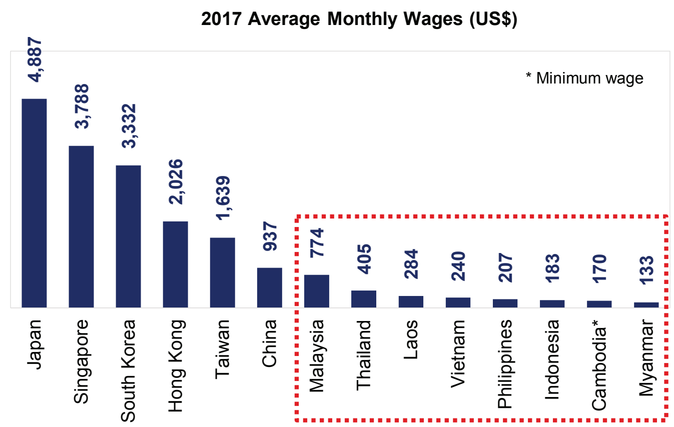
China: Foreign Direct Investment and Outward Direct Investment

Source: Macrobond, UOB Global Economics & Markets Research



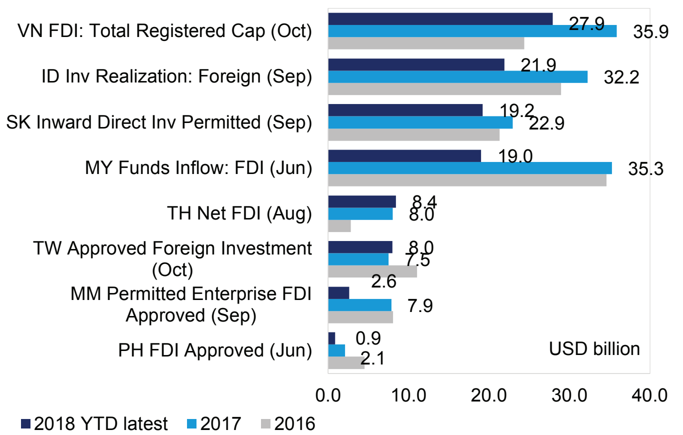
Wage Costs In ASEAN Are Mostly Lower Than In China

Source: CEIC, ILO, UOB Global Economics & Markets Research



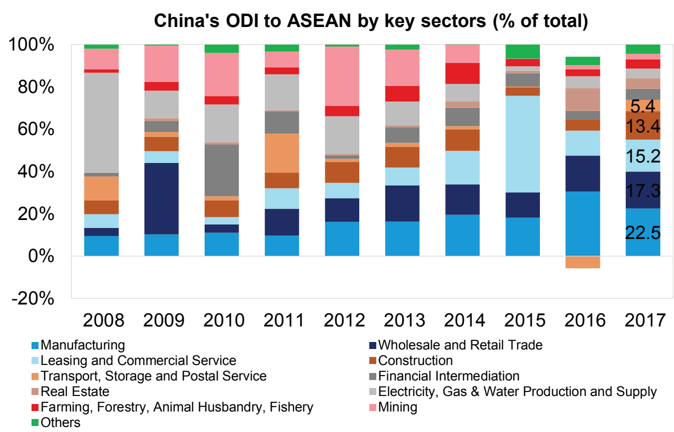
US-China Trade Tension: Signs of Investment Diversion?

Source: CEIC, UOB Global Economics & Markets Research



Manufacturing Receives Largest Share Of China's Investment In ASEAN

Source: CEIC, UOB Global Economics & Markets Research



ASEAN: Major Trade And Investment Opportunities	
Vietnam	Relocation of supply chain activities to Vietnam is likely to be most pronounced in more basic industries such as wood product furniture, textile and apparels. For more sophisticated industries with more complex supply chains such as mobile phones, automotive, laptops and electronics, we may see the shift of activities with lower value-added in the realms of production and assembly, as an initial response in supply-chain adjustment. 1. Intel, Foxconn, LG, and Samsung have recently relocated some parts of their manufacturing to Vietnam. 2. Goertek, the Chinese company assembling Apple's AirPods, has rerouted all production of the earbuds to Vietnam.
Thailand	There is potential to increase exports of computer parts to the US and farm products to China such as cassava chips, soybean, seafood, processed food and frozen food. Potential relocation of investment to Thailand are in industries producing aviation parts, automobile and parts, computers and parts, electronics, energy equipment, and agricultural machinery. 1. Harley Davidson shifted part of its processes to Thailand. 2. Delta Electronics, which supplies power components to Apple Inc., offered $2.1 billion in July to purchase a Thai affiliate to expand production. 3. Merry Electronics making headphones for firms like Bose Corp. intends to move some of its production to Thailand from southern China.
Indonesia	Indonesia has absolute advantage in resource-based sectors and her commodity exports to China are estimated to arrive as final consumption products vis-à-vis a raw or intermediate products for re-exporting. It is also expected to see some mild benefits in ICT and automotive production relocation as a result of the US-China trade tensions. Investments are also rising in the areas of telecommunications and provision of consumer products, notably dairy-based consumption products. The top 5 sector investments based on the latest FDI reports suggested the areas of energy provision (electricity, gas, and water supply), transportation and storage as well as telecommunication, construction-related (real estate, industrial, an office buildings), mining, and non-machinery metal industries continue to be the areas of great interest. These areas are somewhat less affected by the direct effect of the trade tensions, although indirectly it has been affected through the slowing down of the FDI's momentum that is seen notably in Q3 this year Key iPhone assembler, Taiwan-based electronics manufacturer Pegatron is preparing to shift production of non-iPhone products (including set-top boxes and other smart devices) hit by U.S. tariffs on Chinese exports to a rented factory on Indonesia's Batam Island within the next six months.
Malaysia	Based on the central bank's study, the products that Malaysia would likely gain from trade substitution opportunities are mostly in the E&E industry, such as electrical machines, electronic integrated circuits and semiconductors for solar panels cells. 1. Large entry of Chinese semiconductor assembly and test player into Malaysia's semiconductor firm Unisem. 2. MNCs' enquiries to local outsourced semiconductor and test companies (OSAT) have risen. These include enquiries for the possibility for OSAT to go downstream in electronics manufacturing and transfer of MNCs' matured products in China to Malaysia, which the local companies are not keen due to the labour intensiveness and lower margins. 3. A number of MNCs with existing operations in Penang are in the midst of expanding or planning for expansion. Higher demand for machines from MNCs operating in Malaysia.
Myanmar	There is increasing interest to establish manufacturing and production facilities in Thilawa Special Economic Zone (SEZ) among the firms. Myanmar signed a memorandum of understanding (MoU) with China in September 2018 agreeing to establish the China-Myanmar Economic Corridor (CMEC), part of the Belt and Road Initiative. Under the MoU, the governments agree to collaborate in several industries such as transport, basic infrastructure, construction, manufacturing, agriculture and telecommunications. In November 2018, the Myanmar government and China's state-owned CITIC Group signed the framework agreement for the proposed US$1.3 billion deep-sea port in Kyaukphyu. Myanmar is also in the midst of finalizing an agreement to export cattle to meet increasing Chinese demand.
Philippines	Economic Planning Secretary Ernesto Pernia said that the US-China trade war should benefit the Philippine economy, helping increase exports by 5% as the country becomes an alternative source of products and even a site for supply chains. He added that there are already signs electronics and computer components, previously sourced from China, are now going to the Philippines. 1. Ayala Corp is in talks to provide land to a Chinese company planning to build one of the world's biggest tile factories in the Philippines. 2. Chinese steel company Panhua Group will build a 305-hectare integrated steel manufacturing plant at an industrial estate in Misamis Oriental Special Economic Zone, with an investment of US$3.5bn. 3. China Gezhouba to invest initial US$2bn in New Clark City to develop 500-hectare mixed-used industrial park in Clark, north of the capital, which is expected to attract electronics manufacturing companies, technology firms and light industries. 4. New Kinpo Group, a Taiwanese contract electronics maker, looks to build new facilities in the Philippines.

Source: Bloomberg, Newswires, UOB Global Economics & Markets Research

For full report, please refer to our website: www.uobgroup.com/research.

SINGAPORE FOCUS
The 2019 SGS Supply Schedule

- We expect SGS bonds outstanding to increase in line with the 6% average growth rate experienced since implementation of Liquidity Coverage Ratio (LCR) in 2015.
- A 6% growth rate equates to around SGD 7bn of net supply or SGD 23bn of gross supply in 2019.
- SG rates are expected to continue their track higher in 2019 while the yield curve could see some steepening impulse from supply in the first half of the New Year.

2018 Supply Announcement	2019 Supply Announcement
Outstanding SGS bonds grew by about **5% per annum** on average over the past five years. In the past one to two years, there has been increased demand for high quality liquid assets from financial institutions. Subject to prevailing market conditions, MAS plans to grow outstanding SGS at a **slightly faster rate in 2018** to meet the higher demand. MAS will continue to monitor market conditions and calibrate issuance sizes to facilitate an efficient and liquid secondary market.	Over the past few years, outstanding SGS bonds have grown steadily, at around **5% - 8% per annum**. Market conditions have been supportive, driven by an increased demand for high quality liquid assets from financial institutions. MAS intends to maintain a **similar pace of growth for SGS bonds in 2019**, subject to prevailing market conditions. Increasing the amount of outstanding SGS bonds will meet the demand for high quality liquid assets from financial institutions and improve secondary market liquidity. MAS will continue to monitor market conditions and calibrate issuance sizes to facilitate an efficient and liquid secondary market.

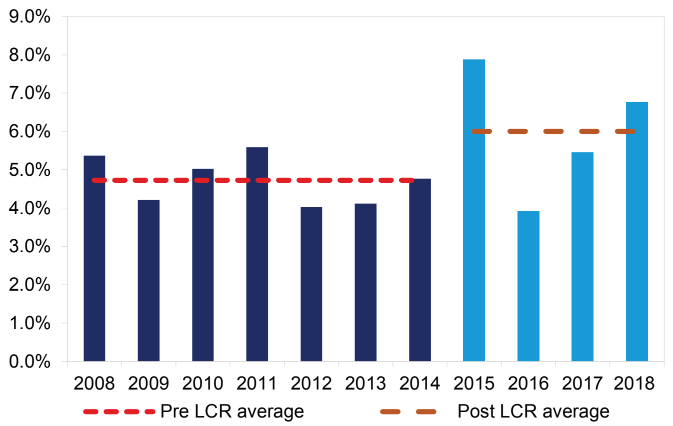
MAS released the 2019 SGS auction calendar on the 12th November. Overall there was no major surprise, but it does contain a few tweaks in response to market dynamics seen this year.

In the table above, we've highlighted the main difference in language between 2019 and 2018's announcements that accompanies the auction calendar. Our takeaway from the statements is that demand for SGS is expected to mean revert back to historical averages after having experienced above average growth in 2018 and especially in 2015.

Annual growth in the SGS market from 2008 to 2014 had been fairly stable and ranged from 4.0% to 5.6% or around an average of SGD 3.6bn of net supply each year. In 2015, SGS supply growth received a boost stemming from regulatory driven demand. The implementation of Liquidity Coverage Ratio (LCR) acted as a demand shock for High Quality Liquid Assets (HQLA) which resulted in a doubling of net supply that year to SGD 7.1bn. The average annual growth rate in SGS since 2015 has been more volatile, ranging from 3.9% to 7.9%, compared to the previous period due to the tiered transition phase for regulatory compliance. This transition period to the LCR regime will be complete by 01 January 2019, and with that we are expecting to see year on year SGS growth rates become less volatile. Average growth rate going forward is likely to oscillate around 6.0% in the absence of new demand shocks. Supply shocks, i.e. fiscal deficit financing requirements, do not apply since SGS proceeds are ring fenced and cannot be used to pay for Government expenditures.

Growth In SGS Bonds Outstanding (2008 to 2018)

Source: Bloomberg, UOB Global Economics & Markets Research



What's Coming Up In 2019?

Auction schedule extended by 1 month

Next year's SGS auction schedule will see November being reintroduced back into the regular calendar for 10 bond auctions (excluding mini-auctions) in 2019 compared to 9 bond auctions in 2018. New issuance tenors shift from 5Y and 10Y this year to 5Y and 20Y next year, but the incremental duration from a 20Y new issue will be offset by a 10Y re-open substituting for this year's 15Y re-open.

Swan song for Mar 2046

30Y tenor (Mar 2046) will be re-opened again in 2019, to satisfy requirements for regular long bond issuances from the insurance industry. We are likely to see the introduction of a new 30Y benchmark in 2020, and given the availability of Mar 2046, the status shift into an off the run bond suggests that the bond might take a break from the next few regular auction schedules after 2019.

A nod to LCR requirements

Next year's plan for the shorter maturity bonds closely resembles what had transpired this year in terms of mini-auction utilization. Both mini-auctions in 2018 were optioned for the 5Y tenor clearly indicating that demand from financial instructions was robust due to LCR requirements. 2019's calendar has taken this on board by increasing the frequency of 5Y auctions to three times from this year's twice.

Longevity tweak for 2Y benchmark

The 2Y SGS benchmark in waiting (Oct 2021) will be re-opened twice next year and in a departure from semi-annual changes in the 2Y benchmark bond, Oct 2021 will retain benchmark status for the rest of 2019 after its first re-open auction in May. Hence, revealing the motivation behind a double re-open in order to ensure sufficient liquidity. This tweak to increase the longevity in the 2Y SGS benchmark will help to reduce transactional costs due to indexation rebalancing.

Mini-auctions option for longer maturities

Schedule for mini-auctions has been pushed closer together in 2019 and coincides with the 2Y SGS re-opens. This offers an option for alternatives in the event that demand for 2Y bonds turn out to be below expectations. The trade-off is that it leaves the last quarter of the year without a pressure relief valve if demand for SGS duration were to pick up during the supply drought period between Q4 2019 and Q1 2019.

Historical seasonality unperturbed

The messaging from 2019's auction calendar is similar to this year when bucketed into quarterly tranches. Seasonal tendencies have not been significantly altered by next year's supply pipeline. The 30Y re-open in 1Q will remain the focal point from now till auction day and should keep yields at the longer end of the curve supported baring an external shock. Historically, Q2 tends to be associated with a swoon in yields, broadly driven by diminished euphoria from the start of the year; this may turn out to be shallower in 2019 in light of a mini-auction as well as due to the flatter yield curve.

Expecting incremental net duration increase for 2019

Overall, we expect duration injection in 2019 to be marginally higher than in 2018. Given the adaptations in the 2019 calendar with LCR requirements in mind, we see a reasonable likelihood of mini-auctions being optioned for a longer maturity bond (> 10Y). This possibility will increase if issuances from statutory boards and quasi government entities in 2019 fail to satiate investors demand for good quality long duration assets.

SGS Tenor	2018 Auctions	2019 Auctions	Change
2	2	2	-
5	2*	3*	1
7	1	1	-
10	1*	2	1
15	1	0	-1
20	1	1*	0
30	1	1	0

* Tenor with New Issue
Source: Bloomberg, UOB Global Economics & Markets Research

	2018	2019
Q1	2Y, 5Y*, 30Y, mini	5Y*, 5Y, 30Y
Q2	5Y, 10Y*, 20Y	2Y, 10Y, 20Y*, mini
Q3	2Y, 7Y, 15Y	2Y, 5Y, 10Y, mini
Q4	mini	7Y

* New Issue
Source: Bloomberg, UOB Global Economics & Markets Research

SGS	Years Remaining	Amount Outstanding
01/06/2019	0	8,700,000,000
01/10/2019	1	7,100,000,000
01/07/2020	1	5,500,000,000
01/09/2020	2	8,000,000,000
01/06/2021	2	8,000,000,000
01/10/2021	3	3,200,000,000
01/04/2022	3	3,400,000,000
01/09/2022	4	6,300,000,000
01/02/2023	4	2,900,000,000
01/07/2023	4	8,800,000,000
01/02/2024	5	New
01/09/2024	6	6,400,000,000
01/06/2025	6	3,900,000,000
01/06/2026	7	4,200,000,000
01/03/2027	8	8,300,000,000
01/05/2028	9	3,000,000,000
01/07/2029	11	2,200,000,000
01/09/2030	12	4,200,000,000
01/09/2033	15	5,900,000,000
01/08/2036	18	3,800,000,000
01/07/2039	21	New
01/04/2042	23	5,100,000,000
01/03/2046	27	5,800,000,000

Source: Bloomberg, UOB Global Economics & Markets Research

The SGS Market In 2018

SGS Curve

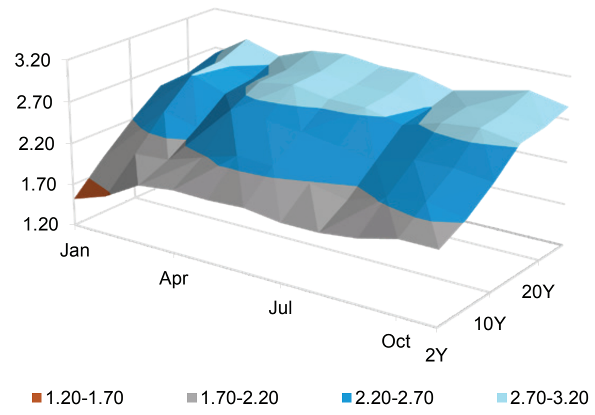
Year to date (mid Nov), SGS yields have broadly risen in response to an ongoing FED tightening cycle. The curvature is flatter with the 2s30s at 111bps in January falling to 79bps as of 16 November. However, the aforementioned masks the bifurcation that has occurred in the SGS curve. Specifically, tenors between 10Y to 30Y have essentially repriced their yields higher in a parallel fashion over the year such that current levels in 10s15s, 10s20s, and 10s30s are effectively unchanged when compared to their January levels. SGS curve flattening has therefore been driven by yield gains in the shorter maturities and with the back end of the curve locked, the 2s10s30s butterfly has richened from 25bps in January to parity as of 16 November.

How does the 2019 SGS calendar play into this?

An auction calendar designed with anticipated LCR demand in mind means that January's new 5Y issuance will be an important litmus test. The widely held assumption is for the auction to go well, for a size that is not significantly smaller than this year's SGD 2.9bn of Feb 2023. If 5Y auction demand were to under deliver and with 30Y re-opening and 20Y new issue to follow, this could pose richening risk for the 2s10s30s butterfly in the first half of 2019.

SGS Yield Curve In 2018

Source: Bloomberg, UOB Global Economics & Markets Research



Bondswaps And SGS Discount To UST

SGS performance vs. UST is on track to put in a credible showing for 2018 as the SGS yield discounts hover close to their year to date range lows across all the benchmark tenors. Deeper discounts has been the path of least resistance given that the SGS market in this FED hike cycle has generally held onto its lower beta sensitivity towards overnight changes in UST prices. Back to back steepening of the SGD NEER slope by MAS in April and October has also helped to bolster the appeal of SG assets. Notably, market confidence in the domestic currency versus its trade weighted basket has proven fairly resilient; mounting "V" shaped recoveries on occasions when it weakened to the trading band's parity. Into 2019, our US macro team expects the FED to deliver another 3 rate hikes. In addition, the interplay between FED balance sheet reduction and US budget deficit will also be supportive of UST yields. On the other hand signs of slowing growth have already been felt in survey data and jittery markets lowers the bar for adverse capital flows and the concurrent risk repricing could cause SGS to underperform UST.

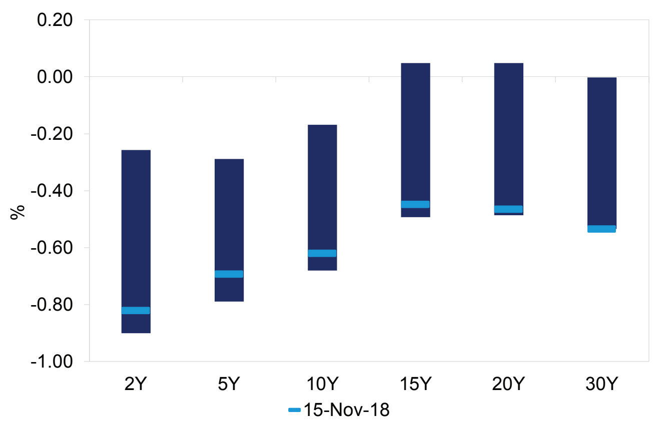
SG bondswap spreads have been tight across tenors in 2018. This is consistent with 1) the rate differential between domestic unsecured funds, proxied by MAS bills, and the synthetic SG funding rates via FX swaps and 2) our composite proxy of domestic credit stress which is residing on the low end of its post 2008 Great Financial Crisis range. One of the more widely held thematic for the year ahead is for the return of volatility premised on slowing global growth and central banks tightening liquidity conditions, thus it remains to be seen if tight SG bondswap spreads are able to transition and emerge unscathed this time next year. Our strong preference is to fade bondswap spread inversions (IRS < SGS) as those positions represent a fairly cost effective way for riding on the consensus volatility theme.

How does the 2019 SGS calendar play into this?

Supply impact on spreads to UST and SG IRS if any is likely to be of limited magnitude and transitory in duration. The more significant driver behind both spreads is the domestic currency's performance and any related capital flow outcomes.

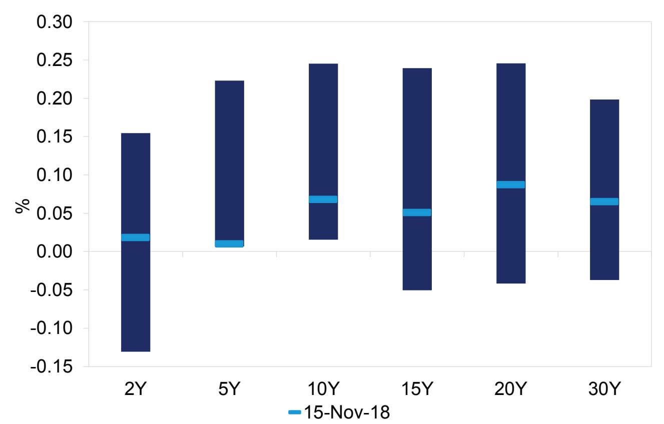
2018 SGS vs. UST Spread Range

Source: Bloomberg, UOB Global Economics & Markets Research



2018 SGS vs. IRS Spread Range

Source: Bloomberg, UOB Global Economics & Markets Research



MYANMAR FOCUS

Myanmar In Transition: Opportunities & Challenges

- Myanmar's GDP is expected to expand by 6.9% in 2018, mainly driven by improving exports and FDI and manufacturing expansion.
- Going forward, the local currency is expected to weaken against the USD as a result of current account deficit and the strengthening USD.
- The government passed the Myanmar Investment Law 2016 and the Myanmar Companies Law 2018 so as to attract more foreign investment.
- Myanmar also signed a Memorandum of Understanding (MoU) with China for the China-Myanmar Economic Corridor (CMEC) which would connect China's landlocked Yunnan through Mandalay to Yangon and Kyaukphyu on new roads and a high-speed railway.
- Although Myanmar is rich with opportunities in many sectors, investors faced several economic and technical challenges that need to be addressed by the government.

Exhibit 1: Rapid Economic Growth Has Relied On External Sources Of Financing

Source: IMF, UOB Global Economics & Markets Research

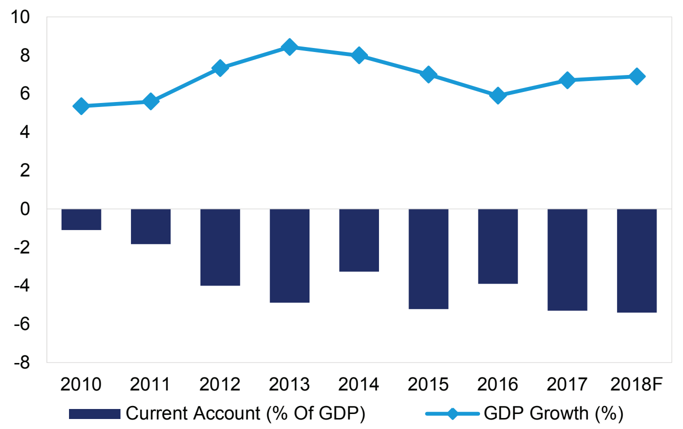


Exhibit 2: A Weakening Local Currency Despite Increasing FDI

Source: IMF, UOB Global Economics & Markets Research

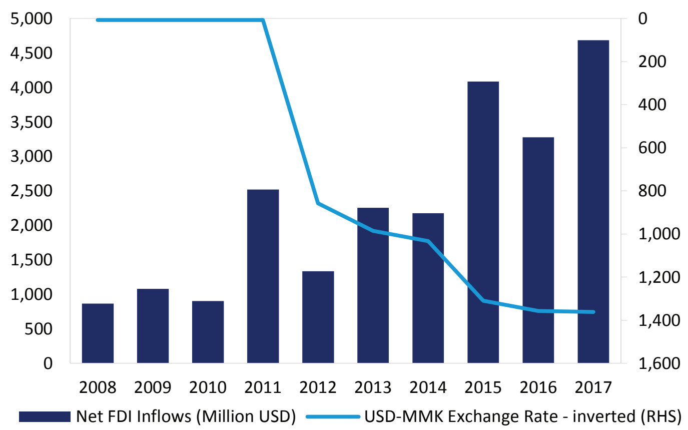


Exhibit 3: Development Zones In The MIL 2016

Source: MIC

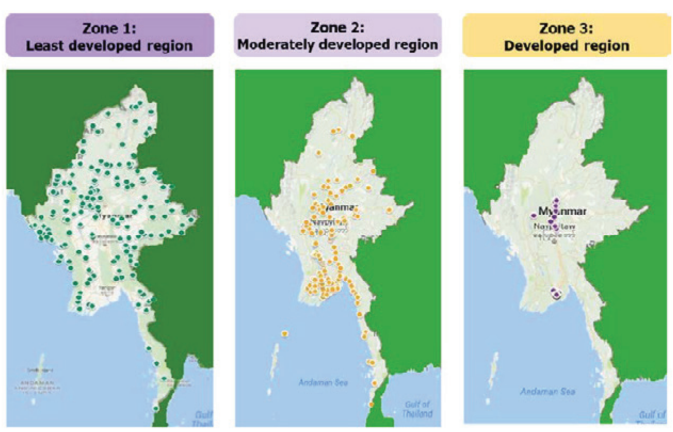


Table 1: Investment Benefits For Promoted Industry

Zone	The MIL 2016	The FIL 2012
Zone 1	Exempt corporate income tax for 7 years	Exempt corporate income tax for 5 years for all businesses
Zone 2	Exempt corporate income tax for 5 years	-
Zone 3	Exempt corporate income tax for 3 years	-

Source: MIC

Exhibit 4: Improving The Ease Of Doing Business Ranking Is A Must For Myanmar

Source: World Bank, UOB Global Economics & Markets Research

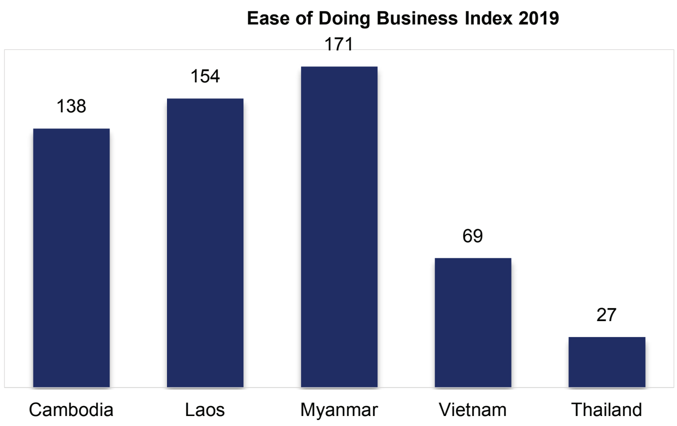


Exhibit 5: As A Large Petrochemical Facility, Kyaukphyu Is A Pivotal Point On the CMEC

Source: Reuters

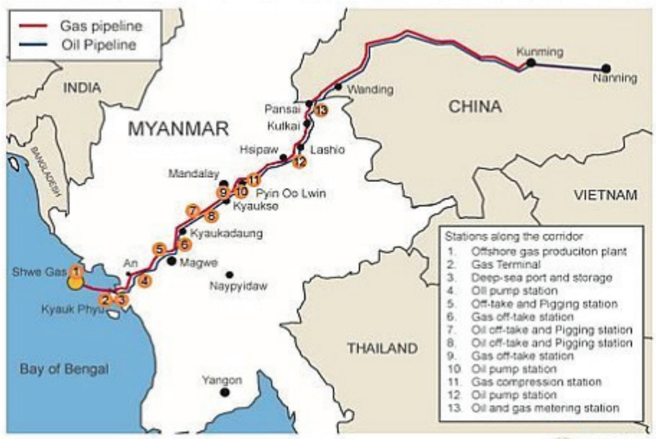


Exhibit 6: Low Wage Costs Attract Multinational Enterprises To Myanmar

Source: Trading Economics, UOB Global Economics & Markets Research

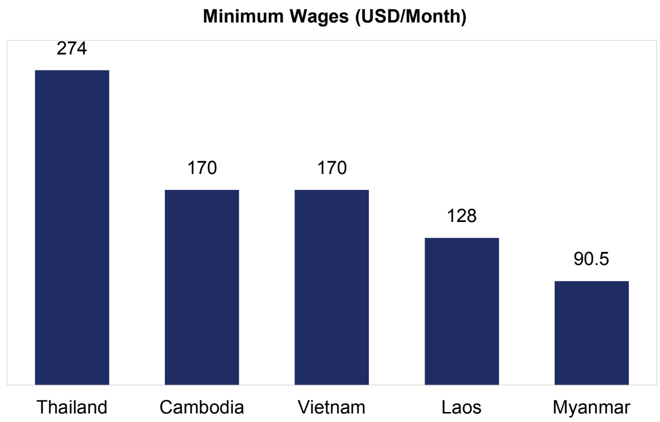
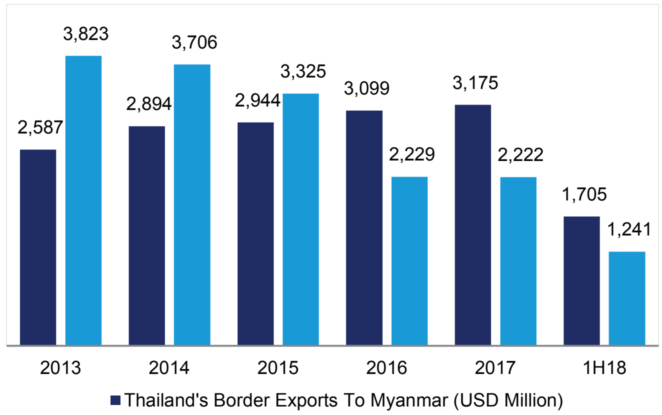


Exhibit 7: Myanmar-Thailand Border Trade Reached $2.9 Billion In 1H18

Source: MOC, UOB Global Economics & Markets Research



For full report, please refer to our website: www.uobgroup.com/research.

US FOCUS

Assessing The Likelihood Of A US Recession In 2019

- Based on the latest Fed Reserve's US recession probability and excess bond premium (EBP) forward looking indicators, we are unlikely to see the US economy enter into a downturn in 2019, even as the US Treasury markets saw its first yield curve inversion in more than a decade on 3 Dec 2018.
- Looking ahead into 2019, the current US monetary policy cycle will be on course to converge with the long term neutral rate and the UST yield curve will also be approaching an inflection point where flattening is no longer the path of least resistance.
- What lies ahead at this late cycle phase will depend on how markets manage the transition into an investment environment that is less forgiving due to diminished liquidity amidst a backdrop of slowing economic activity. The tricky part with transitions, even in the best of times, is that the process is seldom smooth or linear.

Inversions In Parts Of Yield Curves – Not Time To Panic, Yet

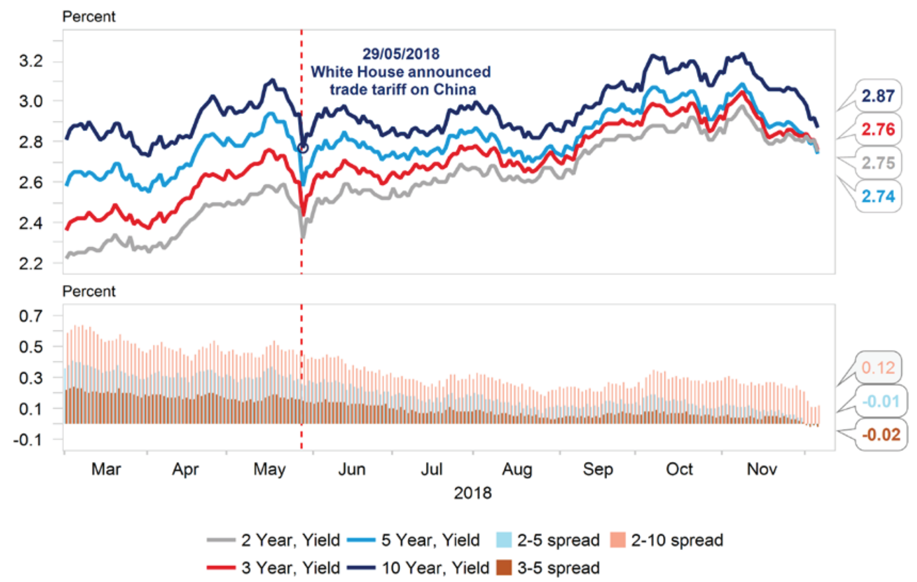
Something happened to US Treasuries on 3 Dec (2018). The US Treasury markets saw its first yield curve inversion in more than a decade since 2007 as the curve flattened further that day. The spread between 5- and 2-year UST yields fell to a -0.36bps while the 5- and 3-year UST yields fell even more to -0.6bps on that day.

While the 5- and 2-year or the 5- and 3-year spreads are not the best measures versus the more popular spread between the 10- and 2-year UST – traditionally seen as a good predictor of recession 4 to 6 quarters ahead – has been narrowing (to about 11-12 bps as of 6 Dec) but it is still positive. While it is not inconceivable that the 10s-2s spread may turn negative at some point in 2019, and with a forecast timeframe of 4 to 6 quarters. This implies a US recession in 2020/21, not in 2019.

As such, while inversions parts of the US yield curves are worth noting, one should not conclude that a US economic recession is imminent, without taking into account of other data.

United States, Government Benchmarks Yield

Source: Macrobond, UOB Global Economics & Markets Research



Watch For Levels And Speed Of Recession Probability Curve

So what is the chance of a US recession in 2019? Based on the US recession probability as calculated by the New York Federal Reserve, the short answer is the chance of recession has risen but not very high at 14.12% (as of Nov 2018 for a Oct 2019 recession projection).

To put it into context, the likelihood for recession is considered high at the 40% threshold, so by that measure, we are not there yet.

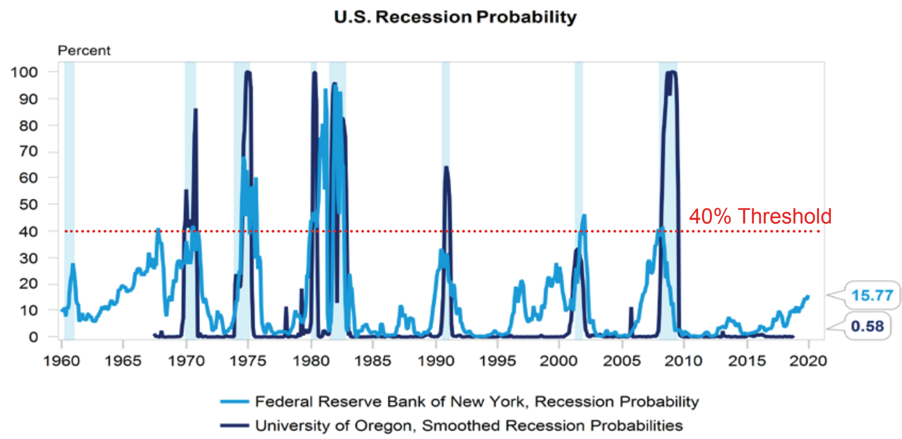
In addition to the level of the recession probability and the threshold, one should also watch for the "speed" at which the probability is rising. In the prior episodes, US recessions were preceded by sharp move higher of the probability, as events such as financial crisis in the 2008 and the subsequent business and consumer reactions triggered the economic downturn.

At the current juncture, the slow climb up and tentative moves suggest that the risk of recession should remain contained for now. However, risk events abound in 2019 that could very well trigger a sharp spike in the recession probability.

For example, if the current US-China trade truce and negotiations, ending in early March 2019, take a turn for the worse, that could certainly figure prominently in investors' risk aversion, which in turn could drive down long term US treasury yields, as seen in late May 2018 when the White House announced trade tariff on Chinese goods after having announced in statements just weeks earlier of "no trade war".

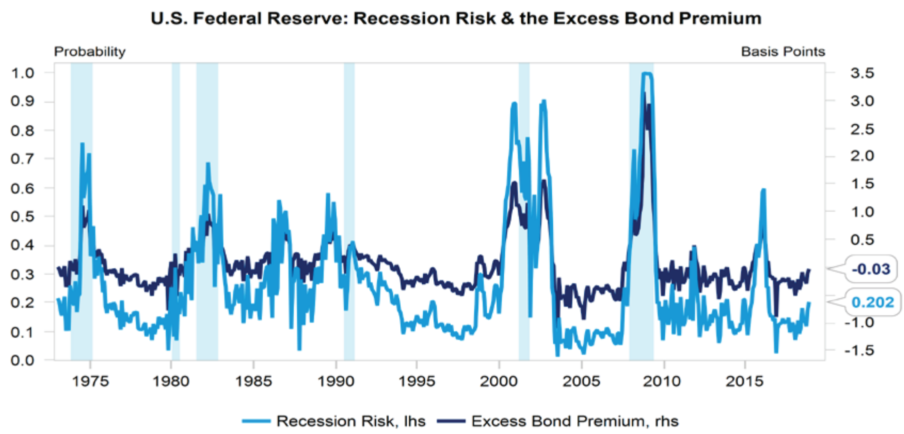
US Recession Probability Is Rising But Still Far From "40%" Threshold

Source: Macrobond, UOB Global Economics & Markets Research



US Recession Risk & The Excess Bond Premium Also Points To Low Recession Chance

Source: Macrobond, UOB Global Economics & Markets Research



Watch Out For Moves In Excess Bond Premium

Another forward-looking indicator that is used to gauge the probability that the US economy will enter a recession sometime during the next 12 months is the excess bond premium (EBP which is essentially corporate bond credit spread). Again, the risk is low at 16.1% (as of Oct 2018). To be sure, we believe that US growth after an long stretch of uninterrupted expansion will eventually come to an end at some point (i.e. business cycle), but that end is not in 2019, in our view.

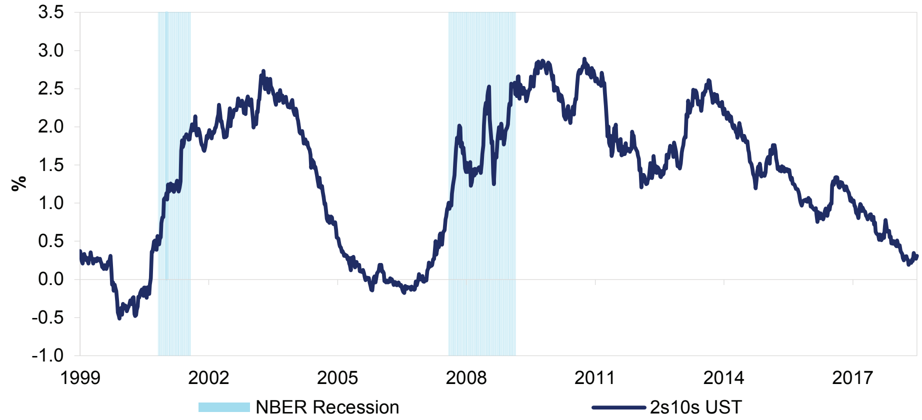
1. **Yield curve chart**
   Looking into 2019, the current US monetary policy cycle will be on course to converge with the long term neutral rate. In this late cycle stage, the UST yield curve will also be approaching an inflection point where flattening is no longer the path of least resistance. Although we are not ruling out a curve inversion scenario, it will become increasingly clear that curve flattening tailwinds from the rate hike cycle and a global hunt for yield are diminishing while steepening pressures are building from deficit financing and asymmetric inflation risk. Looming on the horizon is a phase of aggressive curve steepening but this outcome is premature until there is consensus that we have reached a cyclical peak in the Fed funds rate.

2. **Financial Conditions chart**
   Liquidity as seen through the lens of the combined FED, ECB and BOJ's balance sheet expansion programs, ushered forth an extended period of easier financial conditions globally. This enabling environment which has incentivized a global hunt for yield and compression of risk premiums has reached a turning point when the FED balance sheet reduction program began in October 2017 and is set to decline more measurably when the ECB ends its net asset purchase program at the end of 2018. Investors should therefore be cognizant of a possible dawning scenario where the price of risk undergoes a symmetric unwind.

3. **Volatility table**
   There has been a nascent reawakening of volatility across equity, rates and currency markets this year and it is a reasonable proposition to make that the halcyon days for volatility may be behind us. What lies ahead at this late cycle phase will depend on how markets manage the transition into an investment environment that is less forgiving due to diminished liquidity amidst a backdrop of slowing economic activity. The tricky part with transitions, even in the best of times, is that the process is seldom smooth or linear. Thus, aside from potentially higher average volatility levels during late cycles, episodes of volatility spikes in the later stages can also reach more extreme levels.

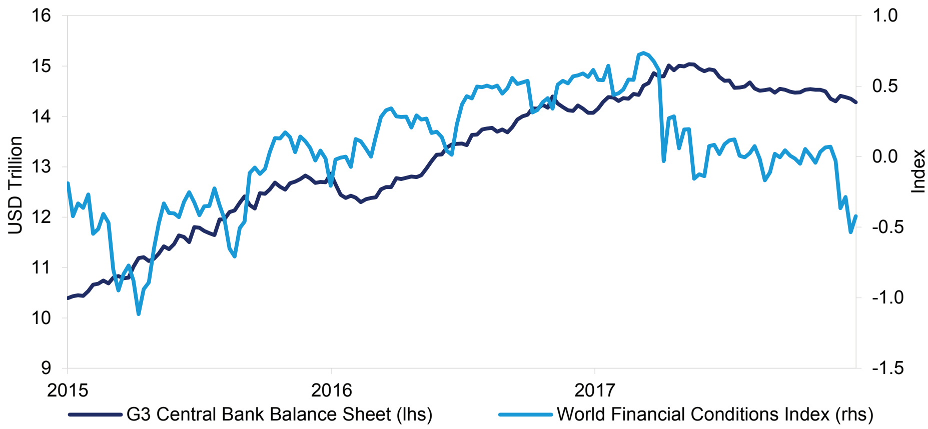
Flat Curvature Reminiscent of Late Cycle Expansion

Source: Bloomberg, UOB Global Economics & Markets Research



Ebbing Liquidity and Tighter Financial Conditions

Source: Bloomberg, UOB Global Economics & Markets Research



Indicator	Current	2018		Late Cycle (since 2000)	
		Average	Max	Average	Max
Equity Volatility (VIX)	16.4	15.7	37.3	16.7	33.5
Rates Volatility (MOVE)	53.1	53.4	71.8	80.1	123.8
Currency Volatility (CVIX)	7.7	7.5	8.7	8.4	9.3

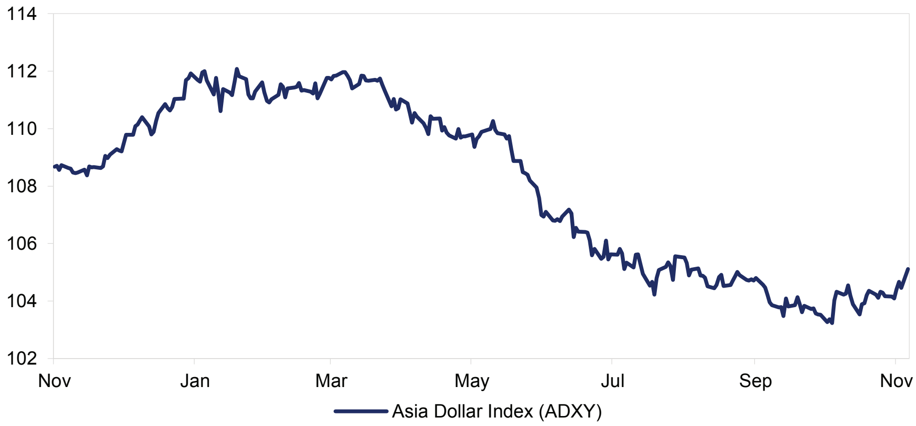
Source: Bloomberg, UOB Global Economics & Markets Research

FX STRATEGY

Cracks Start To Appear In The Strong US Dollar Armor

Asia FX Tried Its Best To Steady In 4Q After An Intense Year Of Sell-Off

Source: Bloomberg, UOB Global Economics & Markets Research



Growth To Stall Or Moderate In 2019 For China And Asean 5

GDP Forecasts	2018	2019
China	6.6%	6.3%
Singapore	3.4%	2.5%
Malaysia	4.8%	4.8%
Thailand	4.2%	4.0%
Indonesia	5.3%	5.2%
Philippines	6.2%	6.5%

Source: UOB Global Economics & Markets Research

Across October and November, the weakness in most Asian FX panned out largely as anticipated, anchored by further declines in the CNY. Despite dropping for a third straight quarter, the pace of decline has moderated.

The Asia Dollar index (ADXY), a popular gauge of Asia FX declined by 0.3% to 104.46 over the past two months, after dropping 4.2% (in 2Q18) and 2.1% (in 3Q18) respectively. Also, volatility in most Asian FX pairs remains muted, smoothed by measures by various central banks to mitigate capital outflows and FX interventions. Average implied volatility of USD/Asian FX (SGD, MYR, IDR, THB, CNH) steadied around 6% across October – November, with little pass-through from the turbulent equity markets correction occurring in the same period.

A swift reversal of the popular consensus trades was the standout of this quarter. Markets returned to buy PHP, IDR and INR in November due to oversold conditions and high carry after a year-long selloff. The pace of their recovery was also accentuated by a rapid fall in oil prices which eased the pressure on their respective current-account deficits. With the move, hedging costs and levels for PHP, IDR and INR have become more attractive for investors to hedge against further weakness into 2019.

Heading into 2019, as negative effects of the protracted trade stand-off between Beijing and Washington begin to sink in more materially, growth slowdown in the most Asia economies would become more evident. Amidst this cautious backdrop, regional central banks are likely to hike rates more carefully and the wide monetary policy gap with the Fed would still underpin a defensive tone in Asia FX for most part of 2019.

Overall, we are still projecting a further 2.4% to 4.5% slide in most Asia FX against the USD in the first half of 2019. Thereafter, USD strength against Asia FX may taper off in the second half of 2019 once we head towards the tail end of the FED's hiking cycle.

Over in G-10, a recovery in the EUR is our conviction view for next year. We see EUR/USD bottoming and rising gradually across next year from 1.15 to 1.20. With that, the Dollar Index (DXY) is expected to retreat gradually from 96 to about 93 in the same period. In addition, despite concerns over growth slowdown in China, the AUD/USD may take advantage to recover above the 0.77 level.

USD/CNY To Continue Its Measured Push Above 7.00 Despite Temporary Tariff Truce

Immediately after the G20 tariff truce between US and China, USD/CNY fell hard from 6.95 to 6.85. However, this correction is unlikely to derail USD/CNY materially from its upside trajectory towards the psychological 7.00 level. Reaching that level is now a matter of time, especially when recent data has shown a marked deterioration of the Chinese economy as negative effects of the trade conflict between US and China are starting to show. The latest China manufacturing PMI dropped to 50.0 in Nov from 50.2 in Oct, nearest to contraction territory (defined as below 50.0) since July 2016 and adds to a growing list of data disappointments. This is in contrast to US data which has broadly stayed firm.

On the monetary policy front, the People's Bank of China (PBoC) is also adopting a more targeted accommodative stance, even though it has not announced any official shift from its "prudent and neutral" policy. The PBoC has cut the Reserve Requirement Ratio (RRR) for the fourth time this year in early Oct, with the latest cut releasing RMB 750 billion of liquidity back into the banking system. We continue to see scope for further RRR cuts in the months ahead, possibly around early 2019 ahead of the Spring Festival. On the other hand, we expect the Fed to hike once more this year (Dec) and three times in 2019, bringing the Fed funds rate to a range of 3.00 – 3.25% by end 2019.

Despite the clear divergence in economic data and monetary policy as pointed above, the pace of further RMB weakness may still be measured. Markets probably took into account the various targeted measures implemented by the PBoC in the last few months. A 20% reserve margin ratio for forward sales of CNY as well as the reintroduction of Counter Cyclical Factor (CCF) have discouraged speculation and dampened extreme moves in the domestic currency. Barometers of RMB devaluation pressures such as the CNH forward points and the gap between CNY and CNH remain low and stable.

Taking into account all the factors as discussed, we maintain our measured trajectory of USD/CNY above 7.00 next year, with point forecasts at 6.95 at 1Q19, 7.00 at 2Q19, 7.10 at 3Q and 4Q19. As both CNY and CNH forwards are still below the psychological 7.00 level, one may find value in hedging for further USD upside at current levels. At this juncture, it is probably premature to anticipate sustained weakness in USD/CNY after the recent truce on trade tariffs, especially when details are still lacking and challenges for an eventual resolution remain.

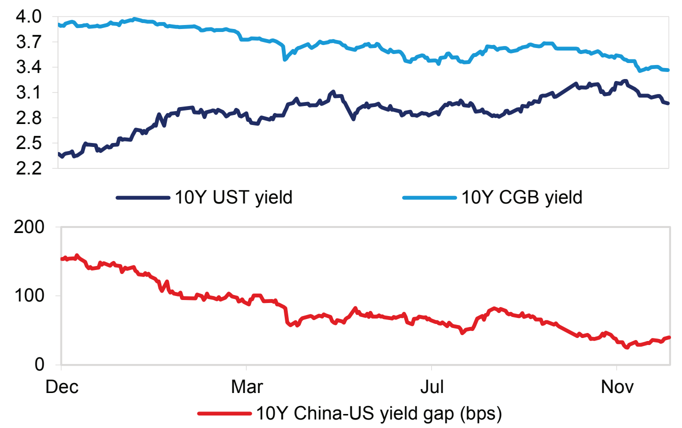
In recent years, China is gaining prominence as the bellwether for the rest of Asia. So as China's growth slows further to 6.3% in 2019 from 6.6% in 2018, there should be a noticeable drag on other Asia economies. Negative effects of the existing bilateral tariffs on US and China goods should sink in more materially in 1H19 as effects of frontloading of exports (in 4Q18) in anticipation of higher tariff rates fade. Together with the ongoing risk aversion in financial markets, the weakness of Asian FX is likely to continue, extending the slide by a further 2.4% to 4.5% against the USD from current levels for the next 4 quarters.

An Intensifying Slowdown In China Weighs On The RMB

Source: Bloomberg, UOB Global Economics & Markets Research

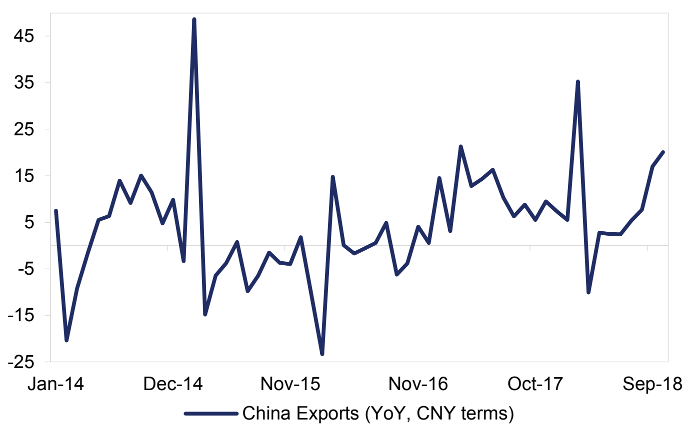
Yield Advantage Of China's 10Y Bonds At Its Narrowest To The US 10Y Treasuries Since 2010

Source: Bloomberg, UOB Global Economics & Markets Research



Front-Loading Of Orders Resulted In Robust Exports Growth Which Is Expected To Turn Lower Eventually

Source: Bloomberg, UOB Global Economics & Markets Research



A Sustained Recovery In EUR

The ingredients for a more sustained recovery in the EUR are falling in place in 2019.

Firstly, the EUR 2.6 trn bond-buying programme will draw to a close by the end of December. To a certain extent, the massive stimulus plan by the European Central Bank's (ECB) has kept the EUR/USD pinned within a 1.05 to 1.25 range since its implementation in early 2015. So, once the ECB's balance sheet stops expanding in 2019, one of the key pressure point on the EUR could start to alleviate. Also, as suggested by ECB President Draghi recently (26-Nov), the recent weakening in euro-area growth momentum is likely to be "temporary" and unlikely to scupper the withdrawal of monetary stimulus.

Next, with policymakers still largely confident that they would weather the slowdown, discussions by the ECB about its maiden rate hike would eventually begin in 2019. This is likely to a key upside catalyst for the EUR especially where pricing for a rate move higher is very modest now. According to Bloomberg, markets are only pricing in a 6 bps hike in ECB's deposit rate to -34 bps from -40 bps currently.

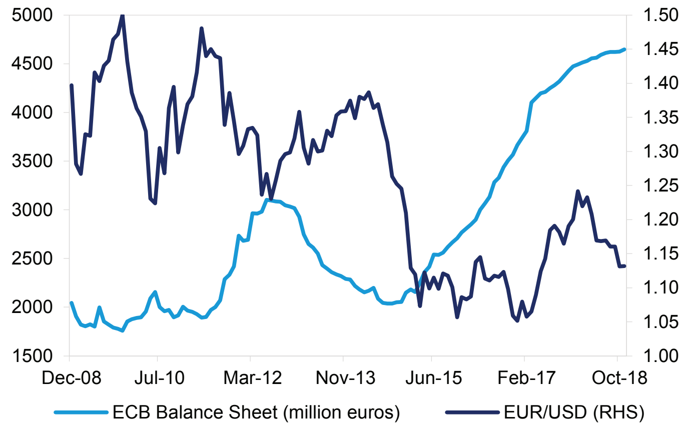
Aside to the growth slowdown, increased risks related to Italy's fiscal sustainability also weighed on the EUR over the last couple of months. The European Commission had rejected Italy's draft budget of a 2.4% (of GDP) deficit for 2019 in Oct and Italy replied that it would stick to its original spending plans. The stalemate has resulted in 10-year Italian bonds (BTP) widening to as much as 326 bps above 10-year German bonds (Bunds) on 20-Nov, the widest since Apr 2013.

That said, the probability of a euro break-up within the next 12 months is still at a low 12% in Nov, according to latest sentix survey. The same measure was as high as 73% at the height of the Greek debt crisis in 2012. Currently, the BTP-Bund spread has stopped widening and is steady just below 300 bps and a further stabilization in 2019 could conversely benefit the EUR.

Going forward, while spot EUR/USD has been attempting to bottom at 1.12 in Nov, risk reversals have already bottomed in Aug and has been grinding higher since. Unless there is a severe escalation in the EU-Italy row, further downside in EUR/USD is limited and the positive factors mentioned above are likely to spur a sustained rally in 2019. Overall, we see EUR/USD bottoming and rising gradually across next year from 1.15 in 1Q19 to 1.20 in 4Q19.

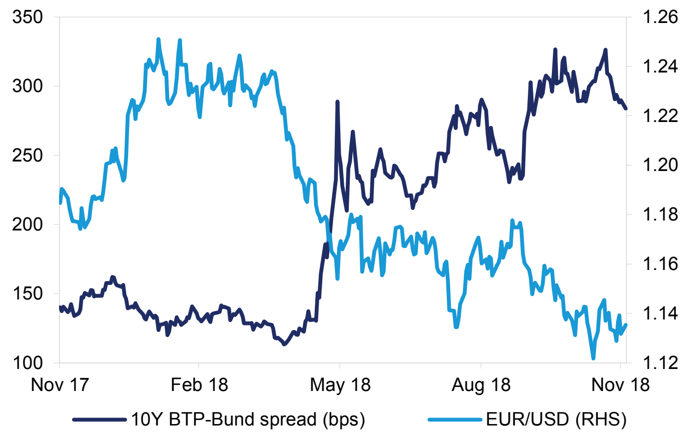
EUR/USD Pinned Down At 1.05 To 1.25 Range Since QE Started In Early 2015

Source: Bloomberg, UOB Global Economics & Markets Research



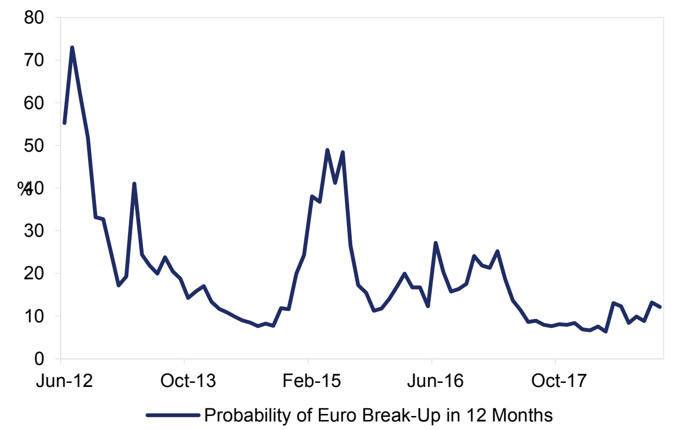
Rise In Italian BTP Yield Tops Out, Providing A Floor To EUR/USD At 1.12

Source: Bloomberg, UOB Global Economics & Markets Research



Recent Italian Budget Crisis Is Less Intense Than The Greek Crisis In 2012

Source: Bloomberg, UOB Global Economics & Markets Research



Risks To Our USD View

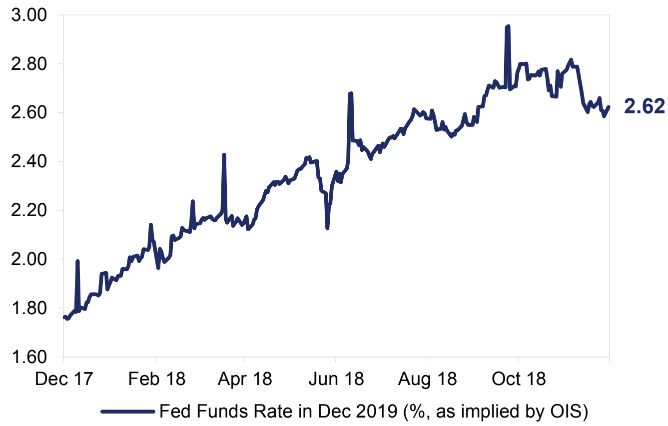
The current bout of USD strength both against Developed Markets (DM) and Asia Emerging Markets (EM) in 2H18 has largely been anchored on monetary and economic divergences between US and its peers. US economic data such as GDP, jobs, ISM manufacturing and sentiment surveys are at their best levels in years (or even decades in the case of unemployment rate) and that gave the US Fed the confidence to stick to its gradual rate hike trajectory this year.

As the Fed approaches its neutral rate, which we estimate is at about 3% (current: 2.00% - 2.25%), there is increased market speculation of a further graduation in hiking trajectory or even a rate pause in the coming year. On 29-Nov, FOMC Chairman Jerome Powell said interest rates remain "just below" the neutral rate, which is seen as a significant departure from his hawkish comments made on 3 Oct when he said "we may go past neutral". Powell reiterated there is no pre-set policy path and the Fed is paying "very close attention" to data. Should US data start to underperform estimates in the coming year, the Fed could hike lesser than expected. Our base case remains that of 3 rate hikes across 2019. Further downward expectation of Fed rate hikes may put downside risks to our USD forecasts.

On the other end of the spectrum, an overshoot of US inflation leading to a steeper rate hiking trajectory response from the Fed remains our key upside risk to our USD forecasts. However, with the sudden plunge in oil prices in 4Q18 from a 4-year high of USD 86.74 / bbl (Brent crude) to current levels of about USD 60, coupled with the temporary truce against further hikes in trade tariffs between US and China, the pass-through to higher inflation looks more unlikely compared to just a quarter ago.

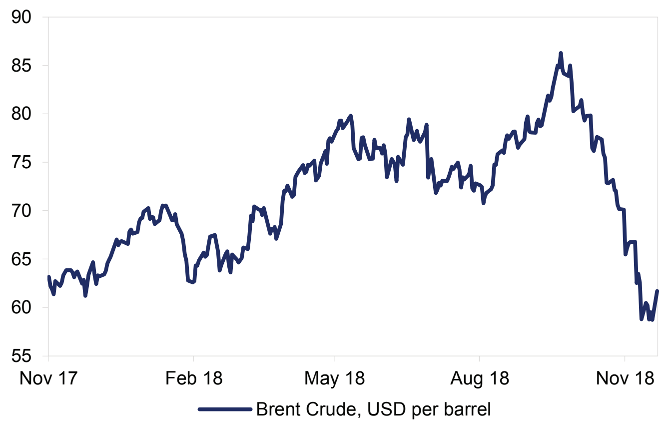
Markets Are Only Pricing In About 2 Rate Hikes Within A Year, Including The Upcoming Hike In Dec

Source: Bloomberg, UOB Global Economics & Markets Research



A Sudden Plunge In Oil Prices Over The Last 2 Months May Cap Any Runaway Inflation Expectation Next Year

Source: Bloomberg, UOB Global Economics & Markets Research

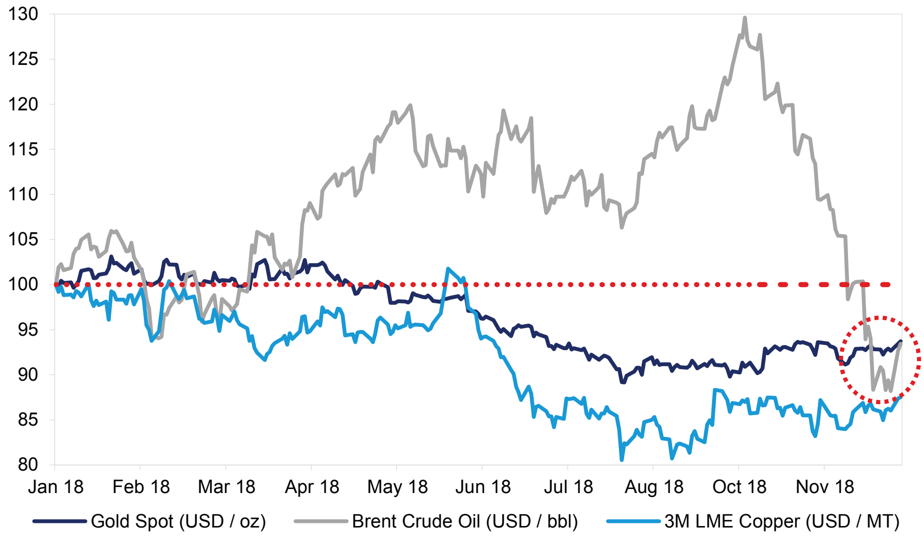


COMMODITIES STRATEGY

Crude Oil Takes Over The Volatility Baton From Copper And Gold

Acute Correction Wipes Out All Of Brent Crude Oil's Gains For The Year

Source: Bloomberg, UOB Global Economics & Markets Research



As the US Federal Reserve continued to hike into the on-going US-China trade row, investor concerns over the potential negative impact on global growth and activity intensified. All these cumulated in the intense sell-off in crude oil across 4Q in which all of its painstaking gain made since the start of the year was erased in just under 6 weeks. As volatility in crude oil spiked, gold and copper were contend to stay out of the limelight and instead consolidated around familiar levels without much fanfare across 4Q.

Specifically in the precious metals space, gold performed much-better-than expected as it managed to stay afloat over the past 2 months above the psychological USD 1,200 / oz level. This was after it successfully fought off an initial sell-off in mid-August to as low as USD 1,160 / oz. It would appear that the long running inverse relationship between ever rising US rates and lower gold prices has now weakened. Is there now a new driving factor for gold?

Elsewhere, in the energy space, crude oil stole the limelight for all the wrong reasons. Global investors and industry players were completely blindsided by the last minute “leniency” from the Trump administration which granted temporary waivers for continued import of Iranian crude oil. The conversation for crude oil suddenly flipped from a potential supply deficit due to the Iran export sanction to the renewed supply overhang due to global growth slowdown. As such, both Brent and WTI crude oil collapsed by more than 1/3 from their respective peaks in Oct. Have we seen the worst for crude oil?

Finally, in the industrial metals space, LME Copper was the exact antithesis of crude oil. After suffering an earlier heart stopping 20% sell-off across 3Q as prices collapsed from as high as USD 7,300 / MT in early Jun to as low as USD 5,800 / MT in mid Aug, LME Copper has so far managed to stay out of the limelight, spending the past 3 months obediently range trading within a very tight band from USD 6,000 / MT to USD 6,300 / MT. There was no news of any labor unrests in key copper mines. Neither was there any news of large ticket stop losses from speculative trading positions. Has Copper turned over a new leaf?

Gold: Building A Base Above USD 1,200 / oz

Against all odds, gold has done relatively well over the past 2 months as the precious metal managed to consolidate above USD 1,200 / oz and even put on modest gains to USD 1,230 / oz.

Since last year, we had maintained a convicted negative view on gold. This negative view was mainly driven by the expectation of higher US rates and consequently a stronger USD is negative for gold. This negative view had worked well across most of last year and in the first half of this year. However, since September, gold appears to have stabilized in the face of higher US rates and the stronger USD. Has something changed?

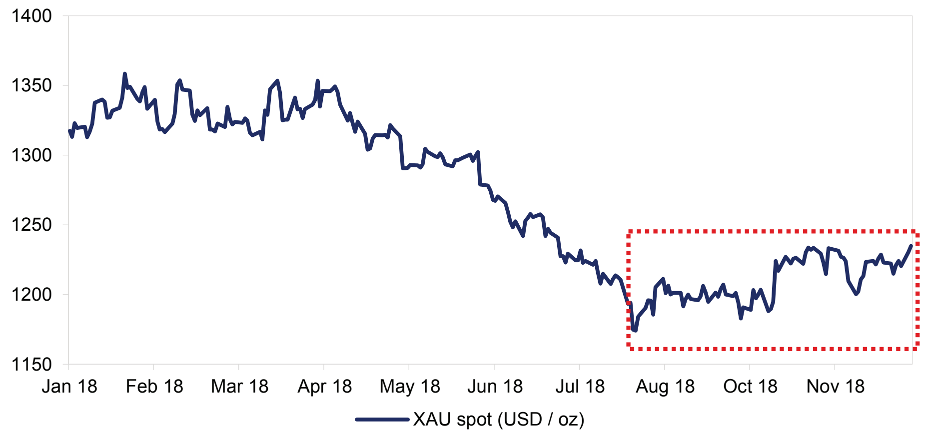
For now it may be premature to conclude from this relative stability in gold that USD strength is over extended and has ran its course. Rather, it is worth noting net long positioning in gold has been completely erased over the past year. In fact, futures implied positioning is now marginally negative, something that has not been seen since the early 2000s. In other words, it would be difficult for gold positioning to worsen further. There may also be the return of safe haven support.

As such, in view of this renewed support from oversold positioning, we now adopt a neutral view in gold and see gold consolidating around the USD 1,200 to USD 1,300 / oz range across 2019. However, it is important to note that this does not mean that gold has resumed its bull run. US rates are still seen continuing their gradual climb higher and that will cap any meaningful recovery in gold.

On a related note, Palladium maintained its winning streak as it continued its strong rally that started in Aug. From its Aug low of about USD 840 / oz, Palladium has rallied by about 40% to USD 1,200 / oz. The more stringent automobile emission standards by the European Union in favor of the use of Palladium in autocatalytic converters triggered this strong rally. Strength in Palladium also spilled over to a modest rally in Platinum lifting it from USD 760 / oz in Aug to USD 800 / oz.

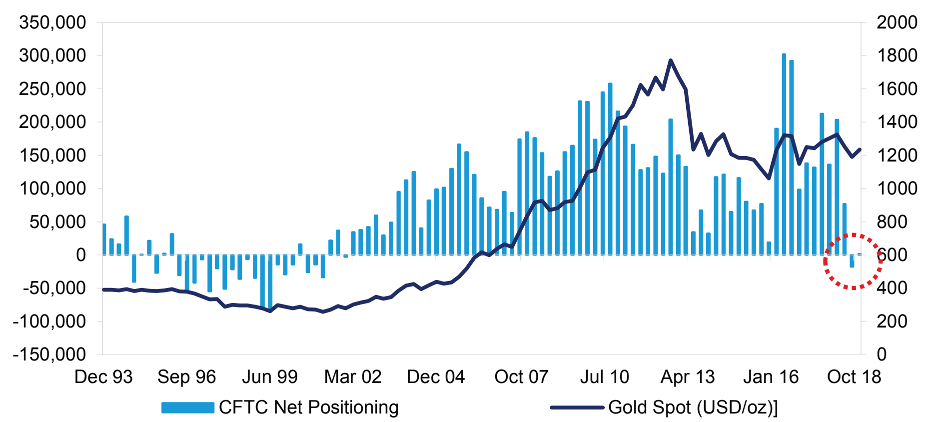
In Recent Weeks, Gold Has Been Consolidating Around USD 1,200 / oz

Source: Bloomberg, UOB Global Economics & Markets Research



Gold Appears Oversold With Spec Net Positioning Now At A Level Last Seen In Early 2000s

Source: Bloomberg, UOB Global Economics & Markets Research



Palladium Rallied Hard As The Rest Of The Preciouse Metals Complex Stabilized

Source: Bloomberg, UOB Global Economics & Markets Research

Crude Oil: Volatility To Stay Elevated Admist Renewed Oversupply Concern

Since the middle of the year, financial markets were primed for the start of US sanctions against export of Iranian crude oil in November. This export ban raised worries of a potential supply deficit of more than 2 mio bpd of crude oil. However, at the very last minute, literally hours ahead of the start of the US sanctions, the Trump administration surprised by announcing temporary waivers for the import of Iranian crude oil. That blindsided global investors and triggered the acute sell-off in crude oil prices across November, triggering a spike in volatility.

Concurrently, in recent weeks, more evidence emerged of the potential negative impact on the global economy from the on-going US-China trade conflict. The latest quarterly GDP data across Asia all turned out to be weaker-than-expected. This has raised concerns over a potential slowdown in global demand for energy just as the supply deficit from Iran was temporarily mitigated.

In the background, the world's three largest producers of crude oil, namely US, Saudi Arabia and Russia continued to pump even more oil over the past few months adding to global supply just as global demand appears to be tapering off.

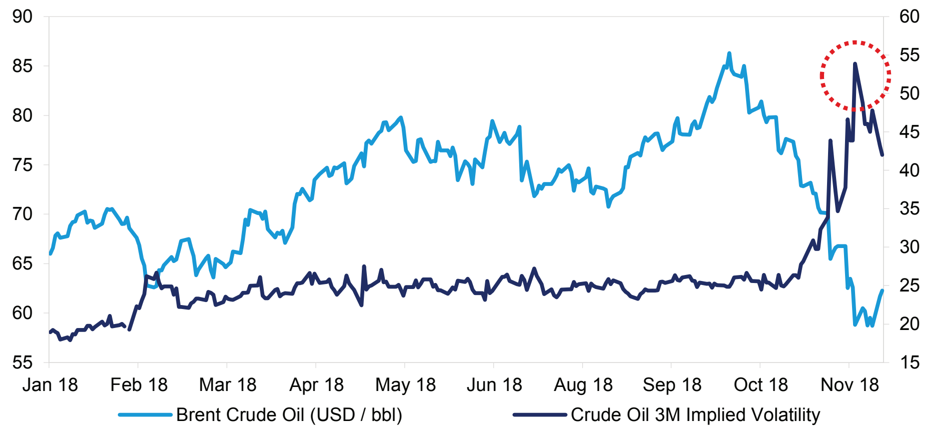
Further exacerbating the sell-off in crude oil prices were delta hedging for the producer hedges against lower crude oil prices that were put on earlier in the year. Elevated delta hedging pushed oil prices lower.

On 2 Nov, after news emerged of waivers for Iranian crude oil export, we downgraded our Brent crude oil forecast to USD 65 to 75 / bbl range from USD 75 to 85 / bbl range. In view of further evidence of growing global supply, coupled with further moderation in global growth outlook, we hereby lower our crude oil forecast further to USD 55 to 65 / bbl range.

At the moment of writing, OPEC disappointed by failing to reach a deal for any production cut. Russia was also reportedly reluctant to commit to any production cuts. As such, Brent crude oil is currently struggling at the USD 60 / bbl handle. Over the near term, we can expect oversupply concerns to continue to weigh on crude oil.

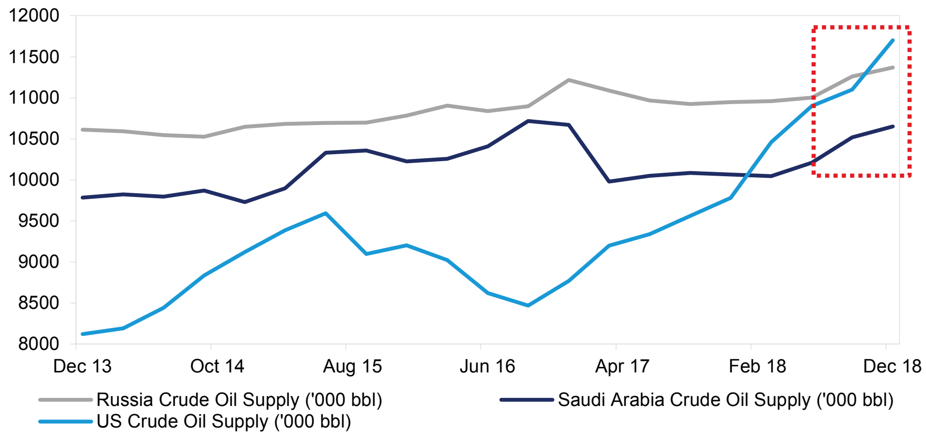
Brent Crude Oil Implied Volatility Spiked As Price Collapse By More Than 1/3 In Barely 6 Weeks

Source: Bloomberg, UOB Global Economics & Markets Research



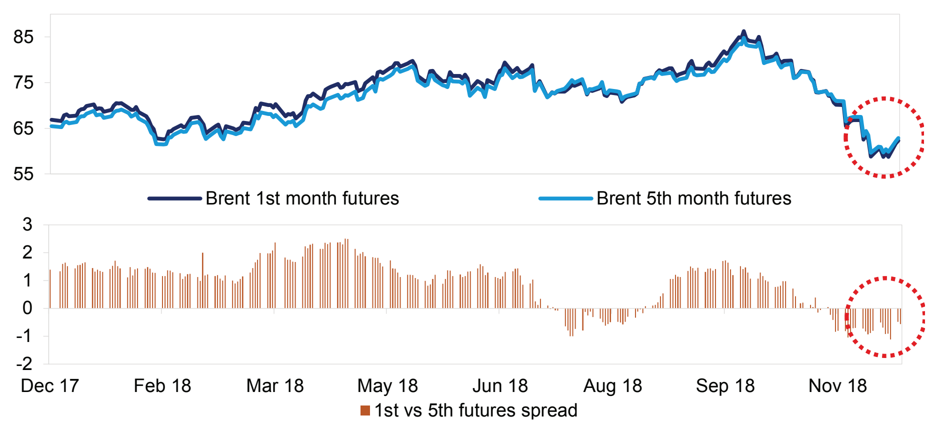
US Led The Recent Jump In Crude Oil Supply, Alongside Saudi And Russia

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Price Curve Flipped Back Into Contango As Immediate Tightness Eased

Source: Bloomberg, UOB Global Economics & Markets Research



Copper: Holding Firm Above USD 6,000 / MT Amidst On-Going Global Trade Uncertainties

There is a reason why Copper is often referred to as "Dr Copper". Historically Copper price has been a good indicator of the overall health of the global economy. This is because of Copper's widespread industrial use. In recent years, given the growing significance and size of China's economy, copper price has traded in close tandem with China's PMI indicator. This close relationship has stayed intact as China's official PMI indicator softened from above 52 at the start of the year to just 50.1 in the latest November update. This coincided with the sell-off in 3M LME Copper from its mid-year peak of USD 7,300 / MT to the current level of USD 6,300 / MT.

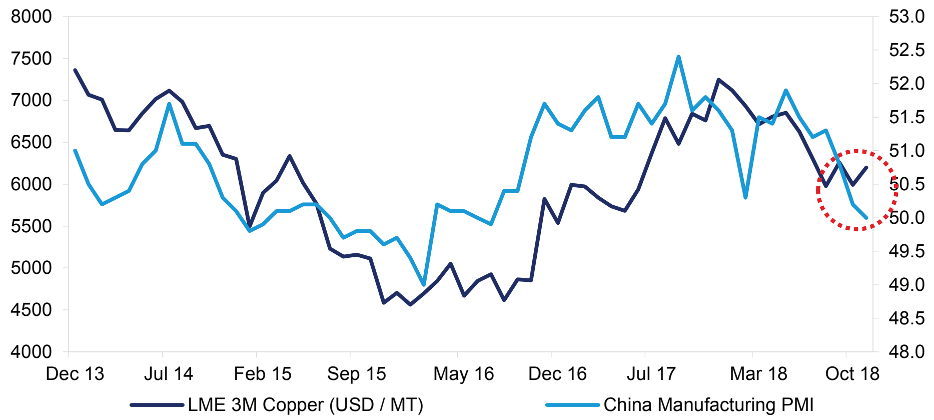
After the climb down in Jun, Copper appears content to stay out of the fray. Since September, as the global trade outlook muddied further, 3M LME Copper has successfully consolidated above USD 6,000 / MT. The latest 3 month trade tariff "truce" between US and China only managed to elicit a marginal rise in 3M LME Copper from USD 6,250 / MT to USD 6,300 / MT. As such, Copper 3 month implied volatility stayed relatively soft at 20%, compared to Brent crude oil 3 month implied volatility which spiked to almost 50%.

In terms of positioning, the sell-off in Copper across 2Q has resulted in an almost complete liquidation of net long positioning in Copper. Net positioning as implied from Copper futures on COMEX is now marginally long. It is unlikely that positioning will flip into negative because of on-going medium term supply deficit concerns. In addition, global inventory in Copper as measured across LME, COMEX and SHFE has also halved since peaking in Apr. As such, pressure from further inventory liquidation will ease.

Overall, in the coming year, it is likely that Copper will continue its on-going consolidation around the USD 6,000 to USD 7,000 / MT range. Any immediate strength will be muted given the on-going uncertainties over global trade. However weakness below USD 6,000 / MT is likely mitigated as well given that both positioning and inventories have been largely unwounded.

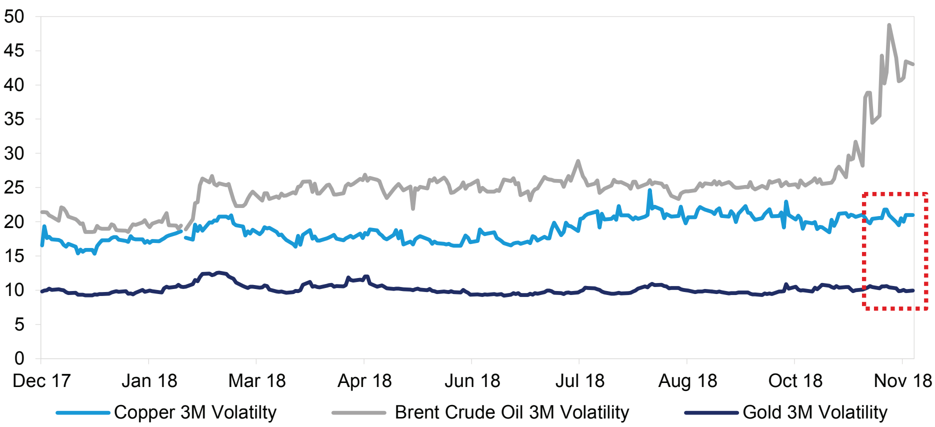
Copper Price Stays Soft Alongside The Retreat In China Manufacturing PMI

Source: Bloomberg, UOB Global Economics & Markets Research



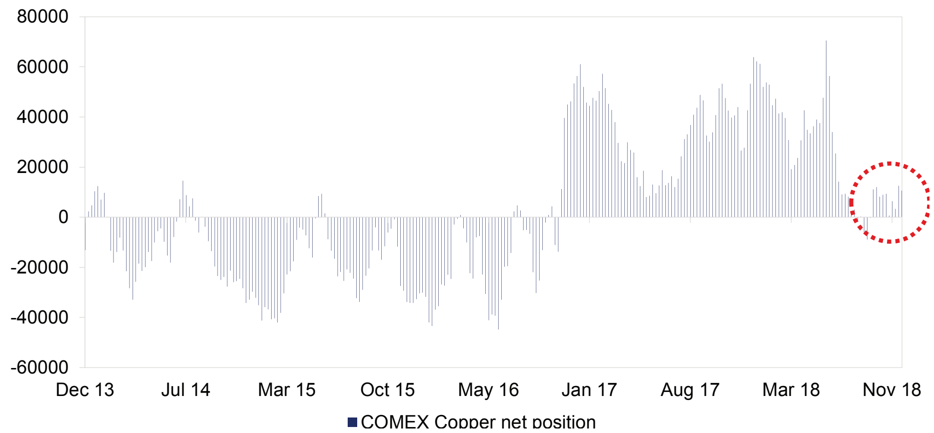
Copper Implied Volatility Stay Soft Alongside Gold, As Crude Oil Volatility Spikes

Source: Bloomberg, UOB Global Economics & Markets Research



Net Long Copper Positioning Mostly Liquidated Due To Global Trade Concerns

Source: Bloomberg, UOB Global Economics & Markets Research

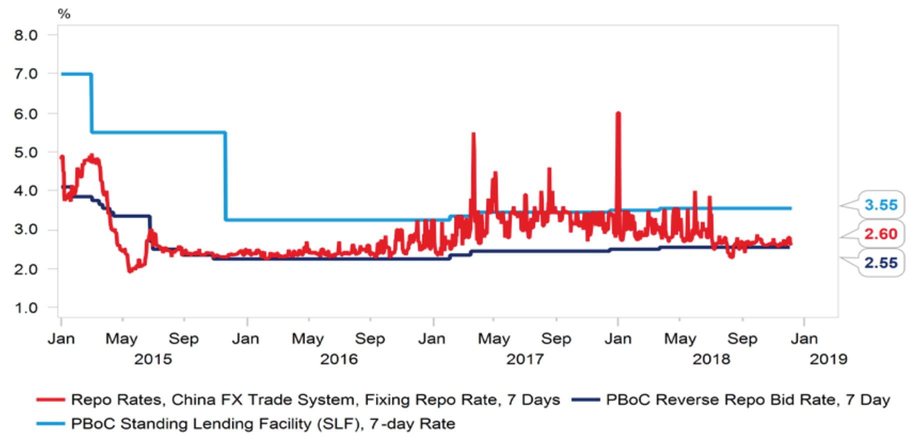


FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/CNY	6.95	7.00	7.10	7.10
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35

Economic Indicators	2016	2017	2018F	2019F
GDP	6.7	6.9	6.6	6.3
CPI (average, y/y %)	2.0	1.6	2.2	2.4
Unemployment rate (%)	4.0	3.9	3.9	4.0
Current account (% of GDP)	1.8	1.3	0.3	0.5
Fiscal balance (% of GDP)	-3.8	-4.2	-4.2	-4.0

Ample Market Liquidity As PBoC Continues To Ease Credit Conditions Including The Four RRR Cuts YTD

Source: Macrobond, UOB Global Economics & Markets Research



3Q18 GDP Growth Continues On Path Of Gradual Moderation

China reported a moderation in 3Q18 GDP growth to 6.5% from 6.7% in 2Q18, bringing the YTD growth to 6.7% y/y, down from 6.9% in 2017. Despite the robust trade data so far, the slowdown in manufacturing growth in 3Q18 suggests that the negative impact from the trade tensions with US is starting to seep into the economy. The secondary industries showed a sharp slowdown in growth rate to 5.3% y/y from 6.0% in 2Q18 while growth in the primary and tertiary industries picked up to 3.6% and 7.9% (from 3.2% and 7.8%) respectively.

We maintain our forecast that China's GDP growth rate will moderate further to 6.4% y/y in 4Q18 for full-year 6.6% growth. Our 2019 growth forecast for China remains at 6.3% until we see greater clarity on the US-China trade developments. On the assumption of a long negotiation process, the negative impact on exports, investment and private consumption will show up more clearly in early 2019. The extension of the downturn in China's property market from 2H18 could also weigh on the outlook for investment and private consumption.

The policymakers have used a mix of proactive fiscal and monetary policies to soften any potential drag on growth, which include further broadening of tax measures (new deductions for personal income tax effective 1 Jan 2019) and cuts to the reserve requirement ratio (RRR). We can expect further stepping up in Chinese policy actions should the trade negotiations hit a road bump. The first signals should come from the tone in the upcoming annual Central Economic Work Conference (CEWC) in December 2018.

Policy Stance Maintained But Private Enterprises In Focus

PBoC's 3Q18 monetary policy implementation report reiterated its neutral and prudent policy. Similar to the 2Q18 monetary policy implementation report, it emphasized the need to maintain "comprehensive balance" of multiple targets by making "dynamic micro-adjustments" depending on the conditions. What is new is perhaps the indication of the central bank's increased focus on providing assistance to private enterprises and small and micro enterprises (SMEs), through improved liquidity provision, lending support, and macroprudential assessment (MPA) of financial institutions, though the central bank said that banks should continue to conduct their due diligence and not follow the lending requirements "unconditionally".

We continue to expect another reserve requirement ratio (RRR) cut from the central bank in late 2018-early 2019, after having made its fourth RRR reduction in 2018 alone. This should continue to keep domestic liquidity ample as indicated by relatively low funding costs in the interbank market. Thus, we do not anticipate any policy interest rate cut from PBoC over the next 3-6 months, given that the US Fed is still on the rate hike path and the European Central Bank is moving towards policy normalization.

Domestically, consumer price inflation is expected to rise slightly in 2019 even though producer price inflation could come under downward pressure from the trade conflicts. As such, any aggressive cuts in RRR or even policy interest rate cuts would be a signal that the US-China negotiations may not be turning out well.

USD/CNY To Still Test Above 7.00 In 2019

Immediately after the G20 tariff truce between US and China, USD/CNY fell hard from 6.95 to 6.85. At this juncture, it is probably premature to anticipate sustained weakness in USD/CNY after the recent truce on trade tariffs, especially when details are still lacking and challenges for an eventual resolution remain.

There is still clear and wide divergence in economic data and monetary policy between China and US which may continue to underpin a higher USD/CNY. As such, this correction is unlikely to derail USD/CNY materially from its upside trajectory towards the psychological 7.00 level. Overall, we maintain our measured trajectory of USD/CNY above 7.00 next year, with point forecasts at 6.95 at 1Q19, 7.00 at 2Q19, 7.10 at 3Q and 4Q19.

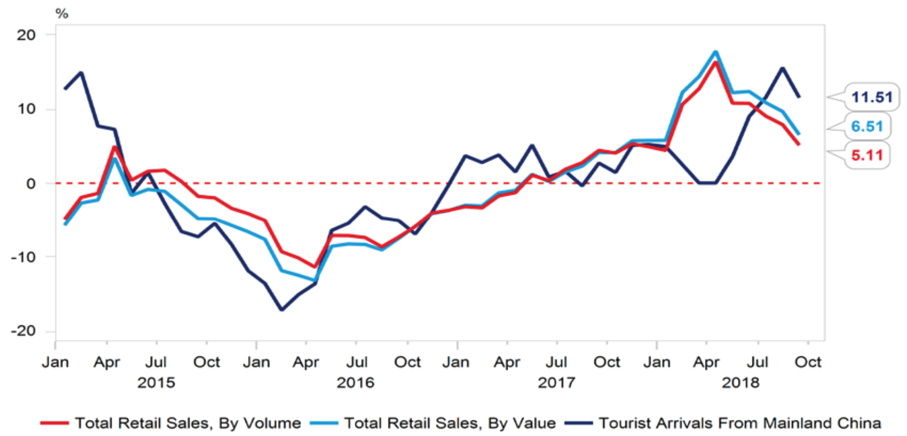
HONG KONG

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	3.00	3.25	3.50	3.50

Economic Indicators	2016	2017	2018F	2019F
GDP	2.2	3.8	3.3	2.8
CPI (average, y/y %)	2.4	1.5	2.4	2.4
Unemployment rate (%)	3.4	3.0	2.8	3.0
Current account (% of GDP)	4.0	4.3	2.9	2.7
Fiscal balance (% of GDP)	4.5	5.6	2.0	2.0

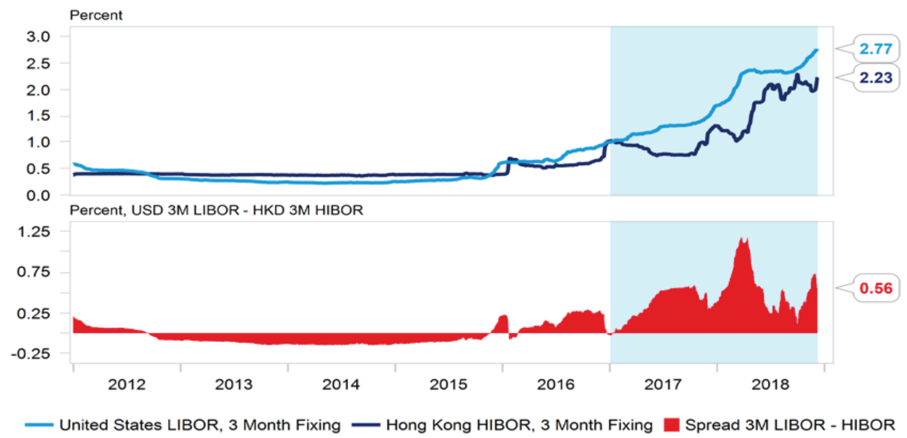
Hong Kong: Retail Sales and Visitors from Mainland (3mma y/y)

Source: Macrobond, UOB Global Economics & Markets Research



3-Month Interbank Rates, Daily, (%)

Source: Macrobond, UOB Global Economics & Markets Research



US-China Uncertainty Increasingly Weighing On Trade And Consumption Demand

Hong Kong's GDP growth continued to be marked lower as expected, falling to 2.9% y/y in 3Q18 from 3.5% in 2Q18. This was the slowest quarterly growth pace in two years. Other than the US-China trade tensions related drag, Typhoon Mangkhut which hit in September was likely to have contributed to the weaker tourism and consumption data in 3Q18. And despite sustained strength in the labour market (the seasonally adjusted unemployment rate has remained at a 20-year low of 2.8% in 3Q18), sentiment soured due to the weakness in the financial markets as the Hang Seng index entered a bear market in the 3Q after dropping 20% from its peak in January. The positive surprise came from fixed investment which was helped by a low base but the cautious economic outlook will likely cap further gains ahead. The government noted that the negative impact from US-China trade tensions have started to surface, affecting re-exports of mainland origin goods to the US that are implemented with additional tariffs, though these constituted only about 15% of Hong Kong's total exports to the US in 3Q18.

All in all, we foresee a weaker growth trend for Hong Kong ahead as the negative impact from the trade tensions is expected to become more evident ahead while the tightening financial conditions could increase market volatility. Higher domestic interest rate environment is set to weigh on the outlook as Hong Kong banks hiked their prime rates in September for the first time in more than a decade.

Looking ahead, we see further moderation in 4Q18 GDP growth to 2.4% with our full-year growth forecast at 3.3%. We maintain our 2019 growth rate at 2.8%, with risks tilted to the downside. Hong Kong economy is amongst the most vulnerable to the US-China trade conflicts.

Inflation To Stay Largely Stable

Hong Kong's headline composite inflation edged higher to 2.4% y/y in January-October from average 1.5% in 2017. This had been mainly driven by higher utilities and food prices while durable goods maintained a deflationary trend. The inflation is likely to stay reasonably stable in 2019 despite weaker economic growth as higher domestic costs and feedthrough from the upward adjustment in the ceiling of the government's rates concession from 2Q18 will continue to exert some mild upward pressure in the coming months. We expect inflation rate of 2.4% in 2018 and 2019.

USD/HKD To Stabilize Around 7.80

Since late August, as the HKD shied away from 7.85, the weak side limit of its convertibility band against the USD, the Hong Kong Monetary Authority (HKMA) had not conducted any FX intervention. As a result, the aggregate balance though still at the lowest since 2008, was stable since at about HKD 76 bn.

Going forward, Hong Kong's economic growth is expected to moderate further in 2019, to 2.8% from 3.3% in 2018. In addition, the high dependency on trade makes Hong Kong's economy vulnerable to further deterioration in US-China trade relations. Also, a widening gap between local (3M Hibor) and US (3M Libor) rates, currently at 71bp is likely to buoy the USD/HKD towards the top end of its 7.75 to 7.85 convertibility band. Then, the HKMA will need to resume its regular intervention to ensure that the rise in HKD Hibor keeps pace with further projected US rate hikes. As for the USD/HKD, it is still expected to be capped at 7.85 and average 7.80 for the next 4 quarters. Prevailing spot of USD/HKD is 7.81.

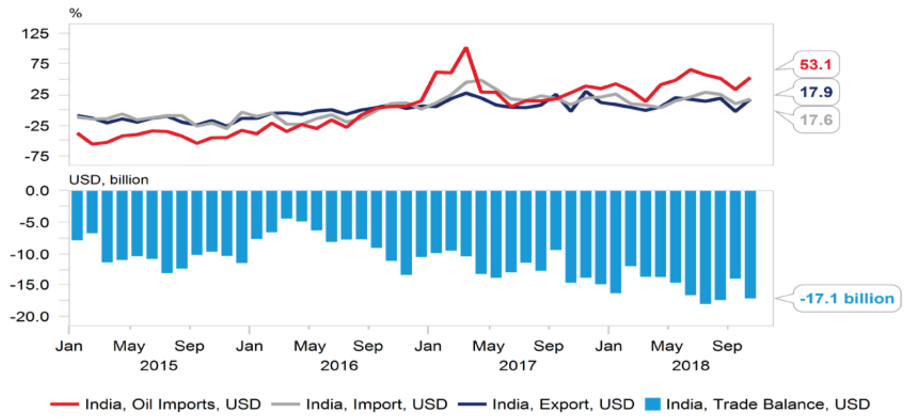
INDIA

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/INR	71.00	72.00	73.00	73.00
INR Repo Rate	6.75	6.75	7.00	7.00

Economic Indicators	2016	2017	2018F	2019F
GDP	8.2	7.1	6.7	7.2
CPI (average, y/y %)	4.9	4.5	3.6	3.6
Current account (% of GDP)	-1.0	-0.6	-1.9	-2.5
Fiscal balance (% of GDP)	-3.7	-3.9	-3.5	-3.3

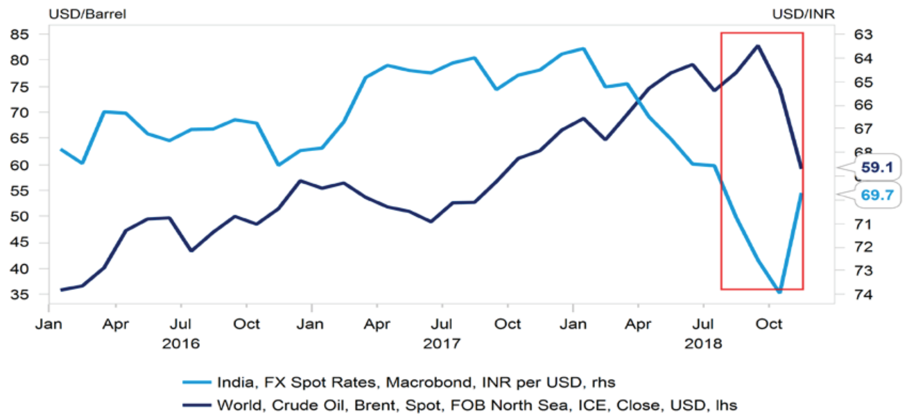
INR Continues To Be Weighed Down By Trade Deficits

Source: Macrobond, UOB Global Economics & Markets Research



And Any Rebound In Crude Price Could Lead To Renewed Pressure On The INR

Source: Macrobond, UOB Global Economics & Markets Research



Growth Outlook Has Become Less Buoyant

India's GDP growth slipped to 7.1% y/y in 3Q18 from 8.2% in 2Q18, the slowest pace this year. The below consensus growth was primarily due to higher imports and a moderation in private consumption growth to 7.0% y/y in 3Q18 from 8.6% in 2Q18. However, fixed investment remained buoyant as it registered a third consecutive quarter of double-digit growth at 12.5% y/y, together with a surge in government spending in the quarter.

Private consumption expenditure which accounts for more than half of the GDP will likely continue to drive growth ahead. However, continued strength in private consumption and investment demand will likely maintain pressure on the trade balance and thus the domestic currency. The Reserve Bank of India (RBI) expects GDP growth for 2018-19 at 7.4% (7.2-7.3% in H2) and for H1:2019-20 at 7.5% with risks somewhat to the downside. Our FY2019 growth forecast at 7.2% is slightly lower than RBI's estimate.

Inflation Slipped To 13-Month Low And Is Expected To Continue Falling

The headline inflation has eased to 3.3% y/y in October, the third consecutive month that it was below the RBI's medium-term target rate of 4%. This sharp pullback in inflation was due mainly to lower food prices (vegetables, sugar and confectionery) while there remained notable price pressure on housing and fuel and utilities. The RBI now expects the inflation to stay below the target rate in coming months as it revised sharply lower its inflation projection to 2.7-3.2% in H2:2018-19 from 3.9-4.5% previously though this is expected to rise to 3.8-4.2% in H1:2019-20, with risks tilted to the upside.

More Moderate Pace Of Rate Increase As Growth And Inflation Ease

The RBI has kept its benchmark repo rate unchanged at 6.50% in the last two meetings but shifted to "calibrated tightening" stance from "neutral" since October and despite the sharp revision in its near-term inflation forecast. Also interesting was Governor Urjit Patel's comment that there's the possibility of "commensurate policy actions" if inflation continues to undershoot which seemed to suggest room for policy u-turn to cut interest rates.

Looking ahead, any increase in oil trajectory and the progression in Fed's monetary tightening will likely keep the door open for further RBI hikes next year. For now, there remains prospect of a 25 bps hike in February 2019, though the possibility has been much reduced due to moderating growth and inflation as well as pressure to ease the credit crunch leading into election next year. Even with less hawkish RBI, we think that rate cuts should be off for now.

INR's Strength Unlikely To Sustain

INR's 5.9% jump against the USD in November was the biggest monthly gain in almost 7 years. A large part of the rally was probably due to a sudden plunge in oil prices which eased the pressure on India's current-account deficit. Given that the macro outlook for India (as discussed above) remains challenging in the year ahead, further gains in the INR are unlikely. Also, a widening current-account deficit in 2019 may kick-start weakness in INR again but the weakness would be checked by RBI trying to match the pace of Fed rate hikes (we expect 3 hikes in 2019).

Overall, we think USD/INR may bottom at around 70 in the near term and head higher in 2019. We forecast USD/INR at 71 in 1Q19, 72 in 2Q19 and 73 in 3Q and 4Q19. The prevailing spot is 70.50.

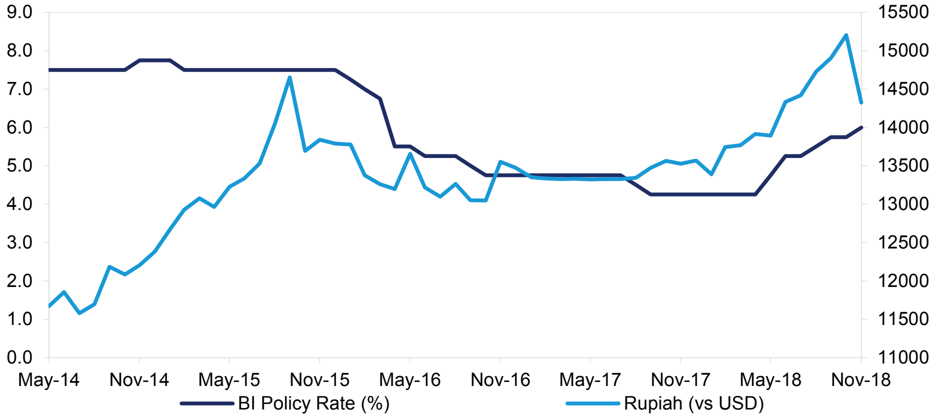
INDONESIA

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/IDR	14,600	14,700	14,800	14,800
IDR 7-Day Reverse Repo	6.25	6.50	6.75	6.75

Economic Indicators	2016	2017	2018F	2019F
GDP	5.0	5.1	5.3	5.2
CPI (average, y/y %)	3.5	3.8	3.5	3.8
Unemployment rate (%)	5.6	5.3	5.5	5.4
Current account (% of GDP)	-1.8	-1.7	-2.8	-2.5
Fiscal balance (% of GDP)	-2.5	-2.5	-2.1	-2.0

Rupiah And BI Policy Rate

Source: BI, Bloomberg, UOB Global Economics & Markets Research



Growth Slowed In Q3 And May Extend Into 2019 Amidst Tighter Policies

Indonesian economy grew by 5.17% yoy in Q3 2018 versus 5.27% in the preceding quarter. Growth is driven by all components, where the highest growth is recorded by imports growth at 14.1% yoy, followed by exports at 7.5%. As for domestic demand, investment spending growth continue to be robust at close to 7% yoy growth, exceeding government spending at 6.3% and household consumption at 5.0% despite strong imports growth. We remain cautious on the uncertainty in the external front as the US-China trade tension continue and the US Fed continue on its hiking trajectory for the rest of this year and going into 2019, though recent rhetoric suggested less hawkish stance.

We kept our 2018 GDP growth forecast unchanged at 5.3% although now we may see growth momentum to be stalled in 2019 on the back of tighter monetary policy and lower fiscal deficit amidst consolidation in 2019. We continue to hold a cautiously optimistic view of the Indonesian economy in 2019 as domestic demand remains robust and stability in the external front and the rupiah are more entrenched. Even though the external uncertainty remains, policy mix introduced by the government, the central bank, and related policymakers have started to bear fruits as evident from the capital reversals into Indonesia in the past few weeks in November. Indonesia's large domestic markets and its high private consumption spending may continue to underpin the growth of the economy, coupled with steady investment growth, and a likely support from higher exports growth. Our growth forecast for 2019 is currently set at 5.2%.

Where The Fed Goes, BI Will Likely Follow

Indonesia's inflation remained stable so far as no supply disruption was evident and as volatile prices component remain manageable even as we enter year-end festivities and holiday season. Our inflation forecast (year-average) of 3.5% remains unchanged and it is right in the middle of Bank Indonesia's (BI) inflation target of 2.5-4.5%. Bank Indonesia (BI) has thus far raised the BI 7-day Reverse Repo Rate by a cumulative 175bps to reach the current level of 6.00% since May 2018. The series of rate hikes decision remain consistent with BI's pre-emptive, front-loading, and ahead-of-the-curve strategy to anchor the stability of the domestic financial market against increased uncertainty in the global financial markets. In specific, BI's decision was made to keep current account deficit (CAD) from widening further and has resulted into more financial stability in terms of rupiah exchange rate. BI's strategy to keep as minimal a currency volatility as possible is also complemented by its policy direction in providing domestic NDF (DNDF) and FX swap rate at a more competitive pricing as part of its ongoing efforts to alleviate spillover from the external volatility unto the domestic financial market while at the same time deepen the financial market further.

Our expectation for the Fed Reserve remains at three 25bps rate hikes in 2019 but the Fed policy path is more uncertain next year as the Fed shifts emphasis to data dependence. So our 75bps cumulative rate hike in 2019 may face some downside risks if US economic data weakens significantly or the US-China trade tension re-escalates. For now, we keep our 25bps/quarter rate hike forecast, each in Q1, Q2, and Q3 2019 consecutively to reach 6.75% by the end of 2019.

IDR Outlook: The Worst May Be Over But Still Expect Gradual Weakness Towards 14,800 In 2019

To a certain extent, BI's pre-emptive, front-loading, and ahead-of-the-curve strategy of managing IDR's weakness has paid off in 4Q18. Since early Nov, IDR has strengthened abruptly from 15,200 per USD to current levels of around 14,400.

Notwithstanding the near-term strength, the macro backdrop behind IDR remains challenging next year. Domestically, Indonesia's current account and fiscal account are expected to remain in deficit albeit some improvements, at -2.5% and -2.0% respectively. This makes the IDR vulnerable alongside other Emerging Market currencies as the Fed continues its gradual rate hikes. Externally, Indonesia is also not spared from trade headwinds due to the protracted trade dispute between US and China. That said, BI matching of the pace of Fed's tightening in 2019 may alleviate pressure on the IDR.

Overall, we expect the IDR to continue to weaken alongside other Asian currencies. We forecast USD/IDR at 14,600 in 1Q19, 14,700 in 2Q19 and 14,800 in 3Q and 4Q19. Prevailing spot of USD/IDR is 14,400.

Indonesia Election

Indonesia, world's third largest population, will come yet again to the ballot box in April 2019. This time, it will be for the first time that voters will vote for both House Representatives and President (and chosen VPs). The incumbent President Joko Widodo (Jokowi) will seek re-election and will face the same competitor in the 2014 presidential election, Prabowo Subianto - ex general of Indonesia National Military. Jokowi is seen as a proletarian while Prabowo is elite and that is likely to define each candidate's value proposition. The key parties under Jokowi's coalition include PDI-P, Golkar, National Democrat (Nasdem), and National Awakening Party (PKB) while Prabowo's coalition include Gerindra (Great Indonesia Movement), PAN (National Mandate Party), Democratic Party, and PKS (Justice Prosperous Party). For 2019 government and legislatives agreed to add 15 seat in addition to 560 existing seats on 2014 (see Table) to account for the under-represented provinces, such that now there are a total of 575 seats to be contested. Below subsequently are the campaign schedule and candidates' vision and mission, as well as survey results conducted thus far.

Key Difference With The 2014 General Election

The enactment of Law no 7 of 2017 render some differences and important things to note compared to the 2014 general elections. These are:

1. **Simultaneous presidential and legislative elections (Article no 167, no 3, Chapter VIII)**
   Unlike previous general elections that legislative and presidential elections held at different dates, 2018 general elections both elections planned to be held at the same date.

2. **Presidential Threshold 20% Base (Article 222, Chapter IV)**
   Competing party/parties that bring its presidential candidate must have at least 20% of total seat in parliament or 25% vote from total national vote. There is no change in threshold but the base of the threshold is different. In 2014 presidential election the base is from legislative elections in 2014 also because during that time, the legislative elections and presidential elections are held at different dates in the same year. For 2019, the base is using the last legislative election results (2014).

3. **Parliamentary threshold is 4 % (Article 414, Chapter XI)**
   Competing parties in national legislative election should have minimum 4% vote from the last legislative vote held, which is now changed from the previous election's 3.5%. The consequence is there could be a fewer parties competing in national levels. However no threshold for competing in regional legislative board.

4. **Open vote system (Article 168, Chapter I)**
   This addition is not drastic change compared to last election. The addition of open vote system is to include the party that supports the president and vice president candidate in the vote paper.

5. **Vote Region Seat Magnitude 3 – 10 (Article 187, Chapter III)**
   In 2014 the seat are based on the proportion of population in each province. For 2019, the number of seats for every province in the legislatives will be a minimum of 3 and a maximum of 10. It means that even though a province is the smallest as a proportion, they will have a minimum of 3 representatives. At the same time, province with larger population cannot have more than 10 seats in the parliament.

Campaign Schedule

Key Dates	Event
17 July 2018	Legislative candidate registration
4-10 August 2018	Presidential candidate registration
23 September 2018 - 13 April 2019	Election campaign
14 - 16 April 2019	Quiet period
17 April 2019	Direct Election
9 May 2019	Political Parties for City DPRD election result announcement
12 May 2019	Political Parties for provincial DPRD election result announcement
15 May 2019	Political Parties for DPR and DPD election result announcement
6 October 2019	New President and Vice President Inauguration

Source: General Election Commission 2018

Survey Result Over Time

Candidates (In %)	12 – 19 August 2018	7-14 September	24 September – 5 October
	LSI Denny JA	Saiful Muljani R & C	Kompas Research
Joko Widodo – Ma'ruf Amin	52.2	60.4	52.6
Prabowo S – Sandiaga Uno	29.5	29.8	32.7
Undecided/Swing Voters	18.3	9.8	14.7

Source: Various Survey Institution and News 2018

JAPAN

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/JPY	113	114	115	115
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10

Economic Indicators	2016	2017	2018F	2019F
GDP	1.0	1.7	1.0	0.8
CPI (average, y/y %)	-0.1	0.5	1.2	2.0
Unemployment rate (%)	3.1	2.7	2.5	2.5
Current account (% of GDP)	3.9	4.0	4.0	4.0
Fiscal balance (% of GDP)	-4.2	-4.5	-5.0	-5.5

Growth Outlook: A Challenging 2019 On Various Fronts

The 2Q (2018) rebound did not last as GDP contracted -0.3%q/q (-1.2% annualized rate) in 3Q from an expansion of +0.7% (3.0% annualized rate) in 2Q, more or less in line with market expectations. The drag on third quarter was both external demand (-0.1ppt) and domestic demand (-0.2ppt). 3Q private spending contracted 0.1%q/q (from +0.7%q/q in 2Q) while capital expenditure (capex) unexpectedly contracted 0.2%q/q (from +3.1% in 2Q and missing the projected +0.2% increase), the first capex contraction since 3Q 2016 and is certainly not an indication of reshoring (i.e. Japanese manufacturers in China relocating part of production back home to Japan). The government blamed the 3Q GDP decline on a temporary hit to domestic consumption from natural disasters and fall in exports. The government enacted a supplementary budget for FY2018 in Nov to aid disaster recovery, and PM Abe has ordered plans for a 2nd supplementary budget to be submitted in Jan 2019.

Beyond the temporary disruption caused by a series of serious natural disasters in 3Q, we are turning increasingly cautious about Japan's growth on two fronts: 1) trade and 2) the next sales tax hike in Oct 2019.

On the trade front, moderating global demand in the next few quarters could be met with increasing US-led trade uncertainties. The key downside risk to Japan's outlook remains to be trade policy developments, specifically US-China trade disputes and US–Japan trade relations. Japan companies face significant negative effects because they are suppliers of parts and components to China. And there is the threat to Japanese car makers. Even as Trump has put measures on hold for hold for Japan, he could still pull the trigger in 2019 to impose tariffs (of 25%) on automobile imports from Europe and Japan under section 232 of the 1962 Trade Expansion Act (i.e. the same provision president Trump used to justify steel and aluminum tariffs in March 2018). Motor vehicles exports account for 15% of Japan's exports and US is a key export destination for Japanese cars.

On the domestic economy, stronger private consumption remains elusive despite tight labor conditions as wage growth has been languishing well below 2% after briefly peaking at 3.3% in Jun 2018. And the supposed bright spot of related-investments in the lead-up to the 2020 Tokyo Olympics and the disaster-related reconstruction activity also failed to light up domestic demand in 3Q. But the upcoming consumption tax hike (from the current 8%) to 10% in Oct 2019 could kill off any hope of a consumption revival, at least in 4Q 2019 and 2020. Recall when the tax was last hiked from 5% to 8% in Apr 2014, private spending contracted significantly for the subsequent 4 quarters (-2.6% y/y in 2Q 14, -2.4% y/y in 3Q 14, -1.8%y/y in 4Q 14 and -3.2% y/y in 1Q 15). Thereafter, even as spending recovered, the rate of increase has been lackluster even up to the most recent 3Q 18 (at just 0.5% y/y). After the crippling impact of the 2014 sales tax hike on the domestic economy, the Abe government delayed the next round of hike (originally slated for Oct 2015) twice. We initially expected the sales tax to be delayed yet again for another 2 years (till 2021) but it seems that PM Abe has decided to bite the bullet to see this through in 2019.

With 1H growth coming in at just 1.1%y/y and a weak 3Q in the bag, **we now expect GDP growth to ease lower to 1.0% in 2018 (from 1.7% in 2017). And growth may moderate further to 0.8% in 2019 in view of significant external and domestic challenges while the likely collapse of private spending after 4Q 2018, will likely drive Japan into a recession in 2020 unless the sales tax is deferred again**.

Headline CPI inflation rose to 1.4% y/y in Oct (from 1.2% in Sep) while core CPI (excluding fresh food) held steady at 1%y/y (unchanged from Sep). The Bank of Japan (BOJ) was less optimistic about prices even though it still held on to the belief that Japan's inflation "*will likely to increase gradually toward 2 percent*" in its 1 Nov policy meeting. **We had expected inflation to head more decisively to 2% in 2019**, driven by price pressure from US tariff implementation and expected sales tax hike in Oct 2019, That said, the recent heavy correction in global crude oil prices if sustained or worsened into 2019, could dampen prices and further delay the elusive 2%.

BOJ Outlook: More Policy Tweaking In 2019?

Among the G10 central banks, BOJ continues to be the least likely to normalize its easy monetary policy anytime soon, and it remains premature for the BOJ to talk about normalizing/tapering its easing program too, because Japan is still some distance away from its 2% inflation target. The projected weaker growth environment and likelihood of downside price pressures in 2019 adds further challenges to BOJ's monetary policy next year. We think that the BOJ may still need to do more "tweaks" to monetary policy to reassert its easy monetary policy position, just like what it did in the July 2018 MPM. This may happen again, possibly in early 2019 although we cannot rule out that the "tweaks" may be brought forward to the last meeting of 2018 on 19/20 Dec.

JPY Outlook: Path Of Least Resistance Is Still For JPY Weakness

To the surprise of many, the correction in global equities across Oct - Nov did not spur a sustained flight-to-quality towards the JPY. USD/JPY only dropped from about 114 in early Oct to a low of 111.38 on 26-Oct and has since recovered above 113 for most part of Nov even as volatility in equities persist.

The resilience of USD/JPY of late is also seen on how it trades with the US 10-year Treasury yield. Usually moving in lock-step, USD/JPY steadied around 113 amid the latter retreating to 2.92% from 3.25% in early Nov.

With the BOJ likely to stick to its dovish tone in 2019 due to dimming growth, trade-related uncertainties and inflation still far from its 2% target, we maintain the view that the path of least resistance is for gradual weakness of the JPY. As such, we reiterate our USD/JPY point forecasts at 113 in 1Q19, 114 in 2Q19 and 115 in 3Q and 4Q19. Key risk to our view is a deeper rout in equities which would eventually trigger safe haven funds back into the JPY.

MALAYSIA

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/MYR	4.19	4.23	4.25	4.25
MYR Overnight Policy Rate	3.25	3.25	3.25	3.25

Economic Indicators	2016	2017	2018F	2019F
GDP	4.2	5.9	4.8	4.8
CPI (average, y/y %)	2.1	3.8	1.2	2.0
Unemployment rate (%)	3.5	3.3	3.4	3.3
Current account (% of GDP)	2.4	3.0	2.2	2.5
Fiscal balance (% of GDP)	-3.1	-3.0	-3.7	-3.4

Risk Of Further MYR weakness

Source: Macrobond, UOB Global Economics & Markets Research

Growth Moderates On Supply Shocks

Malaysia's real GDP growth had been moderating since 2H 2017 to 4.4% y/y in 3Q 2018. The more modest growth was in line with a trend of slower growth in the region. Headline growth was hit by supply disruptions and commodity-specific supply shocks which shaved – 0.5% pts in the last two quarters. Other key sectors including services, manufacturing and construction continued to expand.

Although the tax holiday effect fades going into 4Q 2018, there would be support from the civil servant bonus in December, year-end spending, positive employment, and wage growth. The production constraints and supply shocks in the agriculture and mining sectors are expected to dissipate by next year, which would help to mitigate potential risks in other sectors. A mildly expansionary 2019 budget with allocations for tax refunds and supportive measures has also provided more policy clarity. As such, we maintain our growth forecasts of 4.8% for 2018 and 2019.

Government Re-sets Fiscal Deficit

In line with the new government's commitment to greater transparency and accountability, the fiscal deficit was revised higher to MYR53bn or – 3.7% of GDP in 2018, before narrowing to MYR52bn or – 3.4% of GDP in 2019. The fiscal target for 2018 is above the original projection of - 2.8% as the government recognizes additional tax refunds owed, off-budget commitments, and supplementary expenditure requirements. These are deemed to be one-off and non-recurring. The fiscal deficit is projected to narrow to -3.0% by 2020 and -2.8% in 2021.

The government has committed to settle all outstanding tax refunds estimated at MYR37bn (MYR18bn due from income taxes and MYR19bn from GST) in 2019. This will be funded by a one-off special dividend from Petronas amounting to MYR30bn with the balance set off by expenditure savings. The tax refunds will improve cash-flow for the private sector and thus support domestic spending.

Malaysia's Budget 2019 remains expansionary despite the fiscal constraints and did not sacrifice too much on growth with efforts to improve market efficiency, drive higher value-added and infrastructure sectors.

Despite higher fiscal targets, we see it as a temporary diversion and do not steer away from the path of fiscal consolidation. As for Malaysia's sovereign ratings, we view the risks to be balanced. Positive ratings factors include efforts to restore public finances despite legacy challenges, enhance transparency, introduce a more robust tendering process, and potential upside from various new revenue measures. However negative factors are the higher headline fiscal trajectory, greater reliance on commodity-based revenues, execution risks and revenue uncertainties.

BNM Keeps OPR At 3.25%

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) steady at 3.25% and statutory reserve requirement ratio (SRR) at 3.50% at its final monetary policy meeting this year. The policy rate has been kept on hold since a hike in January. Since then, both growth and inflation have moderated while MYR weakness persists. The floating of domestic fuel prices (which could be implemented by 2H 2019) and the consumption tax policy are expected to lift next year's inflation albeit at a manageable level. Although growth risks are tilted to the downside, we think BNM is unlikely to reset the path of policy rates for now.

MYR Outlook: Staying On Weak Side

The MYR has weakened by – 3.6% against the USD year–to–date, which is in line with regional currency weakness amidst higher US interest rates and stronger USD.

Going forward, there is risk of further MYR weakness beyond 4.20 against the USD, particularly if the weakening trend in RMB and other regional currencies resumes. Despite the sudden plunge in Brent oil from a high of $86.74 / bbl in Oct to current levels of about $60, there had been little pass-through to the MYR. The government also reiterated there will not be any recalibrations to the budget at this juncture in response to falling oil prices.

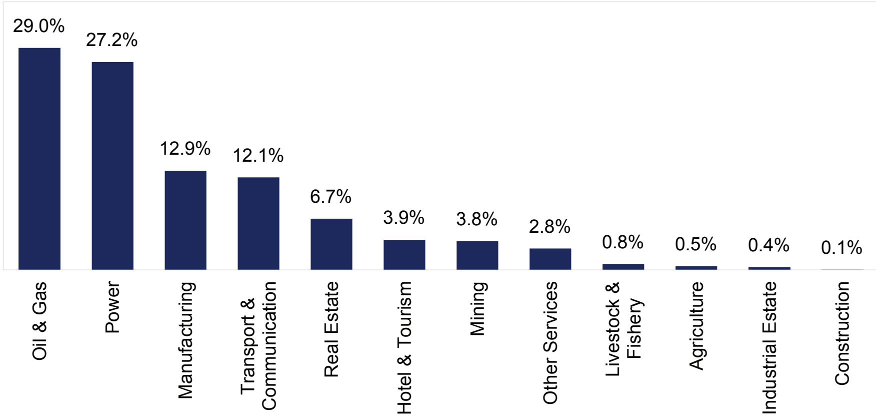
Overall, we continue to expect modest USD strength against the MYR. Our revised USD/MYR point forecasts are 4.23 by mid-2019 and 4.25 by end-2019 (up from 4.22 and 4.20 previously). Prevailing spot reference is 4.15.

MYANMAR

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/MMK	1,560	1,580	1,600	1,600
Economic Indicators	**2016**	**2017**	**2018F**	**2019F**
GDP	5.9	6.7	6.9	7.0
CPI (average, y/y %)	6.8	5.1	5.5	5.8
Unemployment rate (%)	4.0	4.0	4.0	4.0
Current account (% of GDP)	-3.9	-5.3	-5.4	-5.6
Fiscal balance (% of GDP)	-4.6	-4.4	-4.5	-4.5

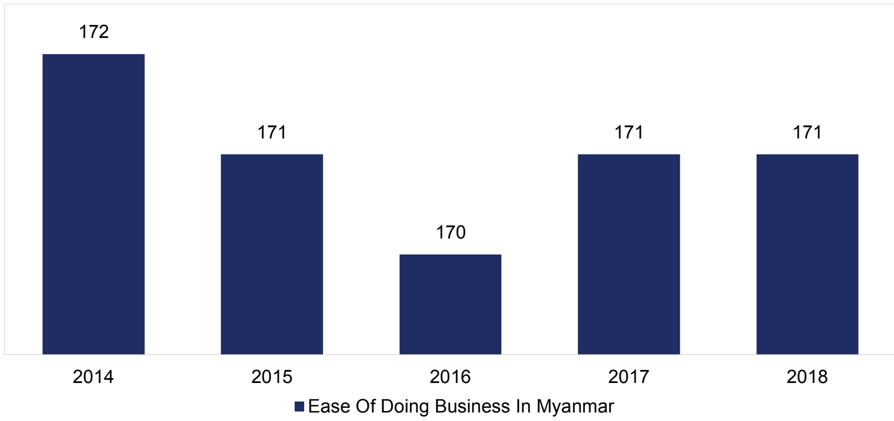
Oil And Gas Tops Myanmar's Foreign Direct Investment

Source: DICA, UOB Global Economics & Markets Research



The Ease Of Doing Business has To Be Improved To Attract More FDI

Source: World Bank, UOB Global Economics & Markets Research



Strong Growth Amid Trade Tensions

Myanmar's economic outlook is still favorable, with expected growth around 6.9% in 2018. The economic growth is driven by a recovery in agriculture and expansion in manufacturing activities. Looking ahead, the economic expansion is expected to pick up further to 7% for 2019 on the back of higher public spending and improving exports in agricultural products, garments and light manufactured goods. The fiscal spending will focus on infrastructure development, particularly in electricity, energy, and transportation, and improving social welfare in education and healthcare. As trade tensions between the US and China escalate, the bilateral trade between China and Myanmar will likely increase in 2019 since China's tariffs on US farm products will make them more expensive. In the medium-term, the US-China trade dispute could attract more Chinese multinational enterprises to set up in Myanmar to circumvent the tariffs, capitalize on cheap labor costs and benefit from preferential trade treatments under GSP programs with the US and the EU.

Myanmar has achieved solid economic growth, but its financial sector is still under-developed including its capital markets. As a result, Myanmar cannot hope to attract sizable portfolio capital inflows in the near future and FDI will remain the main source of financing for the current account deficit, which is expected to slightly widen to 5.6% of GDP in 2019 from 5.4% a year earlier.

A Step In Banking Reform

According to the Central Bank of Myanmar (CBM), foreign banks will be allowed to expand their branch networks in Myanmar next year. They will be able to provide the full suite of trade-financing services and financing to domestic firms in Myanmar kyats as well as in foreign currencies. Kyat loans will be permitted if interest rates do not exceed the maximum bank lending rate of 13% for local banks. However, foreign bank branches will not be allowed to accept immovable property such as land and buildings as collateral. Also, they are not allowed to offer retail banking services such as personal savings accounts, money transfers and card services.

MMK Outlook: Expect Further Weakness Due To Large Current Account Deficit

Despite a moderation of the pace of decline in 4Q18, the MMK is still expected to weaken next year given that Myanmar's large current account deficit is forecasted to widen further to 5.6% of GDP in 2019 from 5.4% in 2018. At the current spot level of 1,550 against the USD, we see the MMK weakening towards 1,560 in 1Q19, 1,580 in 2Q19 and 1,600 in 3Q and 4Q19.

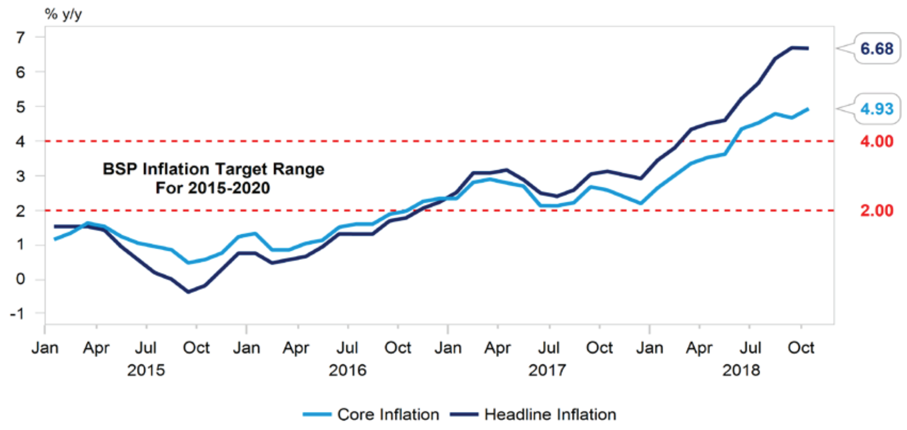
PHILIPPINES

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/PHP	53.00	54.00	55.00	55.00
PHP O/N Reverse Repur. Rate	5.00	5.25	5.25	5.25

Economic Indicators	2016	2017	2018F	2019F
GDP	6.9	6.7	6.2	6.5
CPI (average, y/y %)	1.3	2.9	5.3	4.0
Unemployment rate (%)	5.5	5.7	5.4	5.3
Current account (% of GDP)	-0.4	-0.7	-1.5	-1.7
Fiscal balance (% of GDP)	-2.4	-2.2	-2.8	-3.0

Inflation Remains Above The Upper Limit of BSP's Target Range

Source: Macrobond, UOB Global Economics & Markets Research



Still Optimistic On 2019 Outlook

Philippines' real GDP growth eased to a 3-year low of + 6.1% y/y in 3Q18 from + 6.2% y/y in 2Q18 as the rise in government spending (3Q18: + 14.3% y/y vs. 2Q18: + 11.9% y/y) was unable to offset the weakness in private demand. Higher inflation, a weaker PHP, lower remittance inflows, and the event of Typhoon Mangkhut were main factors weighing on household consumption, which slowed to a 4 - year low of + 5.2% y/y during the quarter (2Q18: + 5.9% y/y). This came alongside higher imports of machinery equipment for the public infrastructure development, resulting in a negative impact from net trade by - 4.1 ppts to overall 3Q18 GDP growth. Economic Planning Secretary Ernesto Pernia said that had inflation not hurt consumption, 3Q18 growth would have been at least 6.5%.

We expect growth to hold up at 6.5% in 2019 from a downward revised estimate of 6.2% in 2018. Domestic demand remains the key growth engine, anchored by sizeable infrastructure spending programs and supportive labour market. The government has proposed a national budget of PHP3.76tr or 19.3% of GDP, which focuses on investments in infrastructure and education. The share of expenditure allocated to public works is also set to increase from 13.3% in 2018 to 14.8% in 2019. That said, a weaker external position, potential negative spill overs from US - China trade disputes, and unforeseen natural disasters could impede growth prospects in 2019.

Tightening Phase May Not End Yet

Higher excises taxes, volatile energy prices, the weaker PHP, and challenges in managing rice supply have spurred headline inflation above the government's target range of 2.0% - 4.0% since March 2018. Inflation was close to a 10-year high of 6.7% y/y in Sep - Oct this year. To contain inflation and preserve market confidence, the Philippine central bank, Bangko Sentral ng Pilipinas (BSP), raised its reverse repo rate (RRR) five times this year by a cumulative 175 bps to 4.75% as at end-November.

The tightening cycle may continue into 1H19 given the resilience of the domestic economy while inflation is likely to stay above the government's 2.0% - 4.0% forecast range. We project inflation to average 4.0% in 2019, lower compared to an estimated 5.3% in 2018 amidst the rice tariffication bill that will help stabilise food prices, the suspension of the oil excise tax, and the normalisation from high year-ago base effects. The rice tariffication bill was approved on 14 November, whereby changes in the rice import regime is expected to mitigate price pressures by around - 0.6 ppts in 2019. The suspension of fuel excise taxes is projected to cut inflation by - 0.2 ppts in 2019.

Key risks to the inflation outlook include PHP volatility, global oil prices, as well as natural disasters. Upside risks from imported inflation may continue, particularly when the Philippines is anticipated to import 1.2m metric tons of rice in 2019 and more capital goods for the infrastructure program. Given downside risks to the PHP amidst further USD strength, we expect the BSP to hike its RRR by another 50 bps in 1H19, in line with higher US interest rates.

PHP Outlook:
Recent Recovery Short-Lived

In the past month, a short squeeze on oversold EMs currencies such as the PHP cause the currency to rebound aggressively from a 13-year low of 54.43 per dollar to current level of 52.70.

Despite the rebound, the PHP is still nursing losses of about 5% against the USD year–to–date, marking the second worst performing ASEAN currency after the IDR. PHP has been weighed down by fears of contagion risks from other emerging markets, twin deficits, and rising US interest rates. Although higher year-end seasonal remittance from Filipinos abroad would help the local currency, this will be negated by a 1) wider trade deficit amidst higher imports of capital goods to support the government's infrastructure drive, and 2) wider fiscal shortfall given lower revenues from the suspension of oil excise duties and escalation of infrastructure spending.

Overall, we expect the recent recovery in PHP to be short-lived. With the USD underpinned by further rate normalization by the US Fed, we maintain a modestly higher trajectory for USD/PHP, expecting the pair to trade up to 54.00 by mid-2019 and 55.00 by end-2019.

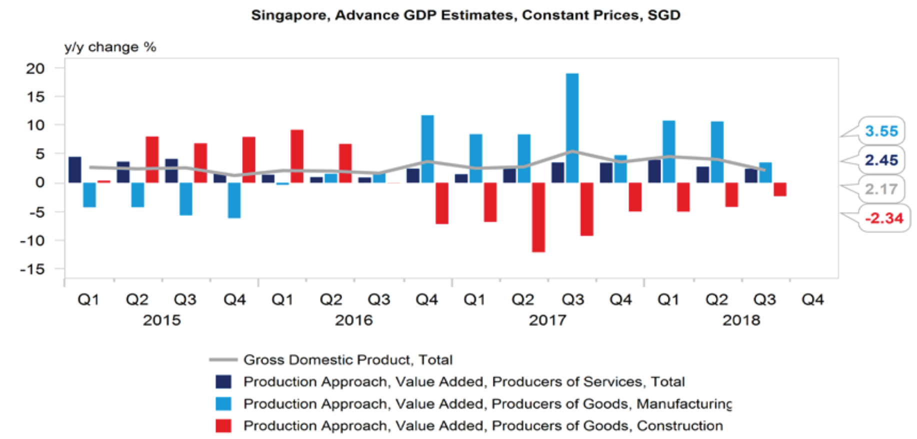
SINGAPORE

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/SGD	1.39	1.40	1.41	1.41
SGD 3M SIBOR	2.05	2.30	2.50	2.50

Economic Indicators	2016	2017	2018F	2019F
GDP	2.4	3.6	3.4	2.5
CPI (average, y/y %)	-0.5	0.6	0.5	1.5
Unemployment rate (%)	2.2	2.1	2.2	2.3
Current account (% of GDP)	19.8	18.9	19.4	19.2
Fiscal balance (% of GDP)	-1.0	1.5	2.2	0.5

Weakening Manufacturing & Services Growth

Source: Macrobond, UOB Global Economics & Markets Research



Growth Outlook: Steadily Slower

3Q GDP growth was revised lower to 2.2%y/y (from est. 2.6%y/y) due to weaker manufacturing and services. The slower services growth was attributed to external-oriented services clocking in weaker growth such as wholesale trade, transportation & storage and finance & insurance. Construction continued to contract for the 9th consecutive quarter from weakness in public sector construction, though pace of contraction eased in 3Q.

After a strong 1H 2018, manufacturing activity eased markedly in 3Q. We have a cautious outlook for the sector and project further slowdown for manufacturing in 4Q 2018 and into 2019, due to high base effect taking its toll on the electronics cluster, the continued global electronics cycle slowdown and negative impact from the global trade tensions which may add harmful spill-overs to Singapore's manufacturers both in terms of a slowdown in export orders and business sentiments. Expectation of further softening in China's growth will also pose a drag on Singapore's goods and services demand. The manufacturing sector grew 7.5% y/y in the first 10 months this year and we anticipate full-year manufacturing growth to grind lower to 7.0% in 2018, and lower to 3.0% in 2019. Services sector grew by 3.1% in the first 3 quarters of 2018, and will likely to slow to 2.9% for the full year of 2018, and then further to 2.6% in 2019. **As such, our 2018 GDP growth forecast is at 3.4% for 2018 while we downgrade 2019 growth forecast lower to 2.5% (from 2.8%), which is still within the official forecast range of 1.5%-3.5%.**

Core inflation returned back to 1.9% y/y in Oct due to significant increases in the cost of electricity & gas following months of higher global crude oil prices while all-items (headline) inflation stayed at a benign 0.7% y/y, thanks to declines in private road transport & accommodation costs. The Monetary Authority of Singapore (MAS) maintained its upside inflation bias in its outlook and continues to expect core inflation to rise gradually "in the months ahead" (i.e. exceed 2% y/y soon) and average in the upper half of their 1.5-2% forecast range in 2018 and then higher to 1.5-2.5% in 2019. The MAS also expects headline inflation to average around 0.5% in 2018 and accelerate further to 1-2% range for 2019. **We expect headline inflation to average 0.5% in 2018 and 1.5% in 2019, while core inflation may average 1.8% in 2018 and even higher to 2.2% in 2019.** The key downside risk to inflation is global crude oil price which has suffered heavy correction since late Oct.

MAS Outlook:
Tightening Once More In Apr 2019

Following the "*measured adjustment*" increase in Oct 2018 MPS and barring "*a significant setback in global growth*", we keep our view that there is a possibility the **MAS could further tighten the current stance at their April 2019 meeting (via another slight increase in the policy slope)**, due to growth staying above potential (even as it is projected to moderate in 2019) while core inflation is likely to creep higher to 1.5-2.5% in 2019. The latest GDP growth projection and MAS inflation outlook do not change our view of further tightening in 2019. The biggest uncertainty for this view is still resting on how US-China trade tensions will evolve in the months leading up to April 2019.

Early Elections In 2019?

On 23 Nov, the ruling People's Action Party's (PAP) newly elected Central Executive Committee (CEC) appointed Finance Minister Heng Swee Keat, 57, as first assistant secretary-general, putting him at poll position to be the next Prime Minister. The next general election needs to be held by 15 Jan 2021, more than 2 years away, but following the recent change of key appointments within PAP's CEC, speculation is elections may be called earlier in 2019 to pave the way for succession from the current set of leaders (led by PM Lee) to the next generation (4G) likely led by Heng. Whether the elections will be in 2019 or in 2020, the new set of leaders in the 18th general election will likely oversee the next Goods & Services Tax hike from 7% currently to 9% sometime in 2021 to 2025.

SGD Outlook: Vulnerable To Trade Stand-off But Downside Limited By Further MAS Tightening In 2019

Owing to Singapore's open economy with a clear dependence on trade, a protracted stand-off between US and China on trade is a clear negative driver for the SGD.

The SGD is also tightly correlated to the CNY. With CNY poised to weaken past 7.00 against USD in 2019, SGD is likely to follow with a move beyond 1.40/USD, weakest levels since May 2017. Perhaps the dominant factor limiting excessive SGD weakness is the possible MAS tightening in April 2019. This is likely to keep the SGD NEER at the top half of its policy band, as it had for the most part of 2018, maintaining SGD's slight outperformance against most of its regional trade partners.

Overall, we keep our view of a gradual rise in the USD/SGD to test above the key 1.40 resistance. Our forecasts for USD/SGD are 1.39 in 1Q19, 1.40 in 2Q19 and 1.41 in 3Q and 4Q19. Spot reference rate is 1.37.

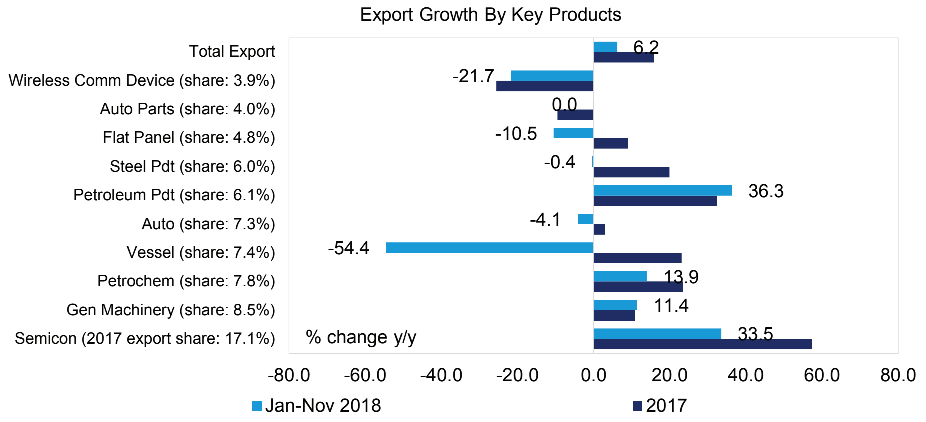
SOUTH KOREA

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/KRW	1,130	1,150	1,160	1,160
KRW Base Rate	1.75	1.75	1.75	1.75

Economic Indicators	2016	2017	2018F	2019F
GDP	2.9	3.1	2.5	2.5
CPI (average, y/y %)	1.0	1.9	1.6	1.9
Unemployment rate (%)	3.6	3.7	3.9	3.9
Current account (% of GDP)	7.0	5.1	4.7	4.2
Fiscal balance (% of GDP)	-2.3	-1.7	-1.8	-1.8

Semiconductor And Petroleum Products Were Key Drivers Of Export Growth

Source: CEIC, UOB Global Economics & Markets Research



No Strong Growth Catalyst Ahead

South Korea's GDP growth moderated to 2.0% y/y in 3Q18 from stable growth rate of 2.8% in each of the three preceding quarters. This was also the slowest pace of growth since 3Q09, due largely to a deeper contraction in investment in building construction and civil engineering as well as reduction in machinery investment.

The lack of a strong growth catalyst ahead is expected to keep the economic expansion tepid. Private consumption is likely to be weighed down by a fragile outlook in the domestic labour market as the unemployment rate rose to an 8-year high in 3Q18, averaging 4.0% from 3.8% in 2Q18. The hike in minimum wages which was intended to spur demand (under President Moon's signature "income-driven growth" policy) had instead burdened small businesses and contributed to more cautious hiring. The minimum wage is set to rise a further 10.9% in 2019 after the 16.4% in 2018.

The concurrent cyclical downturn in the tech sector (semiconductor exports have been the largest contributor to export growth this year) and weaker Chinese growth as well as trade uncertainties will also be negative for the external demand. On a 3mma basis, exports have remained in low growth territory, consistent with a moderate outlook. The temporary 15% fuel tax cut, KRW15 tn of financial support to SMEs and support for companies in the shipbuilding and auto sectors undergoing restructuring, may only provide a small respite to growth.

With GDP growth at 2.5% y/y in Jan-Sep, we forecast that the full-year 2018 growth will be around 2.5% and the economy is likely to maintain growth at 2.5% in 2019. This is below the BOK's October forecast of 2.7% in both 2018 and 2019.

BOK Delivers First Rate Hike For The Year, Extended Pause Ahead

The Bank of Korea (BOK) raised its benchmark base rate by 25 bps to 1.75% in November, a year after its previous hike in November 2017. The rate hike was primarily meant to address risk of financial imbalance and also to narrow the gap with US rates.

Inflation remains contained with the central bank reiterating in November that inflationary pressures on the demand side will not be high for the time being. There had been little translation of the higher minimum wage to core inflation. Core inflation remained mild at 1.3% y/y in November and is expected to rise gradually in 2019. Meanwhile, headline inflation had been driven by higher food prices in the last few months and is expected to "remain near the target level for some time, and then fall slightly and fluctuate in the mid- to upper-1% range." Our headline inflation forecasts for 2018 and 2019 are at 1.6% and 1.9% respectively.

While BOK Governor Lee pointed out that the policy rate is not at a neutral level yet, the weaker growth and contained domestic inflation should see the BOK retaining its very gradual pace in monetary normalization. We expect the central bank to stay on hold through 1H2019. There remains a small chance of a hike in 2H2019, assuming no major surprises in domestic economic conditions or rate normalization trajectory in the major economies.

KRW Outlook: Near Term Strength Unlikely To Persist

Despite strengthening to its strongest levels in 2 months against the USD at about 1,108, the KRW still faces a long list of challenges going into next year. Economic growth has moderated starting 3Q18 and should remain weak as the negative effects of the protracted trade dispute US and China show up more prominently in 2019 (barring a significant breakthrough in negotiations). A concurrent slowdown in the global electronics cycle would also weigh on the KRW.

In addition, the KRW is not expected to receive any near-term support from the BoK, which is likely to stay on hold through 1H2019. Overall, we expect KRW to pare recent gains and eventually weaken past 2018 low of 1,145 to the USD. We forecast USD/KRW at 1,130 in 1Q19, 1,150 in 2Q19 and 1,160 in both 3Q and 4Q19. Prevailing spot reference is 1,110.

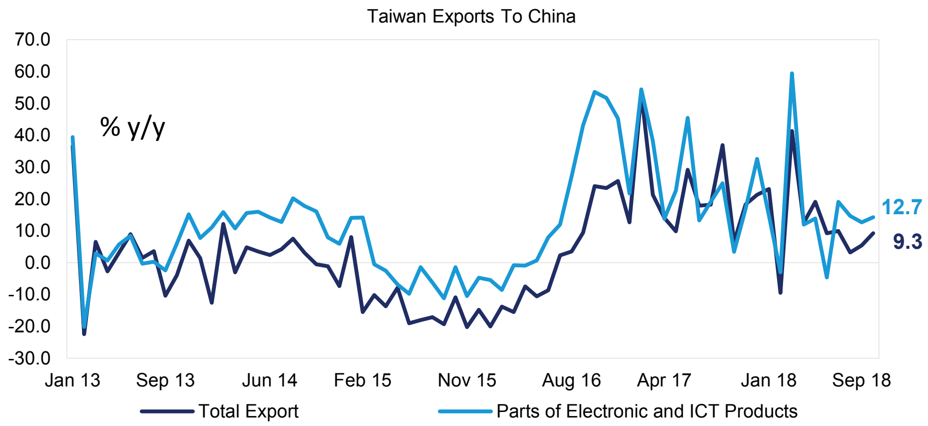
TAIWAN

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/TWD	31.20	31.60	32.00	32.00
TWD Official Discount Rate	1.38	1.38	1.38	1.50

Economic Indicators	2016	2017	2018F	2019F
GDP	1.4	2.9	2.7	2.3
CPI (average, y/y %)	1.4	0.6	1.4	1.1
Unemployment rate (%)	3.9	3.8	3.8	3.8
Current account (% of GDP)	13.7	14.5	11.6	11.0
Fiscal balance (% of GDP)	-0.3	-0.1	-0.5	-1.0

Electronics And ICT Products Continue To Underpin Taiwan's Exports To China

Source: CEIC, UOB Global Economics & Markets Research



Uncertain Outlook Ahead

After four preceding quarters of above 3.0% growth, Taiwan's GDP moderated to 2.27% y/y in 3Q18 (2Q: 3.29%). The data showed a sharp slowdown in exports from its strong expansion pace over the past quarters while private consumption eased and government spending contracted in 3Q18. Exports growth has eased sharply to 1.42% y/y in 3Q18 from 6.29% in 2Q18, partly due to a high base effect. US-China trade conflicts have affected sentiment but the direct impact on trade, in particular with China is not fully reflected yet. Its exports to China continue to be underpinned by electronics and ICT products (accounting for nearly half of its total exports to the mainland) which are also under pressure from a global electronics cycle slowdown.

Meanwhile, private consumption growth slowed to 1.80% y/y in 3Q18 from 2.29% in 2Q18. On a more positive note, the rebound in gross fixed capital formation growth, in particular, private enterprises' capital investment to 5.21% growth from -0.12% in 2Q18 should bode well for the economy. The government expects private sector's capital investment to sustain strength in the coming quarters.

We continue to maintain a cautious outlook on Taiwan's economy until we see further evidence of sustained investment growth or the translation of the investments into higher exports, bearing in mind that any moderation in China's demand could also affect the services sector in Taiwan (mainland tourists account for a quarter of tourist arrivals). So far, the manufacturing PMIs for Asian economies have continued to trend lower, casting a pall over the sector's outlook ahead as there remains significant uncertainty over global trade.

Our 2018 GDP growth forecasts for Taiwan remains at 2.7% as we foresee further moderation in growth to around 2.1% in 4Q18. We are also keeping our 2019 GDP forecast at 2.3% which is a shade below the government's forecast of 2.41%.

Surveys pointed to voters' discontent with domestic policies (including the government pension cuts since July) as the key reason for Taiwan's ruling Democratic Progressive Party (DPP) crushing defeat in the November local elections. We do not expect material implications on economic growth though there may be a modest dial-down in cross-straits tensions leading into the general election in 2020.

CBC To Maintain Rate Hold Until More Positive Signals

There is little incentive for the Taiwan CBC to raise interest rates at this juncture given global trade uncertainties, moderating domestic growth and a mild inflation backdrop.

The decline in prices of vegetables and fuel brought the headline inflation to 13-month low of just 0.31% y/y in Nov. In the Jan-Nov period, headline inflation averaged 1.48% y/y, led mainly by higher transportation and communication costs. Core inflation which excludes fruits, vegetables and energy rose a more moderate 1.28% y/y. Given the weak inflationary trend, we have downgraded our CPI forecast to 1.4% and 1.1% for 2018 and 2019 respectively. The CBC had continued to focus on the mild domestic inflationary pressures and the negative output gap in its September monetary policy statement, which should preclude any urgency to start raising interest rate in 1H2019.

TWD Outlook: Still Poised For Further Weakness

The TWD's close correlation with the global technology stocks is evident in 4Q18. A sudden correction in technology and chip-maker stocks in early Oct sent TWD tumbling almost 2% briefly beyond 31 per USD in days. Since then, USD/TWD has broadly stabilized within a range between 30.50 and 31.00.

Into 2019, our cautious outlook of Taiwan as discussed above, together with a further slowdown in the global electronics cycle are likely to underpin further weakness in the TWD against the USD for the next 4 quarters. However, Taiwan's strong current account balance is likely cushion the local dollar against acute weakness. Overall, with further rate normalization by the Fed, USD/TWD is likely to rise further to 31.2 in 1Q19, 31.6 in 2Q19 before flattening out at 32.0 in 3Q and 4Q19. Prevailing spot reference is 30.8.

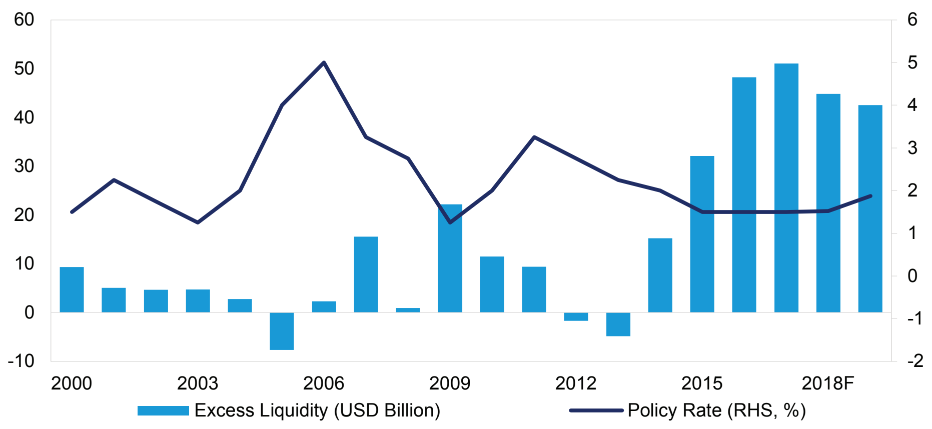
THAILAND

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/THB	33.00	33.30	33.50	33.50
THB 1-Day Repo	1.75	1.75	2.00	2.00

Economic Indicators	2016	2017	2018F	2019F
GDP	3.3	3.9	4.2	4.0
CPI (average, y/y %)	0.2	0.7	1.2	1.1
Unemployment rate (%)	0.8	1.0	1.0	1.0
Current account (% of GDP)	11.7	10.8	9.0	9.0
Fiscal balance (% of GDP)	-2.6	-3.1	-2.9	-2.9

Rising Interest Rates Will Not Affect Financial Sector Thanks To Excess Liquidity

Source: Bloomberg, IMF, UOB Global Economic Economics & Markets Research



The Thai Economy Reaches Its Potential Output

The Thai economy grew slower than analysts had expected in 3Q18 at 3.3% y/y, below the 4.6% rise in 2Q18, but showing resilience amid increasing global trade dispute. For the first nine months of 2018, the economy grew by 4.3% y/y which was above the potential rate. The overall economic activity continued to gain traction from domestic demand. Private consumption grew strongly with growth momentum seen in most spending categories. Private investment slightly accelerated, mainly supported by the acceleration of construction investment. Public investment continued to display signs of improvement. However, tourism suffered from the Phuket tour boat incident, and exports decelerated as a result of the high base effect, the economic slowdown in major trading partners and US-China trade tensions.

The economy is expected to expand by 4.2% and 4.0% in 2018 and 2019, respectively, assuming that substantial public investment proceed on schedule and the political climate is calm around the general election proposed for 1H19. The fiscal impetus would continue to boost private investment in transportation and logistics infrastructure projects going forward. Despite elevated household debt, private consumption is expected to show continued expansion on the back of improvements in income, consumer confidence and employment. However, exports will likely grow at a slower pace in part owing to the trade tensions. The direct impact will fall on Thai exporters in the supply chain for Chinese exports to the US and the US exports to China; these include computers, electronics, motor vehicles, textiles, rubber and plastics. Nonetheless, as the US and China slap heavy tariffs on certain goods, there could also be opportunities for Thailand to export to these two countries – computer parts to the US and farm products to China such as cassava chips, soybean, seafood, processed food and frozen food.

2019 General Election

Thailand's King endorsed the last two bills required for Thailand to hold a general election, which is now expected to take place between February and May next year. The earliest date could be 24 February 2019. The election would help restore foreign investors' confidence, given the country's clearer direction. The political calm will also accelerate transport infrastructure investments and planned development projects under the Eastern Economic Corridor (EEC). These will boost private investment and attract greater FDI.

Expect the BoT To Stick With A Gradual Rate Hike

The next MPC meeting is scheduled on 19 December 2018. We expect the BoT to increase the policy rate from 1.5% to 1.75% as the economy would continue to expand steadily above its potential, thus lessening the need for ultra-accommodative monetary policy stance. Macro-prudential tools alone would not be sufficient in preventing potential risks in the financial system. Looking ahead, the rate hike would be followed by a pause to assess economic conditions. We expect the BoT to slowly raise the benchmark rate from 1.75% to 2%, possibly in 2H19. Gradually reducing monetary policy accommodation will continue to support economic growth despite greater external uncertainties and help cap financial stability risks in the future.

THB Outlook: Downside Risks Limited By Strong Fundamentals

Overall, the THB probably has one of the best FX supportive factors across the Asia FX block. Current account surplus is still forecast to be a strong 9% of GDP in 2018 and 2019. Together with above potential growth and low unemployment rate, the THB is also drawing support from an expected interest rate hike from the BoT in December.

Like the rest of the Asia FX block, there is no hiding from the overwhelming strength in the USD. The baht (THB) weakened 2% to 33.00 per dollar in the fourth quarter to date, playing slight catch-up with other Asian peers in terms of losses against the USD. Despite the near term weakness and trade headwinds facing Asian FX, THB is only down a paltry 1.3% year-till-date, amongst the least in the region.

As the Fed continues its gradual rate hikes in 2019 (we expect three more 25bp increases), the THB is likely to remain defensive against the USD but downside risks will be limited due to the above mentioned strong factors in favor of THB. Overall, we reiterate mild weakness of THB against the USD, at 33.0 in 1Q19, 33.3 in 2Q, 33.5 in 3Q and 4Q19. Prevailing spot reference rate is 32.7.

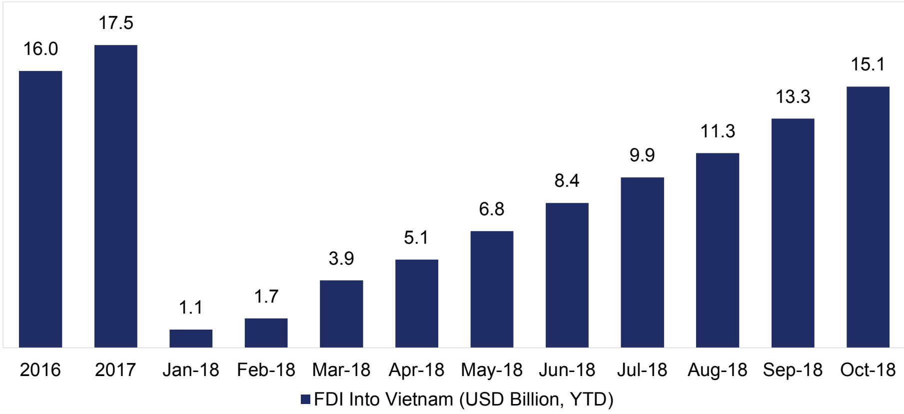
VIETNAM

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
USD/VND	23,500	23,800	24,000	24,000
VND Refinancing Rate	6.25	6.25	6.50	6.50

Economic Indicators	2016	2017	2018F	2019F
GDP	6.2	6.8	6.9	6.7
CPI (average, y/y %)	2.7	3.5	3.6	3.6
Unemployment rate (%)	2.4	2.3	2.1	2.1
Current account (% of GDP)	4.1	1.3	3.0	3.5
Fiscal balance (% of GDP)	-5.0	-3.5	-3.7	-3.5

Foreign Firms May Respond To US-China Trade Dispute By Relocating Businesses To Vietnam

Source: Bloomberg, UOB Global Economics & Markets Research



Robust Growth But Challenges Ahead

In line with market consensus, Vietnam's economy expanded 6.9% in 3Q18 and 7.0% in the first three quarters of 2018. For the first three quarters of this year, industry and construction grew 8.9% and services rose 6.89%. These are slightly lower than the previous growth rates of 9.1% and 6.9%, respectively. Manufacturing maintained solid growth at 12.7%, which is lower than the 13% growth in the same period last year. In addition, agriculture grew 3.7% compared with 2.8% in the first three quarters of 2017.

Due to the robust economic expansion, the economy is expected to expand 6.9% and 6.7% in 2018 and 2019, respectively. High transport and energy infrastructure investments remain significant growth drivers. Industrial production will be boosted by continued opening of new multinational enterprises in labor-intensive, export-oriented manufacturing and processing industries. However, unfavorable weather conditions could undermine agricultural output and mining production. The US-China trade dispute could also have a spill-over impact on Vietnam. The exports are likely to suffer if these two countries reduce their demand for imported goods such as steel, machine parts, telephones, mobile phones and parts, and intermediate electrical components. A flood of cheap Chinese products may also affect local industries. Nonetheless, these can be mitigated if Chinese multinational firms relocate their manufacturing to Vietnam. Its geographical proximity to China, market access to ASEAN, favorable trade terms with the US, and young labor pool stand Vietnam in good stead.

2019 Socio-Economic Development Plan

On 8 November 2018, the National Assembly passed the 2019 socio-economic development plan aiming to achieve annual economic growth of 6.6-6.8% by boosting exports and investment. Export turnover growth is projected at 7-8%. FDI capital that was registered for 2017 and 2018 will continue being disbursed for production in 2019, thus providing momentum for the economic growth. Headline inflation is set at 4-5% and unemployment rate will be less than 4%. The National Assembly also asked the government to work on its legal framework to meet the requirements of the CPTPP agreement, and to sign and approve the Europe-Vietnam Free Trade Agreement.

Expect SBV To Normalize Monetary Policy In 2019

The SBV is expected to maintain refinancing rate at 6.25% until June 2019. Afterwards, it would be time for a gradual normalization of monetary policy. We expect the central bank to hike the policy rate from 6.25% to 6.5% during the second half of 2019. As the economy would be looking in good shape and well able to handle a return to higher interest rates, the SBV could start raising its policy rate at a slow pace to reduce financial stability risks including over-pricing of real estate and other financial assets. Additionally, gradually reducing accommodative monetary policy could help dwindle inflationary pressure and keep headline inflation to remain stable next year.

VND Outlook: On Track To Weaken Towards 24,000

The VND has stabilized in a tight range around 23,300 against the USD since Aug even as the trade dispute between US and China continued to escalate. US and China are both Vietnam's largest trading partners and next year, first order effects of the trade spat may cause an further drop in Vietnam's exports, denting sentiments on the domestic currency.

Going forward, amidst on-going broad USD strength, we can expect further weakness in the VND in the next 4 quarters towards 24,000. As such, we reiterate USD/VND point forecasts at 23,500 in 1Q19, 23,800 in 2Q19 and 24,000 in 3Q and 4Q19. Prevailing spot reference rate is 23,300.

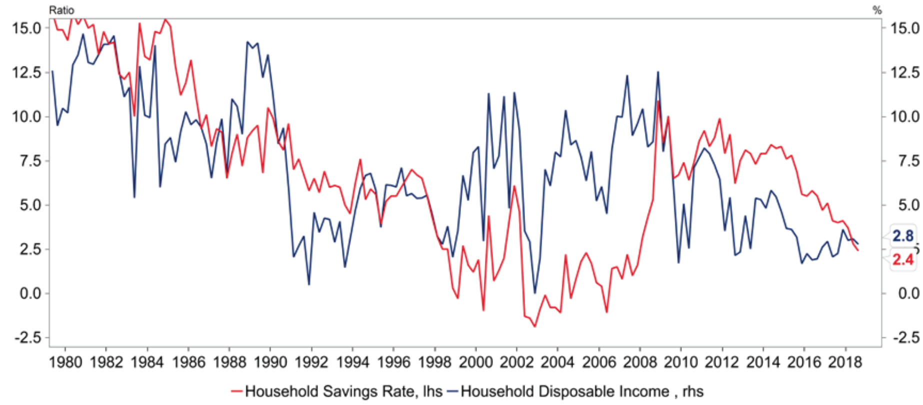
AUSTRALIA

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
AUD/USD	0.74	0.75	0.76	0.77
AUD Offical Cash Rate	1.50	1.50	1.50	1.75

Economic Indicators	2016	2017	2018F	2019F
GDP	2.6	2.2	3.0	2.8
CPI (average, y/y %)	1.3	1.9	2.0	2.2
Unemployment rate (%)	5.7	5.6	5.3	5.0
Current account (% of GDP)	-3.3	-2.6	-2.5	-2.8
Fiscal balance (% of GDP)	-1.5	-0.6	-0.9	-0.6

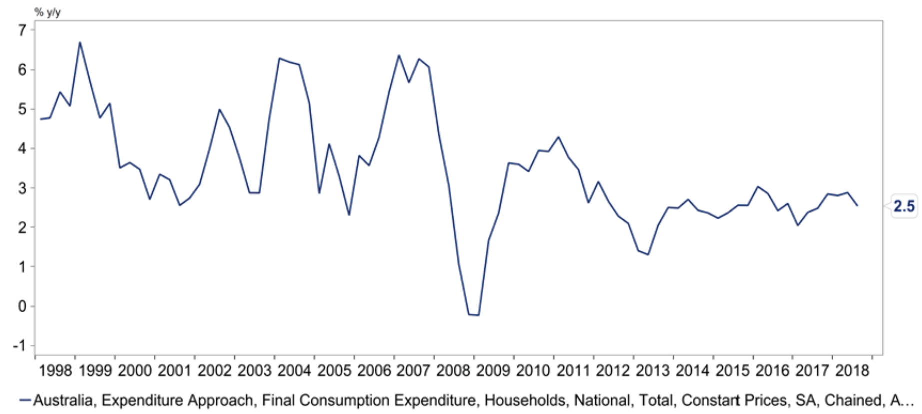
Household Savings Ratio At Lowest Level Since Global Financial Crisis

Source: Macrobond, UOB Global Economic Economics & Markets Research



Household Consumption Remains Weak

Source: Macrobond, UOB Global Economic Economics & Markets Research



Australia Economy:
Weak Spending And Trade To Weigh

Australian economic growth slowed in the July-September quarter, driven largely by a slowdown in household spending. GDP grew by 0.3% q/q in seasonally adjusted chain volume terms, missing forecasts for an increase of 0.6% q/q. It was the weakest quarterly expansion since the economy contracted in the September quarter of 2016. The economy grew by 0.9% q/q in the prior quarter, unchanged from the previous estimate. On a yearly basis, GDP expanded 2.8% y/y in 3Q, again missing expectations for 3.3% y/y, and down from a revised 3.1% gain in the three months prior. Weaker household spending and investment weighed on growth. Private consumption slowed to 2.5% y/y in 3Q from 2.9% y/y in 2Q. Private investment fell 1.2% y/y in 3Q following an increase of 9.1% in 2Q. Whilst net exports strengthened, a sharp slowdown in imports was seen. Part of this was due to the lower cost of imported fuel. Imports of capital goods also slowed. Government consumption and investment both picked up, but not sufficient to offset the slowdown in private demand. The latest result means the RBA's forecast for the economy to grow 3.5% y/y in 2018 is unlikely to be achieved. We expect GDP growth of 3.0% for the year, and then for the economy to slow further to 2.8% in 2019.

RBA: To Extend Record Spell
Of Steady Rates

The RBA held its OCR at 1.5% at its last meeting for the year. The concluding paragraph of December's accompanying statement was exactly the same as the one in November, with the central bank saying that: "The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time". The latest GDP print is certainly a big miss relative to RBA expectations. Whilst the bigger picture of a gradually tightening labour market and a slow lift in wages growth remains intact, we see no change in policy until at least end-2019. The first RBA meeting for 2019 is scheduled for 5 February.

AUD: On Track
For A Modest Recovery In 2019

A "long and very good conversation" between President Trump and President Xi on trade in early Nov was the key catalyst that jolted AUD/USD off 32-month lows of 0.7021 and sustain spot above 0.71 ever since. The recent tariff truce reached between US and China on 1-Dec also fueled a further recovery towards 0.74.

Although the macro backdrop both domestic and external remains challenging, it appears that the bulk of the AUD weakness may be behind us. The negative positioning (as per CFTC) against the AUD is already showing signs of reversing from the most extreme levels in over 3 years, setting the stage for a more sustainable recovery in AUD. Going forward, we expect AUD to draw support across 2019 from improved pricing for an eventual rate hike by RBA. Our updated forecasts for AUD/USD are 0.74 in 1Q19, 0.75 in 2Q19, 0.76 in 3Q19 and 0.77 in 4Q19. The prevailing spot is 0.73.

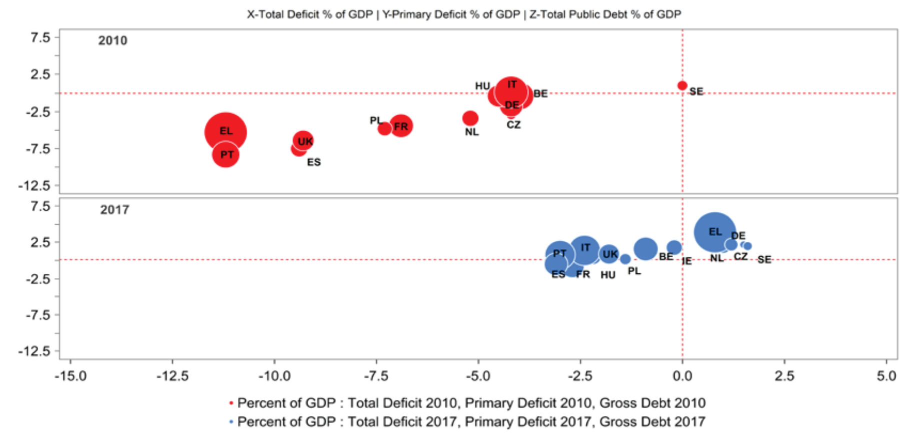
EUROZONE

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
EUR/USD	1.15	1.16	1.18	1.20
EUR Refinancing Rate	0.00	0.00	0.00	0.25

Economic Indicators	2016	2017	2018F	2019F
GDP	1.9	2.4	1.9	1.6
CPI (average, y/y %)	0.2	1.5	1.8	1.7
Unemployment rate (%)	10.0	9.1	8.2	7.9
Current account (% of GDP)	3.2	3.2	3.3	3.1
Fiscal balance (% of GDP)	-1.6	-1.0	-0.8	-0.9

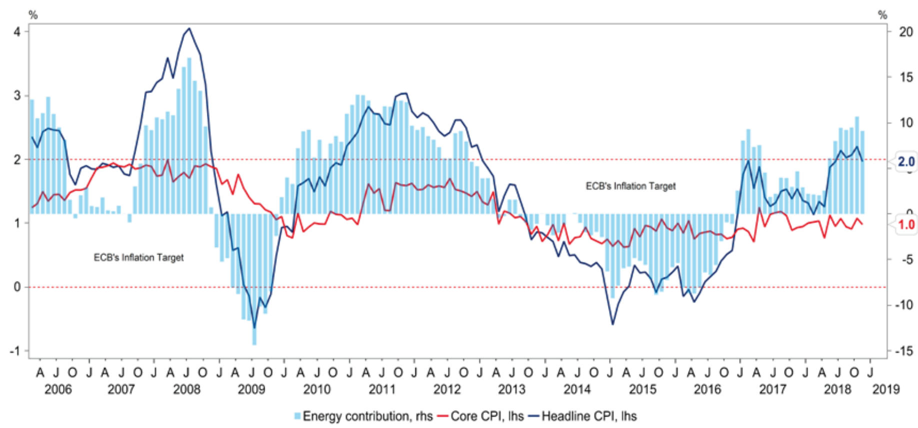
Public Debt & Fiscal Deficits In EU

Source: Macrobond, UOB Global Economic Economics & Markets Research



Euro Area Inflation Eases As ECB Approaches End Of Bond Buying

Source: Macrobond, UOB Global Economic Economics & Markets Research



Eurozone Economy: To Slow Even Further In 2019

Growth in the Eurozone slowed significantly in the third quarter, as Italy's economic troubles weighed and car production in Germany was disrupted. GDP in the 19-country single currency area rose just 0.2% q/q from July to September, confirming its earlier preliminary flash estimate from 30 October. This was the slowest rate of economic growth since the second quarter of 2014. The economy of Germany contracted by 0.2%, France's was 0.4% stronger, whilst Italy's was unchanged in the quarter. It was also confirmed that the year-on-year GDP growth rate was 1.7% y/y, the lowest level since the fourth quarter of 2014. Overall, GDP growth in the Eurozone is likely to be slower in 2019 than this year. Whilst monetary policy will continue to remain supportive of domestic demand, factors that may slow down economic growth in the region include the lack of structural reform in the Eurozone, including fiscal fragilities, and in some countries, public and private debt overhang.

ECB: Policy Moves To Be Gradual

At its 25 October meeting, the ECB reaffirmed that its asset purchase scheme will end in December 2018 and that interest rates could rise after next summer, sticking to guidance first unveiled in June and repeated at every meeting since. At the press conference, Draghi did not answer the question of what the ECB would do in the event that no consensus on reinvestment policy could be reached in December. We are of the view that the ECB will not be in any rush to give clearer guidance, especially given the uncertain economic backdrop. In fact, we think that economic forecasts will be revised down in December, which will offset an earlier rate hike expectation than what is currently priced in (around October 2019). Nonetheless, we still expect net asset purchases to end in December 2018. As for policy rates, we are not anticipating any rate increases until much later in 2019 – which will lift the deposit rate to 0% (from -0.4% currently) and the refi rate to 0.25% (from 0% currently) by the end of 2019.

EUR: Ingredients For A Sustained Recovery Are Falling In Place

EUR/USD continues to drift lower for a third straight quarter in 4Q18, weighed by worries about Italy's fiscal sustainability and a slowdown in euro-area growth. However, these negative factors seem to be abating. Recent news report said Italian Deputy Premier Matteo Salvini seek to reach an accord with the EU on the country's budget that will avoid an excessive deficit procedure against Italy. As a result, the BTP-Bund spread has stopped widening and is steady just below 300 bps (high of 326 bps on 20-Nov) and a further stabilization in 2019 could conversely benefit the EUR. In addition, ECB President Draghi, as recent as 26-Nov, said the recent weakening in euro-area growth momentum is likely to be "temporary" and unlikely to scupper the withdrawal of monetary stimulus.

With policymakers still largely confident that they would weather the slowdown, discussions by the ECB about its maiden rate hike would eventually begin in 2019. This is likely to a key upside catalyst for the EUR especially where pricing for a rate move higher is very modest now. According to Bloomberg, markets are only pricing in a 6 bps hike in ECB's deposit rate to -34 bps from -40 bps currently.

Overall, with easing headwinds against the EUR and the gradual pricing of monetary tightening in Europe, a sustained recovery in EUR is our conviction view within G10 currencies. Overall, we see EUR/USD bottoming and rising gradually across next year from 1.15 in 1Q19 to 1.20 in 4Q19. Prevailing spot of EUR/USD is 1.13.

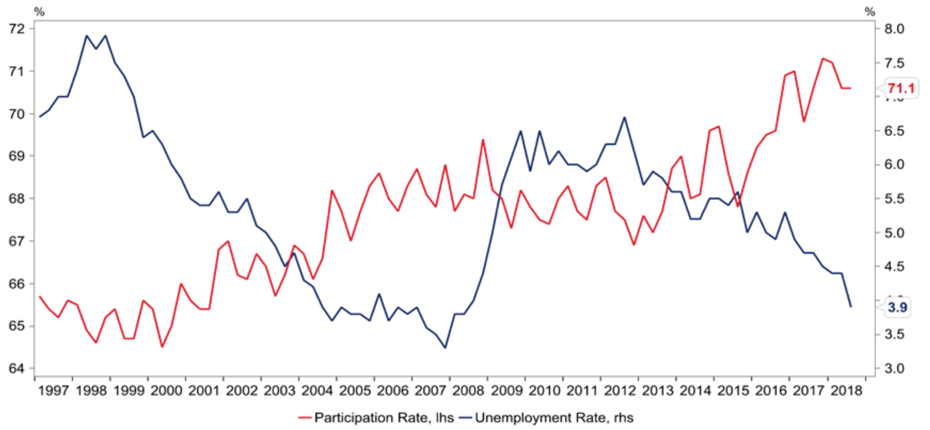
NEW ZEALAND

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
NZD/USD	0.69	0.70	0.71	0.72
NZD OCR	1.75	1.75	1.75	1.75

Economic Indicators	2016	2017	2018F	2019F
GDP	4.2	2.7	2.8	2.8
CPI (average, y/y %)	0.6	1.9	1.6	2.0
Unemployment rate (%)	5.1	4.7	4.5	4.5
Current account (% of GDP)	-2.1	-2.9	-3.0	-3.2
Fiscal balance (% of GDP)	1.2	0.9	1.1	1.0

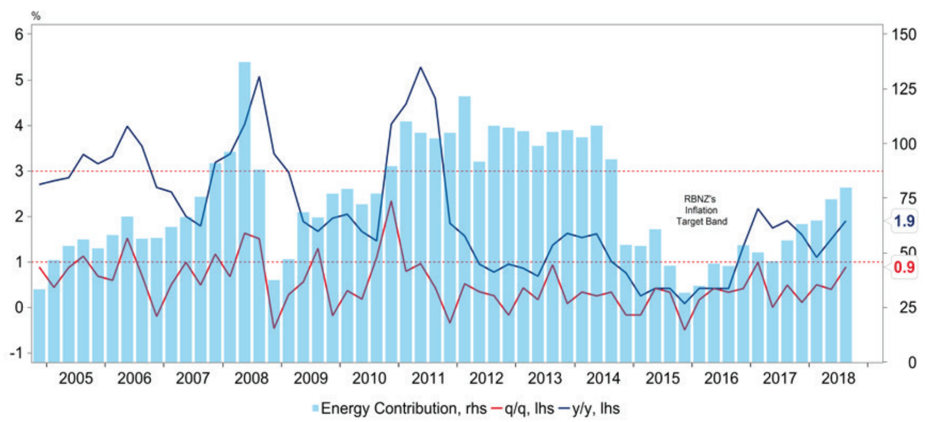
Unemployment Rate Drops To Decade Low

Source: Macrobond, UOB Global Economic Economics & Markets Research



Inflation Picks Up

Source: Macrobond, UOB Global Economic Economics & Markets Research



New Zealand Economy:
To See Slower Growth Ahead

New Zealand's economy grew at the fastest pace in two years during the second quarter. GDP expanded a seasonally adjusted 1.0% q/q, beating forecasts for a gain of 0.8% q/q and was up from 0.5% q/q in the three months prior. On a yearly basis, GDP expanded 2.8% y/y, also exceeding expectations for 2.5% y/y and up from 2.7% y/y in the first quarter. Gains in the second quarter were broad-based but led by agriculture as the dairy industry bounced back with gusto from bad weather that had hampered production. That helped propel growth in agriculture to 4.2%, the sector's largest gain in almost four years.

Nonetheless, the outlook for growth remains benign. So far, the New Zealand economy has held up relatively well in the face of two major uncertainties – stubbornly weak business confidence and escalating trade tensions. Repeated business surveys during the past four months have reflected falling confidence in businesses' future outlook, largely in the face of uncertainty over the effects of government policies. We are also watchful of escalating trade tensions between the US and China, especially because China is New Zealand's largest trading partner. On that note, markets will scrutinize New Zealand's third quarter GDP data closely when it is released on 20 December, as the RBNZ has said it is focused on that quarter, when it wants to see evidence of fiscal stimulus boosting growth.

RBNZ: On Hold For 2019

The RBNZ kept the OCR steady at 1.75% in November. The accompanying press release did not include the line from the previous statement in September that the next move could be "up or down". However RBNZ Governor Orr did say "there are both upside and downside risks to our growth and inflation projections. As always, the timing and direction of any future OCR move remains data dependent".

The central bank's forecasts for where it expects the cash rate to be were unchanged. It still sees the OCR at 1.9% in September 2020 and a full-rate hike is still signaled by December 2020 when the benchmark rate is forecast to be 2%. We get the sense that the RBNZ is moving towards a more neutral stance now, whilst remaining accommodative, especially following recent positive data on inflation, and the labour market. We keep to our view that the OCR will remain on hold until at least the end of 2019, before rising slowly thereafter.

NZD: Recent Strong Gains
Likely To Moderate In Pace

The NZD had a solid quarter-to-date in 4Q and jumped almost 5% against the USD, to 0.6940 from about 0.66, reversing all the losses sustained in the 3Q. The gains came amid challenging external conditions of trade uncertainties and volatilities in global equities. The shift of RBNZ's stance from dovish to neutral across the quarter probably underpinned most gains in NZD though a rate hike is not expected until well into 2020.

With the recent move, the NZD/USD looks over-extended in the near term. Absent a new positive trigger, further gains in the currency pair are likely to moderate in pace. Overall, we forecast NZD/USD at 0.69 in 1Q19, 0.70 in 2Q19, 0.71 in 3Q19 and 0.72 in 4Q19. Prevailing spot of NZD/USD is 0.69.

UNITED KINGDOM

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
GBP/USD	1.25	1.25	1.26	1.27
GBP Repo Rate	0.75	0.75	1.00	1.00

Economic Indicators	2016	2017	2018F	2019F
GDP	1.8	1.7	1.3	1.5
CPI (average, y/y %)	0.7	2.7	2.5	2.1
Unemployment rate (%)	4.9	4.5	4.1	4.0
Current account (% of GDP)	-5.2	-3.7	-3.5	-3.2
Fiscal balance (% of GDP)	-2.9	-1.9	-1.7	-1.6

UK Economy: To Slow Down In 2019

GDP advanced 0.6% q/q in 3Q after expanding 0.4% q/q in 2Q. The growth rate matched expectations, and was the highest quarterly growth since 4Q16, when the economy grew 0.7% q/q. On a yearly basis, GDP grew 1.5% y/y, also in line with expectations, and higher compared to 1.2% y/y in 2Q. We believe the stronger growth recorded in 3Q is a one-off for the UK economy, with persistent Brexit uncertainty and the financial squeeze on consumers and businesses likely to weigh increasingly on economic activity in the coming quarters.

BoE: Holds Rate As Brexit Looms

The BoE kept rates at 0.75% again when it met in early November. The quarterly Inflation Report, which accompanied the rate decision, stated: "The economic outlook will depend significantly on the nature of EU withdrawal, in particular the form of new trading arrangements, the smoothness of the transition to them and the responses of households, businesses and financial markets". We see the BoE sitting on the sidelines for now as it waits for greater clarity given the wide and complicated range of Brexit outcomes. We have penciled in a rate rise around mid-2019, but nonetheless, remain very mindful that rates could go in either direction.

GBP: Brace For Volatility

As Brexit Day looms, implied volatility in the GBP/USD options has risen to the highest levels since July 2016, reflecting the overhang of uncertainties heading into the crucial 11 December vote, and this is likely to persist. Positioning in both spot and options have also gradually deteriorated against the GBP in the recent few months. We are maintaining our negative view on GBP/USD, forecasting the pair at 1.25 across 1Q and 2Q19 before a slight recovery to 1.26 in 3Q19 and 1.27 in 4Q19.

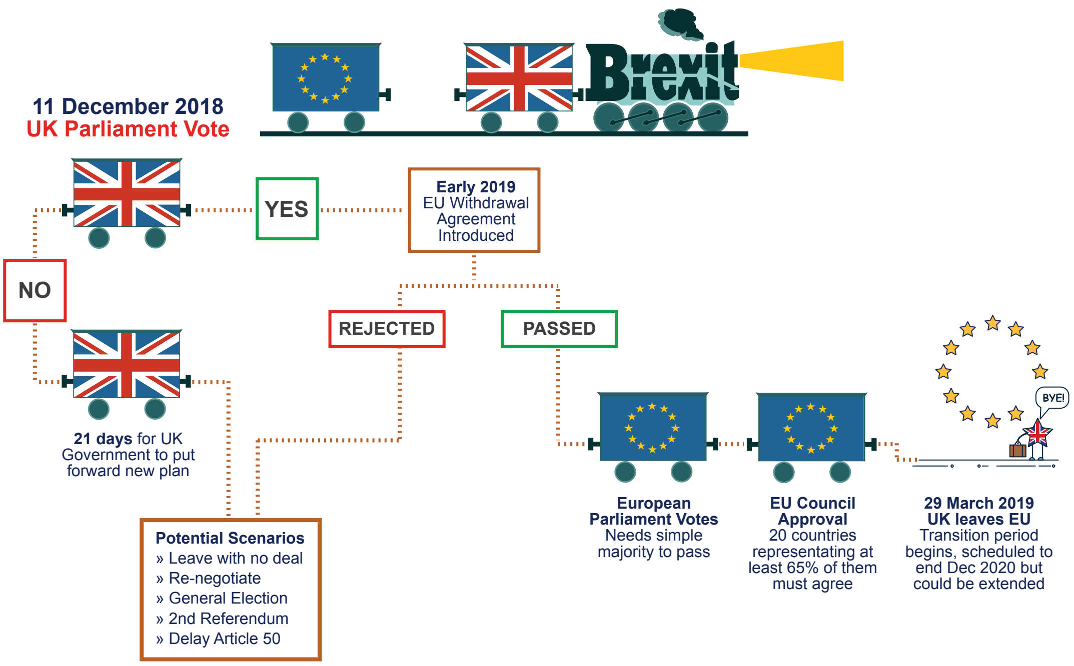
Brexit: Commons Vote Will Determine What Comes Next

Now that the European Council has approved the Withdrawal Agreement and political declaration on future EU-UK relations, the spotlight turns to whether UK PM Theresa May can secure the backing of MPs for her deal. The consensus has been that if the government suffered a heavy defeat at the 11 December vote, the probability of a 'no deal' outcome would increase, since the EU is unlikely to offer much scope for change.

We think it is unlikely May will secure a Commons majority. For now, our base-case remains that she will go back to Brussels and seek some tweaks to her deal, before putting it to a second Commons vote, probably in January. However, this strategy will only work if May loses by a small margin. If the deal is defeated by a bigger margin, May will likely face and could well lose a vote of confidence. From there, a managed no-deal, "Norway plus", another referendum or general election all become possible scenarios; and the odds of an Article 50 extension would also increase.

Yet the passage of Dominic Grieve's amendment (4 December) — which will allow MPs to amend the Government motion on what happens next if no deal is approved — may yet help May salvage her deal. She can now present the choice facing MPs in the vote as between her deal — the hardest form of Brexit on offer — and "no Brexit". This might well persuade some Eurosceptics to reluctantly vote for her agreement to "get Brexit over the line" rather than risk it being blocked. The size of the rebellion is likely to come down.

Both "Norway plus" and a second referendum seemingly looks more likely now, as a result of the Grieve amendment. But the Norway plus option appears to be winning more support among MPs in all parties. It would be a challenge for May to adopt it though, as it would cross her line of ending free movement of labour. This might require her removal. Yet, this is an easier route than a second referendum, as MPs fear that would prolong the country's divisions and provoke a backlash from angry voters that the 2016 decision was being overturned.



Source: Various newswires, UOB Global Economics & Markets Research

UNITED STATES OF AMERICA

FX & Rates	1Q19F	2Q19F	3Q19F	4Q19F
US Fed Funds Rate	2.75	3.00	3.25	3.25

Economic Indicators	2016	2017	2018F	2019F
GDP	1.6	2.2	2.9	2.0
CPI (average, y/y %)	1.3	2.1	2.5	3.0
Unemployment rate (%)	4.7	4.1	3.7	3.5
Current account (% of GDP)	-2.4	-2.4	-2.1	-2.0
Fiscal balance (% of GDP)	-3.1	-3.4	-3.8	-4.5

Growth Likely To Ease To 2% In 2019

The 2nd cut of 3Q GDP saw US growth unchanged at 3.5% q/q SAAR (from 4.2% in 2Q and 2.2% in 1Q). Personal consumption spending expanded a slower 3.6% (from 3.8% in 2Q) but still accounted for the lion's share of 3Q GDP growth at 2.45ppts. US consumer confidence slipped slightly to 135.7 in Nov but remains close to the 18-year high of 137.9 in Oct and personal spending & income growth are healthy (+0.6% m/m and 0.5% m/m in Oct respectively). The US jobs market continued to be robust with employers adding 250,000 jobs (averaging 212,500 per month YTD) and unemployment rate at 3.7% in Oct while wage growth exceeded 3% y/y, first time since Apr 2009. Another factor that contributed to a consumption-driven 3Q growth was the expansionary US fiscal policy, specifically the US tax reform bill which was passed in late 2017. That said, the positive effects of fiscal stimulus are likely to fade next year, weighing on growth. In addition, the loss of the House to the Democrats in the Nov mid-term elections means that there will be no chance of Trump's pledge for 10% tax cuts for the middle income, i.e. no more fiscal boost in 2019.

Business spending which has been expanding sequentially since 2Q 2016, slowed markedly to just 2.5% in 3Q, after an exceptional 1H 2018 (expanding 8.7% in 2Q and 11.5% in 1Q). While it will remain constructive to growth this year, the waning investment trajectory may spell further downside to 2019 growth. Domestically, another source of weakness could come from US housing market where activity seemed to be digging deeper into a soft patch with Oct new home sales (-8.9% m/m to 544,000 units, lowest level since Mar 2016) and pending home sales (-2.4% m/m, -6.7% y/y the 10th straight month of y/y declines) falling short and suggesting that rising borrowing costs is hurting mortgage market and weakening affordability. If the weakness persists into 2019, that will be another negative to US economy. Meanwhile, we are also mindful that bad weather may take a toll on growth in 1Q of 2019 (as with some of the recent years) although the impact is almost always transient.

The biggest risk to the US is the rising trade tensions between US and its biggest trading partners (especially China), potentially leading to higher prices in the US economy while US manufacturers and exporters will be at the receiving end of tit-for-tat trade retaliation. And while the recent G20 earned both US and China a temporary 90-day truce and negotiation period, scant details from US and lack of corroboration on these details so far from the Chinese authorities suggests a rocky road ahead for trade discussions in 2019. We expect a long-drawn negotiation process well into 2019 but there is still a significant risk that both sides could fail to overcome their differences. While the worsening trade relations will weigh negatively on global trade outlook, a silver lining is that it may actually translate to stronger investments inflows into US. Trade policy will be a key US political & economic issue in 2019.

As for domestic politics, after the mid-terms the next major US political event will be the campaigning for 2020 US Presidential elections. The threat of another government shutdown before the end of 2018 is still on the table but the impact should be manageable. We also think that the potential impeachment proceedings against Trump is unlikely to be successful under a divided Congress unless Mueller's investigations turns up incriminating evidence against Trump but nothing so far. A potential silver ling under a Democrat-controlled House is that Trump's infrastructure spending proposals may gain favor with Democrats and moderate Republicans.

Despite expectations of a slower 4Q 2018 (likely at 2.5%), **we revise higher our US GDP growth forecast higher to 2.9% in 2018 (from 2.2% in 2017 and previous forecast of 2.7%) due to much stronger growth for first 3 quarters**. Taking into account all the factors and uncertainties listed here, we expect growth to slow to 2% in 2019.

FOMC: Keeping To 3 Hikes In 2019

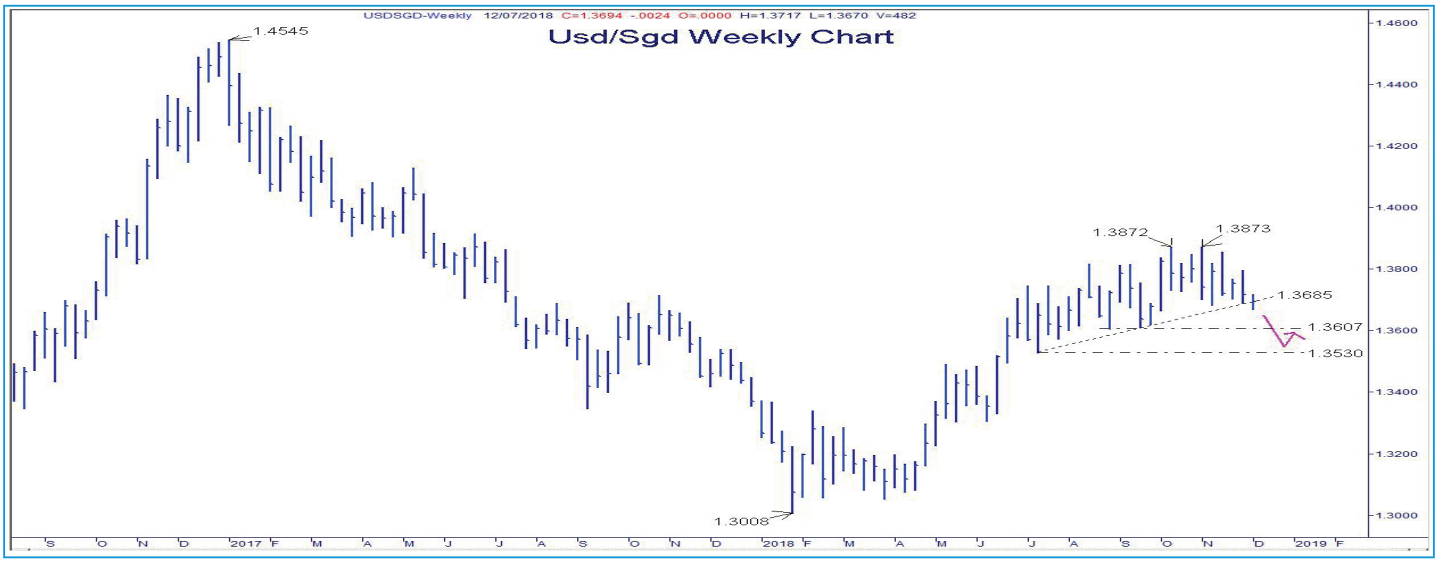
US inflation continued to hover near the Fed Reserve's 2% goal with the core PCE (which excludes food and energy) – the Fed's preferred price index tied to personal spending – easing slightly to 1.8% y/y in Oct (from 1.9%) even as wage growth went above 3% y/y. Going forward, the tight labor market conditions may translate into more material upward wage pressures while more trade tariffs will also drive import prices higher, but the downside could come from weaker crude oil prices. Fed Vice Chair Clarida (3 Dec) warned downside risk to CPI exceeds that of upside risks.

We continue to expect another rate hike from the Fed at the 18/19 Dec FOMC to bring the FFTR range to 2.25%-2.50% by end-2018. We also maintain our 2019 rate hike expectation at three 25bps hikes which now implies that we expect the Fed to exceed their long run FFTR at 3.0% by mid-2019. That said, Fed's likely shift from the well communicated "gradual rate trajectory" to more emphasis on data dependency, will make the policy path more uncertain. If there is a significant weakening of US economic data or a significant escalation of trade tensions in 2019, then that could warrant a more cautious Fed and the risk could be lesser hikes, from 3 to probably just 2, but not zero. In the meantime, the Fed's balance sheet reduction (BSR) program is expected to continue as scheduled and that implies the FOMC will not add more rate hikes (beyond what is implied in the dot-plot chart) unless we get a sharp inflation surprise.

Rates & UST Yields Still Likely Higher In 2019

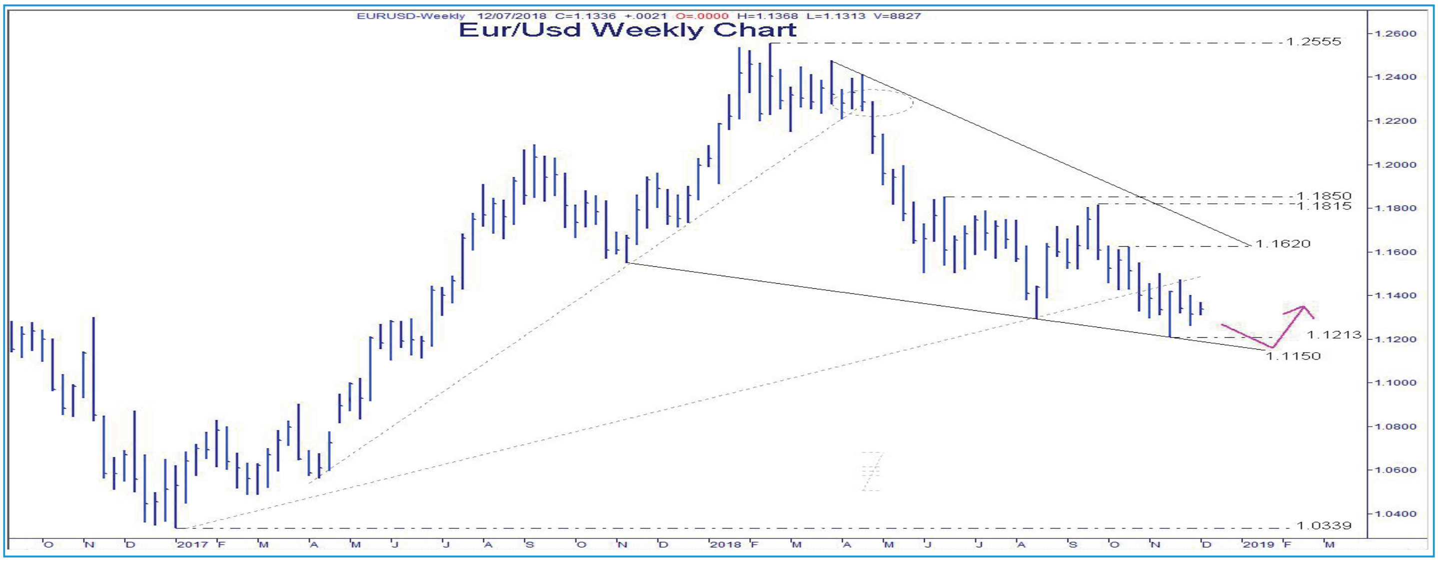
Notwithstanding some bouts of risk aversion, our expectations for ongoing twin tightening, i.e. rate hikes and BSR makes it possible that short rates and UST yields will continue to head higher. We expect to see 3M Libor at around 2.95% at the end of 1Q 2019. Libor vs. OIS spread is expected to remain wider than normal due to tighter liquidity. The US widening fiscal deficit and the Fed's balance sheet outlook will weigh negatively on UST (i.e. higher yields), and we expect to see 10Y UST at 3.25% by the end of 1Q2019. And while the yield curve continues to flatten, we also highlight steepening pressures due to deficit financing & asymmetric inflation risk which may be more apparent after the Fed reaches its cyclical peak in its policy rate (likely by mid- to late-2019).

USD/SGD: 1.3700



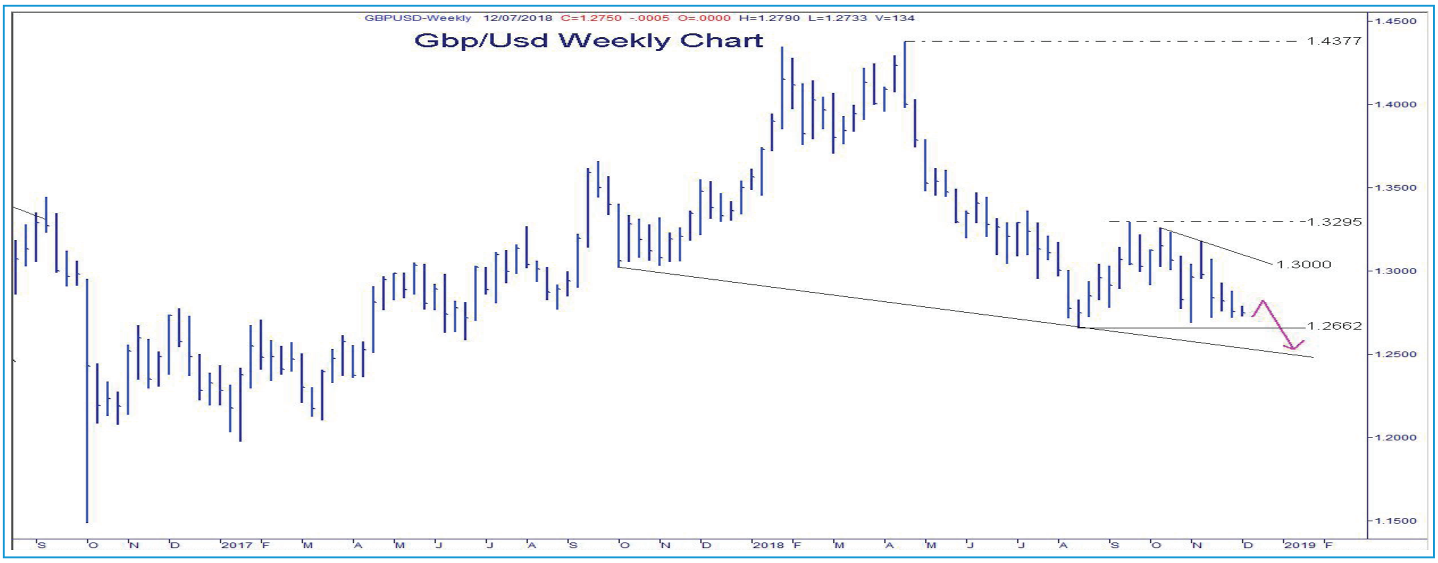
USD/SGD touched 1.3872 in mid-October and retested the level in early-November with a high of 1.3873. In view of the overbought condition and waning upward momentum, the inability to break clearly above the strong 1.3880/1.3900 resistance zone was not exactly surprising. At the time of writing in early-December, USD/SGD just broke below the strong rising trend-line support at 1.3685. The break of this support does not bode well for USD/SGD as it suggests that the 1.3873 high is a significant peak. Going into the first quarter of 2019, USD /SGD is unlikely to threaten the 1.3880/1.3900 zone. However, any weakness is considered as a corrective pull-back and USD/SGD is unlikely to accelerate lower. That said, there is scope for USD/SGD to move below the late-August low of 1.3607 but the prospect for a sustained move below the next support at 1.3530 is not high.

EUR/USD: 1.1350



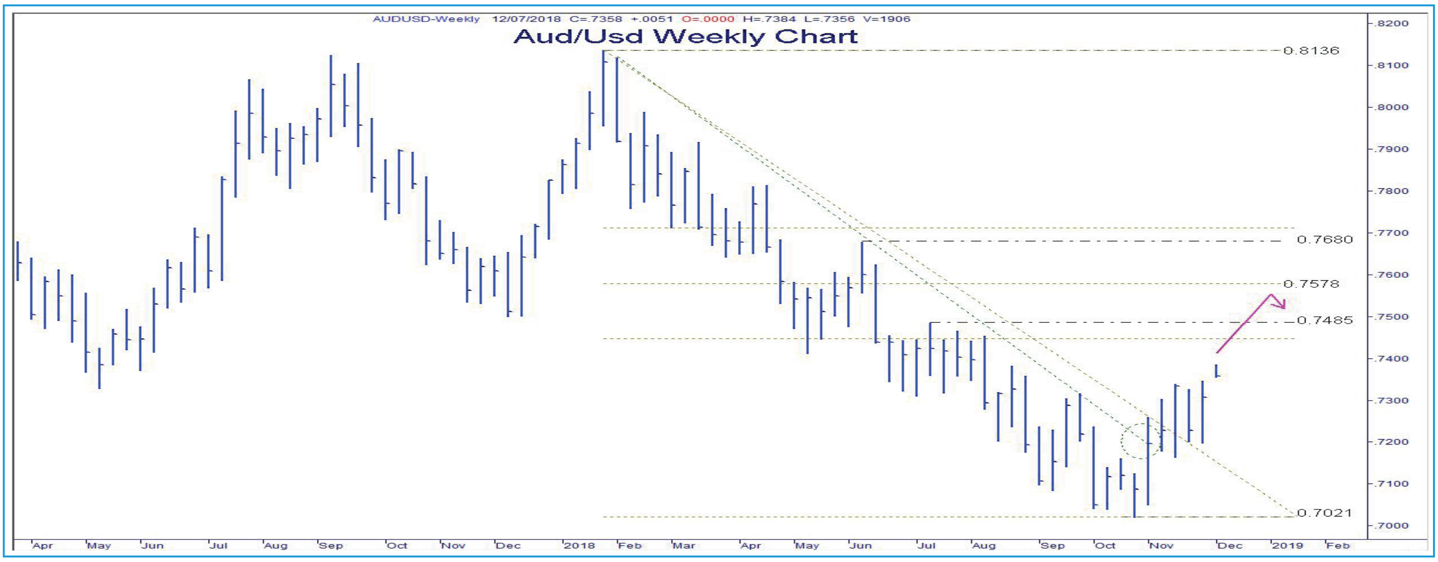
After failing to break above the strong 1.1850 resistance in in late-September (high of 1.1815), EUR/USD dropped to hit a year-to-date low of 1.1213 in mid-November. Despite the relatively rapid decline, we do not detect a significant improvement in downward momentum. That said, there is room for EUR/USD to extend its weakness to 1.1150. At the time of writing in early-December, a sustained move below the next support at 1.1000 within the first quarter of 2019 seems unlikely. On the upside, only a move above the declining trend-line resistance at 1.1620 would indicate the weakness in EUR/USD has stabilized.

GBP/USD: 1.2770



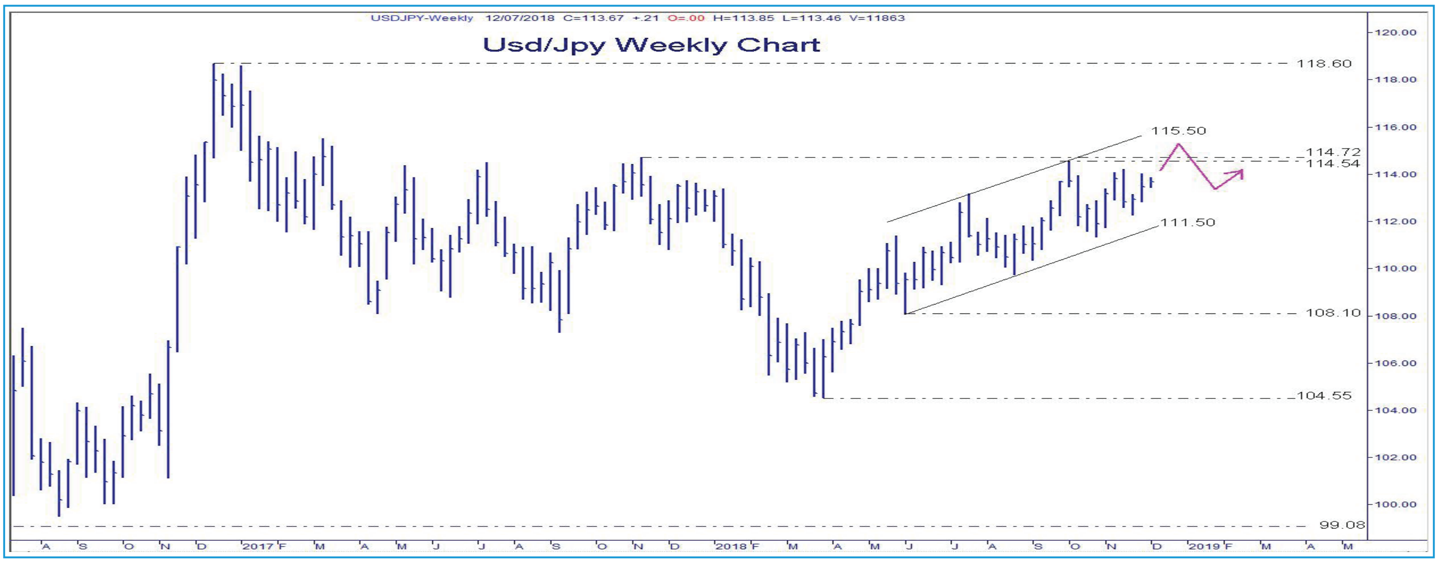
The rebound in GBP/USD from the mid-August low of 1.2662 touched 1.3295 in mid-September. The subsequent price action since mid-September has been choppy but at the time of writing in early-December, downward momentum has picked up and a break of 1.2662 would not be surprising. A break of this level could pressure GBP/USD further even though the next support near 1.2450 may not yield so easily. Resistance is at 1.2930 but only a move above 1.3000 would indicate the weakness in GBP/USD has stabilized.

AUD/USD: 0.7370



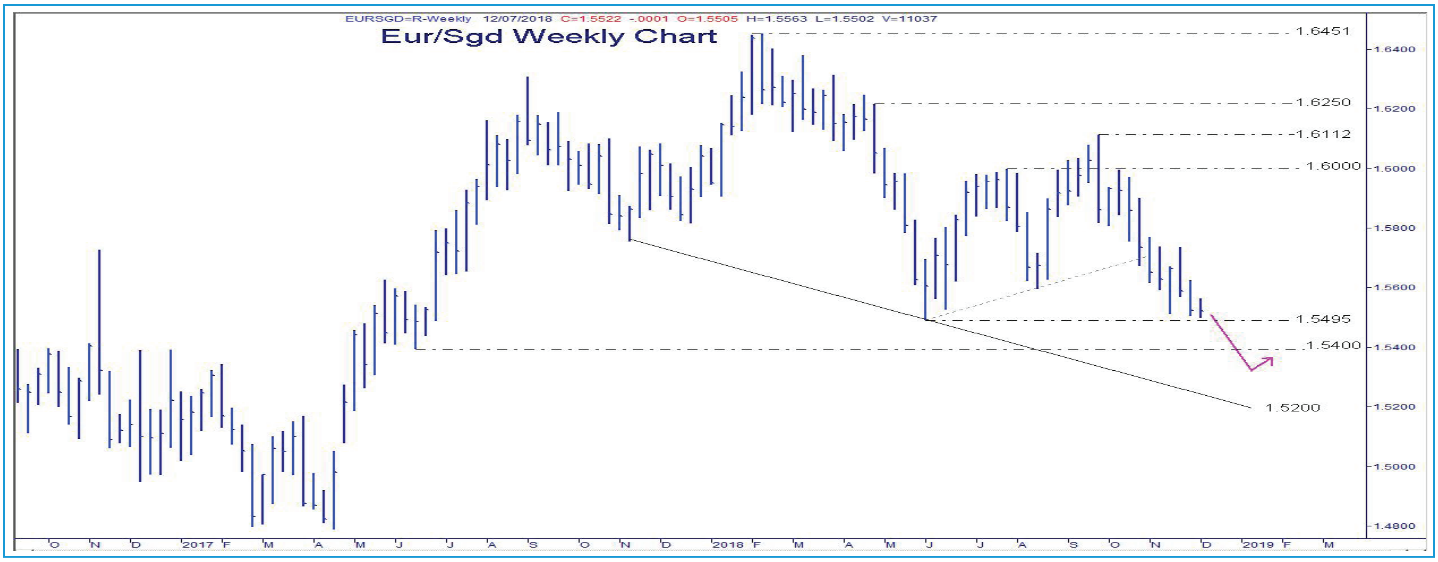
The round-number 0.7000 support level remains intact as AUD/USD staged a robust rebound after touching a low of 0.7021 in late-October. AUD/USD has likely found an intermediate bottom at 0.7021 and a move back below this level within the first three months of 2019 seems highly unlikely (0.7140 is already a strong support level). At the time of writing in early-December, the strength in AUD/USD is deemed as a corrective rebound and for the next 2 to 3 months, any further up-move could be limited to a test of major resistance near 0.7580 (0.7578 is the 50% retracement of the drop from 0.8136 to 0.7021, see chart above). Looking further ahead, AUD/USD could strengthen further to 0.7680 but this level is unlikely come into the picture within the first quarter of 2019.

USD/JPY: 113.60



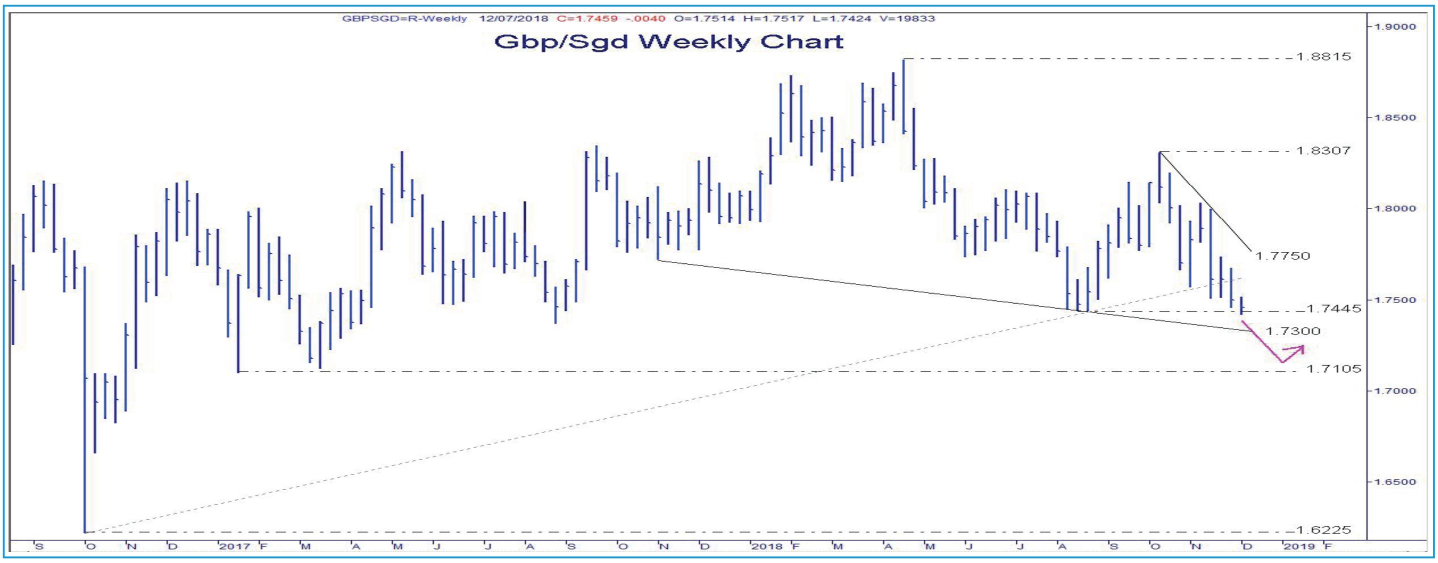
USD/JPY rose to a high of 114.54 in early-October but failed to make a clear break of the November 2017 high of 114.72. The rapid pull-back from 114.54 and the subsequent 'listless' price action suggests USD/JPY is still trading within a broad consolidation range. At the time of writing in early-December, there is no indication that USD/JPY is ready to embark on a directional move. In other words, USD/JPY is expected to trade sideways in the first quarter of 2019 even though the underlying tone has improved slightly and this could translate into a higher trading range of 111.50/115.50.

EUR/SGD: 1.5530



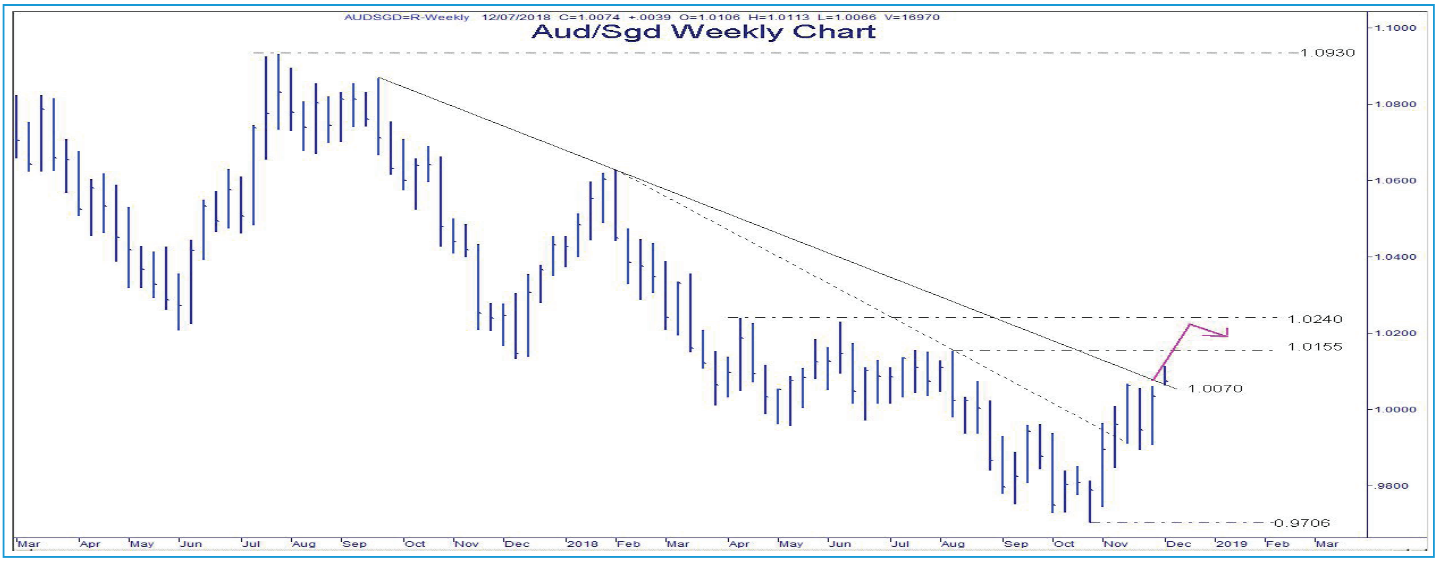
EUR/SGD traded in a choppy manner in Q3 as it rose to a high of 1.6112 in late-September before dropping swiftly and sharply. At the time of writing in early-December, EUR/SGD appears to be poised to move below the June's 2018 low of 1.5495. Downward momentum has improved and not only would a break of 1.5495 not be surprising, we also see chance of EUR/SGD moving below the 1.5400 level. The next major support at 1.5200 is however, likely out of reach. All in, we expect EUR/SGD to stay under pressure in the first quarter of 2019 and only a move back above 1.5750 would indicate that the weakness has stabilized.

GBP/SGD: 1.7470



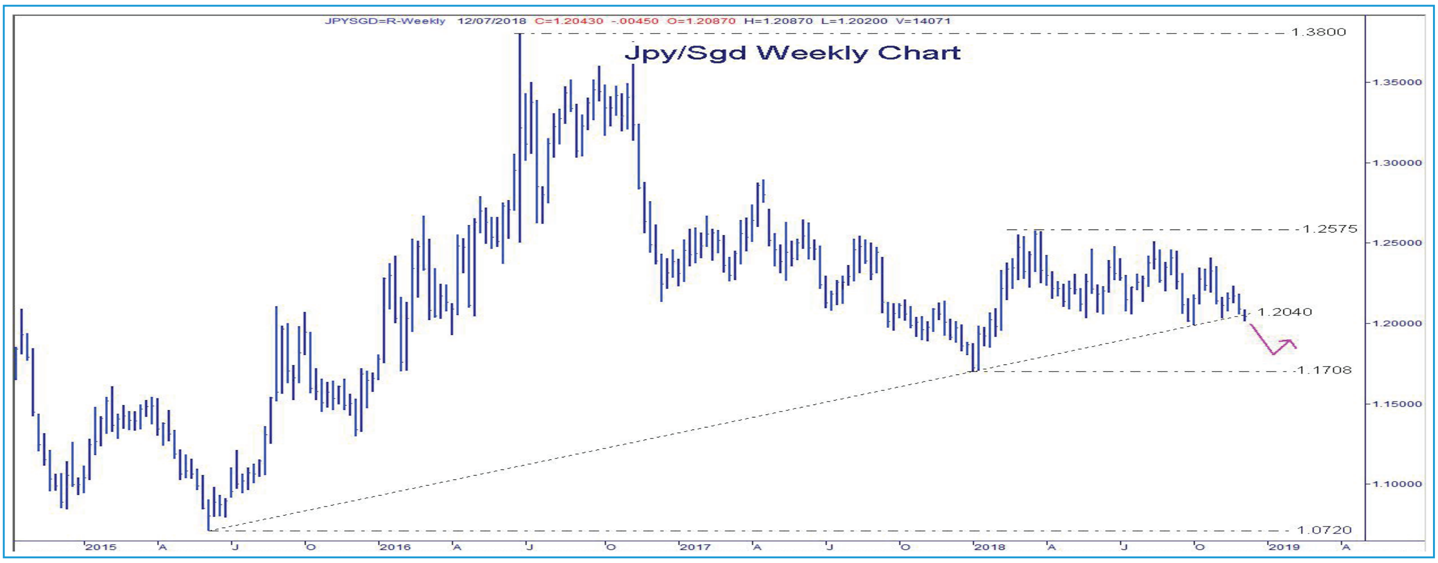
At the time of writing in early-December, GBP/SGD just edged below 1.7445 and hit a fresh 2018 low. The break of the strong 1.7445 level coupled with the rapid pick-up in downward momentum suggests further GBP/SGD weakness in the first quarter of 2019. Barring a move above 1.7750, GBP/SGD is expected to move below the next support at 1.7300. Further decline to the next support at 1.7105 is not ruled out but at the time of writing, the prospect for a break of this level is not that high.

AUD/SGD: 1.0070



AUD/SGD attempted but failed to break below the 2016 low near 0.9700. The relatively sharp and swift rebound from the late-October low of 0.9706 suggests AUD/SGD has likely found a bottom and in the first quarter of 2019, we do not expect 0.9700 to come into the picture (0.9800 is already a strong support level). At the time of writing in early-December, AUD/SGD just broke above the strong declining trend-line resistance near 1.0070. Further AUD/SGD would not be surprising even though any strength is viewed as a 'corrective recovery' and the major 1.0240 resistance is unlikely to break so easily. The next resistance above 1.0240 is closer to 1.0330.

JPY/SGD: 1.2040



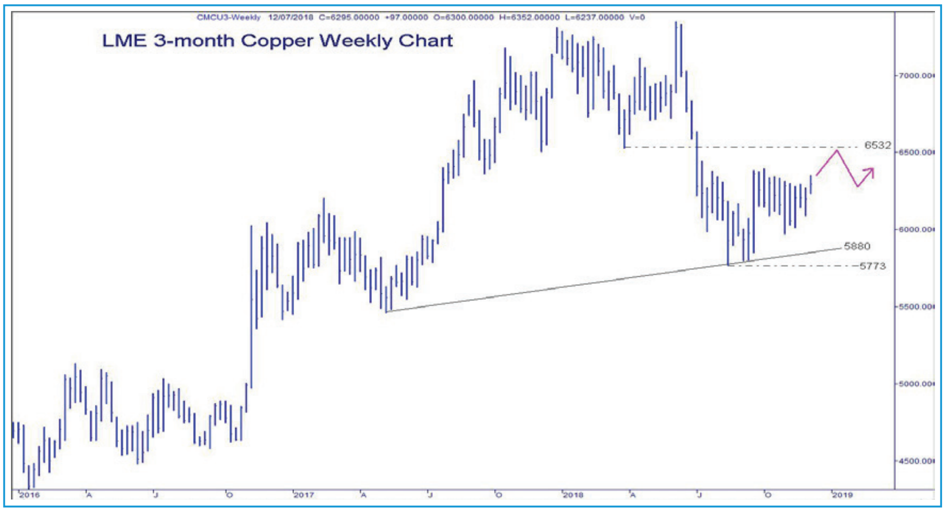
JPY/SGD just broke below the major rising trend-line support at 1.2040 at the time in early-December. While the break of the trend-line suggests further JPY/SGD weakness in the coming few months, no significant improvement in downward momentum is detected and the 2016 low near 1.1708 is unlikely to come under threat. That said, JPY/SGD is expected to stay under pressure and only a break of 1.2300 would indicate that downward pressure has eased.

COMMODITIES TECHNICALS

SPOT GOLD: $1,235/oz

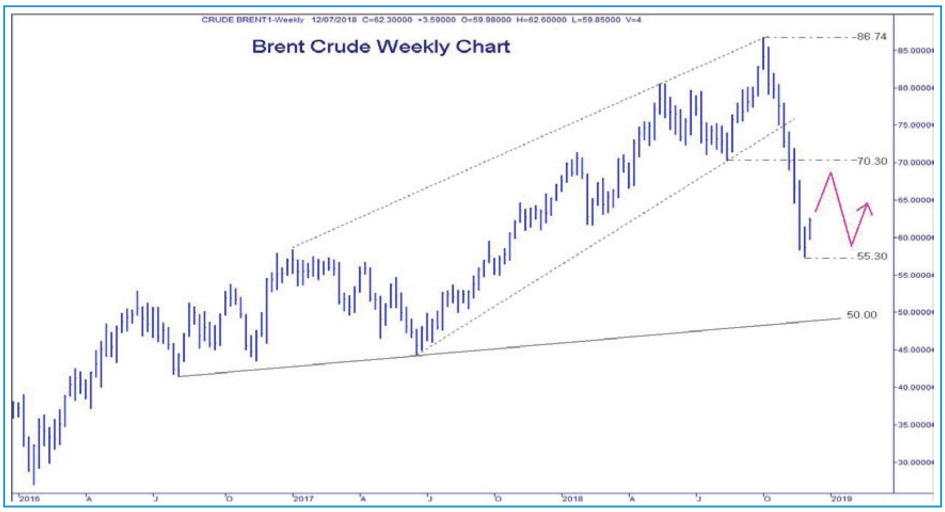
The recovery in spot gold touched a high of $1,243.32 in late-October. Despite the subsequent lackluster price action, the underlying tone remains positive and the bias for the first quarter of 2019 is on the upside. That said, spot gold could dip towards the $1,205.00 support first but barring a break of $1,195.00, we expect spot gold to move the $1,243.32 high but the next resistance at $1,262.63 could be just out of reach.

LME 3-MTH COPPER: $6,295/mt



Copper touched a low of $5,773 in mid-August but has since rebounded off the low. The recovery clearly lacks momentum and is viewed as part of an on-going ‘correction’ phase. In other words, copper is expected to grind higher in the next 2 to 3 months but lackluster momentum suggests that a break of the strong $6,532 resistance is unlikely. On the downside, the rising trend-line support at $5,880 is likely strong enough to hold any weakness in the next few months.

BRENT CRUDE: $62/bbl



After touching a high of $86.74 in early-October, Brent crude staged a sharp and outsized plunge that hit a low of $55.30 in late November. The ‘dramatic’ 2-month plunge is severely over-extended and while further weakness below $55.30 is not ruled out, the probability for a move towards the next major support at $50 within the first quarter of 2019 is deemed as low. That said, after such a big drop, any recovery is expected to be tentative and is unlikely to move above the major $70.30 resistance.

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