Quarterly Global Outlook 2Q 2020

The Cost Of Containment Is Synchronized Recession

UOB

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The coronavirus disease (COVID-19) is not only a public health crisis, but is also a global economic crisis as activities worldwide shut down. It disrupts global supply chains, destroys demand and it is also a financial shock that the markets are currently still grappling with even as the pandemic worsens in various jurisdictions.

To get over this latest challenge, the virus needs to be contained and the transmission chain needs to be broken. Tough health security measures in the form quarantines, social distancing, travel restrictions, lockdowns and border closures need to be enforced to contain COVID-19, but these measures will lead us inevitably to a synchronized recession, on a global scale.

From our perspective, the US, large parts of Europe and many other major economies are expected to be in contraction for 2020 while China will record recessionary growth rate close to 4%. This will be a synchronized global recession and we conservatively project a "U" shaped recovery where the COVID-19 may be contained by 4Q 2020.

Central banks and governments have responded aggressively to tackle the negative impact brought about by the COVID-19 but monetary and fiscal policies are ill equipped to solve a public health crisis. The one critical element that determines the speed of recovery from this global economic crisis will largely depend on how successful the health security measures will be to contain the pandemic so as to allow normal economic activities to resume.

"I am prepared for the worst, but hope for the best."

Benjamin Disraeli

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EXECUTIVE SUMMARY

The Cost Of Containment Is Synchronized Recession

The global economic outlook cannot be more starkly different compared to what we had penned down at the start of the year. It started with a coronavirus disease (COVID-19) outbreak in China late December 2019, and within months spread to all major economies turning into a global pandemic (as announced by the World Health Organization, WHO, on 11 March 2020). So far, the outbreak in Europe and the United States show no signs of abating and could very well get worse in 2Q.

COVID-19 is not only a public health crisis, but is also a global economic crisis as economic activities worldwide shut down. The International Monetary Fund (IMF) expects a global recession this year that will be at least as severe as the one during the 2008/2009 Global Financial Crisis while the Institute of International Finance (IIF) projects a 1.5% contraction in the global economy this year, with advanced economies shrinking a larger 3.3%.

COVID-19 is like the "Black Swan" stress test scenario that came true but is much worse. It is a triple-shock: It is a **supply** shock as factories shut down which disrupts global supply chains. It is also a **demand** shock as the lockdowns, border closures, stay-home orders and travel restrictions disrupt our daily lives and decimate regular economic and consumption activities, essentially shrinking the economy. And it is also a **financial** shock which has now manifested into a USD funding crunch, as companies and consumers draw on their credit lines in the face of cash flow disruptions. In addition, non-US based borrowers and financial institutions face the additional dilemma of tight USD funding crunch which is now holding financial markets hostage while the plunge in economic activity will result in a new cycle of defaults and credit failures in the months ahead as the pandemic drags on.

At the time of writing (as of 26 Mar), the COVID-19 pandemic epicenter has shifted from Asia to Europe as the number of fatalities rise rapidly there. Meanwhile the number of infections and fatalities in the US is accelerating and may well be the next COVID-19 epicenter. To get over this latest challenge, the virus needs to be contained in each locality and the transmission chain needs to be broken while we race to search for a vaccine.

Health security measures in the form quarantines, social distancing, travel restrictions, lockdowns and border closures are enforced in various jurisdictions, in an attempt to slow the infection rate and transmission, i.e. "to flatten the infection curve", so as to protect lives and not overwhelm the health care system. However, these measures will lead us inevitably to a synchronized recession, on a global scale.

From our perspective, the US, large parts of Europe and many other major economies are expected to be in contraction for 2020 while China may record sub-5% growth. So this will be a synchronized global recession. The big question is after such a significant drawdown in economic output in 1H, what will we be looking at in the second half of 2020?

Is It A "V", "U" Or Something Far Worse?

Below are the probabilities we assigned to the three generalized recovery trajectory scenarios and in all the three scenarios, we assume the only variable is the length of time needed to contain the COVID-19.

Given the fast evolving situation, we have gotten more cautious about the outlook compared to our last quarterly report and even one week ago. There is just too much uncertainty in our economic projections due to the threat that we are dealing with and it is difficult/impossible to predict how fast the COVID-19 can be contained.

China, where COVID-19 first struck in a massive wave, managed to contain the epidemic in around two months, using very tough, draconian and effective measures. But it remains on very high alert as imported infections are on the rise. The risk is after a brief period of respite as summer approaches, COVID-19 resurges with a vengeance in 2H, which means returning to personal restrictions, lockdown, border closures and other measures to contain the virus, and inevitably decimating economic activity again.

We have in our base case scenario as a U-shaped recovery (55%), and because we see more downside risks to successful widespread containment at this juncture so the probability of the L-shaped scenario is higher at 25% versus the V-shaped at 20%.

Possible Economic Recovery Shapes In 2020			
Shape of Trajectory	**V-Shaped**	**U-Shaped**	**L-Shaped**
Probability	20% (Best)	55% (Base Case)	25% (Worst)
COVID-19 containment	By end-2Q 2020	By 4Q 2020	Through 2020, containment by 2H 2021
Global Economy	Recession in 1H, a rebound in 2H (similar to SARS). Growth is still positive but lower than 2.9% in 2019.	Sharp technical recession in 1H, recovery in 2H not strong enough, with global economy recording full-year contraction in 2020	Deep recession for the full year, extensive supply chain disruption and demand destruction, a prolonged financial stress environment
Rates	Near term low and possible strong rebound if inflation returns.	Remain low heading into 2021 but unlikely to head significantly lower	Developed market rates will stay pinned down at zero and in some cases stay negative
Currencies	Commodities and energy related currencies like AUD may rebound strongly	Once USD funding crunch dissipates, can expect some recovery in Asia FX, led by RMB	USD will stay strong against most EM and Asian currencies

Source: UOB Global Economics & Markets Research

Fiscal And Monetary Policies Joining Forces, But It Is Not Enough

Since the pickup in severity of the COVID-19 pandemic, central banks have responded with aggressive policy rate cuts and conventional & unconventional measures to restore financial market stability, smooth out US dollar funding conditions and safe-guard their respective economies.

Various governments have also deployed the extraordinary fiscal actions to tackle the negative impact brought about by the COVID-19 and more fiscal measures can be expected. International organizations like the International Monetary Fund (IMF) pledged it will massively step up emergency finance and is ready to deploy all of its US$1 trillion lending capacity to the countries in need. After two earlier rounds of smaller measures, the US congress is working through a massive US$2 trillion relief package to support workers and companies affected by the COVID-19 pandemic.

Despite all the interventions, the global financial markets continued to face dislocations given the unprecedented economic uncertainties created by the COVID-19 pandemic. And on the area of financial market dislocation, the US Federal Reserve has led by example and demonstrated it will do whatever it takes, to restore financial market confidence and stability by keeping credit flowing. The Fed's decisive actions are seen as effective to prevent the financial market from becoming a compounding factor to worsen the COVID-19 impact to the real economy and US households. That said, we do not think the Fed (and many other central banks) will want to push rates beyond zero, into negative territory. Interest rate policy is not suited to combat the ill effects of COVID-19 on the economy but the Fed looks poised to do all it can to ward off a financial system crisis before normalcy is restored.

Indeed, monetary and fiscal policies are ill equipped to solve a public health crisis. The one critical element that determines the speed of recovery from this global economic crisis will largely depend on how successful the health security measures will be in containing the COVID-19 pandemic so as to allow normal economic activities to resume. On the optimistic view of things, with the level of science, human ingenuity and sense of urgency, we believe a solution such as vaccine will be discovered in the foreseeable future. China already have one in clinical trials. We will get over this eventually.

Given the immense challenge to the global economy, here are some significant points of note for our FX, Rates and Commodities forecasts.

RATES STRATEGY

Hello ZIRP And QE Our Old Friends

All major central banks have now floored their benchmark rates at zero. Money Market will thus stay low for the foreseeable future. In addition, it is worth noting that there is reluctance amongst major central banks, particularly the US Federal Reserve and the Bank of England to venture into negative rates.

Rates are also unlikely to drop towards zero because of rising credit and default risks. The on-going credit crunch has led to a repricing of credit risk across the entire spectrum of fixed income instruments with a clear differentiation of the better credits and those with weaker or troubled balance sheets.

Sharply lower energy prices are also highly deflationary, and will likely trigger a new round of defaults and credit failure in the months ahead. As such, we see 3M US Libor falling to 0.35% by end of the year. In the back end, sovereign bond yields will stay volatile because of massive fiscal spending to alleviate the COVID-19 crisis with 10Y US Treasuries yield stabilizing at 1.3% by year end.

FX STRATEGY

USD Unbeatable As Global Recession Fears Spark Scramble For Cash

Over the near term, the US Dollar will stay strong and dominant because of the funding crunch. Asian and EM currencies will likely weaken further in the coming two quarters as local economies plunge headlong into recession.

The RMB risks yet another round of depreciation, given that its recent stability has pushed up its trade weighted value by quite a fair bit. Overall, we see USD/CNY climbing past 2019's "Trade War" peak to a new high of 7.25 by 3Q. Similarly, USD/SGD will likely target 1.50 by 3Q.

Thereafter, once the recessionary contraction shock dissipates, the US Dollar may pull back. The extent of RMB and Asia FX recovery towards the end of the year will depend on how fast region wide growth can recover.

COMMODITIES STRATEGY

No Escape From The Global Recession

Both Brent Crude Oil and LME Copper will likely stay weak in the coming quarter as global demand and activity grind to a halt. In 2Q, we see Brent crude oil challenging the USD 20 / bbl lower bound, while LME Copper is likely to drop further towards USD 4,000 / MT. Thereafter, the slow and very long road to recovery starts towards the end of the year. But Brent is unlikely to make much headway above USD 35 / bbl unless Saudi Arabia and Russia reconciles. As for Copper, it will likely be capped below USD 5,000 / MT as industrial activity stays weak.

As for gold, the massive amount of monetary policy easing and QE is a godsend. Once the USD funding crunch dissipates, we can expect gold to race higher. In fact, gold just got a recent boost because the latest lockdown of key bullion trading centers in London and NYC has triggered a short covering of physical gold as transport links are cut. Overall, we see gold climbing steadily towards USD 1,800 by 1Q21.

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

GLOBAL POLICY FOCUS

Fiscal And Monetary Stimulus To Combat COVID-19

Since the pickup in severity of the COVID-19 pandemic, major central banks and regional central banks in Asia have responded with aggressive policy rate cuts, conventional and unconventional measures to restore financial market stability, smooth out US dollar funding conditions and safe-guard their respective economies.

Various governments have also deployed the extraordinary fiscal actions to tackle the negative impact brought about by the COVID-19 and more fiscal measures can be expected.

SINGAPORE FOCUS

More Easing Needed To Aid Growth

We reiterate our base case call for MAS to ease policy to neutral, down from a currently perceived +0.5% appreciation slope. This is predicated on the recent deterioration in economic fundamentals. While not our base case, there is also a growing risk that MAS could re-centre the S$NEER band lower.

INDONESIA FOCUS

Review & Outlook For Domestic Banking Sector

Stagnant growth coupled with relatively low inflationary pressure had prompted Bank Indonesia to continue its accommodative monetary policy. Nonetheless, the positive impact of the 2019 rate cuts remained limited, given the previous 175 bps rate hikes in 2018 have not been fully transmitted to the real economy and loan demand remained weak. As the economic growth slowed to 5.02% (vs. 2018's 5.17%), loan growth at the same time slowed significantly from 11.8% in 2018 to just 6.1% in 2019.

2020 will be more challenging for Indonesia with the possibility of slower economic growth due to the global outbreak of COVID-19, especially if it will be prolonged in a longer time frame. BI expects credit growth now to be in the range of 6.0-8.0% for 2020, significantly down from 9.0-11.0% previously while third-party deposit growth is likely to be around 6.0-8.0%..

GLOBAL FX

USD/JPY: Given near term USD demand, USD/JPY could probe higher to 112 in 2Q20 and 114 in 3Q20. After which, assuming a normalization of USD happens in 4Q20, we expect USD/JPY to drift lower towards pre-COVID-19 levels, at 112 in 4Q20 and 109 in 1Q21.

EUR/USD: The euro is likely to be pinned lower in the coming quarter, amidst the ongoing scramble for USD funding and an inevitable recession in the euro area (alongside US). Starting 2H20 when the funding stress is more or less alleviated, we expect the USD to weaken anew. As such, our updated EUR/USD forecasts are 1.05 in 2Q20, 1.08 in 3Q20, 1.10 in 4Q20 and 1.12 in 1Q21.

GBP/USD: With strong USD demand likely to persist in the coming months, GBP/USD will be pinned at multi-decade lows. Similar to EUR/USD, while we expect a 2H20 recovery for GBP/USD, the trajectory is likely to more modest, further weighed by uncertainties over the Brexit transition. Overall, our updated GBP/USD forecasts are 1.15 in 2Q20, 1.17 in 3Q20, and 1.20 in both 4Q20 and 1Q21.

AUD/USD: A "phased reboot" of the Chinese economy means that demand for Australia's commodity exports stays tepid. This leaves AUD/USD vulnerable to further downside in the coming quarter before a modest recovery in China in 2H20 anchors a sentiment revival in the AUD/USD. Our updated FX forecasts are 0.56 in 2Q20, 0.58 in 3Q20, 0.60 in 4Q20 and 0.62 in 1Q21.

NZD/USD: With global risk sentiment still weak, commodity-linked currencies such as the NZD are expected to be on the defensive. Add New Zealand's tough approach to stemming COVID-19, the resulting sharp economic slowdown puts to rest any significant rebound in the NZD in the interim. Only when the current scramble for USD alleviate (which we estimate to be in 2H20) and a recovery in risk sentiment, then there can some stabilization in the NZD/USD starting 2H20. Our updated FX forecasts are 0.56 in 2Q20, 0.58 in 3Q20, 0.61 in 4Q20 and 0.63 in 1Q21.

ASIAN FX

USD/CNY: Amid increasing signs that the Chinese economy is slowly climbing out of the COVID-19 inflicted malaise and assuming there is no second major outbreak in China, we cautiously expect a consumption-led rebound in 2H20, with GDP growth averaging 6.5% in both 3Q and 4Q20. What this means is that after the current bout of USD strength fizzles off, USD/CNY could well start ease lower starting 4Q20. Our updated USD/CNY forecasts are at 7.20 in 2Q20, 7.25 in 3Q20, 7.10 in 4Q20 and 7.00 in 1Q21.

USD/SGD: In a challenging macroeconomic backdrop, it is likely the S$NEER will stay pinned below the midpoint in the coming few months. That said, in keeping pace with expected weakness of most of its trading peers against the USD, we can expect a further slide in SGD to 1.48 and 1.50, in 2Q and 3Q20 respectively. Assuming a late-2020 global recovery, USD/SGD could well normalize lower towards 1.48 in 4Q20 and 1.45 in 1Q21. A risk to our updated set of forecasts is a more aggressive easing by MAS via a one-off re-centring of the S$NEER lower. Such a move would put upside risks to our USD/SGD forecasts, especially in the immediate quarter (2Q20).

USD/HKD: Given our forecasts of a lower LIBOR relative to the HIBOR going forth, HKD may persist in the stronger halve of its trading band against USD, in a range of 7.75 – 7.80. Overall, we forecast USD/HKD at 7.76 in 2Q20 and 7.78 in 3Q20 before normalizing towards 7.80 starting 4Q20 as the HIBOR-LIBOR spread starts to narrow.

USD/TWD: While the TWD may still be biased lower in the next two quarters alongside other Asian FX, its weakness is likely to be limited to 30.60 and 31.00 in 2Q and 3Q20 respectively. Towards end-2020, as the region heals from the pandemic, TWD is likely to outperform again, towards 30.50 in 4Q20 and 30.00 in 1Q21.

USD/KRW: While the COVID-19 outbreak is showing early signs of coming under control in South Korea, it will probably take two quarters or so before the economy embarks towards a path of normalcy. In the interim, as the USD stays strong amid the funding stress, further weakness in the KRW to 1,280 in 2Q20 and 1,300 in 3Q20 may be on the cards. After which, assuming a Asia wide recovery takes root in 4Q20, USD/KRW may start to normalize lower, towards 1,250 in 4Q20 and 1,220 in 1Q21.

USD/MYR: While the Malaysian economy may find some support from the fiscal and monetary stimulus already announced, the MYR continues to be weighed by the relentless deleveraging from EM and the sharp and sudden collapse in crude oil price. As such, we see further weakness of MYR to 4.50 in 2Q20 and 4.55 in 3Q20. After which, a modest growth recovery in 2H20 as the COVID-19 outbreak shows signs of getting under control, USD/MYR should eventually ease lower to 4.45 in 4Q20 and 4.40 in 1Q21.

USD/IDR: In the coming months, IDR remains under pressure on investors adopt a flight-to-quality approach amid an evolving COVID-19 outbreak, with USD/IDR expected at 16,900 at 2Q20 and 17,300 at 3Q20. At the same time, BI is likely to continue with its triple intervention of spot IDR, domestic non-deliverable IDR forward and bond markets in an effort to quell market volatility. Starting 4Q20, assuming that COVID-19 is brought under control globally, high real yields in Indonesian sovereign bonds may appeal to investors again when markets stabilize, spurring a recovery in the IDR. Our point forecasts are 16,500 at 4Q20 and 16,000 at 1Q21.

USD/INR: With India's growth and inflation still biased to the downside together with a fragile global risk appetite still, further weakness in the INR is expected. As such, we maintain a higher trajectory in USD/INR, steadily towards 77 in 2Q20, 78 in 3Q20, 79 in 4Q20 and 80 in 1Q21.

USD/THB: With travel confidence still weak, together with continued outflows from Thai stock and bond markets, THB may weaken further to 33.30 by 2Q20 and a further 34.00 by 3Q20 before a China-led recovery in 2H20 spur a recovery to 33.50 in 4Q20 and 33.00 in 1Q21.

USD/PHP: Overall, we expect near term USD strength to lift USD/PHP higher in the next two quarters, to 52.0 in 2Q20 and 52.5 in 3Q20. After which, the PHP should stabilize starting 4Q20 alongside a recovery in risk appetite and we expect USD/PHP to normalize lower towards 51.5 in 4Q20 and 50.0 in 1Q21.

USD/VND: While USD strength may persist in the near term, volatility in the USD/VND may be checked by SBV willingness to draw on its reserves to calm the FX markets. Nonetheless, the scramble for USD means the USD/VND are poised for new record highs at least for the next two quarters, towards 23,900 and 24,200 in the 2Q and 3Q20 respectively. After which, VND may recover modestly alongside other Asian FX as the COVID-19 pandemic peaks, towards 24,000 in 4Q20 and 23,500 in 1Q21.

USD/MMK: Of late, there has been increasing calls from local business for the Central Bank of Myanmar (CBM) to intervene in the FX markets to curb the MMK strength. As such, we see scope for the MMK to par some of its gains, weakening to 1,400 in 2Q20 and 1,420 in 3Q20. Further out, as the rest of Asian FX recovers, the MMK may gain alongside, towards 1,400 in 4Q20 and 1,380 in 1Q21.

CENTRAL BANK OUTLOOK

FED
United States

Next Meeting: 29 April
Current: 0.25%
YTD Change: -150bps

End-2Q20F	End-2020F
0.25%	0.25%

The Fed has demonstrated it will do whatever it takes to restore financial market stability, smooth out US dollar funding conditions and safe-guard the economy. So more measures (including unscheduled ones) can be expected. That said, we do not think the Fed will want to push rates beyond zero, into negative territory.

BOJ
Japan

Next Meeting: 28 April
Current: -0.10%
YTD Change: -

End-2Q20F	End-2020F
-0.20%	-0.20%

We expect the BOJ will ease via deepening its negative policy call rate to -0.2%. We re-visit the notion that BOJ reassert its easy monetary policy position without changing the policy targets.

ECB
Eurozone

Next Meeting: 30 April
Current: 0.00%
YTD Change: -

End-2Q20F	End-2020F
0.00%	0.00%

We think the ECB has stepped up meaningfully. The onus is now on various European governments to step up fiscal efforts. That said, the ECB could also get even more creative and expand the range of assets it purchases, by including, for example, equities, wholesale loans and banks' bonds, if the need arises.

BOE
United Kingdom

Next Meeting: 26 March
Current: 0.10%
YTD Change: -65bps

End-2Q20F	End-2020F
0.10%	0.10%

While the BOE wants to avoid having to cut interest rates below zero to avoid hurting the banking system, BOE Governor Andrew Bailey has indicated that the BOE would continue to review that stance as events unfold. We think the Bank Rate will remain at 0.10%.

RBA
Australia

Next Meeting: 07 April
Current: 0.25%
YTD Change: -50bps

End-2Q20F	End-2020F
0.25%	0.25%

We think the RBA will not be increasing the OCR for at least three years. In terms of QE, RBA Governor Phillip Lowe emphasized that the Board did not take the latest decisions lightly. However, we believe this is probably the start, and not the end, of measures the RBA will eventually have to undertake to cushion the impact from COVID-19.

RBNZ
New Zealand

Next Meeting: 13 May
Current: 0.25%
YTD Change: -75bps

End-2Q20F	End-2020F
0.25%	0.25%

The RBNZ has given forward guidance, committing to keep the OCR at 0.25% for at least 12 months. Our view is that it will remain there even longer. Depending on how the current financial market situation develops, more QE may be required down the road.

PBOC
China

Next Meeting: 20 April
Current: 4.05%
YTD Change: -10bps

End-2Q20F	End-2020F
3.80%	3.80%

While the relatively modest cut to the Loan Prime Rate (LPR) in 1Q20 may hint at confidence that the economy has stabilized, we still see room for monetary easing. Our forecast for further decline in the 1Y LPR to 3.80% by end-2Q20 remains unchanged for now.

CBC
Taiwan

Next Meeting: 18 June
Current: 1.125%
YTD Change: -25bps

End-2Q20F	End-2020F
1.125%	1.125%

While further rate cuts are not ruled out as CBC said extra meetings before its next scheduled meeting in June could be held if needed, we do not see an urgency to load on more cuts especially given CBC's current view of a V-shaped recovery in 2H20. That could change if there is a more protracted downturn.

BOK
South Korea

Next Meeting: 09 April
Current: 0.75%
YTD Change: -50bps

0.50%	0.50%
End-2Q20F	End-2020F

With the benchmark interest rate at new record low of 0.75%, we expect at most another 25bps cut in 2Q20 as BOK weighs other options to support the economy.

BSP
Philippines

Next Meeting: 21 May
Current: 3.25%
YTD Change: -75bps

2.75%	2.75%
End-2Q20F	End-2020F

BSP will continue to take bold easing action to safeguard domestic growth momentum especially when a global recession already looks inevitable following the widespread of the COVID-19 pandemic.

MAS
Singapore

Next Meeting: 30 March
Current: 0.5% slope
YTD Change: 0% slope

-	-
End-2Q20F	End-2020F

We reiterate our base case call for MAS to ease policy to neutral, down from a currently perceived +0.5% appreciation slope. This is predicated on the recent deterioration in economic fundamentals. While not our base case, there is also a growing risk that MAS could re-centre the S$NEER band lower.

BNM
Malaysia

Next Meeting: 05 May
Current: 2.50%
YTD Change: -50bps

2.00%	2.00%
End-2Q20F	End-2020F

We expect further monetary support given looming concerns over the impact of COVID-19 on the economy. Tumbling global oil prices and weaker demand are also expected to exert more downward pressures on consumer price inflation, leaving room for BNM to ease monetary policy at the upcoming meeting.

BI
Indonesia

Next Meeting: 14 April
Current: 4.50%
YTD Change: -50bps

4.25%	4.25%
End-2Q20F	End-2020F

With COVID-19 risks rising marked against muted inflation risk and within the target range of 2%-4%, BI may cut policy rate by another 25bps to 4.25% at its April's monetary policy meeting. It is likely to be the last rate cut for 2020, bringing the BI 7-Day Reverse Repo rate back to its lowest point before the 175bps hike in 2018.

BOT
Thailand

Next Meeting: 08 April
Current: 0.75%
YTD Change: -50bps

0.50%	0.25%
End-2Q20F	End-2020F

Although monetary policy space remains extremely limited at this juncture, we pencil another 25bps rate cut in both 2Q20 and 3Q20, thus bringing BOT's one-day repurchase rate to an unprecedented low of 0.25%.

SBV
Vietnam

Next Meeting: -
Current: 5.00%
YTD Change: -100bps

5.00%	5.00%
End-2Q20F	End-2020F

We expect SBV to pause for now and assess how the lowered interest rates and loans restructuring could support business activities.

RBI
India

Next Meeting: April
Current: 5.15%
YTD Change: -

4.65%	4.65%
End-2Q20F	End-2020F

Policy-makers would have to re-evaluate on their decision to cut rates further, especially when policy space is increasingly limited. RBI cited that "there is policy space available for future action" in 6 Feb monetary policy statement, in which we think another 50bps cut could occur in its upcoming April meeting.

Real GDP Growth Trajectory

y/y% change	2019	2020F	2021F	1Q19	2Q19	3Q19	4Q19	1Q20F	2Q20F	3Q20F	4Q20F
China	6.1	4.1	6.1	6.4	6.2	6.0	6.0	-3.4	5.7	6.5	6.5
Hong Kong	-1.2	-3.0	3.0	0.7	0.4	-2.8	-2.9	-4.8	-5.0	-2.2	0.3
India	4.8	4.0	6.0	5.7	5.6	5.1	4.7	3.9	3.2	2.6	5.4
Indonesia	5.0	4.5	5.3	5.1	5.1	5.0	5.0	3.9	4.0	5.1	5.0
Japan	0.7	-2.5	0.5	0.8	0.9	1.7	-0.7	-1.3	-3.8	-3.5	-1.2
Malaysia	4.3	-3.5	4.3	4.5	4.9	4.4	3.6	-2.0	-11.5	-3.0	2.6
Philippines	5.9	1.0	5.5	5.6	5.5	6.0	6.4	2.5	-1.5	-0.5	3.4
Singapore	0.7	-2.5	1.5	1.0	0.2	0.7	1.0	-2.2	-3.9	-2.8	-1.2
South Korea	2.0	-1.0	3.5	1.7	2.0	2.0	2.3	-2.0	-3.2	-0.2	1.5
Taiwan	2.7	0.2	3.5	1.8	2.6	3.0	3.3	0.9	-2.0	-0.8	2.5
Thailand	2.4	-5.4	3.0	2.9	2.4	2.6	1.6	-11.4	-12.5	-0.8	3.0
Vietnam	7.0	5.8	6.6	6.9	6.7	7.5	7.0	6.0	4.5	5.5	7.0
Australia	1.8	-1.8	2.0	1.7	1.6	1.8	2.2	1.2	-4.6	-2.8	-0.9
Eurozone	1.2	-5.0	2.5	1.3	1.2	1.3	1.0	0.8	-9.6	-6.8	-4.5
New Zealand	2.2	-1.0	2.5	2.9	2.2	2.3	1.6	1.4	-3.2	-1.7	-0.3
United Kingdom	1.4	-4.8	2.3	2.1	1.3	1.2	1.1	0.8	-9.5	-6.1	-4.2
United States (q/q SAAR)	2.3	-4.1	1.4	3.1	2.0	2.1	2.1	-2.0	-26.8	6.1	10.4

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

Heat Map Of Key Macro Indicators In The Region

Macroeconomic Indicator (Latest Data)	Indonesia	Malaysia	Philippines	Thailand	Vietnam	Singapore	China	India
Real GDP Growth (%)	5.0	3.6	6.4	1.6	7.0	-2.2	6.0	4.7
Manufacturing PMI (Index)	51.9	48.5	52.3	49.5	49.0	48.7	40.3	54.5
Foreign Direct Investment (Annual, USD bn)	23.4	9.0	7.6	8.6	15.5	105.9	139.5	50.6
Merchandise Trade Balance (USD bn)	2.3	2.8	-3.5	3.9	0.1	1.0	-7.1	-9.8
Current Account (Annual, % of GDP)	-2.7	3.3	-0.1	5.6	2.2	17.0	1.2	-0.9
Fiscal Balance (Annual, % of GDP)	-2.2	-3.4	-3.6	-2.5	-4.4	-0.3	-2.6	-3.6
Unemployment Rate (%)	5.3	3.2	5.1	1.1	2.2	2.3	3.6	7.8
Inflation (%)	3.0	1.3	2.6	0.7	5.4	0.3	5.2	6.6
Color Code (Definition)	Weakest							Strongest

Source: Bloomberg, UOB Global Economics & Markets Research

FORECASTS

FX, Interest Rate & Commodities

FX	26 Mar 20	2Q20F	3Q20F	4Q20F	1Q21F
USD/JPY	111	112	114	112	109
EUR/USD	1.09	1.05	1.08	1.10	1.12
GBP/USD	1.18	1.15	1.17	1.20	1.20
AUD/USD	0.59	0.56	0.58	0.60	0.62
NZD/USD	0.58	0.56	0.58	0.61	0.63
DXY	100.8	103.9	102.1	100.3	98.7
USD/CNY	7.11	7.20	7.25	7.10	7.00
USD/HKD	7.75	7.76	7.78	7.80	7.80
USD/TWD	30.26	30.60	31.00	30.50	30.00
USD/KRW	1,231	1,280	1,300	1,250	1,220
USD/PHP	51.12	52.00	52.50	51.50	50.00
USD/MYR	4.36	4.50	4.55	4.45	4.40
USD/IDR	16,268	16,900	17,300	16,500	16,000
USD/THB	32.82	33.30	34.00	33.50	33.00
USD/MMK	1,396	1,400	1,420	1,400	1,380
USD/VND	23,636	23,900	24,200	24,000	23,500
USD/INR	75.28	77.00	78.00	79.00	80.00
USD/SGD	1.45	1.48	1.50	1.48	1.45
EUR/SGD	1.58	1.55	1.62	1.63	1.62
GBP/SGD	1.71	1.70	1.76	1.78	1.74
AUD/SGD	0.86	0.83	0.87	0.89	0.90
SGD/MYR	3.01	3.04	3.03	3.01	3.03
SGD/CNY	4.91	4.86	4.83	4.80	4.83
JPY/SGDx100	1.31	1.32	1.32	1.32	1.33

RATES	26 Mar 20	2Q20F	3Q20F	4Q20F	1Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD 3M LIBOR	1.23	0.95	0.65	0.35	0.35
US 10Y Treasuries Yield	0.79	1.00	1.15	1.30	1.50
JPY Policy Rate	-0.10	-0.20	-0.20	-0.20	-0.20
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.10	0.10	0.10	0.10	0.10
AUD Official Cash Rate	0.25	0.25	0.25	0.25	0.25
NZD Official Cash Rate	0.25	0.25	0.25	0.25	0.25
CNY 1Y Loan Prime Rate	4.05	3.80	3.80	3.80	3.80
HKD Base Rate	1.39	0.86	0.86	0.86	0.86
TWD Official Discount Rate	1.13	1.13	1.13	1.13	1.13
KRW Base Rate	0.75	0.50	0.50	0.50	0.50
PHP O/N Reverse Repo	3.25	2.75	2.75	2.75	2.75
SGD 3M SIBOR	1.02	1.00	0.85	0.80	0.75
SGD 3M SOR	0.89	0.85	0.70	0.50	0.50
SGD 10Y SGS	1.42	1.30	1.35	1.50	1.60
MYR O/N Policy Rate	2.50	2.00	2.00	2.00	2.00
IDR 7D Reverse Repo	4.50	4.25	4.25	4.25	4.25
THB 1D Repo	0.75	0.50	0.25	0.25	0.25
VND Refinancing Rate	5.00	5.00	5.00	5.00	5.00
INR Repo Rate	5.15	4.65	4.65	4.65	4.65

COMMODITIES	26 Mar 20	2Q20F	3Q20F	4Q20F	1Q21F
Gold (USD/oz)	1,601	1,650	1,700	1,750	1,800
Brent Crude Oil (USD/bbl)	27	20	25	30	35
LME Copper (USD/mt)	4,855	4,000	4,300	4,600	5,000

GLOBAL POLICY FOCUS

Fiscal And Monetary Stimulus To Combat COVID-19

Since the pickup in severity of the COVID-19 pandemic, major central banks and regional central banks in Asia have responded with aggressive policy rate cuts, conventional and unconventional measures to restore financial market stability, smooth out US dollar funding conditions and safe-guard their respective economies.

Various governments have also deployed the extraordinary fiscal actions to tackle the negative impact brought about by the COVID-19 and more fiscal measures can be expected.

Economies	Fiscal & Central Bank Measures Announced To Mitigate The Impact From COVID-19 (As of 26 Mar 2020)
CHINA	▪ Plans for more targeted tax and fee cuts to help the micro, small and medium-sized businesses; increase in local government special bond quota ▪ PBoC cut the 1Y Medium-term Lending Facility rate by 10bps to 3.15%; the 1Y Loan Prime Rate (LPR) lowered by 10bps to 4.05% in Feb, unchanged in Mar. ▪ RMB300 bn targeted relending fund to provide low interest loans. ▪ As of 13 Mar, finance ministries at all levels of government have issued CNY116.9 bn (US$17 bn or 0.1% of GDP) in subsidies for prevention and control of the virus.
HONG KONG	▪ HKD120bn (US$15.4bn or 4.2% of GDP) stimulus package. ▪ Another HK$30bn Anti-Epidemic Fund and a HK$10bn relief package were announced prior to the budget.
INDONESIA	▪ Government's total fiscal stimulus (1 and 2) amounted to IDR 33.4tn (0.21% of GDP). ▪ Bank Indonesia (BI) cut benchmark rate by 25bps to 4.75% in Feb. ▪ BI and the Financial Services Authority (OJK) have announced measures to stabilize IDR.
MALAYSIA	▪ Government's economic stimulus measures worth MYR62.0bn or 4.0% of GDP ▪ BNM has allocated MYR3.3bn of financing facilities to help sustain SMEs' business operations, safeguard jobs and encourage domestic investments ▪ BNM cut OPR to 2.50% (-50bps YTD), a 10-year low. ▪ BNM cuts Statutory Reserve Requirement (SRR) ratio by 100bps to 2.00%, every 100bps cut in the SRR is estimated to release about MYR14.8bn into the system ▪ Automatic loan repayment deferment of six months for non-arrear household and SME loans.
PHILIPPINES	▪ PHP27.1bn (USD525m or 0.1% of GDP) economic stimulus package ▪ BSP cut overnight reverse repurchase rate by a total 75bps YTD to 3.25% ▪ BSP cut reserve requirement ratio by 200bps YTD to 12.0% for universal and commercial banks ▪ BSP will buy PHP300bn (USD5.9bn) worth of government securities under a repurchase agreement with a maximum repayment period of six months
SINGAPORE	▪ Government COVID-19 stimulus of SGD5.6bn on 18 Feb and a supplementary budget of SGD48bn on 26 Mar to support business and households (total of SGD55bn or 11% of GDP). ▪ S$77mn Point-to-Point Support Package to help taxi and Private Hire Car operators. ▪ S$800mn has been earmarked to support the frontline agencies to fight COVID-19 ▪ Supplementary budget to tackle COVID-19 to be announced on 26 Mar ▪ MAS brings forward Monetary policy decision to 30 Mar 2020
SOUTH KOREA	▪ Government stimulus of KRW11.7 tn (US$9.8 bn or 0.6% of GDP) ▪ KRW50tn (US$39bn) of financial support package to help small businesses with emergency funding, loans guarantee and deferment of loans repayments. ▪ Bond and equity markets stabilization funds. ▪ BOK announced QE on 26 Mar where the central bank will supply "unlimited" liquidity to markets for 3 months, from Apr to Jun 2020.

Economies	Fiscal & Central Bank Measures Announced To Mitigate The Impact From COVID-19 (As of 26 Mar 2020)
TAIWAN	▪ First stimulus package of NT$60 bn (US$2bn or 0.3% of GDP). Second stimulus package of NT40bn (US$1.33 bn) is being planned. ▪ CBC cut interest rate by 25bps to new record low at 1.125%, provides liquidity fund of NT$200bn to banks. ▪ National Stabilisation Fund available to support stock market.
THAILAND	▪ Bank of Thailand cut its 1-D repurchase rate by 25bp to a record low of 0.75% in Mar 2020. ▪ Up to 80% of Fiscal 2020 budget will be ready for disbursement over next 6 months starting Feb 2020. ▪ Cabinet had approved a stimulus package of THB 400 billion (US$12.7 billion, 2.4% of GDP) to combat the COVID-19 pandemic.
AUSTRALIA	▪ Fiscal stimulus package totaling AUD17.6bn (about 1% of GDP) on 12 March ▪ Second package of AUD66bn (around 2.5% of GDP) on 22 Mar and focuses more on 2020-2021. ▪ RBA cut the official cash rate (OCR) by 25bps to then a new all-time low of 0.50% on 3 Mar. ▪ RBA made an emergency rate cut, dropping the OCR by 25bps to 0.25%, record low in an unscheduled meeting on 19 Mar. ▪ RBA said starting 20 Mar, it will buy as many government bonds it needed to ensure the yield on 3-year government bonds stays low and around 0.25% (QE). ▪ RBA will set up a AUD90bn term funding facility for commercial banks to help small and medium-sized businesses.
NEW ZEALAND	▪ Government unveiled a NZD12.1bn support package, worth 4% of GDP on 17 Mar. ▪ RBNZ delivered an emergency cut to its official cash rate (OCR) by 75bps to 0.25% in an unscheduled meeting on 16 Mar. ▪ RBNZ announced it's first QE on 23 Mar, as it will purchase NZD30bn worth of NZGBs across the yield curve in the next 12 months.
JAPAN	▪ PM Abe launched a panel to propose a stimulus package likely in April to support the economy from COVID-19 hit. Reports suggest JPY30tn emergency economic package is in the works, well above the JPY15tn package during the 2008 GFC. ▪ BOJ increased its risky asset purchases by doubling its purchases of exchange-traded funds (ETFs) and J-REITS to annualized paces of JPY12 tn and JPY180bn in an unscheduled meeting on 16 Mar. ▪ BOJ will also increase the upper limit to buy commercial paper (CP) and corporate bonds by JPY2 trillion to the amounts outstanding of about JPY3.2 trillion and JPY4.2 trillion, with the additional buying continuing till End-Sep 2020 ▪ BOJ together with the central banks of Canada (BOC), UK (BOE), Eurozone (ECB), Switzerland (SNB) and the US (Fed) will provide ample US dollar funding. ▪ BOJ also introduced the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19).
US	▪ US Congress approved a US$8.3bn emergency funding package (0.04% of GDP) to combat the spread of the COVID-19 on 6 Mar. ▪ US Congress passed second stimulus package, the Families First Coronavirus Response Act) on 18 Mar said to be US$300-500bn (1.4%-2.3% of GDP). ▪ US Senate passed a third stimulus package on 25 Mar, worth US$2tn (9.3% of GDP) including tax rebates, 4 months expanded unemployment benefits, various business tax-relief provisions, a US$500bn major corporate liquidity program through the Fed, US$367bn small business rescue package. This is the biggest stimulus ever passed by Congress. (The House most likely to pass it on 27 Mar) ▪ House Speaker Pelosi said House Democrats would unveil yet another latest (3rd) House package which would reportedly cost more than US$2.5 trillion ▪ Fed Reserve delivered emergency 50bps rate cut on 3 Mar, and another emergency rate cut of 100bps to 0.0-0.25% on 16 Mar, back to the GFC low. ▪ Fed encouraged banks to tap on its existing discount window by lowering the primary credit rate by 150bps to 0.25% and lengthened the term of loans to 90 days (with effect from 16 Mar 2020), ▪ Fed encouraged banks to use their capital and liquidity buffers, and also reduced reserve requirement ratios to 0% with effect from 26 Mar 2020. ▪ Fed also announced coordinated action with the major central banks to enhance the provision of US dollar liquidity on 16 Mar and this was extended to other central banks on 20 Mar ▪ New York Fed will increase size of repo operations offered through mid-April by US$1.5tn and added another US$500bn, totaling US$2tn. ▪ Fed unveiled set of unprecedented measures on 23 Mar including unlimited QE, US$300bn new credit programs for employers, consumers and businesses. ▪ Fed widened money market mutual fund facility to include variable-rate demand notes and bank certificates of deposit. ▪ Daily and term repo rates to be reset to offering rate of 0.0%.

Economies	Fiscal & Central Bank Measures Announced To Mitigate The Impact From COVID-19 (As of 26 Mar 2020)
UK	▪ Government announced GBP30bn of fiscal stimulus on 11 Mar. Pledged to spend GBP600bn by 2025 on a huge infrastructure program. ▪ Government unveiled another huge GBP330bn package of loan guarantees (15% of GDP) and up to GBP20bn of financial support for firms in 2020, on 17 Mar. ▪ Bank of England (BOE) lowered its Bank Rate by 50bps to a record-low of 0.25% in an unscheduled meeting on 11 Mar. ▪ BOE introduced a new Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), financed by the issuance of central bank reserves. The TFSME is expected to provide GBP100bn or more of term funding. ▪ BOE's Financial Policy Committee (FPC) also reduced the countercyclical capital buffer (CCyB) rate on banks' exposure to UK borrowers from 1% to 0%, for at least a year. This will release up to GBP190bn of bank lending to businesses, equivalent to 13 times banks' net lending to businesses in 2019. ▪ BOE voted unanimously to cut its Bank Rate by 15bps from 0.25% to 0.10%, a record-low, in an unscheduled meeting on 19 Mar. ▪ BOE voted unanimously to increase the BOE's bond-buying program to GBP645bn (30% of GDP), up by GBP200bn. ▪ BOE announced it was increasing the size of its Term Funding Scheme, targeted at smaller businesses.
EUROZONE	▪ Euro area governments mobilised around 1% of their GDP (EUR120bn) to fight against the economic fallout from COVID-19 on 16 Mar. ▪ Euro area governments offered liquidity facilities of at least 10% of GDP, including public guarantee schemes and deferred tax payments. ▪ European Commission promised to reallocate unspent structural funds amounting to EUR37bn to support health systems, SMEs, affected sectors and workers. ▪ European Investment Bank, backed by the Commission, will mobilise EUR8bn in lending for SMEs, with plans to increase to EUR20bn. ▪ EU raised the amount of money in the corona investment fund to EUR37bn (0.3% of Eurozone's GDP) on 13 Mar. ▪ European Central Bank (ECB) introduced additional longer-term refinancing operations (LTROs) and the maximum amounts bank can draw on the TLTRO III also raised to 50% of their stock of outstanding eligible loans as of end-February in scheduled meeting on 12 Mar. ▪ ECB allowed looser collateral conditions so more bank capital can be deployed, potentially between EUR600bn and EUR800bn available in capital relief. ▪ ECB announced an additional "envelope" of EUR120bn of net asset purchases until end-2020, equivalent to EUR13.3bn in additional QE a month, on top of its existing commitment to buy EUR20bn a month. ▪ ECB announced in an unscheduled meeting on 18 Mar a temporary EUR750bn (7% of GDP) asset purchase programme - Pandemic Emergency Purchase Programme (PEPP) which will last until the end of 2020, and will target both public- and private-sector assets.
CANADA	▪ Government sets up a C$10 billion credit facility to lend money to businesses under stress as a result of the spreading COVID-19 pandemic. ▪ Government announced a C$27 billion aid package for the people and businesses most affected by COVID-19 and C$55 billion in tax deferrals. ▪ Bank of Canada announces emergency rate cut on 13 Mar to lower key overnight interest rate by 50bps to 0.75% from 1.25%.
GERMANY	▪ Germany announced its plan on a new EUR500bn bailout fund to rescue companies (around 10% of GDP) on 22 Mar. ▪ German government (20 Mar) reportedly looking at issuing net new debt of about EUR350bn to finance stimulus measures amid the COVID-19 crisis, including supplementary budget of about EUR150bn.
FRANCE	▪ Government detailed EUR45bn (2% of GDP) of emergency measures on 17 Mar. ▪ Government to guarantee EUR300bn of bank loans to businesses, while Eurozone members had collectively offered EUR1tn in such national guarantees.
ITALY	▪ Government agreed on a EUR25bn (1.4% of GDP) rescue package, raised from EUR7.5bn previously on 16 Mar.
SPAIN	▪ PM Pedro Sánchez announced a EUR200bn (15% of GDP) stimulus, of which EUR117bn will come from the public sector on 17 Mar.

SINGAPORE FOCUS

Singapore MAS Preview: More Easing Needed To Aid Growth

The Monetary Authority of Singapore (MAS) is slated to announce its monetary policy decision on 30 March 2020. MAS previously reduced its S$NEER slope by an estimated 0.5% in Oct 2019, while keeping other policy parameters unchanged.

We identify three drivers that could lead to another round of monetary easing in the upcoming meeting, seen from (1) lower interest rates globally, (2) the softness in the S$NEER below its mid-point and (3) a likelihood of a persistent negative output gap in 2020.

We reiterate our base case call for MAS to ease policy to neutral, down from a currently perceived +0.5% appreciation slope. This is predicated on the recent deterioration in economic fundamentals. While not our base case, there is also a growing risk that MAS could re-centre the S$NEER band lower.

Three Drivers That Could Signal Monetary Easing

Given that the objective for the Monetary Authority of Singapore is to "maintain price stability conducive to sustained growth of the economy", we see three drivers that could signal a potential MAS monetary easing in the upcoming meeting on 30 March 2020, namely from the (1) lower interest rates globally, (2) the softness in the S$NEER below its mid-point and (3) a likelihood of a persistent negative output gap in 2020.

First, MAS may see a growing impetus to ease monetary policy conditions in tandem with lower interest rates globally. Since the start of this year, the US Federal Reserve has reduced its Federal Funds Target Rate (FFTR) by a total of 150 basis points to a range of 0.0% - 0.25%. Other developed central banks that cut rates also included RBNZ (-75bps since YTD), BOE (-65bps) and RBA (-50bps). Over in Asia, Singapore's key trading partners including Hong Kong (HKMA: -114bps), Philippines (BSP: -75bps), Malaysia (BNM: -50bps), Thailand (BOT: -50bps) and Indonesia (BI: -50bps) have also cut rates since the start of 2020.

Second, the softness in the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) in the recent weeks below its mid-point reflects a relative pullback in investor risk appetite on concerns over the COVID-19 outbreak and falling oil prices. As we flagged in our previous MAS meeting preview report, we had observed that a majority of easing moves were done when the S$NEER were below the estimated mid-point (specifically in October 2008, October 2011, January 2015, October 2015 and April 2016). The recent softening of the S$NEER below mid-point could also suggest that market players have guided the S$NEER lower in anticipation of such monetary easing move in the next policy meeting. According to our in-house S$NEER model, the S$NEER has weakened to -0.4% from its mid-point at the time of writing (24 March 2020), down from a strong +1.8% from mid-point at the end of January 2020.

Chart 1: Benchmark Rate Cuts Seen Year-To-Date

Source: Macrobond, UOB Global Economics & Markets Research

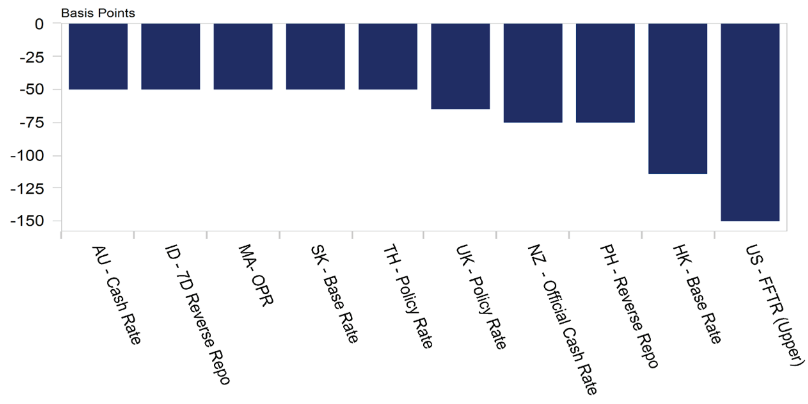
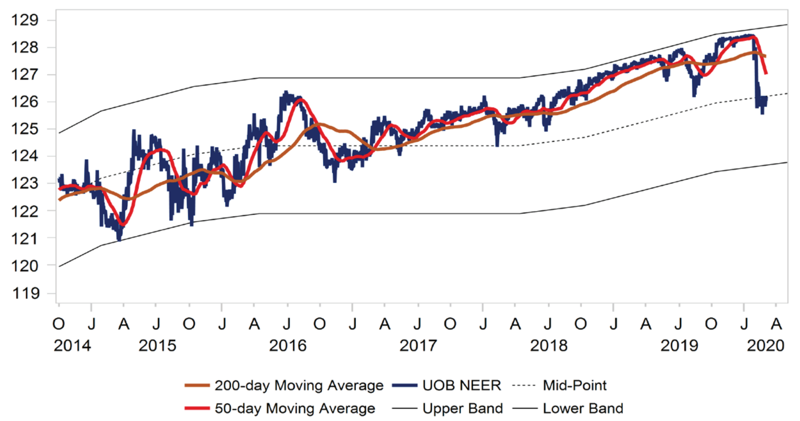


Chart 2: S$NEER Has Softened To Below Mid-Point In March 2020

Source: Macrobond, UOB Global Economics & Markets Research



Note that the fall in the S$NEER also coincided with the MAS statement on 5th February which cited that there is “sufficient room within the policy band to accommodate an easing of the S$NEER in line with the weakening economic conditions”. With the fall of the S$NEER in the recent weeks, the room for further weakness in the S$NEER is comparatively limited versus when the S$NEER is “fluctuating near the upper bound of the policy band” after October 2019. As such, an easing of monetary policy may be on the cards on 30 March 2020, in order to allow the S$NEER to weaken further in line with the weaker economic outlook.

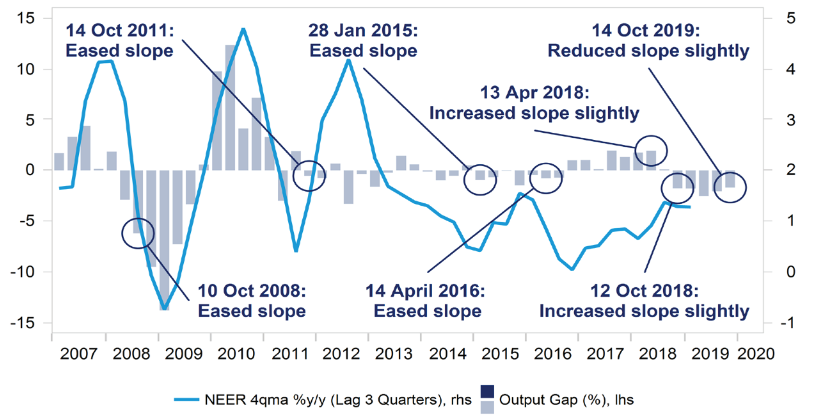
Third, the expected growth headwinds into 2020 should suggest a persistent negative output gap for Singapore in the year ahead. Singapore’s output gap, defined as the difference between the actual GDP growth and potential GDP growth, persisted in negative territory for five quarters into 4Q19. A negative output gap also indicates the presence of growth slack in the economy, and that inflation will likely be kept in check as well.

On the same note, given that the MAS monetary policy is forward looking and focused on the medium term economic outlook, a monetary easing move on 30 March 2020 may indicate policy-makers’ reduced optimism on Singapore’s economic outlook into the four to six quarters ahead. The MAS noted that their econometric models suggest that the “peak impact of a change in exchange rate policy on the economy occurs only after four to six quarters,” which is then cited as the main reason why monetary policy formulation needs to be forward-looking[1].

1 Monetary Authority of Singapore, How does MAS formulate its monetary policy?, Oct 2018

Chart 3: Negative Output Gap Persists, May Worsen Into 1Q20

Source: Bloomberg, UOB Global Economics & Markets Research



MAS Likely To Ease Policy Slope To Neutral

The negative output gap which is expected to worsen into the start of 2020 will likely persuade the MAS to ease monetary policy at the upcoming meeting. **We reiterate our base case call for MAS to ease policy to neutral, down from a currently perceived +0.5% appreciation slope, while keeping the width of the policy band and the level at which it is centred unchanged.** This is predicated on the recent deterioration in Singapore-centric economic fundamentals, including the contraction in manufacturing PMI (Feb 2020) and retail sales (Jan 2020) on the back of rising global recession risk. While not our base case, there is also a growing risk that MAS could re-centre the S$NEER band lower as a signal that a looser monetary policy is needed to cushion both growth and inflation risks this year.

INDONESIA FOCUS

Review & Outlook For Domestic Banking Sector

2019 Review

A stagnant growth coupled with relatively low inflationary pressure had prompted Bank Indonesia to continue its accommodative monetary policy. Nonetheless, the positive impact of the 2019 rate cuts remained limited, given the previous 175 bps rate hikes in 2018 have not been fully transmitted to the real economy and loan demand remained weak. As the economic growth slowed to 5.02% (vs. 2018's 5.17%), loan growth at the same time slowed significantly from 11.8% in 2018 to just 6.1% last year.

2020 Outlook

The year of 2020 will be more challenging for Indonesia as with the possibility of slower economic growth due to the global outbreak of COVID-19, especially if it will be prolonged in a longer time frame.

BI expects credit growth now to be in the range of 6.0-8.0% for 2020, significantly down from 9.0-11.0% previously while third-party deposit growth is likely to be around 6.0-8.0%.

2019 Review

Stagnant growth coupled with relatively low inflationary pressure had prompted Bank Indonesia to continue its accommodative monetary policy and take more dovish policy stance. BI lowered its benchmark rate by a total of 100bps to 5.00% throughout 2019 (Figure 1). Nonetheless, the positive impact of the 2019 rate cuts remained limited, given the previous 175 bps rate hikes in 2018 have not been fully transmitted to the real economy and loan demand remained weak. As the economic growth slowed to 5.02% in 2019 (vs. 2018's 5.17%), loan growth at the same time slowed significantly from 11.8% to just 6.1% with the total outstanding loan amounting to IDR 5,617tr (Figure 2).

Meanwhile, Indonesia's processing/manufacturing and wholesale & retail sectors, which accounts for over 30% of GDP, underwent a sharp deceleration in loan growth (Figure 3). The processing/manufacturing loan growth eased from 9.1% in 2018 to 3.6% in 2019, while the wholesale & retail trade loan growth decreased from 9.4% to 3.7%. Only sectors with relatively lower contribution to GDP (i.e. electricity, gas and water, fishery, and social services) managed to record higher loan growth as compared to their previous period.

Figure 1. BI 7D Reverse Repo Rate (%)

Source: Bloomberg, UOB Global Economics & Markets Research

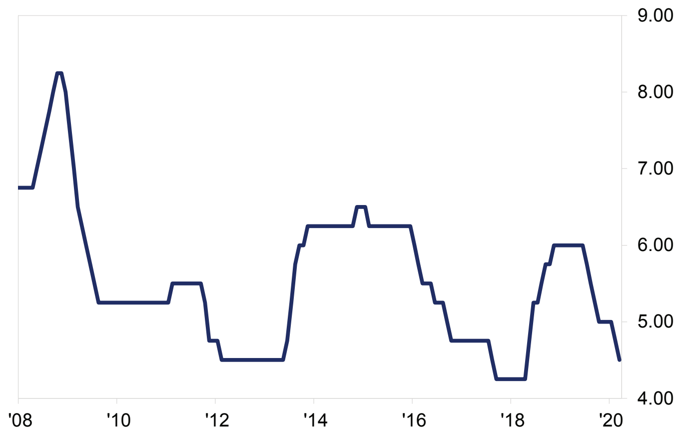


Figure 2. Loan Growth (%-y/y)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research

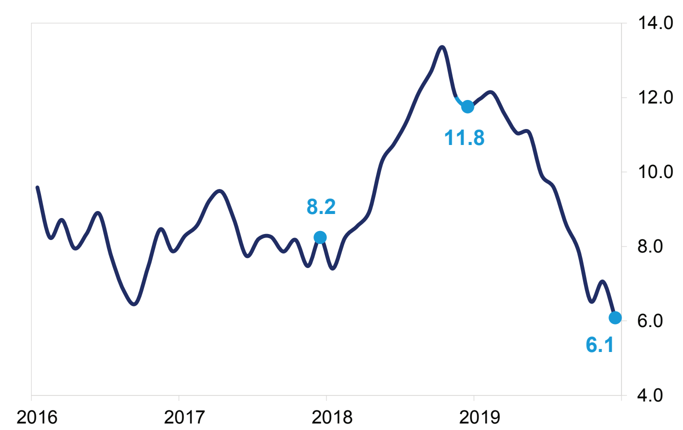
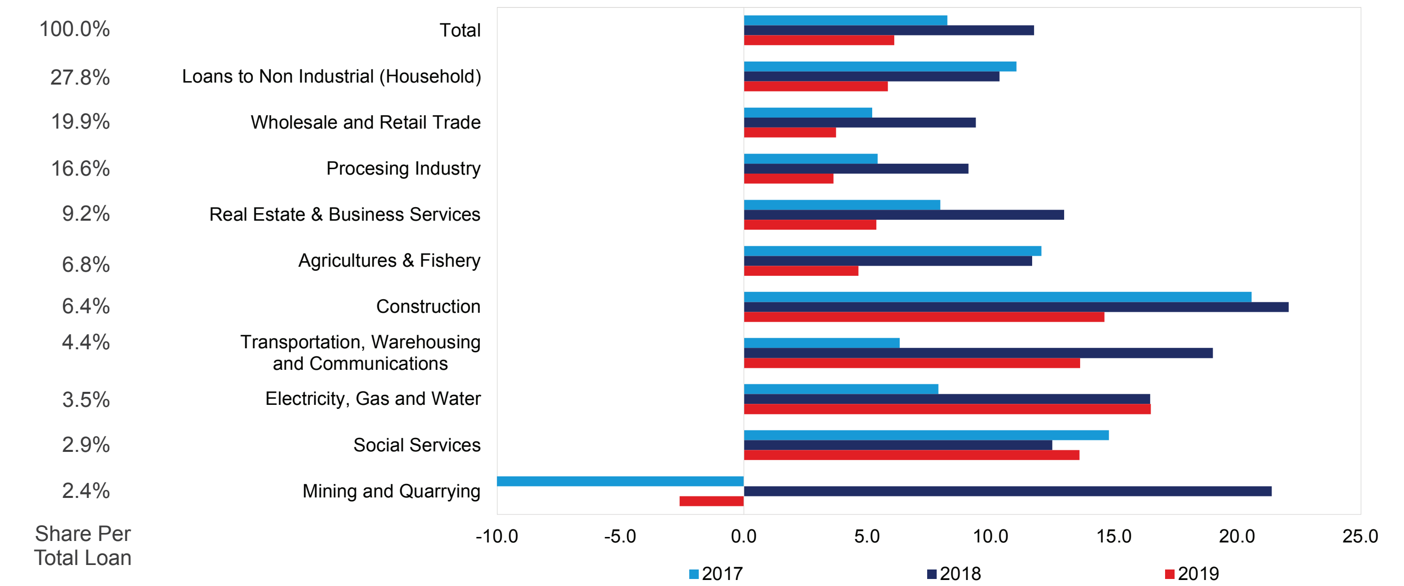


Figure 3. Loan Growth By Sector (%-y/y)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research



Despite the general elections in 2019, investment loan growth (accounting for 26.4% of total outstanding loan) remained strong, rising from 10.9% in 2018 to 13.2% in 2019 (Figure 4). This was however not observed in both consumption and working capital loan growth. Consumption loan (27.8% of total outstanding loan) grew moderately by 5.8% (vs. 10.4% previously), while working capital loan growth (45.9% of total outstanding loan) decelerated to 2.5% from 13.0%. From another perspective, the loan growth of Book 4 and Book 3 banks (which accounted for 85.3% of total outstanding loan) slowed to 8.4% and 2.1% respectively, from 12.5% and 15.5% (Figure 5 & 6). Meanwhile, non-performing loan ratio stayed at 2.5%, indicating manageable asset quality.

Figure 4. Loan Growth By Type (%-y/y)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research

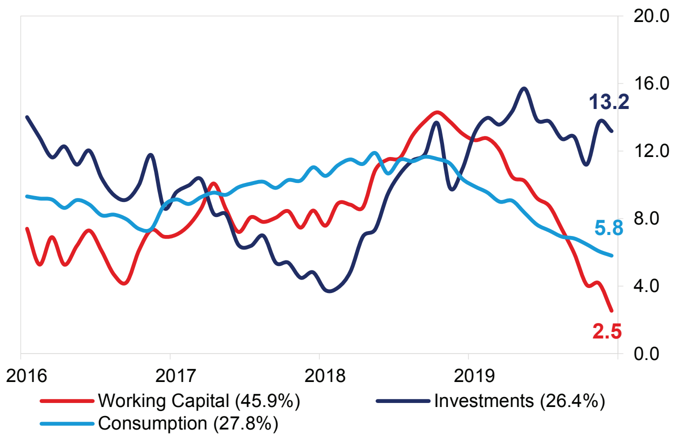


Figure 5. Book 4 Loan Growth (%-y/y)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research

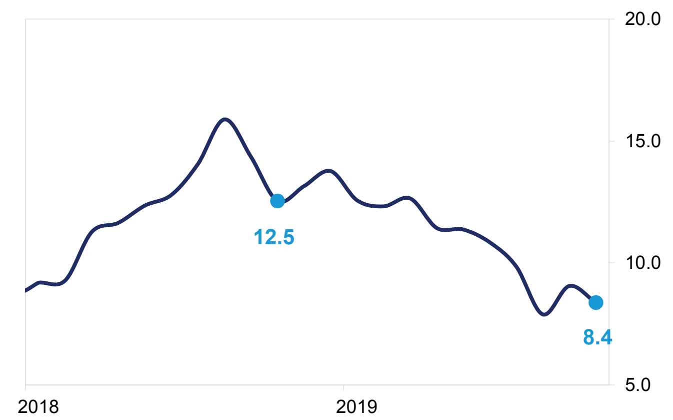
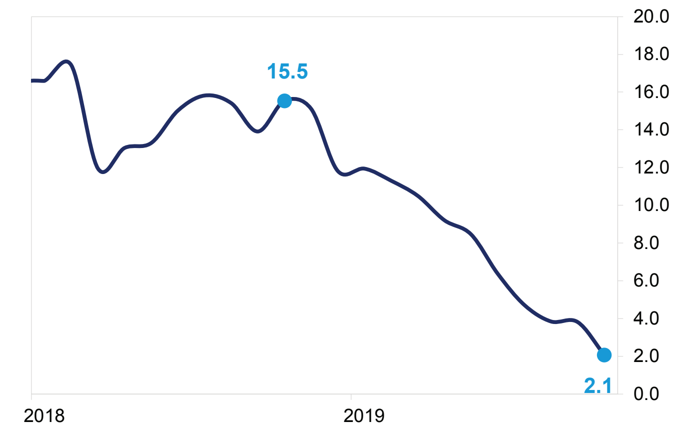


Figure 6. Book 3 Loan Growth (%-y/y)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research



Book 4 (Core Capital: > IDR 30tr); Book 3 (Core Capital: > IDR 5tr, < IDR 30 tr)

Although loan growth underperformed as compared to last year's performance, deposit growth remained relatively stable at 6.5% (vs. 6.4% previously) or amounted to IDR 5,999tr (Figure 7). This is supported by Book 4 deposits, which accounts for 56.2% of total bank wide deposit and grew 8.3% (vs. 7.6% previously). Consequently, the level of loan-to-deposit ratio (LDR) was maintained at 94.4% in 2019 vs. 2018's 94.8% (Figure 8). This, accompanied by the central bank's 100bps cut in reserve requirement ratio to 5.50% in 2019, has helped improve interbank liquidity, which was tightened during 2018's rate hike cycle. The overnight interbank rate spread over the risk-free rate – BI's standing facility (FASBI) rate – has slightly descended, while the interbank excess liquidity measure has somewhat risen, albeit still below the pre-rate hiking cycle level (Figure 9). As the liquidity somewhat loosened and loan demand remained relatively weak, banks' asset rotated out of loans into debt securities as it rose by 7.5% in 2019 from a contraction of 9.0% in 2018 (Figure 10).

Figure 7. Deposit Growth (%-y/y)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research

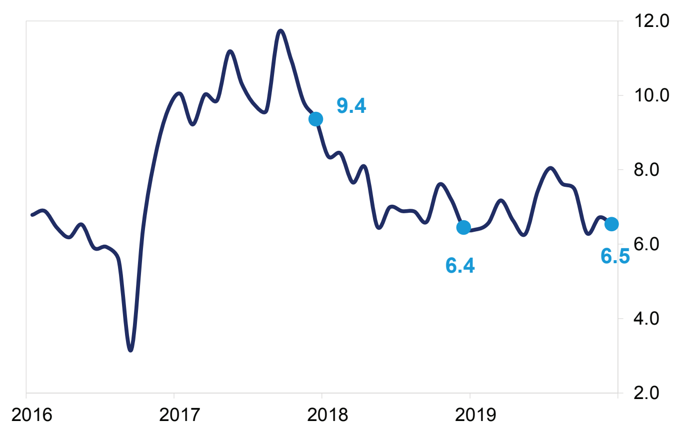


Figure 8. Loan To Deposit Ratio (%)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research

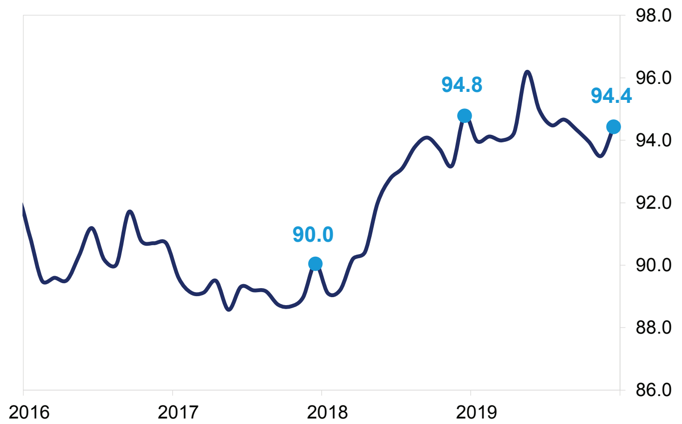


Figure 9. IDR Interbank Market Liquidity

Source: Bloomberg, UOB Global Economics & Markets Research

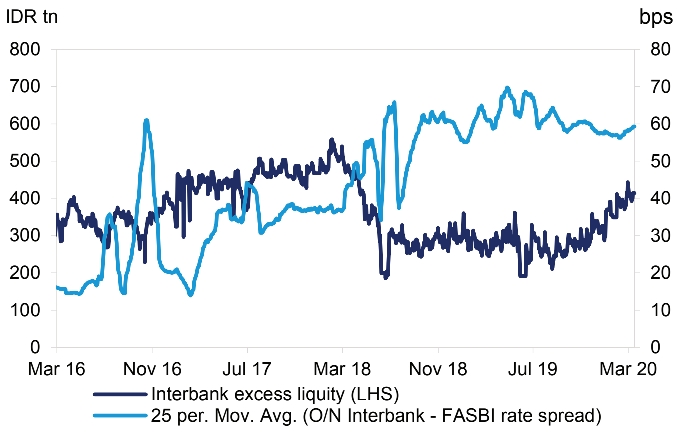
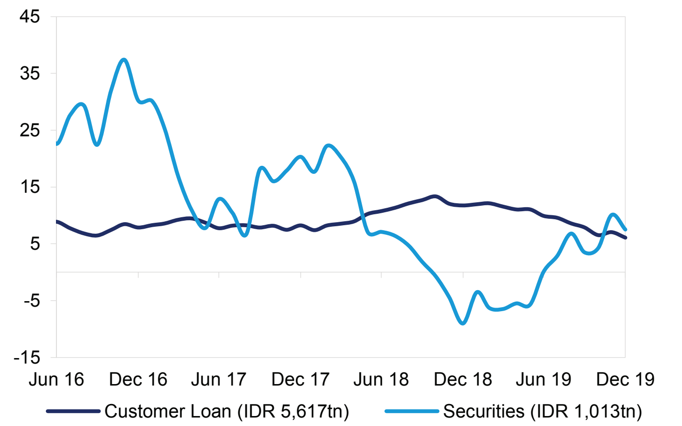


Figure 10. Bank's Asset-Rotation Growth (%-y/y)

Source: Financial Services Authority (OJK), UOB Global Economics & Markets Research



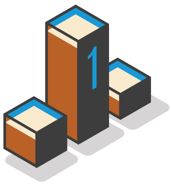
Securities: SBI, SPN, Bonds

2020 Outlook

The year of 2020 will be more challenging for Indonesia, given the possibility of slower economic growth due to the global outbreak of COVID-19. We estimate domestic economic growth to slow below 5.0% (down from our previous outlook of 5.2%), pricing in a negative COVID-19 impact of around -0.3ppts to -0.7ppts on GDP growth. With the COVID-19 likely to limit the country's economic activity, both loans and deposits (notably at the beginning of the year) will less likely to record higher growth rates. At best, they may remain stable or otherwise turn lower. The loan expansion is expected to be supported by large banks (Book 4) due to more manageable credit risk. BI expects credit growth to be in the range of 6.0%-8.0% for 2020, significantly down from 9.0%-11.0% previously, while third-party deposit growth is likely to be around 6.0%-8.0%. On liquidity front, the recent market volatility arising from global uncertainties and flight-to-safety activities will have an impact on liquidity in the banking system, especially foreign exchange liquidity.

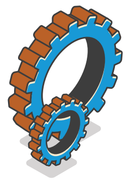
FX STRATEGY

USD Unbeatable As Global Recession Fears Spark Scramble For Cash



The intense strength of USD from March is likely to persist in the coming quarter.

Key driver in Majors remains the USD funding stress and its eventual normalization.



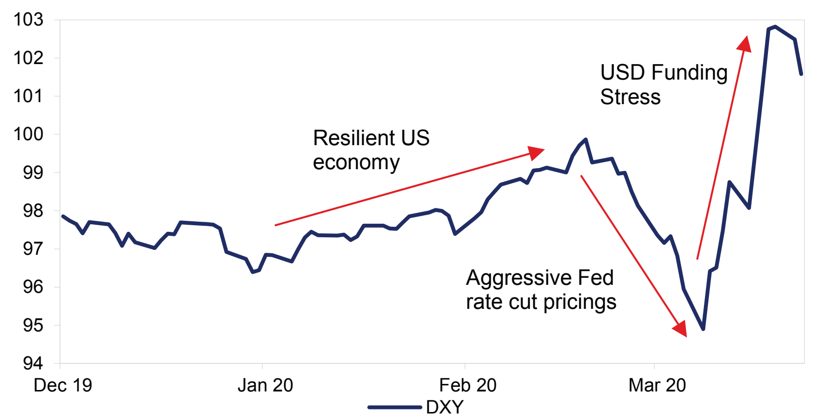
Asian FX to weaken further on acute growth slowdown.

The USD has had a rollercoaster start to 2020 as the coronavirus (COVID-19) outbreak completely derailed the nascent global economic recovery spurred by US and China reaching a Phase One trade agreement in December 2019 and now risks dragging the whole world into a deep recession.

In the initial phase of the outbreak (January – February), the impact was mainly confined to China, rest of Asia and parts of Europe. Back then, the resiliency of the US economy, with its expected Goldilocks 2% growth, strong labor market and stable inflation towards its 2% objective struck a stark contrast to its G-7 peers. Concerns of Germany, Italy and Japan entering a technical recession resurfaced as the COVID-19 outbreak took root in those territories. This economic divergence reinforced USD strength against the Majors and lifted the US Dollar Index (DXY) by over 3% to hit a high of 99.91 on 20-Feb.

Chart 1: The Rollercoaster DXY

Source: Bloomberg, UOB Global Economics & Markets Research



As quickly as it rose, the USD collapsed starting late February as it became clear that the US economy will not be spared from the expanding COVID-19 outbreak. Anticipating a sharp economic slowdown, markets priced in aggressive Fed rate cuts. As a result, plummeting rate spreads torpedoed the DXY to a 6-month low of 94.65 by 9-Mar. Wasting no time, the Fed bowed down to markets' expectations and dropped its policy rate by 150 bps in two emergency meetings (50 bps on 3-Mar and 100 bps on 16-Mar), taking the Fed funds target range down to a range of 0% – 0.25%. Quantitative easing (QE) was also revived with an initial $700 billion purchase plan of Treasuries and mortgage-backed securities in the latter meeting – which was subsequently bumped up to unlimited amounts a week later.

The Funding Stress That Propelled The USD Back Up

Just as markets started to write off the USD, the greenback snapped back ferociously as strains in the USD funding and credit markets sparked a scramble for the ultimate safe haven, USD cash. The 3-month LIBOR-OIS spread, a popular gauge of US credit conditions spiked from 0.14% at the start of March to 1.1% as at 24-Mar, the widest since the Global Financial Crisis (GFC). The DXY recouped all its lost ground in just six sessions starting 10-Mar and surged to almost 103, a fresh 3-year high. Rising in tandem, G-7 volatility shot to the highest levels since 2011.

To keep money flowing throughout the financial system, the Fed has responded with an extensive list of crisis-era measures, including offering up to $1 trillion for loans in overnight repos, offering emergency loans to money market mutual funds, launching three new lending facilities to support consumer and corporate credit markets. To cater to global demand for the USD, the Fed also set up temporary US dollar swap lines with major central banks globally.

With our macro team now forecasting severe recessionary conditions in most parts of the G-7 and Asia in 2020, it is likely that the intense risk aversion would persist. While the extensive measures by the Fed would eventually quell the extreme funding stress, because of the anticipated intense growth slowdown globally, it is likely the USD will stay unbeatable against the Majors, at least for the coming quarter (2Q20). Overall, we see a peak in DXY at about 104 in 2Q20, before gradually easing lower to 102 in 3Q20, 100 in 4Q20 and 99 in 1Q21.

Intense USD Strength In Majors Dissipates Only In 2H20

In the brave new COVID-19 world, most G-7 central banks have taken the lead from the Fed and slashed their own policy rates close to the zero bound. In addition, crisis-era QE programs were also reactivated in the Fed, European Central Bank (ECB) and Bank of England (BOE). For the first time ever, the Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) have also ventured into bond purchases. The almost back-to-back QE announcements across the various G-7 central banks nullify QE as an idiosyncratic driver for the FX of any one country. Instead, the key driver in the Majors is likely still the intense USD funding stress currently and its eventual normalization later.

Chart 2: The DXY Followed 3M LIBOR-OIS Higher

Source: Bloomberg, UOB Global Economics & Markets Research

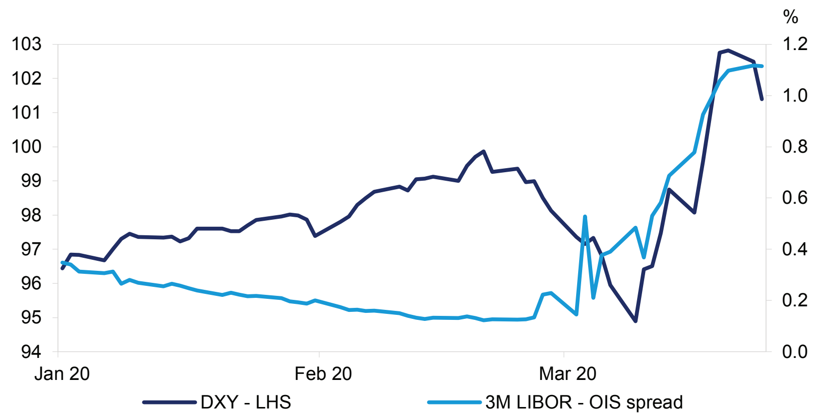


Chart 3: G-7 Volatility Spiked To 3-Year High

Source: Bloomberg, UOB Global Economics & Markets Research

EUR/USD is likely to be pinned lower in the coming quarter, amidst the ongoing scramble for USD funding and an inevitable recession in the euro area (alongside US). Starting 2H20 when the funding stress is more or less alleviated, we expect the USD to weaken anew. As such, our updated EUR/USD forecasts are 1.05 in 2Q20, 1.08 in 3Q20, 1.10 in 4Q20 and 1.12 in 1Q21.

GBP/USD has dropped from 1.28 at the start of March to 1.15 by the third week of March, surpassing the 1.20 low reached during the depth of the Brexit negotiations last September and for its lowest since 1985. The cliff-edge drop puts the GBP as one of the most oversold currencies in the G-7 Majors space. That said, strong USD demand is likely to persist in the coming months, pinning GBP/USD at multi-decade lows. Similar to EUR/USD, while we expect a 2H20 recovery for GBP/USD, the trajectory is likely to more modest, further weighed by uncertainties over the Brexit transition. Overall, our updated GBP/USD forecasts are 1.15 in 2Q20, 1.17 in 3Q20, and 1.20 in both 4Q20 and 1Q21.

USD/JPY is perhaps the best litmus test of USD strength in the Majors. The currency pair bounced back sharply from the 101 low printed on 9-Mar to about 110 as the relentless scramble for the USD funding overwhelmed safe haven demand for the JPY as stocks plunged. Also, USD/JPY also traced similar V-shaped recovery in the 10-year US Treasury yield from 0.31% to about 1.00%. From here on, given near term USD demand, USD/JPY could probe higher to 112 in 2Q20 and 114 in 3Q20. After which, assuming a normalization of USD happens in 4Q20, we expect USD/JPY to drift lower towards pre-COVID-19 levels, at 112 in 4Q20 and 109 in 1Q21.

With industrial activity in China and now suddenly all parts of the world grinding to a halt due to the COVID-19 outbreak, it is no surprise that commodity-linked currencies are worst hit as demand evaporated. AUD/USD plunged over 17% to 0.58 in 1Q-to-date, on track for the biggest quarterly drop since the GFC. The RBA has already cut rates to 0.25%, matching that of the Fed while starting bond purchases for the first time ever. A "phased reboot" of the Chinese economy means that demand for Australia's commodity exports stays tepid. This leaves AUD/USD vulnerable to further downside in the coming quarter before a modest recovery in China in 2H20 anchors a sentiment revival in the AUD/USD. Our updated FX forecasts are 0.56 in 2Q20, 0.58 in 3Q20, 0.60 in 4Q20 and 0.62 in 1Q21.

Chart 4: GBP/USD Is Pounded By A Worsening Pandemic

Source: Bloomberg, UOB Global Economics & Markets Research

Chart 5: ADXY Plunged To The Lowest Since 2004

Source: Bloomberg, UOB Global Economics & Markets Research

ADXY Gave Back Trade Deal Gains On COVID-19 Fears

Asian FX too had a volatile start to 2020. The strength of Asian currencies from late 2019 as a result of an interim US-China trade deal quickly evaporated after it became clear that COVID-19 outbreak in China was worsening by the day. The tipping point came on 23-Jan when the city of Wuhan was placed on lockdown which was quickly expanded to cover the entire Hubei province. As with the experience of US-China trade conflict in 2018/19, when China sneezes, Asia catches a cold. As China "quarantined" itself from the rest of the world in February, a virus-fueled slowdown in China hit every country in the region, either in the form of supply chain disruption, a sharp drop in tourism, or both. Growth forecasts for most Asian economies this year were slashed alongside China's. And as CNY weakened towards 7.00 /USD at the start of February, other Asia FX quickly fell in tandem. The Asia Dollar Index (ADXY) was largely a one-way traffic in 2020, crashing from 105 at the turn of the year to touch 100 on 23-Mar, the lowest level since 2004.

CNY Skating On Thin Ice

Although the total of COVID-19 infections in China has stabilized at around 80,000 starting early March, the heavy damage is already dealt to the Chinese economy. China was virtually at a standstill across late January to February, causing both manufacturing and non-manufacturing Purchasing Manager Index (PMIs) to plunge to unprecedented contractionary levels of 35.7 and 29.6 respectively in February. Furthermore, retail sales, fixed asset investment, industrial output have all collapsed in the same month, sealing the fate of a contractionary Q1 GDP for China. Our macro team now forecast 1Q China GDP at -3.4% YoY, pulling FY 2020 China GDP down to just +4.1% from +6.1% in 2019, the worst annual growth since 1990.

Amid increasing signs that the Chinese economy is slowly climbing out of the COVID-19 inflicted malaise and assuming there is no second wave of major outbreak in China, we cautiously expect a consumption-led rebound in 2H20, with GDP growth averaging 6.5% in both 3Q and 4Q20. What this means is that after the current bout of USD strength fizzles off, USD/CNY could well start ease lower starting 4Q20. Our updated USD/CNY forecasts are at 7.20 in 2Q20, 7.25 in 3Q20, 7.10 in 4Q20 and 7.00 in 1Q21.

At the same time, we caution that China's solo path to recovery in 2H20 while the rest of the world dips in recession is unlikely to be straightforward. As such the recent stability of CNY relative to the rest of Asian FX cannot be taken for granted. Noteworthy is the recent strength in the CFETS RMB index from 93 to 96 while the ADXY fell from 104 to 100 in March. While not in our base case yet, in the event where the expected recovery in 2H20 does not materialize, there could be increasing pressure for the People's Bank of China (PBOC) to devalue the CNY.

Weakness More Acute In SEA Currencies

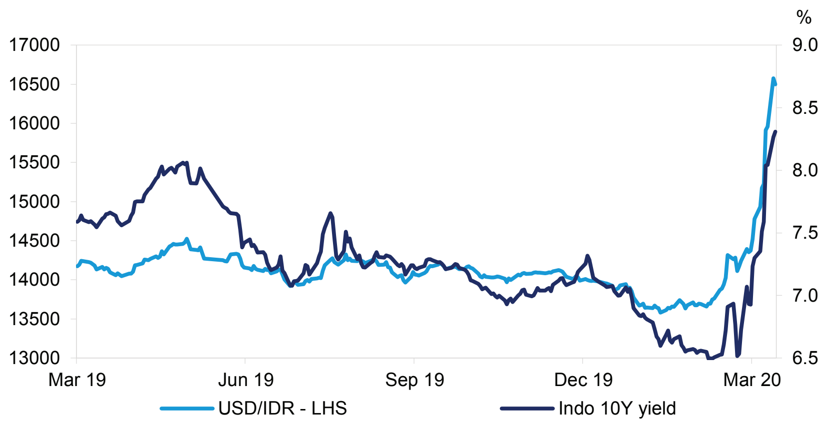
Indiscriminate selling of Asian FX in the last few weeks alone brought most Asian currencies to multi-year lows against the USD. In the next two quarters, it is likely that one-sided moves against Asian FX would persist as investors jettison their riskier Emerging Markets (EM) positions. In the meantime, regional governments have experimented with lockdowns, quarantines, social distancing in a bid to "flatten" their respective COVID-19 infections curve. The fastest to eradicate the COVID-19 would inevitably suffer the least economic fallout and likely to win back investors' hearts first. Overall, our assumption is for the global pandemic to come under control at around 3Q20. By then, the rhetoric may turn less negative and as effects of the unprecedented monetary and fiscal stimulus start to show more visibly, the stage is set for Asian FX to recover modestly starting 4Q20.

Chart 6: RMB Standout Strength May Not Last

Source: Bloomberg, UOB Global Economics & Markets Research

Chart 7: USD/IDR And Indonesia 10-Year Yield Soared Amid EM Rout

Source: Bloomberg, UOB Global Economics & Markets Research



This time round, South East Asian (SEA) currencies bore the brunt of the selloff, with IDR, THB, MYR and SGD tumbling in excess of 7% against the USD as at 24-Mar, exacerbated by capital outflows.

The IDR has experienced a dramatic twist of fate in just the few short months of 2020. As late as end-January, IDR was unscathed from the early days of the COVID-19 outbreak and even stood out as the best performing currency in Asia, gaining 2% to 13,600, a two-year high against the USD. Back then, Bank Indonesia (BI) was seen tolerant of IDR strength, as it was deemed as a reflection of sound economic fundamentals, strong GDP growth and low inflation. Investors also affirmed the positive outlook, pouring in as much as $2 billion into Indonesia bonds and $230 million in Indonesia stocks in January. As it turns out, Indonesia was not spared when the EM rout started in late February. USD/IDR went vertical after taking out 14,000 on 28-Feb and soared to 16,500 (as at 24-Mar), making IDR the worst performing Asian currency year-to-date (-15%).

In the coming months, IDR remains under pressure on investors adopt a flight-to-quality approach amid an evolving COVID-19 outbreak, with USD/IDR expected at 16,900 at 2Q20 and 17,300 at 3Q20. At the same time, BI is likely to continue with its triple intervention of spot IDR, domestic non-deliverable IDR forward and bond markets in an effort to quell market volatility. Starting 4Q20, assuming that COVID-19 is brought under control globally, high real yields in Indonesian sovereign bonds may appeal to investors again when markets stabilize, spurring a recovery in the IDR. Our point forecasts are 16,500 at 4Q20 and 16,000 at 1Q21.

Be careful of what you wish for! Last year, Thai authorities had been throwing sand into the wheel to curb THB's persistent strength, including a surprise rate cut and measures to encourage capital outflows. The efforts hardly paid off amidst inflows that buoyed the THB and led to the currency outperforming in the rest of Asia for a second year, gaining 8.6% to 30 /USD in 2019.

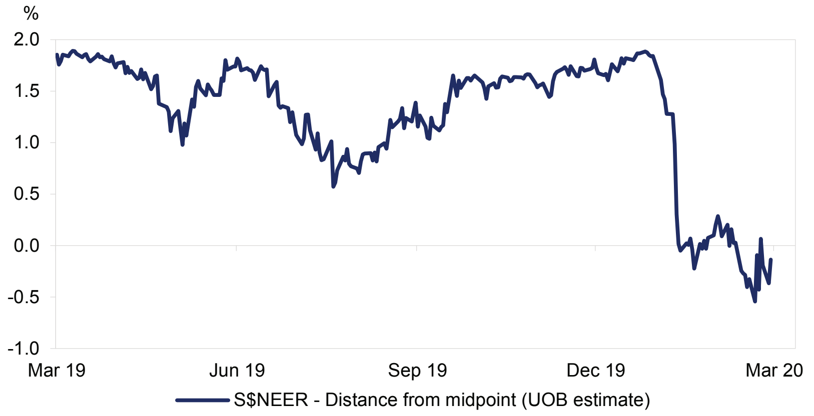
In 1Q20, the much awaited weakness in THB came swiftly with USD/THB jumping over 8% to 32.80 as at 24-Mar, one of the biggest movers amongst Asian FX as the escalating COVID-19 outbreak hamstrung the tourism-reliant Thai economy. With travel confidence still weak, together with continued outflows from Thai stock and bond markets, THB may weaken further to 33.30 by 2Q20 and a further 34.00 by 3Q20 before a China-led recovery in 2H20 spur a recovery to 33.50 in 4Q20 and 33.00 in 1Q21.

The MYR too is not spared from the increasing fallout from the COVID-19 outbreak. USD/MYR rose sharply from 4.05 in late January to 4.42 as at 24-Mar, alongside broad weakness in the Asian FX space due to the expected growth slowdown inflicted by the COVID-19 outbreak. A slump in Brent crude from US$45 /bbl to $28 / bbl after OPEC+ talks broke down in early March also compound MYR losses as Malaysia is net oil exporter. Our updated commodity forecasts now see Brent crude pinned at a low $20 - $30 /bbl range throughout 2020.

While the Malaysian economy may find some support from the fiscal and monetary stimulus already announced, the MYR continues to be weighed by the relentless deleveraging from EM together and the sharp and sudden collapse in crude oil price. As such, we see further weakness of MYR to 4.50 in 2Q20 and 4.55 in 3Q20. After which, a modest growth recovery in 2H20 as the COVID-19 outbreak shows signs of getting under control, USD/MYR should eventually ease lower to 4.45 in 4Q20 and 4.40 in 1Q21.

Chart 8: The Rich S$NEER Finally Deflates

Source: Bloomberg, UOB Global Economics & Markets Research



SGD Weakness Towards 1.50 Inevitable

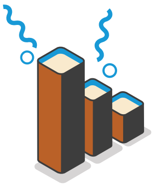
As for USD/SGD, the quick turnabout from 1.35 at the turn of the year to 1.45 (as at 24 Mar) reflects the sudden deterioration of Singapore's growth and inflation outlook brought about by the COVID-19 pandemic. Trading under the midpoint, the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) has also largely priced in a lowering of the policy slope to neutral in the upcoming MAS meeting 30-Mar. In a challenging macroeconomic backdrop, it is likely the S$NEER will stay pinned below the midpoint in the coming few months. That said, in keeping pace with expected weakness of most of its trading peers against the USD, we can expect a further slide in SGD to 1.48 and 1.50, in 2Q and 3Q20 respectively. Assuming a late-2020 global recovery, USD/SGD could well normalize lower towards 1.48 in 4Q20 and 1.45 in 1Q21. A risk to our updated set of forecasts is a more aggressive easing by MAS via a one-off re-centering of the S$NEER lower. Such a move would put upside risks to our USD/SGD forecasts, especially in the immediate quarter (2Q20).

Final Note On Volatility

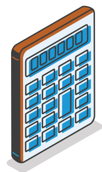
As a final note, we would like to emphasize that there is an intense amount of uncertainty and consequently an explosion of volatility across all asset classes, including the FX space as well. In fact, FX implied volatility for G-7 currency pairs jumped from the 5% handle at the start of the year to the elevated level of 15% to 20%. In the coming weeks ahead, FX markets will need to deal with the significant growth contraction as well as the on-going episodes of funding crunch.

RATES STRATEGY

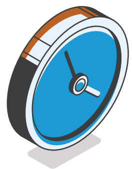
Hello ZIRP And QE Our Old Friends



Furious emergency central bank actions have taken global interest rates back to 2008's lows (or lower in some countries).



Zero Interest Rate Policy (ZIRP) makes a return together with quantitative easing (QE) as the governing monetary policy setting in 2020.



Accommodative policies will be maintained for the rest of the year in order to mitigate risks from the combined demand and supply shock.

A Recap Of Quantitative Easing

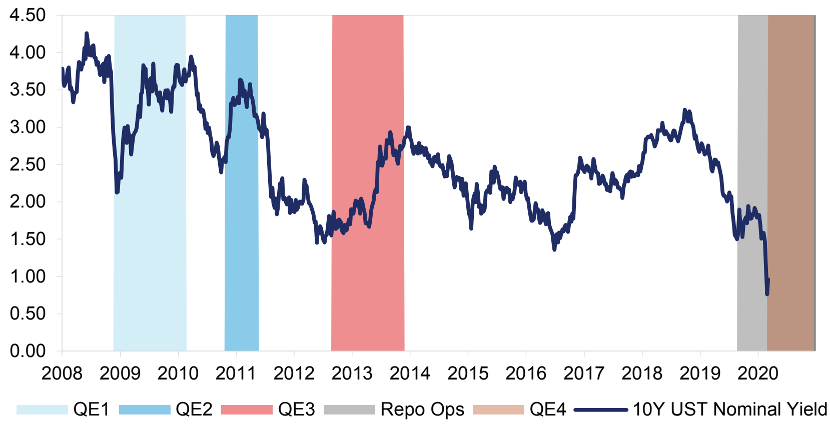
Six years after the US Fed ended quantitative easing (QE3) in 2013, global growth has been brought to its knees by the outbreak of COVID-19, and with the policy rate slashed to its zero bound the US Fed is once again in the bond buying business.

Previous iterations of QE 1, 2, and 3 have all resulted in higher 10Y UST yields at the end of the bond buying program compared to when it started. This is counter intuitive to some people since there is an assumption that the presence of a deep pocketed and price insensitive buyer would keep yields stable or even drive them lower. "QE should lead to lower yields" is a fallacy unless you also allow for a crisis of confidence in central banks scenario. Instead, a successful QE program ought to result in higher 10Y UST yields as investors' price in improved growth prospects and higher inflation expectations.

Benefits from QE can be seen more directly when viewed through the lens of financial conditions. Here we can see the loosening of financial conditions, to varying degrees, across all previous QE episodes. Given the dramatic tightening of financial conditions in 2020, the US Fed will certainly be hoping that QE4 (and potentially its enhancements if growth outlook deteriorates further) repeats the performance of its predecessors.

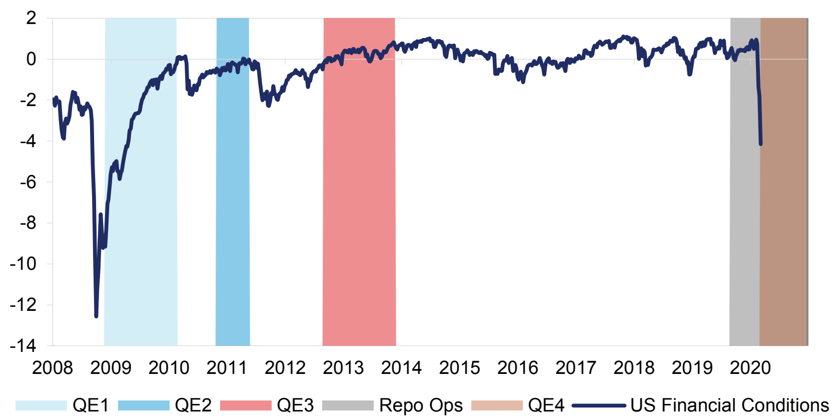
10Y UST Nominal Yield And QE

Source: Bloomberg, UOB Global Economics & Markets Research



US Financial Conditions And QE

Source: Bloomberg, UOB Global Economics & Markets Research



US And SG Monetary Policy Outlook

In a dramatic series of emergency rate cuts, the US Fed Funds rate has been slashed to the 2008's Global Financial Crisis lows of 0.00%-0.25%. We expect the US policy rate to be floored for the rest of 2020, and for monetary policy focus to shift towards quantitative easing as well as targeted and aggressive liquidity responses in order to ensure the proper functioning of financial markets.

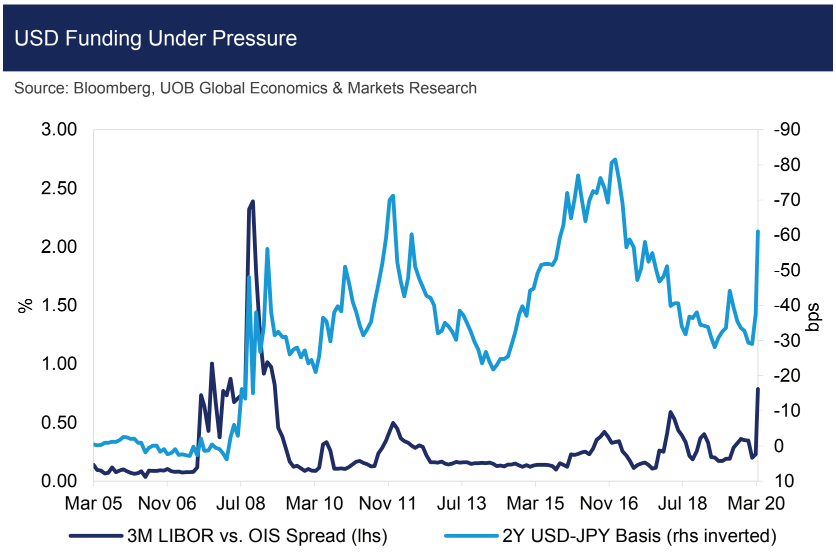
Our MAS monetary policy bias is very much tilted towards a risk of further easing measures from the authority beyond flattening of the currency basket's gradual appreciation stance. A SGD NEER slope at +0.0% p.a. is consistent with elevated recession probabilities, but given the dual supply and demand shock that is working its way through the global economy, we cannot rule out the need for further policy action.

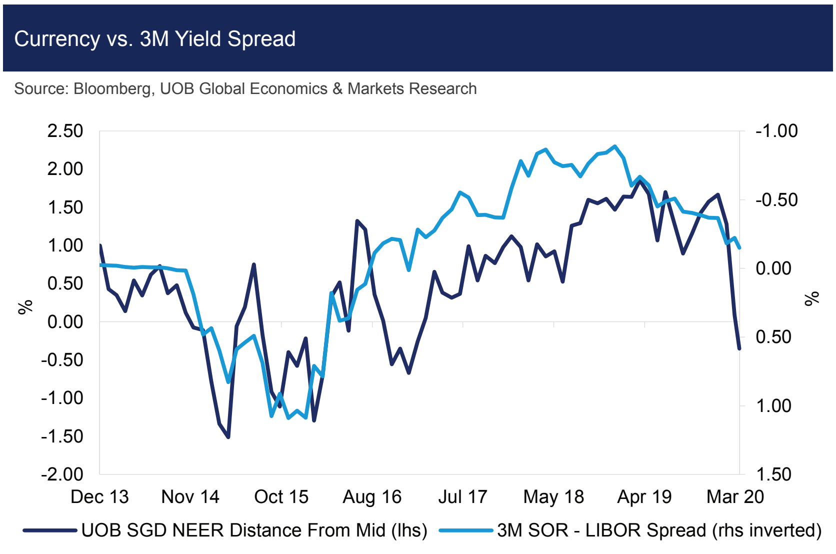
Funding Stress Need Time To Ease

Clear signs of pressure have manifested in USD funding markets as both Libor spread to overnight index swap (OIS) and its variants (e.g. forward rate agreement FRA-OIS, commercial paper CP-OIS, and Treasury Eurodollar TED spreads) as well as the cross currency basis swaps have been re-priced to reflect a significant premium for USD funding.

An environment of persistent and elevated financial market volatility will help to sustain a premium for USD in the interim. But as volatility abates and when combined with aggressive central bank actions that target liquidity stress, an eventual normalization in USD premium is built into our base case assumption. 3M US Libors are therefore projected to ease lower to 0.35% by the end of 2020.

In contrast, our more pessimistic view on the risk surrounding the SGD NEER supports the scenario where SG rates re-price to a premium over US Libors. The magnitude of SG rates premium will be contained in our view given that MAS is already monitoring the issue (see media release on 13 March: Singapore Financial Markets Functioning Well Despite Heightened Volatility) and has the ability to respond. We see 3M SORs at 0.50% by the end of 2020, and note that the journey there could be a volatile one.





Bonds Encounter Headwinds In Pushing The Negative Rates Envelope

Even though global monetary policies have abruptly turned even more accommodative after the US Fed's emergency rate cuts, longer maturity US Treasuries (UST) are reluctant to revisit their historical lows resulting in steeper yield curves. Inflation expectations, using the 5 year inflation swap 5 year forward as proxy, and the 10Y real yield have both reversed (the latter sharply) from their plunge in early March.

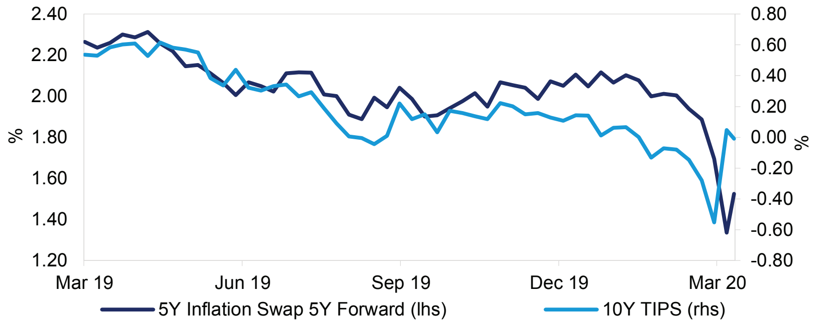
Rejection of the yield lows also coincided with an increase in the 5Y US sovereign credit default swap (CDS) which suggests that investors may be seeking compensation from US real rates for an increased likelihood of the US deficit outlook worsening as a result of further fiscal stimulus enacted to dampen the impact of COVID-19.

More broadly, our multi-year engagement with negative yielding debt has also run into significant headwinds. The market value of such debt has tumbled in a week from a high of USD 15tn on 9 March to USD 11tn on 16 March, due to a relatively strong EUR and significantly wider spreads in peripheral European sovereigns as well as across the gamut of corporate credits.

Tying it all together is complicated by the COVID-19 pandemic's fluidity and the associated uncertainty surrounding the magnitude brought onto the global economy by a combined demand and supply shock. The forwards market after its plunge to historic lows continues to be volatile but may be converging towards a 0.90 to 1.20% range for 10Y UST at the end of 2020. Our own estimate gives allowance for aggressive fiscal response which would help dampen the downside risk for growth at the expense of a worsen deficit outlook. We see 10Y UST at 1.30% for end 2020 and with policy rates cemented at the lower bound, the yield curve could steepen further by the end of the year. We see scope for gains in the 2s10s UST towards 70bps in the absence of an extended recession scenario.

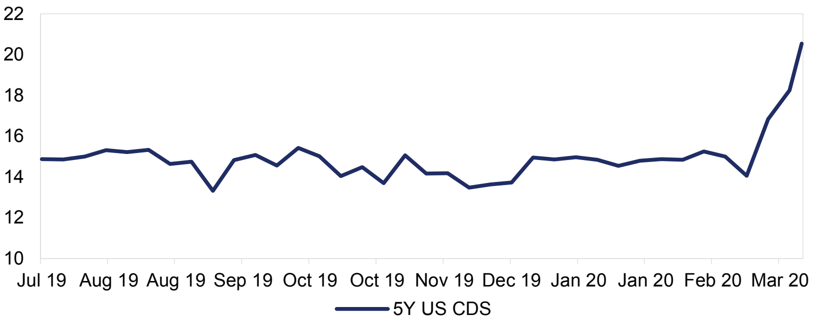
Indigestion At Lows

Source: Bloomberg, UOB Global Economics & Markets Research



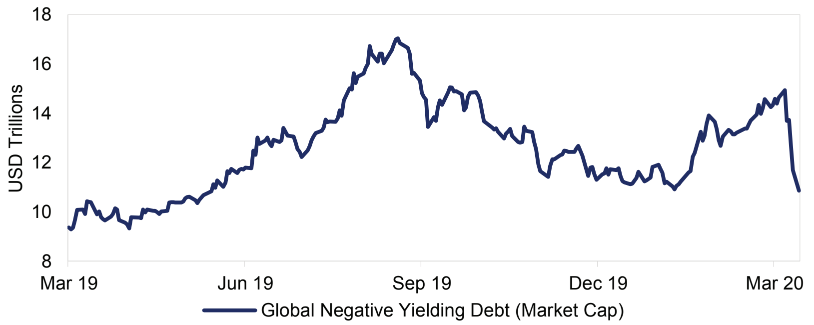
Uptick In US Sovereign Risk

Source: Bloomberg, UOB Global Economics & Markets Research



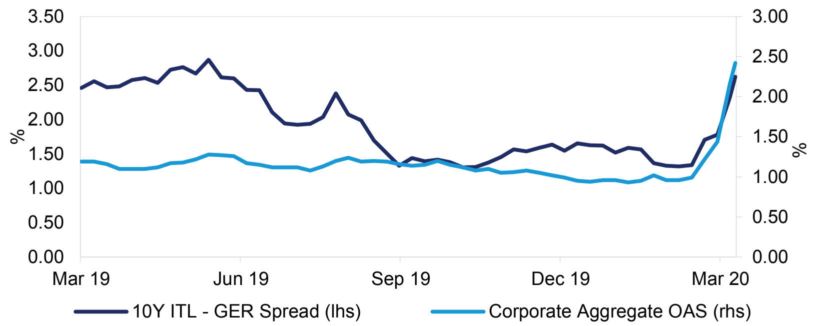
Shrinkage In Negative Yielding Debt

Source: Bloomberg, UOB Global Economics & Markets Research



Credit Risk Concerns

Source: Bloomberg, UOB Global Economics & Markets Research



Wide Spreads Make SGS Relatively Attractive

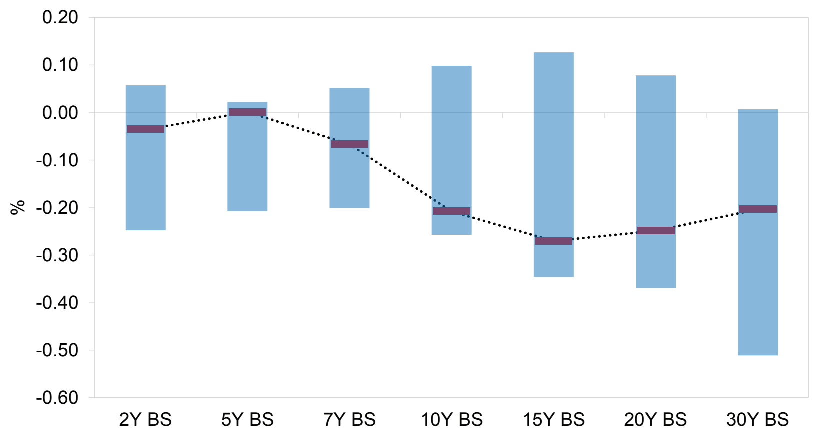
Given the volatility in US Treasuries, it is unsurprising to note that the 10Y Singapore government securities (SGS) spreads to SG interest rate swaps (IRS) and UST has also been choppy. While the dust in SGS spreads has yet to fully settle, we do get the sense that SGS has underperformed on a relative basis during 1Q 2020's volatile markets.

10Y SGS is cheap versus both SG IRS and UST as its spreads hover around their local extremes. Across the different tenor points, spreads in the 10/15Y tenors also sits at more extended levels compared to those in the short and longer maturities.

Positioning to realize the value in 10Y SGS is clouded by the risk of a more dovish than expected surprise by MAS. This potential for SGD currency sentiment to re-price negatively will prolong the SGS underperformance tendencies that are already in play. Our base case assumes volatility to taper off gradually and with it a more conducive backdrop for mean reversion in SGS spreads. Conditions will still warrant a modest SG yield premium, thus we see 10Y SGS closing out 2020 at around 1.50%.

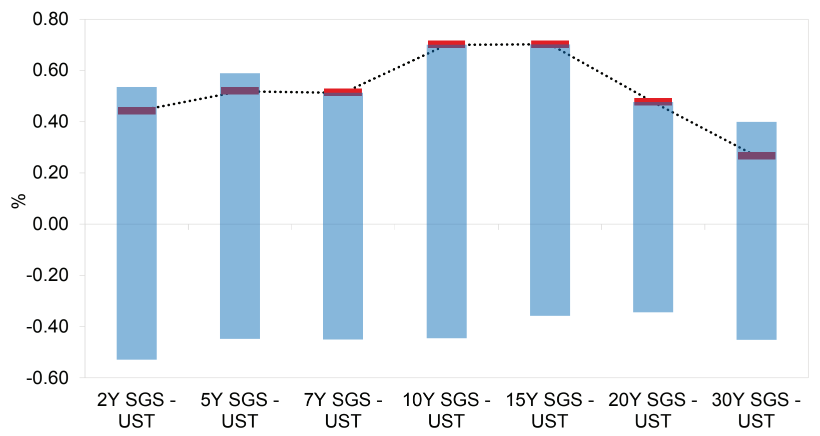
Bond Swap Spread Curve With 1Y High/Low Range (16 Mar)

Source: Bloomberg, UOB Global Economics & Markets Research



SG-UST Spread Curve With 1Y High/Low Range (16 Mar)

Source: Bloomberg, UOB Global Economics & Markets Research



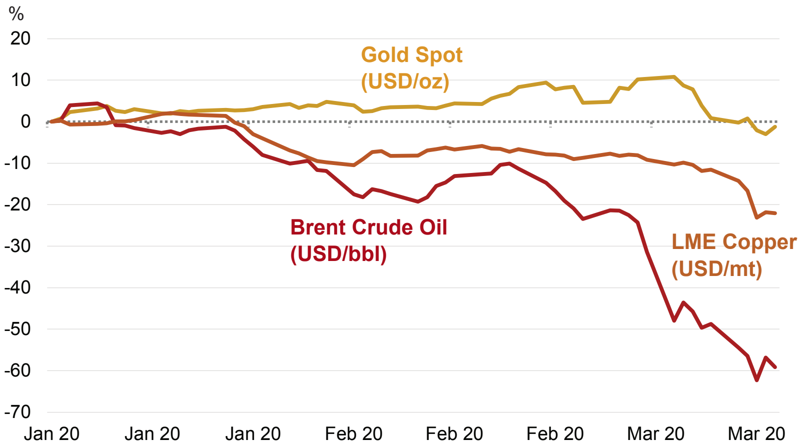
Rates	2Q20F	3Q20F	4Q20F	1Q21F
US Fed Funds Target	0.25	0.25	0.25	0.25
3M USD LIBOR	0.95	0.65	0.35	0.35
3M SGD SOR	0.85	0.70	0.50	0.50
3M SGD SIBOR	1.00	0.85	0.80	0.75
2yr UST	0.40	0.45	0.50	0.70
10y UST	1.00	1.15	1.30	1.50
2Y SGS	0.85	0.90	1.00	1.10
10Y SGS	1.30	1.35	1.50	1.60

Source: UOB Global Economics & Markets Research

COMMODITIES STRATEGY

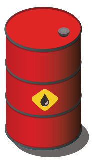
No Escape From The Global Recession

Normalised Year-To-Date Return For Gold, Copper & Brent



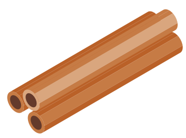
It has been a brutal month of March for all asset classes. The COVID-19 outbreak spread across the globe and intensified in Europe and the United States. As cities and countries imposed lock down and doubled down on social distancing measures to control the spread of COVID-19, it became abundantly clear that the entire world will now head into a deep and unprecedented recession across 1H of this year.

CRUDE OIL



Amongst the commodities complex, Brent crude oil bore the brunt of the selling, having collapsed by about half from USD 50 / bbl to USD 25 / bbl across March. Crude oil was essentially dealt a double whammy. On top of the COVID-19 outbreak, production talks between the Organization of the Petroleum Exporting Countries (OPEC) and Russia broke down. This led to a new price war between Saudi Arabia and Russia. Given the outsized plunge in Brent crude oil, have we seen the worst? Or will energy prices plunge further?

COPPER



In comparison to crude oil, the year-to-date sell-off in London Metal Exchange (LME) Copper of about 20% was rather muted in comparison. This may be because various mine closures have raised concerns of increasing supply deficit. However, given LME Copper (and the broad industrial metals complex) close sensitivity to global manufacturing and production, does this mean that there is more room for LME Copper to fall?

GOLD

Finally, gold was supposed to be the ideal portfolio diversifier but it failed spectacularly as a safe haven asset. Not only did gold not trade higher as risk aversion spiked, gold was caught up in the sell-off instead as it fell headlong from USD 1,680 / MT to USD 1,480 / MT. What happened there? Should gold not be rallying hard as every central bank rushed to ease monetary authority?

GOLD
To Rebound Strongly After USD Funding Crunch Abates

Across March, as global equities market suffered intense sell-offs, gold alongside other precious metals fell in tandem. This round of sell-off across March has now brought the entire precious metals complex into negative territory for the year. From its peak of about USD 1,700 / oz in early March, Gold gave up all gains to drop below USD 1,500 / oz. Palladium also plunged spectacularly from its peak of just above USD 2,850 / oz in late Feb to USD 1,650 / oz, registering a peak-to-trough sell-off of more than 40%.

At first glance, this sell-off in gold makes no sense. While it can be argued that Palladium's industrial demand will suffer a sharp drop as global automotive sales come to a screeching halt, the same cannot be said about gold. Global central banks have all cut rates all the way down to the zero bound and re-introduced Quantitative Easing (QE), yet gold did not seem to respond well to this latest round of monetary policy easing. More importantly, gold would appear to have failed spectacularly as a risk aversion hedge.

The main culprit to gold's puzzling behavior is the on-going USD funding crunch that is holding financial markets hostage at the moment. As a result, gold was sold off alongside the equities melt-down as global investors rushed to raise cash. If you plot gold price alongside the inverse of 3M US Libor (the classic indicator of interbank funding cost), this round of weakness in gold becomes apparent. Further evidence of this funding crunch can be gleamed from the indiscriminate sell-off in Gold Exchange Traded Fund (ETF GLD) such that the ETF price is now trading at a an unprecedented discount to NAV.

Going forward, once this USD funding crunch dissipates after 2Q, gold should respond well to the massive amount of global monetary policy easing. By then, there is significant default risk as the global economy slows down drastically. Hence, gold's safe haven role should return with a vengeance. Furthermore, recent global lockdowns have resulted in a shortage of physical gold as global transportation links get cut. As such, we would expect Gold to rebound significantly in the quarters ahead. We update our gold forecast to USD 1,650 in 2Q, 1,700 in 3Q, 1,750 in 4Q and 1,800 in 1Q21.

Chart G1: Entire Precious Metals Complex Now In Contraction Year-To-Date

Source: Bloomberg, UOB Global Economics & Markets Research

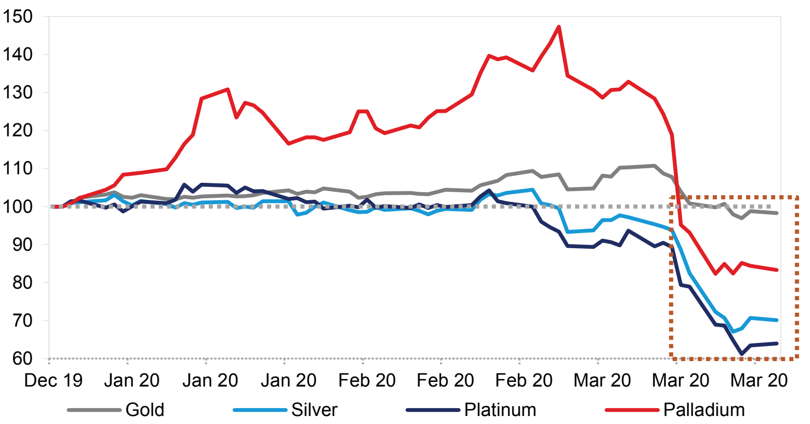


Chart G2: Gold Held Hostage By USD Funding Crunch

Source: Bloomberg, UOB Global Economics & Markets Research

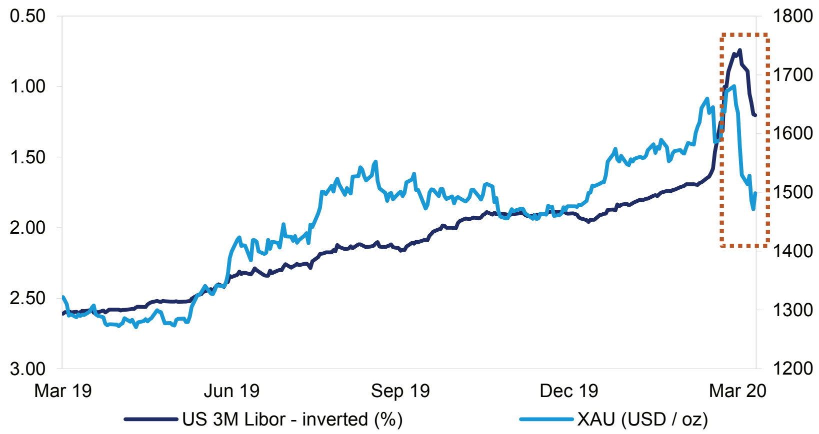
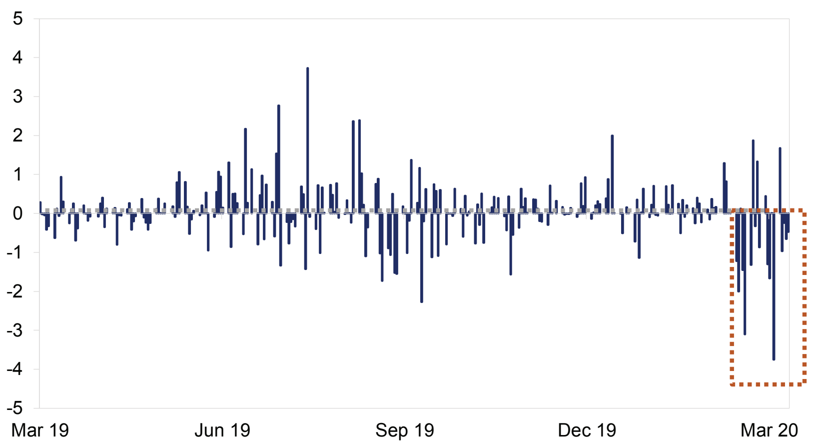
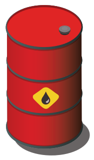


Chart G3: GLD ETF Started To Trade At A Widening Discount To NAV

Source: Bloomberg, UOB Global Economics & Markets Research





BRENT CRUDE OIL

Double Whammy From COVID Outbreak And OPEC+ Failure

At the start of the year, rising Middle East tensions pushed Brent crude oil to nearly USD 70 / bbl in early January. Since then, two significant "Black Swan" type of event risks have dealt a very heavy double whammy on Brent crude oil price. First was the outbreak of the COVID-19 that resulted in an intense contraction in the global economy and a precipitous drop of global crude oil demand. With China, Eurozone and the US likely to slip into a sharp recession in 1H, the odds have increased for a rarely seen annual reduction in global energy demand.

To make matters much worse, Saudi Arabia's talks with Russia to limit crude oil production broke down spectacularly, leading to the failure of OPEC+. This resulted in Saudi Arabia leading the rest of OPEC in sharply ramping up their crude oil production. Saudi Arabia was previously producing less than 10 mio bpd and in the ensuing "Oil War" with Russia has now made clear its "determination" to ramp up its production to around 12 mio or 13 mio bpd.

This ramp up in production is very bad news for Brent crude oil price, given that global energy demand is also expected to contract this year. For further evidence of sharp slowdown in energy demand, both benchmark grades of US gasoline and US jet fuel have now collapsed below Global Financial Crisis (GFC) low.

As a result, Brent crude oil has collapsed by around half from the USD 50 / bbl in late Feb, Brent crude oil fell to USD 25 / bbl by late March. West Texas Intermediate (WTI) crude oil even fell further to test the USD 20 / bbl lower bound. The sharp sell-off in crude oil has resulted in a steep contango last seen during the GFC. Concurrently, crude oil implied volatility exploded to almost 200%.

Going forward, we believe that risks remain for Brent to test the USD 20 / bbl downside in 2Q. Thereafter, energy demand is expected to stay weak in the coming quarters as the global economy tries to heal itself. Thus, we further downgrade our Brent forecast to USD 20 in 2Q, USD 25 in 3Q, USD 30 in 4Q and USD 35 in 1Q21. Only a surprise reconciliation between Saudi Arabia and Russia will be able to trigger a stronger recovery in energy prices.

Chart B1: Brent Plunges Into A Deep Contango

Source: Bloomberg, UOB Global Economics & Markets Research

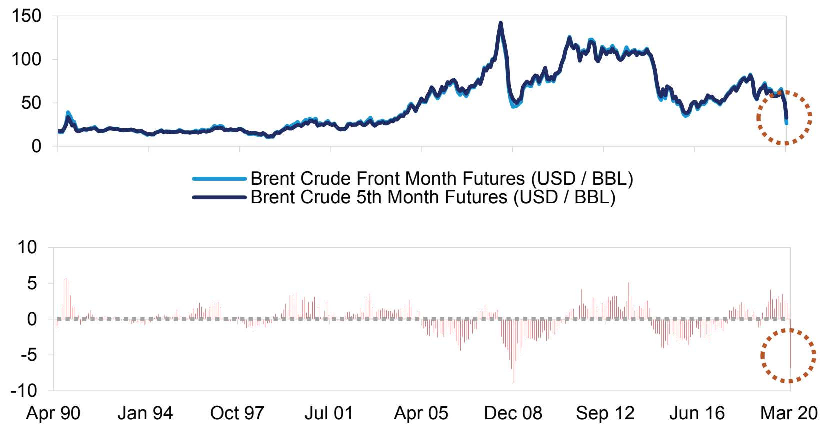


Chart B2: Both US Gasoline And Jet Fuel Have Plunged Below GFC Low

Source: Bloomberg, UOB Global Economics & Markets Research

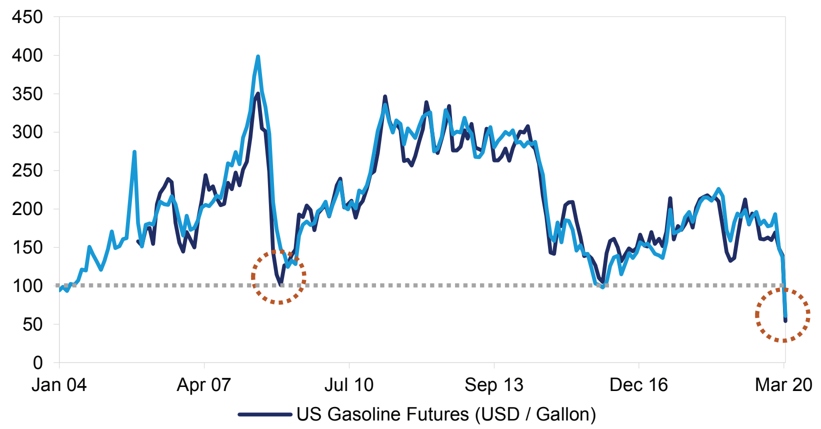
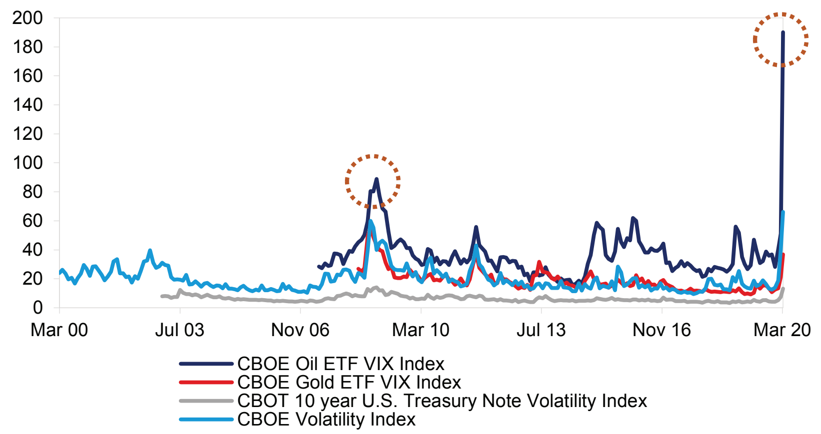


Chart B3: Blowout In Crude Oil Volatility Beyond GFC Extreme

Source: Bloomberg, UOB Global Economics & Markets Research



COPPER
Risk Increases For “Catch-Up” Sell-Off

There was no escape from the sharp global growth slowdown. Industrial metals, given their high sensitivity to global industrial activity have started to encounter selling pressure since late January when COVID-19 first broke out in China. Since then, the entire industrial metals complex (i.e. Copper, Aluminum, Lead, Nickel, Zinc and Tin) have all fallen by around 15% to 25% year to date.

Due to optimism from the signing of the US-China trade deal in 4Q 2019, LME Copper started the year at the high around USD 6,200 / Metric Ton (MT). Thereafter, because of the COVID-19 outbreak, LME Copper has since fallen under USD 5,000 / MT to USD 4,800 / MT now. While this 22% sell-off may seem significant, LME Copper price is still far from previous crisis low. In fact, LME Copper has fallen to much lower levels during the China hard landing period in 2015/16 and the GFC period in 2008/09 as well.

Industrial metals are particularly sensitive to China’s manufacturing activity. For a guide of how much further LME Copper may fall, a good indicator may be China’s official Purchasing Managers’ Index (PMI). In the latest February reading, both China’s headline manufacturing PMI and new export order PMI fell hard into recessionary territory of 35.7 and 28.7 respectively. The last time we saw such a steep slump in China PMI was during the GFC period in 08/09 when LME Copper fell to nearly USD 3,000 / MT.

Before we can countenance a headlong plunge in LME Copper from USD 4,800 to USD 3,000 / MT, we need to appreciate that the Copper demand-supply equation is much tighter now (although demand will start to deteriorate significantly from here on). In addition, trading position for copper as proxied by the net non-commercial futures positioning of Comex Copper on the Commodity Futures Trading Commission (CFTC) suggested that net positioning for copper has been sold off aggressively last year during the US-China trade conflict to a near extreme short.

Overall, we downgrade our LME Copper forecast further and see a risk of a further fall to USD 4,000 / MT in 2Q, before mild recovery to USD 4,300 / MT in 3Q, USD 4,600 / MT in 4Q and USD 5,000 / MT in 1Q21.

Chart C1: Industrial Metals Have Corrected En-mass

Source: Bloomberg, UOB Global Economics & Markets Research

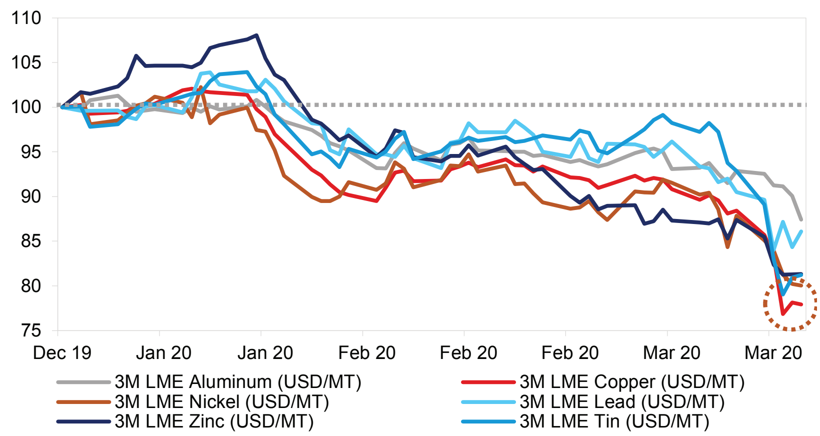


Chart C2: LME Copper At Risk Of A Significant Weakness Alongside PMI Plunge

Source: Bloomberg, UOB Global Economics & Markets Research

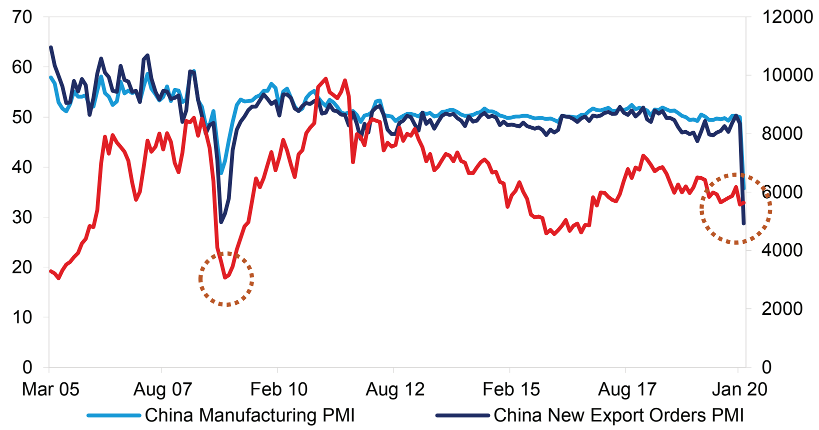
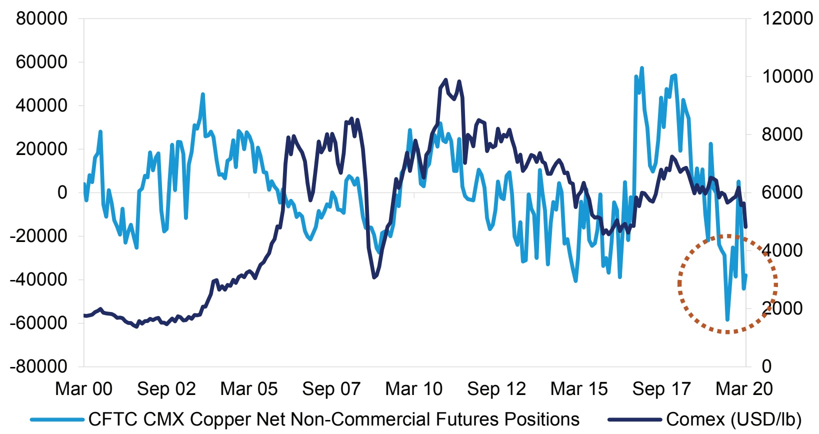


Chart C3: Copper Net Positioning Likely To Head Even Lower

Source: Bloomberg, UOB Global Economics & Markets Research



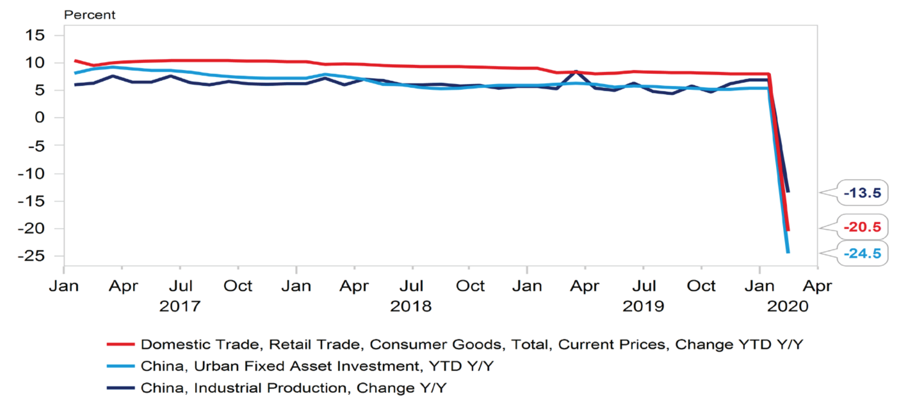
CHINA

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/CNY	7.20	7.25	7.10	7.00
CNY 1Y Loan Prime Rate	3.80	3.80	3.80	3.80

Economic Indicators	2018	2019	2020F	2021F
GDP	6.7	6.1	4.1	6.1
CPI (average, y/y %)	2.1	2.9	4.0	3.0
Unemployment rate (%)	3.8	3.6	4.3	4.0
Current account (% of GDP)	0.4	1.2	0.2	1.0
Fiscal balance (% of GDP)	-2.6	-2.8	-3.5	-3.0

China: Record Slump In Jan-Feb Domestic Macro Indicators

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Resumption Of Economic Activities To Stabilize Outlook In 2Q20

Unprecedented double-digit declines were seen in Jan-Feb key Chinese economic data including retail sales (-20.5% y/y), industrial production (-13.5% y/y) and fixed asset investment (-24.5% y/y) which recorded the first-ever contraction for these economic data series. Exports also fell a sharp 17.2% y/y in Jan-Feb and the surveyed jobless rate jumped by 1% point to 6.2% in February from 5.2% in December 2019, the highest on record. With this dire set of economic data, market is primed for a sharp drop in 1Q20 GDP. The implication on the labour market will be a concern as job losses could continue amidst the global economic downturn.

We currently expect 1Q20 GDP to come in at -3.4% y/y. However, signs of resumption to normalcy affirm the trajectory in our GDP forecast which expects growth to recover to 5.7% y/y in 2Q20 and then average 6.5% in the second half of the year. This is premised on further efforts by the Chinese government to accelerate the resumption of work and clearly the key risk is a resurgence in domestic COVID-19 infections and a more prolonged pandemic affecting the US and Europe that will cause further dislocation to global supply chains and weigh on demand.

Given the contraction projected in 1Q20, we expect full-year 2020 growth to be around 4.1% which will be the worst year since 1990 when China registered GDP growth of just 3.9%.

Looking at the confluence of factors from both supply and demand including expectation for high pork prices to be sustained, weaker GDP growth and lower crude oil prices, the headline inflation is likely to be contained but may continue to stay elevated at around 5.0% in the next few months before starting to track lower in the later part of the year.

CENTRAL BANK: Further Monetary Easing Still Likely To Secure Growth Recovery

China's policy responses have remained measured and notably less aggressive compared to the drastic actions taken by G7 central banks. The People's Bank of China (PBoC) announced a cut to banks' reserve requirement ratio (RRR) by 50 to 100bps for all banks that meet the criteria for lending to small and midsized enterprises (SMEs) and private companies under its inclusive finance program, effective from 16 March. Qualified joint-stock banks will get an additional 100bps reduction in their RRR. This was the second RRR reduction year-to-date following a broad-based 50bps cut in January.

However, the PBoC has surprised market by keeping the benchmark Loan Prime Rate (LPR) unchanged in March against consensus expectation of a 5-10bps rate cut. Year-to-date, the PBoC has cut its 1Y LPR and 5Y & above LPR by 10bps and 5bps respectively. While this relatively modest cuts may hint at the authorities' confidence that the economy has stabilized, we still see room for monetary easing via more reductions to the LPR and RRR ahead to provide further boost to the economy.

Our forecast for further decline in the 1Y LPR to 3.80% by end-2Q20 from 4.05% remains unchanged for now while we still see the possibility of one more RRR cut in the next 3-6 months to provide financing support to the SMEs in particular.

Any further easing will likely be after the National People's Congress (NPC) which was delayed from 5 March. The annual meeting will establish key economic targets for 2020 and it will be important to watch the official outlook given how the global situation will inevitably feedback to China.

CURRENCY: CNY Standout Strength vs Asian Peers May Not Persist

Amid increasing signs that the Chinese economy is slowly climbing out of the COVID-19 inflicted malaise and assuming there is no second major outbreak in China, we cautiously expect a consumption-led rebound in 2H20, with GDP growth averaging 6.5% in both 3Q and 4Q20. What this means is, once the current bout of USD strength fizzles off, USD/CNY could well start ease lower starting 4Q20. Our updated USD/CNY forecasts are at 7.20 in 2Q20, 7.25 in 3Q20, 7.10 in 4Q20 and 7.00 in 1Q21.

At the same time, we caution that China's solo path to recovery in 2H20 while the rest of the world dips in recession is unlikely to be straightforward. As such the recent stability of CNY relative to the rest of Asian FX cannot be taken for granted. Noteworthy is the recent strength in the CFETS RMB index from 93 to 96 while the ADXY fell from 104 to 100 in March. While this is not our base case yet, there could be increasing pressure for the PBOC to devalue the CNY, in the event where the expected recovery in 2H20 does not materialize.

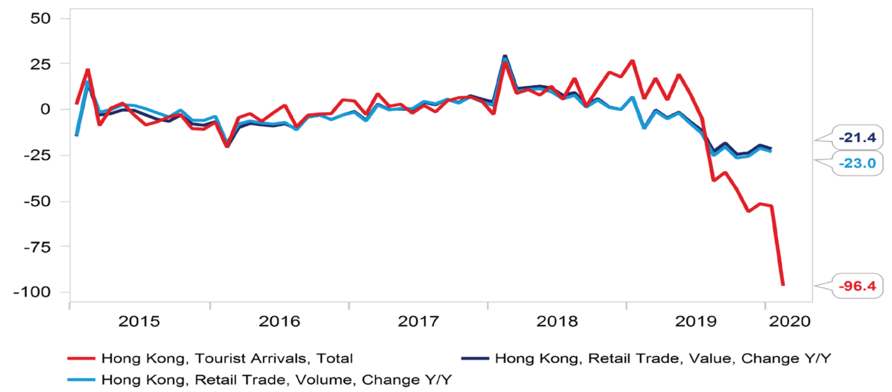
HONG KONG

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/HKD	7.76	7.78	7.80	7.80
HKD Base Rate	0.86	0.86	0.86	0.86

Economic Indicators	2018	2019	2020F	2021F
GDP	2.9	-1.2	-3.0	3.0
CPI (average, y/y %)	2.4	2.9	1.5	2.0
Unemployment rate (%)	2.8	3.3	5.0	4.0
Current account (% of GDP)	3.7	5.4	1.9	4.0
Fiscal balance (% of GDP)	2.4	-1.3	-5.0	-0.6

Hong Kong Retail Sales & Tourist Arrivals (% y/y)

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: COVID-19 Pandemic Deepens The Economic Malaise

Hong Kong economy fell for the second consecutive quarter by 2.9% y/y in 4Q19 (3Q19: -2.8% y/y) to bring 2019 GDP to its first full-year contraction since the Global Financial Crisis. Notably, all key expenditure components contracted in 4Q19, with the exception of government spending as the government continued to roll out more stimulus measures to buffer the economy. Bearing the brunt of the domestic unrest and US-China trade tensions, gross fixed capital formation and services exports (which include transport, travel and financial services) continued to contract by double-digit pace in 4Q19.

The COVID-19 pandemic is expected to deepen the economic malaise in Hong Kong in 1Q20 as seen in the sharp declines in tourism and retail sales in Hong Kong. Meanwhile, the prospect of more years of fiscal deficits to finance larger government spending may also emerge to be a greater concern as the government now foresee themselves recording budget deficits in the next five years. The budget deficit is expected to balloon to 4.8% of GDP in 2020/21 from 1.3% in 2019/20 as Hong Kong posts its first deficit since 2003/04.

So far, the government has announced a stimulus package worth HK$120bn (US$15.4bn) or around 4.2% of GDP at its budget announcement in February. This is in addition to HK$30bn Anti-epidemic Fund and a HK$10bn relief package that were announced earlier this year.

The centerpiece of the stimulus package is a generous HK$10,000 cash to Hong Kong permanent residents aged 18 or above which is expected to benefit 7 million people. However, there are concerns over whether the disbursement of the cash handouts will be timely enough, there is also significant doubt that most of the cash handouts will translate into domestic spending.

All in all, despite the massive government support measures, Hong Kong economy is poised to post another full-year GDP contraction in 2020. With the uncertainties surrounding COVID-19 trajectory and our central scenario of a global recession, we further downgrade our 2020 GDP forecast for Hong Kong to -3.0% from -0.7%. We expect Hong Kong's GDP to shrink by around 5.0% y/y in the first half of the year and the downward pressure should taper down as the pandemic eases off towards year end.

The composite CPI rose 2.9% in 2019, above the average of 2.7% in the preceding five years. This was driven mainly by higher food and private housing rentals. Into 2020, inflation has moderated in January and the weaker domestic demand, government's subsidies and concessions as well as lower oil prices all pointed to a more subdued inflation outlook for 2020. As such, we expect inflation to ease to 1.5% in 2020.

CENTRAL BANK: HIBOR To Remain At A Premium Over US LIBOR

The 3M HIBOR-LIBOR spread has continued to remain in premium (i.e. HIBOR > LIBOR) – a phenomenon since June 2019. With COVID-19 contributing to the volatile market conditions and keeping liquidity tight in the domestic market, as well as ongoing challenges facing the Hong Kong economy, the HIBOR is likely to remain at a premium over US LIBOR this year.

CURRENCY: HKD's Strength Likely To Be Short-Lived

With all the doom and gloom of the HK economy, intuitively HKD should be hugging the weaker end of the Convertibility Undertaking at 7.85 /USD. Instead, since last December, the HKD has flipped into the stronger side of the trading band, gaining to a 3-year high of just under 7.76 /USD as at 24-Mar. A persistent positive spread of HIBOR over LIBOR underpins HKD's slight edge above the USD.

Given our forecasts of a lower LIBOR relative to the HIBOR going forth, HKD may persist in the stronger halve of its trading band against USD, in a range of 7.75 – 7.80. Overall, we forecast USD/HKD at 7.76 in 2Q20 and 7.78 in 3Q20 before normalizing towards 7.80 starting 4Q20 as the HIBOR-LIBOR spread starts to narrow.

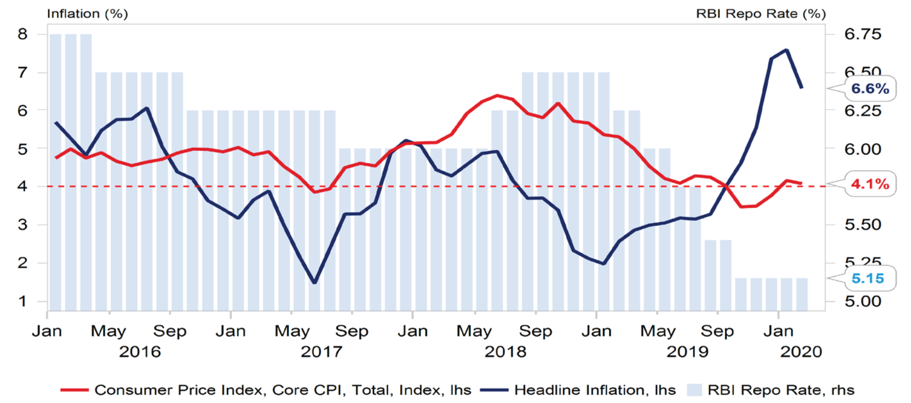
INDIA

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/INR	77.00	78.00	79.00	80.00
INR Repo Rate	4.65	4.65	4.65	4.65

Economic Indicators	2018	2019	2020F	2021F
GDP	6.1	4.8	4.0	6.0
CPI (average, y/y %)	3.4	4.8	3.5	4.2
Current account (% of GDP)	-0.9	-1.4	-1.6	-1.8
Fiscal balance (% of GDP)	-3.6	-3.8	-3.5	-3.3

RBI Rate Versus Core Inflation

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Growth Headwinds Abound In 1H20

India's economic growth is likely to see further headwinds from the Reserve Bank of India's (RBI) growth outlook of 6.0% for FY2020-21. Before the escalation of the COVID-19 pandemic, the assumptions laid out in the RBI monetary policy statement were relatively optimistic. RBI cited an expected recovery in private consumption, improved trade and investment momentum given the easing global trade uncertainties, and measures from the Union Budget 2020-21 that would have spurred government infrastructure spending.

The economic outlook has now turned increasingly negative given the COVID-19 pandemic and falling oil prices. Latest government estimates are merely pencilling in a COVID-19 led growth hit of between 0.3% and 0.5% in FY2020-21, while growth in the first two quarters may be as low as between 4.0% and 4.5%. Should the government's estimates come to pass, India's economy will grow by between 5.5% and 5.7% in the upcoming fiscal year.

However, we are relatively more bearish on India's growth outlook, considering the negative knock-on impacts on specific sectors such as tourism, aviation, hospitality and trade. Other sectors including consumer durables, manufacturing and agricultural production should also see headwinds given global demand and supply disruptions as COVID-19 concerns wear on. These will add to the already softer automobile industry and weaker domestic consumption as the car-makers suffered on the back of the US-China trade tensions in 2019.

India is also likely see a softer inflation into the upcoming fiscal year due to three factors: (1) high levels of food inflation are likely to dissipate into 2020 as weather conditions improve; (2) lower crude oil price levels which will have material effects on energy-related components such as fuel & light and transport & communication; and (3) softer-than-expected growth trajectory given COVID-19 related headwinds.

With growth headwinds from COVID-19 amid an observably softer economic environment in 2019, we downgrade India's economic growth forecast to 4.0% in FY2020-21 (from 6.5% previously), with downside risks especially if the COVID-19 pandemic is more severe and protracted than previously anticipated. Should our annual growth forecast come to pass, India will see its record-low growth, which was not seen even during 2001 Dot-Com crisis (at 4.3%). We also downgrade our inflation projection to an average of 3.5% for the new fiscal year (from 4.4% previously).

CENTRAL BANK: Policy-makers Has Some Weighing To Do

Despite the headwinds against both growth and inflation, India's policy-makers would have to re-evaluate on their decision to cut rates further, especially when policy space is increasingly limited amid fund outflows and an observably weaker INR. Note that the RBI was the most aggressive Asian central bank in cutting its benchmark rate in 2019 by 135bps to 5.15%, which is merely 40bps away from the historical low of 4.75% back during the 2008/09 Global Financial Crisis. RBI, however, cited that "there is policy space available for future action" in its 6 Feb monetary policy statement, in which we think another 50bps cut could occur in its upcoming Apr meeting to 4.65%. Further rate cuts beyond that point could fuel further fund outflows and weigh precariously on the INR.

CURRENCY: Pressure On INR To Slide Further To New Record Lows

The INR has been on a tailspin in Mar due to the COVID-19 pandemic. The intense emerging markets rout saw foreigners pulling out a record USD7bn from Indian bond markets in Mar, causing the domestic currency to collapse as they fled to the ultimate safe haven, the USD. Consequently, USD/INR shot up from 72 to a new record high of 76.

With India's growth and inflation still biased to the downside coupled with a fragile global risk appetite, further weakness in the INR is expected. As such, we maintain a higher trajectory in USD/INR, steadily towards 77 in 2Q20, 78 in 3Q20, 79 in 4Q20 and 80 in 1Q21.

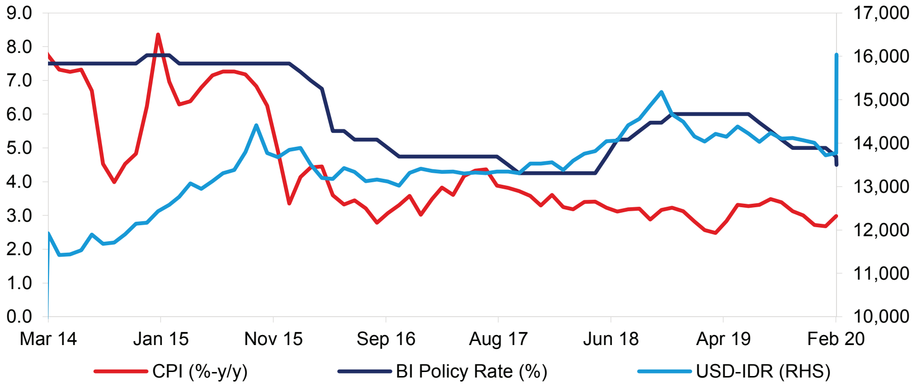
INDONESIA

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/IDR	16,900	17,300	16,500	16,000
IDR 7D Reverse Repo	4.25	4.25	4.25	4.25

Economic Indicators	2018	2019	2020F	2021F
GDP	5.2	5.0	4.5	5.3
CPI (average, y/y %)	3.2	3.0	3.5	3.5
Unemployment rate (%)	5.3	5.3	5.3	5.2
Current account (% of GDP)	-3.0	-2.7	-2.6	-2.5
Fiscal balance (% of GDP)	-1.8	-2.2	-2.5	-2.3

Headline Inflation, Rupiah & BI Policy Rate

BI, Statistics Indonesia, Bloomberg, UOB Global Economics & Markets Research



ECONOMY: COVID-19 Might Drag Growth In 2020

Indonesia's 4Q19 Gross Domestic Product (GDP) growth slowed to 4.97% y/y from 5.02% y/y in the previous quarter. This marked the slowest quarterly economic expansion since 4Q16. For the full year of 2019, the economy grew by 5.02%, slower than 5.17% in 2018. Exports was hit by the US-China trade tension, with exports of goods and services contracting by 0.87% in 2019 (vs. +6.48% in 2018). In addition, the 2019 general election held back investment growth at 4.45% (2018: +6.67%). Nevertheless, the country's growth fundamentals remained resilient, supported by relatively strong household consumption, which grew by 5.02%.

The Phase 1 Trade Deal agreed between the US and China has certainly helped to ease global uncertainty and stoke economic optimism of the global economic recovery. The optimism, however, has been grinded down by the COVID-19 outbreak, which threatens to send the global economy to a recession. Given the current status of the pandemic, the effect of COVID-19 on the Indonesian economy might be more severe than initially expected as it will delay consumption and investment.

So far, the government has announced both fiscal and non-fiscal stimulus for specific sectors including tourism, airline, housing, manufacturing, and trade, in addition to measures to strengthen the resilience of the banking sector. To provide more ammunition, the government is currently contemplating to heed on the House's suggestion to increase the budget deficit cap from 3% to 5%. Indonesia's debt level (at around 30% of GDP) is lower than the internationally accepted norm of 60% and certainly one of the lowest amongst its neighboring countries. We are of the view that Indonesia still has enough fiscal space to support the economy and it's highly likely they will use this additional firepower to keep consumer confidence abreast. In essence, targeted productive spending and expansionary policies remain crucial to restore the market confidence and soften the negative economic impacts of COVID-19. On balance, with the pandemic expected to shave 0.3ppts-0.7ppts off GDP growth, **we are revising our 2020 growth forecast to 4.5%** (from 5.2% previously).

CENTRAL BANK: 50bps Cut In 1Q20, Eyeing For A Final 25bps In 2Q20

Bank Indonesia (BI) has stepped up to support the slowing economy amidst the negative ramifications from the massive outbreak of the COVID-19. So far, BI has lowered its benchmark rate by 50bps throughout the 1Q20; It has also imposed macroprudential and mitigating measures to maintain money market and financial system stability, as well as catalyze economic growth momentum.

With the inflation risk rather muted at this juncture and within the target range of 2%-4%, **BI may cut policy rate by another 25bps to 4.25% at its April's monetary policy meeting**. It is likely to be the last rate cut for 2020, bringing the BI 7-Day Reverse Repo rate back to its lowest point before the 175bps hike in 2018. The accommodative policy adopted by BI will also ensure that the domestic market and economic recovery will be swift and more sustained once COVID-19 risks dissipate.

CURRENCY: IDR Suffers From Intense EM Rout

The IDR has a dramatic turn of fate in just the few short months of 2020. Even at end-Jan, IDR was unscathed from the early days of the COVID-19 outbreak and stood out as the best performing currency in Asia, gaining 2% to 13,600, a two-year high against the USD. Back then, BI was seen to be tolerant of IDR strength, as it is deemed as a reflection of a strong GDP growth and low inflation environment. Investors also affirmed the positive outlook, pouring in as much as USD2bn into Indonesian bonds and USD230m into Indonesian stocks in January. As it turns out, Indonesia was not spared when the EM rout started late February. USD/IDR went vertical after taking out 14,000 on 28 Feb and soared to 16,500 (as at 24 Mar), making IDR the worst performing Asian currency year-to-date (-15%).

In the coming months, IDR remains under pressure as investors adopt a flight-to-quality approach amid an evolving COVID-19 outbreak, with USD/IDR expected to be at 16,800 in 2Q20 and 17,000 in 3Q20. At the same time, BI is likely to continue with its triple intervention of spot IDR, domestic non-deliverable IDR forward, and bond markets in an effort to quell market volatility. Starting 4Q20, assuming that COVID-19 is brought under control globally, high real yields in Indonesian sovereign bonds may appeal to investors again when markets stabilize, spurring a recovery in the IDR. Our point forecasts are 16,500 in 4Q20 and 16,000 in 1Q21.

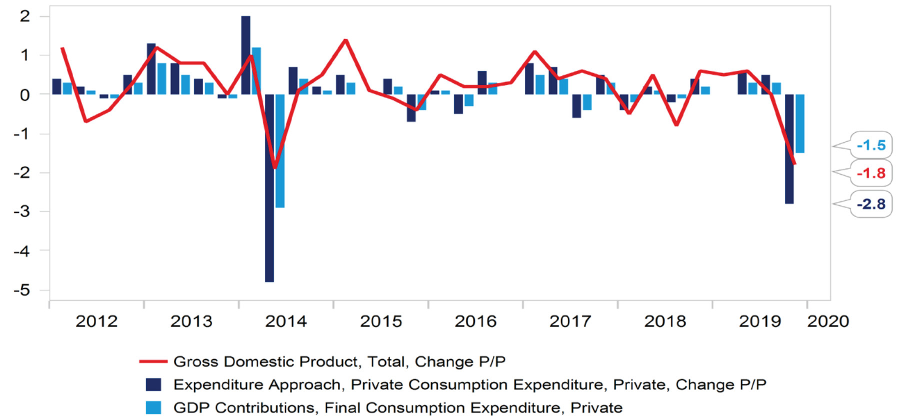
JAPAN

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/JPY	112	114	112	109
JPY Policy Rate	-0.20	-0.20	-0.20	-0.20

Economic Indicators	2018	2019	2020F	2021F
GDP	0.3	0.7	-2.5	0.5
CPI (average, y/y %)	1.0	0.5	0.9	1.1
Unemployment Rate (%)	2.4	2.4	3.5	2.5
Current account (% of GDP)	3.5	3.6	2.0	2.5
Fiscal balance (% of GDP)	-3.2	-2.7	-4.5	-4.5

The Collapse Of Domestic Demand Will Worsen In 1H 2020 With The COVID-19 Pandemic

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Recession Ahead

The contraction of Japan's 4Q19 GDP was worse than expected, coming in at -1.8% q/q (-7.1% annualized rate), as the Oct 2019 sales tax and bad weather extracted its toll on private consumption and business spending, offsetting the positive contributions from public demand and net exports. This was the worst quarterly slump in 6 years, since 4Q14 (when the sales tax was hiked from 5% to 8% in Apr 2014). This was made worse by another downward revision to 3Q19's growth to 0.0% q/q (+0.1% annualized rate).

Since late last year, we had maintained a cautious stance on Japan's growth outlook as we see Japan facing significant challenges. Now with the latest threat of the COVID-19 pandemic, things will get worse. Domestic market weakness post Oct 2019 sales tax hike led to a collapse of private spending in 4Q19 and could now extend deep into 2020. Adding to the woes is the COVID-19, which could impact first on Japan's domestic consumer and to tourism-related sectors, with the postponement of the Tokyo Olympics another casualty of COVID-19, ultimately feeds negatively into domestic demand, translating to weaker imports.

Furthermore, COVID-19 in China has at least temporarily disrupted global supply chains, leading to disruptions in Japan's huge manufacturing base. And with COVID-19 pandemic hurting external demand, Japan's trade outlook looks highly troubled this year. PM Abe launched a panel to propose a stimulus package likely in April to support the economy from COVID-19 hit, with "bold and unprecedented" steps. Reports suggest JPY30tn emergency economic package is in the works, well exceeding the JPY15tn package doled out during the 2008/09 GFC.

While the stimulus will help cushion some of the economic fallout, we believe it is inevitable Japan will enter a technical recession (i.e. 2 consecutive quarters of q/q declines) in 4Q19 to 1Q20, and into 2Q20. **We expect Japan to enter a recession this year, with full-year GDP contracting by 2.5%.** The collapse in energy prices will be a double-edged sword for energy-importer Japan, as it lowers the import bills but puts it further away from the 2.0% inflation objective in 2020.

CENTRAL BANK: More JGB Buying

Following the footsteps of the Fed Reserve, the Bank of Japan (BOJ) brought forward its March monetary policy meeting (MPM) but it was of little effect as the BOJ announced that it will keep its short term and long term policy rates unchanged. It did ease a part of its monetary policy stance by (i) doubling its purchases of exchange-traded funds (ETFs) and J-REITS to JPY12tn and JPY180bn respectively; (ii) setting up a Special Funds-Supplying Operations to facilitate corporate financing regarding COVID-19; and (iii) increasing the upper limit to buy commercial paper (CP) and corporate bonds by JPY2tn to the amounts outstanding of about JPY3.2tn and JPY4.2tn respectively.

We have long held the view that the BOJ will resume its monetary easing in 2020 and expected the Bank to ease via deepening its negative policy call rate to -0.2% (from -0.1%), with potentially other measures to follow if the domestic economic situation turns down further. The March MPM clearly demonstrated BOJ's immense resistance to push rates more negative even in the face of unprecedented threats.

Based on current projection, the BOJ is buying JGBs at an annual pace of JPY14.6tn (as of 18 Mar), well below JPY80tn objective. We re-visit the notion that the BOJ reassert its easy monetary policy position without changing the policy targets, i.e. "allow" the Finance Ministry to issue more debt (JGBs) which the BOJ in turn will buy in the secondary market so as to push its JGB purchases closer to the JPY80tn annual pace. Under the legislature since World War II, the BOJ is forbidden from buying JGBs directly, except in extraordinary circumstances and with parliamentary approval. Perhaps time for a change?

CURRENCY: USD/JPY Kept High Artificially Due To Dollar Strength

The Japanese yen, JPY, is perhaps the currency to provide the best litmus test of USD strength among the Majors. The USD/JPY pair bounced back sharply from the 101 low printed on 9 Mar to about 110 (on 24 Mar) as the relentless scramble for the USD overwhelmed safe haven demand for the JPY and stocks plunged. The USD/JPY also traced a similar V-shaped recovery in the 10-year US Treasury yield from 0.31% to about 0.90% (on 23 Mar). From here, given near-term USD demand, USD/JPY could probe higher to 112 in 2Q20 and 114 in 3Q20. After which, assuming a normalization of USD happens in 4Q20, we expect USD/JPY to drift lower towards pre-COVID-19 levels, at 112 in 4Q20 and 109 in 1Q21.

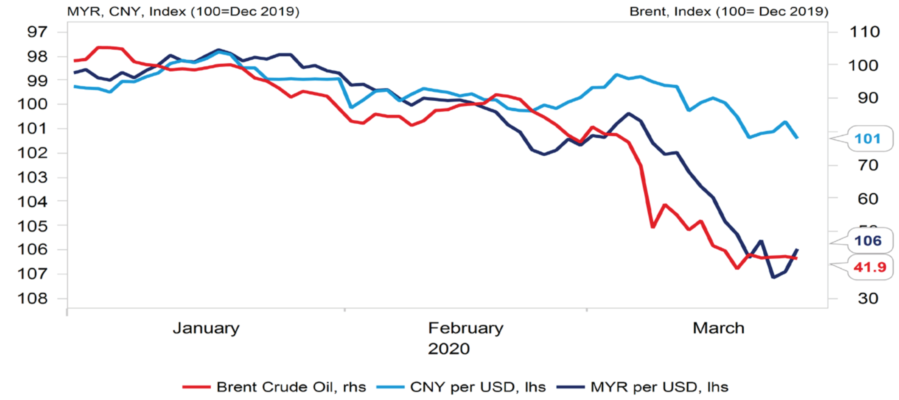
MALAYSIA

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/MYR	4.50	4.55	4.45	4.40
MYR O/N Policy Rate	2.00	2.00	2.00	2.00

Economic Indicators	2018	2019	2020F	2021F
GDP	4.7	4.3	-3.5	4.3
CPI (average, y/y %)	1.0	0.7	0.5	2.0
Unemployment rate (%)	3.3	3.3	5.0	3.4
Current account (% of GDP)	2.1	3.3	2.5	2.2
Fiscal balance (% of GDP)	-3.7	-3.4	-4.0	-3.6

MYR Weakens Alongside Oil Price

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Recession Is Imminent

Prior to the COVID-19 outbreak, Malaysia's economy was on a moderating path in line with the rest of the region due to trade tensions. Private consumption remained the prime driver of growth then as investment momentum and net exports eased.

Given the accelerating number of confirmed COVID-19 cases, the government has imposed a four-week nationwide movement control order (MCO) from 18 Mar to 14 Apr that prohibits mass gatherings, restrictions on entry of foreign visitors, bans local residents travelling abroad and within affected areas, closure of schools and education institutions, and non-essential government and private premises.

The extent of the impact will depend on the effectiveness of the MCO to manage the COVID-19 outbreak and whether more stringent measures are required. At this juncture, we expect economic growth in the 1H20 to be negatively affected with potential spillovers to 3Q20 if the situation becomes more protracted. The effects of COVID-19 and MCO have been widely felt across the domestic economy as a global recession becomes imminent. We expect Malaysia's economy to post a full year contraction of -3.5% in 2020 (+4.3% in 2019) which marks the sharpest decline since the 1997/98 Asian Financial Crisis when GDP fell 7%.

To mitigate the effects of COVID-19 and avert a deeper recession, the government announced the: 1) first fiscal package of MYR20bn, 2) MYR0.62bn of measures for affected workers and 2% electricity discount, 3) extension of the insurance coverage for COVID-19 and tax filing by two months to end-June, 4) automatic loan repayment deferment of six months for non-arrear household and SME loans, and 5) MYR41.5bn of initiatives including pension withdrawals. The total size of fiscal measures (excluding loan payment deferment) announced to date is MYR62.0bn or 4.0% of GDP, most of which is sourced from private sector savings.

CENTRAL BANK: Monetary Measures To Assist

Bank Negara Malaysia (BNM) cut the Overnight Policy Rate (OPR) by 50bps to 2.50% and lowered the Statutory Reserve Requirement (SRR) ratio by 100bps to 2.00% ytd. We estimated that for every 100bps cut in the SRR, MYR14.8bn is released into the system. Coupled with the additional SRR flexibilities granted to Principal Dealers, this has released approximately MYR30bn worth of liquidity into the banking system. In addition, the amount of excess liquidity in the system amounted to MYR160bn.

We expect further monetary support including OPR and SRR cuts to ease domestic liquidity conditions given sharp foreign selling of domestic equities and bonds. The liquidity measures alongside easing of compliance and operational burdens on financial institutions enables more support to businesses facing cash flow issues and individuals in need of financial assistance.

Inflation slowed to 1.3% y/y in Feb (1.6% in Jan). Reflecting the collapse in oil prices and expected decline in demand arising from COVID-19 and the MCO, we expect 2020 full-year inflation forecast of 0.5%. We expect some months of deflation before inflation returns to sub 1% in 2H20. A benign inflation outlook will allow BNM more leeway to trim rates in the near term.

CURRENCY: MYR Further Weighed By Lower Oil

The MYR too has not been spared from the increasing fallout from the COVID-19 outbreak. USD/MYR rose sharply from 4.05 in late January to 4.42 as at 24-Mar, alongside broad weakness in the Asian FX space due to the expected growth slowdown inflicted by the COVID-19 outbreak. A slump in Brent crude from US$45 /bbl to $28 /bbl after OPEC+ talks broke down in early March also compounded MYR losses as Malaysia is a net oil exporter. Our updated commodity forecasts now see Brent crude pinned at a low $20 - $30 /bbl range throughout 2020.

While the Malaysian economy may find some support from the fiscal and monetary stimulus already announced, the MYR continues to be weighed by the relentless deleveraging from EM together and the sharp and sudden collapse in crude oil price. As such, we see further weakness of MYR to 4.50 in 2Q20 and 4.55 in 3Q20. After which, a modest growth recovery in 2H20 as the COVID-19 outbreak shows signs of getting under control, USD/MYR should eventually ease lower to 4.45 in 4Q20 and 4.40 in 1Q21.

MYANMAR

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/MMK	1,400	1,420	1,400	1,380

Economic Indicators	2018	2019	2020F	2021F
GDP	6.2	6.3	5.0	6.0
CPI (average, y/y %)	6.9	8.8	5.5	7.0
Unemployment Rate (%)	4.0	4.0	5.3	4.9
Current account (% of GDP)	-4.1	-4.7	-5.9	-4.5
Fiscal balance (% of GDP)	-4.5	-4.5	-5.5	-5.5

ECONOMY: COVID-19 Risks In 2020

Myanmar is one of the fastest growing economies in Asia, clocking in a projected 6.3% in 2019, according to the World Bank. The factors driving growth have been well telegraphed, including higher foreign direct investment (FDI), expansion of tourism-related services, stronger fiscal spending and improving exports in agricultural products, garments and light manufactured goods.

However, sentiment has turned for the worse following the coronavirus (COVID-19) pandemic spreading across the world including South East Asia. Myanmar's economy started to slow even though COVID-19 infections remained low in 1Q (three confirmed cases as of 26 Mar). Since early 2020, tourist arrivals have declined markedly as more and more countries issued travel restrictions. (Tourism ministry projects a 50% fall in arrivals in 2020). Production activities have also been negatively impacted as the COVID-19 outbreak reduced the raw materials from China, forcing factories to cut working hours. Especially hard hit was garment production where there were temporary factory closures, leading to large scale layoff of workers. Exports, especially to China, also felt the pain, impacted by the evaporation of China's demand as the Chinese government ordered the lockdowns several major cities and provinces.

In response to the COVID-19 crisis, the government announced (18 Mar) an initial relief package to help businesses and households cushion the virus impact. The measures include MMK100bn in loans to support the most affected industries (garment, manufacturing, hotels, tourism-related and local SMEs), extend tax payment deadlines, and provide tax exemptions to locally-owned businesses affected by COVID-19 pandemic.

That said, we are projecting major and regional economies going into contraction this year while China's growth will ease below 5% due to the COVID-19. We expect growth in Myanmar to ease markedly in 1H before recovering in 2H, bringing full year growth lower to 5% in 2020. Further downside risks remain if the pandemic becomes more widespread in Myanmar and globally, which may prompt the government to extend more support to the economy, but the fiscal constraints may limit the amount of stimulus it can afford.

CENTRAL BANK: Potentially Another 100bps Cut To 7.5% In 2Q

To combat the impact of COVID-19 on the domestic economy, the Central Bank of Myanmar (CBM) cut its policy interest rate by 0.5% point to 9.5% on 12 Mar. The CBM followed up with another 100bps rate cut on 26 Mar (which will take the key rate down to 8.5% with effect on 01 Apr). The CBM also lowered the minimum the bank deposit rate to 6.5% (from 7.5%) while the maximum lending rate was lowered to 11.5% (from 12.5%) for collateralized loans and 14.5% (from 15.5%) for non-collateralized loans.

Even at 8.5%, the policy rate for Myanmar is still one of the highest in Asia. With the deepening impact of COVID-19 on the Myanmar and the regional economies, we believe that CBM will cut rates further by 100bps to 7.5% in 2Q in a bid to revitalize growth. That said, the CBM will be wary against further rate cuts due to inflation concerns. Despite the slowing economy at the start of the year, inflation (which rose steadily in 2019) continued to rise to 9.06% y/y in January, from 8.81% in December.

CURRENCY: MMK Strength Would Not Persist

After hovering in a stable range between 1,500 and 1,540 /USD in 2019, the MMK unexpectedly appreciated by 6.6% year-to-date to 1,385 (as at 24-Mar). Although Myanmar has only 3 reported cases of COVID-19 (as of 26 Mar), its exports are suffering from a double whammy of weaker global demand and strong MMK denting competitiveness.

Of late, there has been increasing calls from local business for the Central Bank of Myanmar (CBM) to intervene in the FX markets to curb the MMK strength. As such, we see scope for the MMK to par some of its gains, weakening to 1,400 in 2Q20 and 1,420 in 3Q20. Further out, as the rest of Asian FX recovers, the MMK may gain alongside, towards 1400 in 4Q20 and 1380 in 1Q21.

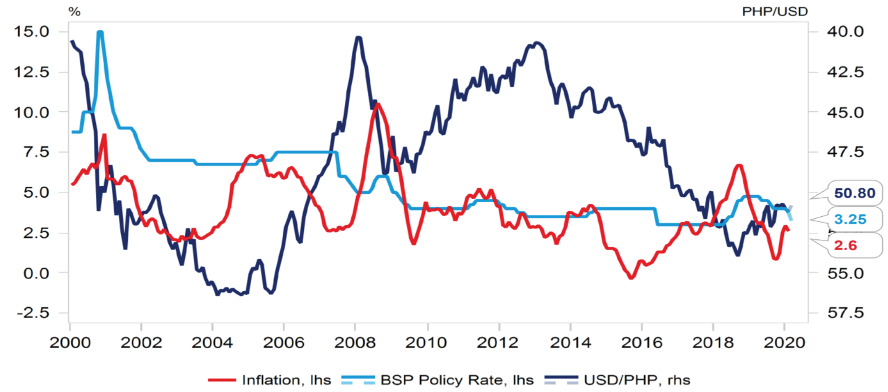
PHILIPPINES

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/PHP	52.00	52.50	51.50	50.00
PHP O/N Reverse Repo	2.75	2.75	2.75	2.75

Economic Indicators	2018	2019	2020F	2021F
GDP	6.2	5.9	1.0	5.5
CPI (average, y/y %)	5.2	2.5	2.5	2.5
Unemployment rate (%)	5.3	5.1	7.0	6.5
Current account (% of GDP)	-2.6	-0.1	-2.2	-2.0
Fiscal balance (% of GDP)	-3.2	-3.6	-4.5	-3.5

BSP Is Expected To Cut Rate Again In 2Q20

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Quadruple Shocks Cloud 2020 Growth Outlook

The Philippine economy was initially projected to further gain traction in 2020, after rebounding by 6.2% y/y in 2H19 (from +5.5% y/y in 1H19). However, this optimism has been dashed by the Taal volcano eruption in Jan, the global COVID-19 pandemic since mid-Mar, the collapse of oil prices, and the tightening of US dollar liquidity.

The imposition of “enhanced community quarantine” in main Luzon Island from 17 Mar until 12 Apr due to the fast spreading COVID-19 pandemic will result in disruptions to industries and private spending during the lockdown period. There will be a “large and protracted” adverse economic impact if the border lockdown fails to contain the contagion.

Dimming global economic prospects due to COVID-19 will also negatively impact the nation’s external sector, overseas cash remittances, and FDI inflows. The spike in global risk aversion as financial markets showed signs of stress and US dollar liquidity tightening will lead to capital outflows from EMs including Philippines in the near term.

Hence, we slash our 2020 full-year Philippine GDP growth target to a 21-year low of 1.0% (from 6.0% previously), after factoring in a global recession scenario in 2020 and the impact of drastic containment measures to bring the COVID-19 outbreak under control. This falls within the National Economic Development Authority’s latest growth forecast range of between -0.6% and +4.3%. We think fast-tracking mega projects, revitalisation of the agriculture sector, bold fiscal and monetary policy measures including the PHP27.1bn fiscal stimulus package and PHP500bn monetary bazooka will prevent the country from falling into recession this year.

That said, under our worst case scenario, where the COVID-19 outbreak extend beyond Jun and trigger a deeper global recession, the Philippine economy is projected to contract by 3.0% in 2020.

CENTRAL BANK: Unprecedented Low Rate Is Not Impossible

BSP has taken bold actions since mid-Mar to address the impact of COVID-19, plunging oil prices, and higher global financial volatility. BSP cut the overnight reverse repurchase (RRP) rate by another 50bps to an almost 2-year low of 3.25% on 19 Mar, bringing total rate cuts to 75bps year to date. This was followed by a bond buying program amounting to PHP300bn on 23 Mar, and 200bps cut in reserve requirement ratio (RRR) on 24 Mar.

The Monetary Board has also authorised BSP Governor to reduce the RRR of BSP-supervised financial institutions of up to a maximum of 400bps for 2020. On that note, we expect another 200bps cut in RRR within 2020 if the COVID-19 outbreak prolongs and the economy enters recession.

Besides a bleak economic outlook, sinking global oil prices and mounting downside risks to aggregate demand suggest that inflation risks are tilted lower for both 2020 (BSP’s forecast: 2.2%; UOB’s forecast: 2.5%) and 2021 (BSP’s forecast: 2.4%; UOB’s forecast: 2.5%). This provides room for BSP to ease further in the near term. We expect BSP to cut its RRP rate by another 50bps in 2Q20, bringing the RRP rate to a new low of 2.75% by year-end.

Other monetary supplementary measures are also expected to be announced in the near future as an urgent initiative to mitigate COVID-19 impact. Potential measures include recalibration of the interest rate corridor settings; suspension of the term deposit facility auctions; and greater access to liquidity-enhancing facilities such as the rediscounting windows.

CURRENCY: Catalysts Supporting PHP Outlook Are Here To Stay

Despite broad dollar strength in 1Q20 driven mainly by the contagion concerns, there are numerous catalysts supporting the PHP outlook ahead. Global risk appetite is expected to make a comeback once the COVID-19 outbreak recedes, which will prompt a global growth recovery in 2H20, though it may not sufficient to offset the drag in 1H20.

Recovery in overseas remittance inflows and FDIs, albeit at a moderate pace, will support demand for PHP as the year progresses. The country nears first ‘A’ credit rating after Fitch Ratings raised its credit outlook to ‘Positive’ from ‘Stable’ on 11 Feb will further lift business confidence and spur foreign portfolio investment.

Overall, we expect near-term USD strength to lift USD/PHP higher in the next two quarters, to 52.0 in 2Q20 and 52.5 in 3Q20. After which, the PHP should stabilize starting 4Q20 alongside a recovery in risk appetite. We expect USD/PHP to normalize lower towards 51.5 in 4Q20 and 50.0 in 1Q21.

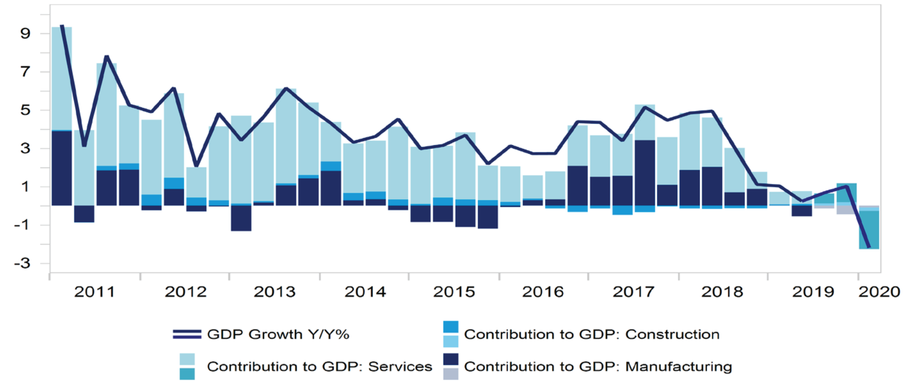
SINGAPORE

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/SGD	1.48	1.50	1.48	1.45
SGD 3M SIBOR	1.00	0.85	0.80	0.75

Economic Indicators	2018	2019	2020F	2021F
GDP	3.4	0.7	-2.5	1.5
CPI (average, y/y %)	0.4	0.6	-0.3	1.0
Unemployment Rate (%)	2.1	2.3	3.5	2.6
Current account (% of GDP)	17.2	17.0	16.3	16.3
Fiscal balance (% of GDP)	-0.3	-0.3	-2.0	0.1

Singapore GDP: Sectoral Contribution To Growth

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Strong Growth Headwinds In 1H20

Singapore's economy was in a positive environment in the last leg of 2019, with growth underpinned by a sustained expansion in the construction and services sectors. Global economic outlook has however worsened considerably since the New Year started, due to the COVID-19 pandemic and falling oil prices. Given the growth headwinds, the Ministry of Trade and Industry (MTI) expects Singapore to contract in 2020 (the first contraction since 2001), and downgraded Singapore's growth outlook to a range of -4.0% to -1.0% (from a previous range of -0.5% to +1.5%).

The tone in the latest MTI's press release is negative, as there is a need to account for "heightened uncertainties in the global economy" due to COVID-19 amid the public health measures taken by other countries. MTI cited that the COVID-19 pandemic had dragged Singapore's three key clusters, namely manufacturing, construction, and services while advance estimates are now penciling a y/y contraction in 1Q20 (-2.2% y/y, -10.6% q/q saar). Growth outlook now appears lacklustre at best, as we perceive further negative knock-on effects on hospitality-related clusters due to the falling tourism activities, while the ongoing global supply chain disruptions should drag both trade and manufacturing momentum into the year ahead.

Singapore's inflation environment is also likely to stay benign in 2020. Brent crude has fallen to US$30~/bbl, down from January 2020 high of US$68.9/bbl. Correlation studies show that specific clusters, especially Private Transport and Household Utilities (collectively accounting for over 37% of the total CPI weights), are sensitive to energy prices. The combination of falling energy prices and the above-mentioned growth headwinds should continue to soften labour market conditions and lead to a moderation in unit labour cost growth in 2020, adding to further downside risks to MTI's headline and core inflation outlook at a range of between 0.5% and 1.5% in 2020.

As such, we downgrade Singapore's full-year GDP in 2020 to contract 2.5% with downside risks, down from our previous estimate of +0.5%. The economy is expected to see four consecutive quarters of year-on-year contraction in 2020: 1Q20 (-2.2%), 2Q20 (-3.9%), 3Q20 (-2.8%) and 4Q20 (-1.2%), before seeing a recovery to 1.5% in 2021. Our econometric model is also projecting a technical recession in the 1H20, with two consecutive quarters of q/q saar contractions. Meanwhile, given the softening inflation environment, we now see both headline and core inflation to average -0.3% for 2020, down from our prior outlook of 1.0% and 1.2%, respectively.

Singapore's COVID-19 Support Package 2.0: More Fiscal Measures To Aid Businesses And Growth

We expect the government to inject further stimulus to Singapore's hospitality, transport and retail sectors, especially given the negative knock-on effects COVID-19 has on these industries. To aid businesses in general, we also expect the second stimulus package to include (1) an extension of the Jobs Support Scheme beyond three months while potentially increasing the 8% offset in wages to 12% (similar to the Resilience Package in Budget 2009), (2) longer rental waiver periods for selected establishments and (3) an increase of the loan quantum under the Temporary Bridging Loan Programme to potentially S$5.0 million per borrower group, up from S$1.0 million stated in Budget 2020.

CURRENCY: USD/SGD To Be Sticky Above 1.40 In 1H20

As for USD/SGD, the quick turnabout from 1.35 at the turn of the year to 1.45 (as at 24 Mar) reflects the sudden deterioration of Singapore's growth and inflation outlook brought about by the COVID-19 pandemic. Trading under the midpoint, the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) has also largely priced in a lowering of the policy slope to neutral in the upcoming MAS meeting 30-Mar, while keep other parameters unchanged. In a challenging macroeconomic backdrop, it is likely the S$NEER will stay pinned below the midpoint in the coming few months. That said, in keeping pace with expected weakness of most of its trading peers against the USD, we can expect a further slide in SGD to 1.48 and 1.50, in 2Q and 3Q20 respectively. Assuming a late-2020 global recovery, USD/SGD could well normalize lower towards 1.48 in 4Q20 and 1.45 in 1Q21. A risk to our updated set of forecasts is a more aggressive easing by MAS via a one-off re-centring of the S$NEER lower. Such a move would put upside risks to our USD/SGD forecasts, especially in the immediate quarter (2Q20).

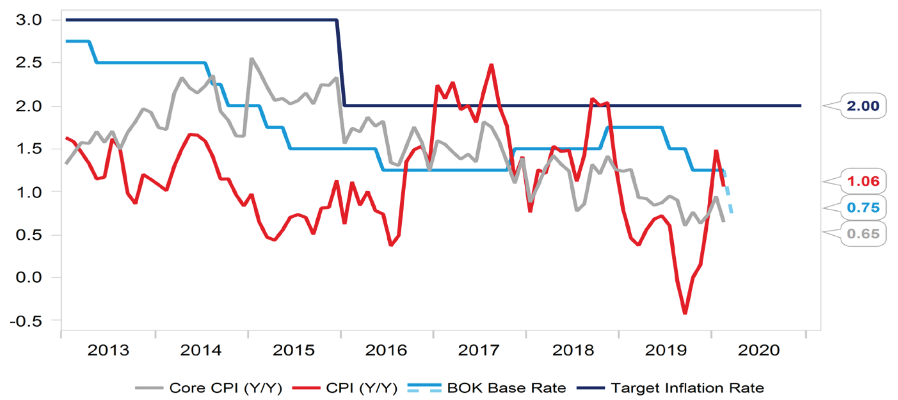
SOUTH KOREA

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/KRW	1,280	1,300	1,250	1,220
KRW Base Rate	0.50	0.50	0.50	0.50

Economic Indicators	2018	2019	2020F	2021F
GDP	2.7	2.0	-1.0	3.5
CPI (average, y/y %)	1.5	0.4	0.9	1.3
Unemployment rate (%)	3.8	3.7	4.4	3.9
Current account (% of GDP)	4.5	3.7	1.5	4.0
Fiscal balance (% of GDP)	-1.7	-1.8	-1.8	-2.5

South Korea Interest Rate And Inflation

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Recession In First Half Of 2020

South Korea's GDP growth rebounded to 2.3% y/y in 4Q19 from 2.0% y/y in the two preceding quarters. This was driven by higher government spending on goods and healthcare benefits while exports of goods and services benefited from some easing in trade headwinds towards the end of 2019. However, fixed investment and private consumption were relatively lackluster. In particular, the facilities investment weakened further in 4Q19, contracting for the 7th quarter. Overall, the full-year 2019 growth moderated to 2.0% from 2.7% in 2018, the slowest annual growth rate since 2009.

The COVID-19 pandemic and prospect of a more protracted outbreak has put a serious dampener on growth this year as both supply and demand suffer severe negative shocks. Particularly hard-hit will be the services industry in South Korea which contributed three-quarters of 2019 growth. Nonetheless, as its dependence on the tourism industry is amongst the lowest in Asia given that tourism receipts only accounts for 1.3% of GDP, we think South Korea may be able to ride out the pandemic better than most other Asian economies. Meanwhile, supply disruption will be a significant drag on its manufacturing though the resumption of work in China – its largest trade partner – will help to contain the fallout.

We now forecast South Korea's GDP to shrink by 1.0% in 2020, the worst since the Asian Financial Crisis when it contracted by 5.1%. This is down from our earlier projection of +2.1%. We expect GDP contraction of -2.0% y/y in 1Q20 which will likely deepen to -3.2% in 2Q20 before some stabilization in the second half of the year. The pandemic developments form the greatest uncertainty in our growth forecast.

The government has passed KRW11.7 trillion (US$9.8 billion or 0.6% of GDP) supplementary budget targeting greater disease control efforts, support for small merchants and SMEs, consumption and employment as well as the local economies. The package is comparable in size to its stimulus spending during the Middle East Respiratory Syndrome (MERS) outbreak in 2015. Another KRW50 trillion (US$39 billion) of financial support package was announced to help small businesses including emergency funding, loans guarantees and deferment of loans repayments. There are also further plans to expand the support measures including bond and equity markets stabilization funds.

CENTRAL BANK: BOK Near Bottom On Rates As It Weighs Other Options

Amidst frantic monetary easing across major central banks to cushion the impact of the COVID-19 pandemic, Bank of Korea (BOK) also announced an emergency 50bps cut to bring its benchmark interest rate to new record low of 0.75% effective 17 March. The last time BOK had cut its benchmark rate by 50bps or more in a single meeting was in 2009.

While the BOK said that the drastic rate cuts in the US have provided it with more room for policy actions, we think it is near a bottom in its interest rate. Note that BOK has already slashed its interest rate by a cumulative 50bps in 2019 to boost growth amidst growth risk from US-China trade tensions. We expect the BOK to cut its benchmark interest rate by at most another 25bps to 0.50% in 2Q20 as it weighs other options to support the economy.

The central bank followed through with its earlier comment on bond purchases by committing to "unlimited" supply of liquidity for three months starting April, to help stabilize financial markets. Auctions will be held every Tuesday between April and June with the first auction on April 2. This is tantamount to quantitative easing.

The subdued domestic inflation has made it easier for BOK to pursue more accommodative monetary policy. We expect headline inflation to average 0.9% in 2020 from 0.4% in 2019, remaining well below the medium term target of 2.0%.

CURRENCY: KRW To Weaken Further To Decade Low Of 1,300

After a 3.5% drop in 2019 against the USD on trade-related slowdown, there is no respite for the KRW this year. Often seen as a barometer of trade and growth in North Asia, the sharp deterioration in economic activity and sentiment both domestic and regionally dealt a heavy blow on the KRW. As such, it was little surprise that USD/KRW took out its key resistance of 1,220 printed at the height of the US-China trade conflict in August 2019 after the BOK delivered the emergency 50bps rate cut in March. As the USD stays strong amid the funding stress, further weakness in the KRW to 1,280 in 2Q20 and 1,300 in 3Q20 may be on the cards. After which, assuming a Asia wide recovery takes root in 4Q20, USD/KRW may start to normalize lower, towards 1,250 in 4Q20 and 1,220 in 1Q21.

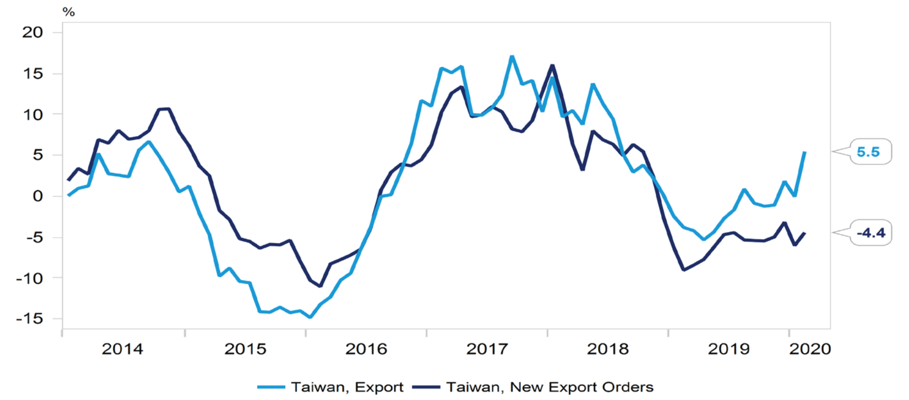
TAIWAN

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/TWD	30.60	31.00	30.50	30.00
TWD Official Discount Rate	1.13	1.13	1.13	1.13

Economic Indicators	2018	2019	2020F	2021F
GDP	2.7	2.7	0.2	3.5
CPI (average, y/y %)	1.3	0.6	0.6	1.1
Unemployment Rate (%)	3.7	3.7	4.8	4.0
Current account (% of GDP)	11.6	10.5	8.0	11.0
Fiscal balance (% of GDP)	0.6	-0.2	-1.2	-0.3

External Demand For Taiwan Still Holding Up Till February

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: COVID-19 Pandemic To Push Taiwan GDP To Contraction In 2Q20

Taiwan's GDP growth expanded at its fastest pace in 1 ½ years at 3.31% y/y in 4Q19 (3Q19: 3.03%) with investments and private consumption leading the charge. The gross fixed capital formation growth rebounded sharply to 14.97% y/y (3Q19: 3.71% y/y) led by robust increase in machinery and equipment investment. This continues to show the impact of the US-China trade tensions on the global supply chain diversification. Overall, Taiwan's GDP grew 2.71% in 2019, keeping pace with 2.75% expansion in 2018.

In March, the Central Bank of the Republic of China (Taiwan) (CBC) downgraded its GDP outlook to account for COVID-19 impact on its economy. It now expects 2020 GDP growth at 1.92% vs. 2.57% previously. Notably, the central bank maintains a positive outlook for investments and exports which are still expected to turn in growth of 3.79% (previous est. 4.56%) and 1.21% (previous est. 2.46%) respectively this year. Private consumption is also projected to expand by 1.08% in 2020 (previous est. 1.95%).

CBC's growth projection trajectory has factored in a V-shaped rebound in the second half of the year with 1Q20 at 1.05% y/y, 2Q20 at 1.08% y/y, 3Q20 at 2.65% y/y and 4Q20 at 2.78% y/y. Two stimulus packages that are worth NT$100bn or 0.5% of GDP are expected to provide some downside support. However, the difficulty in containing COVID-19 globally could lead to a delayed recovery in growth. Hence, while we expect GDP to grow by +0.9% y/y in 1Q20, the economy may still see contractions in the second and third quarter of 2020 by -2.0% y/y and -0.8% y/y respectively, followed by +2.5% rebound in 4Q20. For the full-year, Taiwan economy may post a small positive growth of 0.2% which would still be the lowest since 1.6% contraction in 2009.

Domestic inflation has remained benign. The headline and core inflation (excluding fruit, vegetables and energy) averaged 0.81% y/y and 0.48% y/y in Jan-Feb with both headline and core inflation dipping into the negative in February due mainly to lower prices for transport & communication as well as services. We expect the drop in oil prices and weaker demand to keep inflation mild in 2020.

CENTRAL BANK: CBC Stirred Into Action As COVID-19 Pandemic Takes Its Toll

The CBC cut its benchmark discount rate by 25bps to 1.125% at its scheduled quarterly rate decision meeting in March. This brings the discount rate to a new record low; previous low was at 1.25% during the Global Financial Crisis. In addition to the rate cut, the CBC also expanded its repo operations to include insurance companies and extend repo tenor to 180 days from 30 days previously. The central bank will provide a liquidity fund of NT$200bn to banks and has asked banks to support companies' funding needs.

During the Global Financial Crisis, the CBC had cut its benchmark rate by a cumulative 237.5bps between September 2008 and February 2009. As current interest rate is already at record low, the CBC will have much less room to maneuver and future moves will be highly dependent on how the COVID-19 situation evolves.

While further rate cuts are not ruled out as CBC said extra meetings before its next scheduled meeting in June could be held if needed, we do not see an urgency to load on more cuts especially given CBC's current view of a V-shaped recovery in 2H20. That could change if there is a more protracted downturn.

CURRENCY: TWD Stays Resilient Amid Intense Headwinds

The TWD is probably the most resilient Asian currency in face of the global COVID-19 pandemic. Starting the year at about 30.0 /USD, the TWD only weakened a modest 1.6% to 30.48 at the height of China's outbreak. The subsequent quick reversal to fresh 2-month highs of 29.88 by early March on a brief bout of broad USD weakness also served to highlight TWD's inherent resilience. Year-to-date, the TWD is only marginally lower at 30.30, compared to a majority of its Asian peers which have depreciated in excess of 6% against the USD.

Anchoring the currency is its stable economic numbers to date. Its effective efforts to contain COVID-19 (215 cases as at 24-Mar) also keeps the extreme downside risks at bay. Putting it together, while the TWD may still be biased lower in the next two quarters alongside other Asian FX, its weakness is likely to be limited to 30.60 and 31.0 in 2Q and 3Q20 respectively. Towards end-2020, as the region heals from the pandemic, TWD is likely to outperform again, towards 30.50 in 4Q20 and 30.00 in 1Q21.

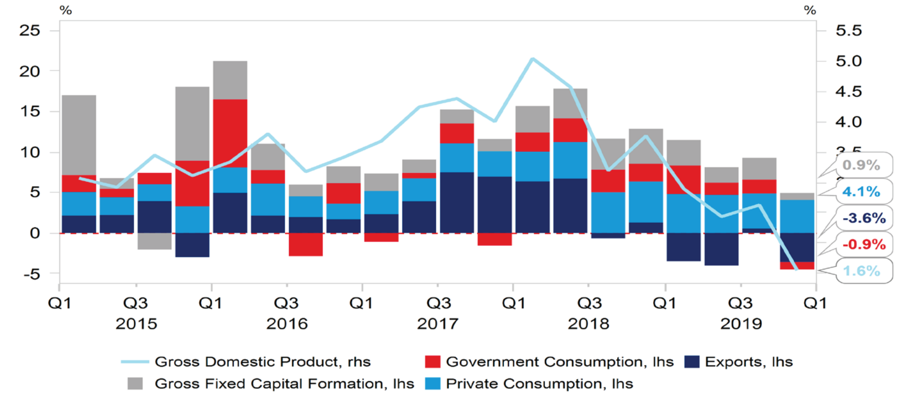
THAILAND

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/THB	33.30	34.00	33.50	33.00
THB 1D Repo	0.50	0.25	0.25	0.25

Economic Indicators	2018	2019	2020F	2021F
GDP	4.2	2.4	-5.4	3.0
CPI (average, y/y %)	1.1	0.7	-1.0	0.5
Unemployment rate (%)	1.1	1.0	1.4	1.1
Current account (% of GDP)	5.6	6.8	5.1	5.9
Fiscal balance (% of GDP)	-2.5	-2.8	-3.0	-2.8

Thailand GDP Growth (Expenditure Approach)

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Budget, Drought & COVID-19

Thailand's growth was already lacklustre even when 2020 began. Growing by merely 2.4% in 2019, this was the slowest pace since the political unrest of 2014. The government was quick to attribute the 2019 slowdown to the US-China trade tensions and the unexpected drought which threatened Thailand's labour intensive industry. In the midst of the slowdown, confidence faltered as politicians struggle to pass the budget bill which only saw fruition in early January 2020.

With the COVID-19 pandemic, Thailand appears to be one of Asia's worst hit economies. Tourism-related industries such as hospitality, retail and transport are likely to be drags on growth into the year ahead. According to the Bank of Thailand (BOT), tourism and its related industries account for a considerable 20% of GDP, and preliminary numbers are already hinting at a 44% contraction in tourist arrivals for February 2020. With recessionary risks gaining traction, it was no surprise that the government rolled out a THB400 billion (US$12.3 billion) stimulus package to spur growth amid COVID-19 fears.

In a nutshell, the headwinds against tourism spending, manufacturing and trade, will likely drive Thailand into a recession in 2020. We pencil economic growth to contract by 5.4% in 2020, down from our initial +2.0% outlook, with double digit declines in 1Q20 (-11.4% y/y) and 2Q20 (-12.5% y/y), followed by mild growth recovery of 1.1% in 2H20. We also downgrade Thailand's full-year inflation to -1.0% (down from our initial outlook of +0.9%). The inflation environment is expected to stay benign, below BOT's 1% - 3% target range for 2020, on the back of lower oil prices and economic headwinds.

CENTRAL BANK: Policy Space Is Extremely Limited

The negative knock-on effects from COVID-19, coupled with growth drags observed in 2019, had prompted the BOT to cut its benchmark rate to a record low of 0.75% in its March special meeting. Back in February, BOT identified further headwinds to tourist figures, while trade is likely to "decline in line with trading partner economies and potential impacts of regional supply chain disruptions". Policy-makers have also promptly identified that the COVID-19 outbreak "would be more severe than previously expected". Although monetary policy space remains extremely limited at this juncture, we still pencil 25bps rate cuts in 2Q20 and 3Q20 to bring its one-day repurchase rate to an unprecedented low of 0.25% (from a current 0.75%). Although inflation risks remains immaterial at this point, policy-makers must still recognise the potential exacerbation of Thailand's household debt levels due to falling interest rates.

CURRENCY: THB Still Biased Weaker After Spectacular Stumble In 1Q20

Be careful of what you wish for! Last year, Thai authorities had been throwing sand into the wheel to curb THB's persistent strength, including a surprise rate cut and measures to encourage capital outflows. The efforts hardly paid off as safe haven flows buoyed the THB and the currency outperformed in Asia for a second year, gaining 8.6% to 30 /USD in 2019.

In 1Q20, the much awaited weakness in THB came swiftly with USD/THB jumping over 8% to 32.80 as at 24-Mar, one of the biggest movers amongst Asian FX as the escalating COVID-19 outbreak hamstrung the tourism-reliant Thai economy. With travel confidence still weak, together with continued outflows from Thai stock and bond markets, THB may weaken further to 33.30 by 2Q20 and a further 34.00 by 3Q20 before a China-led recovery in 2H20 spur a recovery to 33.50 in 4Q20 and 33.00 in 1Q21.

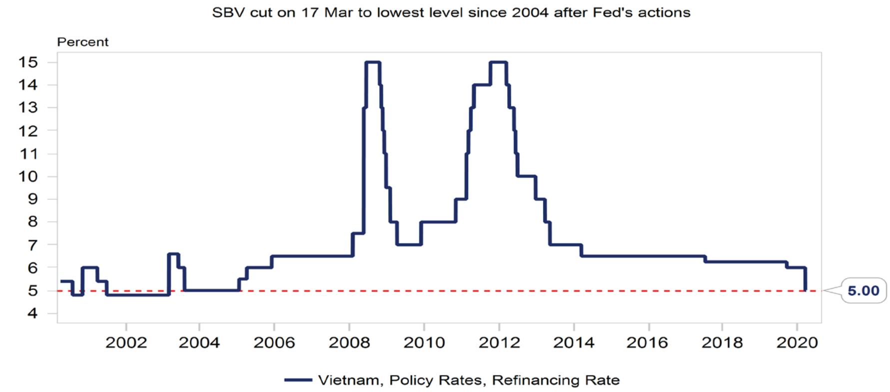
VIETNAM

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
USD/VND	23,900	24,200	24,000	23,500
VND Refinancing Rate	5.00	5.00	5.00	5.00

Economic Indicators	2018	2019	2020F	2021F
GDP	7.1	7.0	5.8	6.6
CPI (average, y/y %)	3.5	2.6	2.5	3.0
Unemployment Rate (%)	2.1	2.1	3.0	2.3
Current account (% of GDP)	2.4	2.8	1.8	2.2
Fiscal balance (% of GDP)	-4.4	-4.3	-5.0	-4.5

Vietnam, Policy Rates, Refinancing Rate

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Bracing For Demand Destruction Globally

Vietnam expanded by 6.97%y/y in 4Q19, slightly slower than the 7.48% pace in 3Q19. For the full year Vietnam's economy rose 7.02% in 2019, ahead of government's target of 6.8%. This was due to strong trade performance during the year, with exports gaining 8.1% and imports rising 7.0%. Owing to trade diversion and supply chain changes in response to the US-China trade tensions over the past year, Vietnam's manufacturing output rose by 11.3% in 2019, extending the 13.0% pace in 2018, marking the fifth year of double-digit gain. Vietnam's official growth forecast for 2020 had been set at 6.8%, and is yet to be revised despite the spread of COVID-19 disease globally.

The COVID-19 pandemic has left consumers in most parts of the US and Europe largely in isolation, and companies are scaling back sharply their business and investment activities at least for now. This headwind would impact directly on Vietnam's external trade and manufacturing sector, which accounts for nearly half of the country's economic growth over the past five years.

We are projecting the US and European economies going into contraction in 2020 due to the movement restrictions which have led to widespread suspension of businesses and factories. We are thus lowering 2020 growth forecast for Vietnam to 5.8%, which would be the slowest annual growth rate since 2014, when Vietnam's economy expanded at about the same pace. Assuming the COVID-19 pandemic eases in summer months, we anticipate activities to decelerate sharply to 4.5-5.5%y/y pace by 2Q20 and 3Q20 respectively, and then recover to 7% in 4Q20.

CENTRAL BANK: Staying On Hold After Emergency Rate Cut

With a grim outlook ahead, Vietnam joined the wave of central bank emergency policy easing to bolster economic growth amid the COVID-19 pandemic, announcing Monday night (16 March 2020) it too was cutting policy interest rates. The move followed a surprise easing move in Sep 2019 when the central bank was responding to global economic uncertainty arising from the US-China trade tensions.

The State Bank of Vietnam (SBV) cut its refinance rate by 100bps from 6.0% to 5.0%, the lowest level since 2004. The central bank also lowered its rediscount rate to 3.5% from 4.0%, and reduced the repurchase rate, known as the open-market operations rate, by 50bps, to 3.5% from 4.0%. The overnight lending rate in the interbank market is reduced to 6.0% vs 7.0%, according to the statement. With only 20bps away from hitting the record low level for the refinancing rate, we expect SBV to pause for now and assess how the lowered interest rates and loans restructuring could support business activities.

In keeping with the Government's "dual goal" of preventing and fighting COVID-19 while still developing the economy, the SBV has also guided credit institutions and foreign bank branches to restructure the repayment periods, waive or reduce the interest and fees, maintain the debt classifications for the borrowing businesses and people affected by the impacts of COVID-19 pandemic, with a view to supporting customers affected by the pandemic. As of early Mar 2020, SBV noted that the credit institutions have provided support to more than 44,000 customers affected by COVID-19, involving a total loan outstanding of VND222 trillion through various measures such as debt rescheduling, waiver or lowering of the lending interest rates against existing loans. This amounts to 2.7% of the total outstanding loans of VND8,195 trillion. It is likely that loans requiring restructuring would increase given the severity and spread of the COVID-19 pandemic globally, especially in the US and Europe.

CURRENCY: VND To Weaken To Fresh Record Lows

The relative stability of VND of around 23,200 /USD was upended in the third week of March when USD/VND surged to a new record high of 23,600, surpassing its previous high of 23,420 set during the height of the US-China trade conflict last year. Similar to all of its Asian peers, prospects of a significant growth slowdown due to the supply chain disruptions brought by the COVID-19 dented sentiment on the VND. While USD strength may persist in the near term, volatility in the USD/VND may be checked by SBV willingness to draw on its reserves to calm the FX markets. Nonetheless, the scramble for USD means the USD/VND are poised for new record highs at least for the next two quarters, towards 23,900 and 24,200 in the 2Q and 3Q20 respectively. After which, VND may recover modestly alongside other Asian FX as the COVID-19 pandemic eases, towards 24,000 in 4Q20 and 23,500 in 1Q21.

AUSTRALIA

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
AUD/USD	0.56	0.58	0.60	0.62
AUD Offical Cash Rate	0.25	0.25	0.25	0.25

Economic Indicators	2018	2019	2020F	2021F
GDP	2.8	1.8	-1.8	2.0
CPI (average, y/y %)	1.9	1.6	1.6	1.2
Unemployment rate (%)	5.3	5.2	5.8	5.5
Current account (% of GDP)	-2.1	0.7	-1.8	-2.4
Fiscal balance (% of GDP)	0.0	0.2	-0.5	-0.3

ECONOMY: Bushfires, COVID-19 And China To Weigh Significantly

GDP expanded by 0.5% q/q in 4Q19, from a revised 0.6% q/q (0.4% q/q previously) reading in 3Q19, and above expectations of 0.4% q/q. The annualized rise was 2.2% y/y, above the 2.0% y/y expected, and the 1.8% y/y expansion in 3Q19 (which was revised higher from 1.7%). It was also the strongest growth pace seen since 3Q18. In the details, though, private demand remained weak, with consumption growth coming in at 0.4% q/q, offsetting declines in public (-0.4%) and private investment (-1.1%). The quarter saw a fall in imports (-0.5%) and an accumulation of inventories the main contributors to GDP growth. For 2019, the Australian economy grew 1.8%, in line with our forecast, but was its weakest pace in 28 years.

The latest growth figures, however, pre-date the worst of the Australian summer bushfires and also did not include any fallout from the COVID-19 outbreak. As of 24 March, the number of COVID-19 cases in Australia has topped 1800, with the most populous states of New South Wales and Victoria recording the fastest rises. Most states have now closed their borders to travelers from other parts of the country and effected their own lockdown laws, in addition to the national curbs announced on 22 March.

The Treasury had estimated that the bushfires might take 0.2pp from GDP, whilst the Organization for Economic Cooperation and Development (OECD) warned that COVID-19 could hit Australian economic growth by at least 0.5pp. As such, both the bushfires and COVID-19 are set to dent further the already-fragile sentiment, with tourism and education the major sectors to take a hit. As far as Australia's tourism is concerned, the Chinese travel ban has exacerbated a decline prompted by the bushfires. Note that China remains Australia's largest tourism market, accounting for roughly 15% of total tourist arrivals - Chinese tourists spent AUD12bn in Australia during 2018. The ban has also hit the education sector, which contributes to around AUD37bn to the Australian economy annually.

The government has stepped further on the fiscal pedal, announcing a second package of AUD66bn (around 2.5% of GDP) on 22 March, just a week after the first package of AUD17.6bn (around 1% of GDP). Framed as a "safety" package, the second wave of stimulus ramps up support for small business and also includes a major boost to welfare recipients and for people who lose work as a result of the COVID-19 pandemic. Unlike the first package, which was targeted to have its greatest impact in the final quarter of 2019-2020, the second package focuses more on 2020-2021.

Nonetheless, the magnitude of the bushfires and especially the COVID-19 impact on the second quarter will be the focus, as will the ongoing impact of the latter on subsequent quarters. We have significantly downgraded our full-year growth, now looking for a contraction of 1.8% in 2020, reflecting falling consumer spend, tourist and education, supply chain disruption and weaker exports. We also expect labour conditions to start deteriorating in the months ahead, and we have set our forecast peak in the unemployment rate at around 5.8% up from the current level of 5.1% (in February).

CENTRAL BANK: RBA Adopts QE

Just two weeks after the RBA made a cut of 25bps in its OCR, it acted again. This time, in an unscheduled meeting on 19 March. This is the first time since July 1977 that the RBA acted outside its schedule. The emergency cut took the OCR to a record-low of 0.25%, with the RBA saying it "will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band". Since exchange settlement balances are remunerated at the cash rate minus 0.25%, the RBA has committed to increase the remuneration to an absolute 0.10% in recognition that exchange settlement balances are likely to increase significantly as a result of this policy package.

In a bold move, the RBA also launched its first-ever QE program, to lower the 3-year government bond yield to around 0.25%, in line with the OCR. Essentially, this reinforces our view that the RBA does not anticipate increasing the OCR for at least three years. The RBA also said it will set up a AUD90bn term funding facility for the banking system and a complementary program run by the Australian Office of Financial Management (AOFM) to aid small depository institutions and non-depository institutions as well.

RBA Governor Phillip Lowe emphasized that the Board did not take the latest decisions lightly. He flagged the situation as "just too fluid", and that he was "not able to provide an updated set of economic forecasts", but added that he is "expecting significant job losses". We think that this is probably the start, and not the end, of measures the RBA will eventually have to undertake to cushion the impact from COVID-19.

CURRENCY: Still No Respite For AUD

With industrial activity in China and now suddenly all parts of the world grinding to a halt due to the COVID-19 outbreak, it is no surprise that commodity-linked currencies are amongst the worst hit as demand evaporated. AUD/USD plunged over 17% to 0.58 in 1Q-to-date, on track for its biggest quarterly drop since the GFC. The RBA has already cut rates to 0.25%, matching that of the Fed whilst also starting bond purchases for the first time ever. A "phased reboot" of the Chinese economy means that demand for Australia's commodity exports will stay tepid. This leaves AUD/USD vulnerable to further downside in the coming quarter before a modest recovery in China in 2H20 anchors a sentiment revival in the AUD/USD. Our updated FX forecasts are 0.56 in 2Q20, 0.58 in 3Q20, 0.60 in 4Q20 and 0.62 in 1Q21.

EUROZONE

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
EUR/USD	1.05	1.08	1.10	1.12
EUR Refinancing Rate	0.00	0.00	0.00	0.00

Economic Indicators	2018	2019	2020F	2021F
GDP	1.9	1.2	-5.0	2.5
CPI (average, y/y %)	1.8	1.2	0.5	1.5
Unemployment Rate (%)	8.2	7.6	8.5	8.0
Current account (% of GDP)	3.1	3.0	2.1	1.8
Fiscal balance (% of GDP)	-0.5	-0.8	-3.1	-2.3

ECONOMY: The Ball Is Now In The Fiscal Court

The Eurozone economy was already seen slowing in 4Q19 as growth shrank in France and Italy against the previous quarter. GDP expanded 0.1% q/q, as announced on 31 January, for a 0.9% y/y gain, a downward revision from the previously estimated 1.0% y/y growth. The quarterly growth rate slowed compared to the 0.3% q/q expansion in 3Q19 because of a 0.1% q/q contraction in the second biggest economy, France, and a 0.3% q/q contraction in the third biggest Italy. Germany's growth also stalled in 4Q19, at 0.0% q/q and 0.3% y/y.

And the first look at March's economic data for the Eurozone did not look pretty at all. The Eurozone's consumer confidence dropped from -6.6 in February to -11.6 in March. The drop in confidence levels were last seen in November 2014 and are consistent with a large decline in consumption. Meanwhile, the Eurozone's Markit manufacturing PMI fell to 44.8 in March from 49.2 in February. The PMI for the bloc's dominant service industry plunged to 28.4 from 52.6, whilst the composite PMI came in at 31.4, from 51.6 in February.

Europe has been the epicenter of COVID-19 since mid-March, with more new confirmed cases than anywhere else in the world. As of 24 March, Italy is tightening its lockdown after the death toll surpassed China, and Spain decided to extend its state of emergency until 11 April. Eurozone finance ministers are scrambling to agree on a coordinated response to mitigate the devastating social and economic impact of the COVID-19 pandemic.

Gauging the exact economic impact will be challenging, but with an increasing portion of the Eurozone population at or near lockdown, we think it will be very severe on the back of the sharp reductions in household spending, investment and tourism, as well as disruptions from the deeply integrated global supply chains. We now expect the Eurozone economy to contract 5.0% this year, with a high level of uncertainty surrounding on how the situation in Europe pans out.

Perhaps more importantly, the virus puts to test the leadership of various EU government heads once again, as fiscal efforts need to be stepped up to support the hardest-hit firms and populations. On this front, the first indication has come from the continent's dominant economy and biggest contributor on 23 March. Angela Merkel's government plans to increase borrowing by up to EUR150bn in 2020 and pass a EUR156bn supplementary budget, as well as establishing a bailout fund for critical industries of about EUR500bn, policies amounting to around 10% of GDP. However, fiscal measures come at a cost. One that is a lot higher in Europe amid a higher public debt overhang.

CENTRAL BANK: Lagarde Unveils Her "Whatever It Takes" Moment

In an unexpected move, the ECB announced on 18 March that it will launch a new Pandemic Emergency Programme (PEPP) worth EUR750bn. In a nutshell, this programme will last until the end of 2020, and will target both public- and private-sector assets. This means that the new bond buying programme will not include 'capital key' conditions that limit the ECB's ability to buy certain amounts of member state's bonds. ECB President Christine Lagarde also assured markets that self-imposed limits will be revised to the central bank's ability to deliver its mandate.

Just a week before, on 12 March, the ECB had disappointed markets by keeping its three key interest rates unchanged; but pledged instead to re-open its dormant quantitative easing (QE) programme to support the economy as it grapples with the COVID-19 pandemic. The ECB said it will offer a "temporary envelope" of asset purchases, up to EUR120bn, and added to target lending programmes (TLTROS), that rewards regional banks for lending cash into the real economy. It also gave banks extra wiggle room on capital buffers to free up more cash for struggling lenders. However, up until now, the ECB has been constrained by an issuer limit.

In all, we think the ECB has made a fairly aggressive move here. The issuer limit, in particular, was one of the reasons for the European Court of Justice ruling that the ECB had stayed within the limits of its mandate when starting QE. In this regard, the ECB has chosen to temporarily cross the red line. Meanwhile, the notion of using the European Stability Mechanism (ESM) – which has about EUR410bn of unused lending power – as a means for financial support is gaining traction. However, ministers remain divided on the conditions to unlock funding, and are unlikely to reach an agreement on tapping the ESM through an existing facility, the Enhanced Conditional Credit Line (ECCL). Following the latest massive ECB bond-buying program, the Eurogroup will also likely shelve ambitious plans of issuing joint "Coronabonds". Lagarde has made clear that the ECB does not support the ESM initiative and has de-linked it from the ECB's unlimited bond-buying program, the Outright Monetary Transactions Program (OMT).

CURRENCY: EUR To Probe Lower Before 2H20 Recovery

The almost back-to-back QE announcements of Fed and the ECB probably remove QE as an idiosyncratic driver for the EUR/USD pair. Instead, the key driver in the pair is likely still the intense USD funding stress currently and its eventual normalization later. As such, EUR/USD is likely to be pinned lower in the coming quarter, amidst the ongoing scramble for USD funding and an inevitable recession in the euro area (alongside US). Starting 2H20 when the funding stress is more or less alleviated, we expect the USD to weaken anew. As such, our updated EUR/USD forecasts are 1.05 in 2Q20, 1.08 in 3Q20, 1.10 in 4Q20 and 1.12 in 1Q21.

NEW ZEALAND

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
NZD/USD	0.56	0.58	0.61	0.63
NZD Offical Cash Rate	0.25	0.25	0.25	0.25

Economic Indicators	2018	2019	2020F	2021F
GDP	3.3	2.2	-1.0	2.5
CPI (average, y/y %)	1.6	1.7	1.9	2.0
Unemployment rate (%)	4.3	4.1	4.4	4.3
Current account (% of GDP)	-3.4	-3.3	-3.3	-3.1
Fiscal balance (% of GDP)	0.9	0.4	-0.2	0.2

ECONOMY: Slowdown To Worsen

GDP rose by 0.5% q/q in 4Q19, within expectations, but lower than the revised 0.8% q/q (0.7% q/q previously) gain in 3Q19. This was faster than the 0.4% q/q the RBNZ projected in its February monetary policy statement. Growth was driven by a lift in the services industry, including real estate and transport, as well as increased export volumes. Primary sector production and manufacturing came in softer for the quarter, though. Annual growth slowed from 2.3% y/y in 3Q19 to 1.6% y/y in 4Q19. This was the weakest annual growth since the 2Q11.

The latest GDP numbers clearly shows the economy was already in a vulnerable position even before the arrival of the COVID-19 outbreak. As of 24 March, the number of infected cases in New Zealand has risen past 100, and PM Jacinda Ardern, in an address to the nation, has said New Zealand will enter a month-long nationwide lockdown from 25 March, with the entire country ordered to stay home apart from those in essential services. New Zealand has already shut its doors to foreigners, starting from 20 March. These strict measures will have massive implications for the economy.

Travel restrictions will heavily impact the tourism and hospitality sectors, and severely reduce export education. New Zealand's key goods exports will also be impacted, with weakness in the global economy weighing on demand for manufactured exports and forestry products. At home, the jobs market has been strong, and inflation near target. However, work disruptions and social distancing will eventually result in job losses and weaker business and consumer sentiment, which will weigh on consumer spending, as well as the housing market as people become more cautious about investments. Over the medium term, the slowdown in activity is expected to also weigh on inflation.

On the fiscal front, the NZD12.1bn package unveiled by the government on 17 March may help to cushion some of the economic impact. Although the composition may not be like that seen elsewhere, at 4% of GDP, the size is a larger one compared to the one implemented during the GFC, and comparatively larger than relief packages announced to date elsewhere. We think the government will need to do more, and further stimulus measures may be announced even before the May Budget. This will, however, result in a higher government debt-to-GDP ratio, which currently stands around 18%. Our longer-term view of the New Zealand economy depends very much on how the COVID-19 pandemic evolves, and the outlook is highly uncertain. For now, we see the New Zealand economy contracting by 1.0% this year.

CENTRAL BANK: RBNZ Embarks On QE

Encouragingly, the RBNZ has been quick to react in the current environment. On 23 March, policymakers announced that it would conduct large-scale asset purchases of New Zealand government bonds (NZGBs) "to provide further support to the economy, build confidence, and keep interest rates on government bonds low". The RBNZ will purchase NZD30bn worth of NZGBs across the yield curve in the next 12 months, because "financial conditions have tightened unnecessarily over the past week." They have also said that they stand ready to "make adjustments and additions if needed."

The latest move follows on from the RBNZ's provision of significant additional liquidity, and freeing up of bank capital (of around NZD47bn by delaying the imposition of tougher bank capital requirements by a year). More importantly, the RBNZ in an emergency and bold move on 16 March – lowered the OCR by 75bps from 1.00% to 0.25%. It gave explicit forward guidance, committing to keep the OCR there for at least 12 months. Our view is that it will remain there even longer.

Depending on how the current financial market situation develops, more QE may be required down the road, perhaps buying other assets, or aimed at facilitating lending to certain segments. We strongly believe the RBNZ will be watching this space very closely.

CURRENCY: NZD Is Grounded At GFC Lows

Similar to its antipodean peer AUD, the Kiwi had a washed first quarter for 2020, dropping 14% to 0.58, lowest levels since the GFC. With global risk sentiment still weak, commodity-linked currencies such as the NZD are expected to be on the defensive. Coupled with New Zealand's tough approach to stemming COVID-19, the resulting sharp economic slowdown puts to rest any significant rebound in the NZD in the interim. Only when the current scramble for USD alleviates (which we estimate to be around 4Q20) and a recovery in risk sentiment, then there may be some stabilization in the NZD/USD starting 2H20. Our updated FX forecasts are 0.56 in 2Q20, 0.58 in 3Q20, 0.61 in 4Q20 and 0.63 in 1Q21.

UNITED KINGDOM

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
GBP/USD	1.15	1.17	1.20	1.20
GBP Repo Rate	0.10	0.10	0.10	0.10

Economic Indicators	2018	2019	2020F	2021F
GDP	1.4	1.4	-4.8	2.3
CPI (average, y/y %)	2.5	1.8	1.1	1.7
Unemployment rate (%)	4.1	3.8	5.3	5.0
Current account (% of GDP)	-3.9	-4.3	-7.6	-7.4
Fiscal balance (% of GDP)	-2.2	-1.9	-6.7	-6.0

ECONOMY: COVID-19 To Cause Severe Economic Distress

The shock could not have come at a worse time. The UK economy was already stagnating in end-2019, as high political uncertainty weighed on business investment, consumer spending and manufacturing production. GDP flat-lined in 4Q19, down from an upwardly revised reading of 0.5% q/q in 3Q19. The UK economy grew 1.4% in 2019 as a whole, better than 2018's growth of 1.3%, but it was still one of the slowest growth rates since the GFC.

For the month of January, the UK economy failed to grow. GDP was unchanged from December, when it grew 0.3% m/m. Manufacturing and services posted meager growth for the month, whilst construction activity shrank. Services, the largest part of the economy, flat-lined with both retail and telecommunication sectors posting declines. Even the trade deficit was seen widening in January amid a 6% drop in exports. This goes to show that growth had already lost momentum even before the COVID-19 outbreak.

PM Boris Johnson remarked offhandedly on 1 March that COVID-19 is "likely to spread a bit more". Twenty-three days later on 23 March, he finally declared a stricter lockdown. This followed days of controversy over whether the UK's response was too slow after the death toll reached more than 330, as of 24 March. Even with the assumption that containment measures will eventually help, we currently see the impact from COVID-19 related disruptions and uncertainty as more severe than the GFC, as people stay home, businesses remain shut, international trade slows, and supply chains are disrupted.

Our projection is for the UK economy to contract by 4.8% this year. This is significantly lower than our earlier projection for a gain of 1.1%. In fact, current conditions will worsen the UK's chronic deficits with other countries – on trade and the wider current account, especially since many of UK exports – including finance, business services, transport services and high-value products that travel by air – depend on movements of people that simply cannot happen during the current COVID-19 lockdown.

Hopefully, UK Chancellor Rishi Sunak's latest fiscal measures – which include paying 80% of a worker's salary if they are unable to work or furloughed due to the pandemic – will help contain some fears around unemployment. The UK has had three fiscal packages in nine days, and the latest was the biggest and most crucial. Sunak had announced a stimulus package on 17 March, worth around 15% of its GDP, which included measures for government backed-loans and guarantees up to GBP330bn, loans and cash grants for small businesses that are experiencing interruptions, mortgage holidays and an extension of business rate holiday. Those measures had come on the back of the GBP30bn spending package announced during the Budget on 11 March. Only time can tell if these packages will be sufficient. But coming from a position of relative fiscal strength (budget deficit is just around 2% of GDP from 10% in the aftermath of the GFC), we think the government could announce more should the COVID-19 pandemic proves to be more protracted and severe.

CENTRAL BANK: BOE Cuts Rate Twice In A Month And Ramps Up QE

The BOE announced, in another unscheduled decision on 19 March, further monetary policy measures. The MPC voted unanimously to cut its Bank Rate by 15bps from 0.25% to 0.10%, a record-low, after it had been slashed only a week ago on 11 March from 0.75% to 0.25%. The MPC also voted unanimously to increase the BOE's bond-buying program to GBP645bn (30% of GDP), up by GBP200bn. Currently, the BOE maintains its government and corporate bond holdings at GBP435bn and GBP10bn respectively. It said "the majority of additional asset purchases would comprise of UK government bonds" and would be "completed as soon as is operationally possible". In addition, the BOE announced it was increasing the size of its Term Funding Scheme, targeted at smaller businesses.

The BOE has long viewed 0.10% as the effective lower bound. Hence, we see the latest move as a pretty aggressive one. As for QE, whilst the additional purchases does not come as a surprise; the scale is probably larger than most had been expecting – the additional GBP200bn is equivalent to about 9% of GDP. Also, if we recall, previous governor Mark Carney had said back in January, he thought there was capacity for the markets to absorb a further GBP120bn of asset purchases under the QE scheme and that this would be the equivalent of a 1ppt cut in interest rates. Using Carney's rule of thumb, the BOE has just provided a stimulus equivalent to almost 2ppts off interest rates.

Whilst BOE Governor Andrew Bailey has reiterated that he is not in favour of negative rates and has previously indicated that the BOE wants to avoid having to cut rates below zero to protect the banking system, he also indicated that the BOE would continue to review that stance as events unfold. We think the Bank Rate will remain at 0.10%, and the BOE will follow up with additional QE if more needs to be done.

CURRENCY: GBP Pounded By Pandemic Fears

GBP/USD has dropped from 1.28 at the start of March to 1.15 by the third week of March, surpassing the 1.20 low reached during the depth of the Brexit negotiations last September and for its lowest since 1985. The cliff-edge drop puts the GBP as one of the most oversold currencies in the G-7 Majors space. That said, strong USD demand is likely to persist in the coming months, pinning GBP/USD at multi-decade lows. Similar to EUR/USD, whilst we expect a 2H20 recovery for GBP/USD, the trajectory is likely to more modest, further weighed by uncertainties over the Brexit transition. Overall, our updated GBP/USD forecasts are 1.15 in 2Q20, 1.17 in 3Q20, and 1.20 for both 4Q20 and 1Q21.

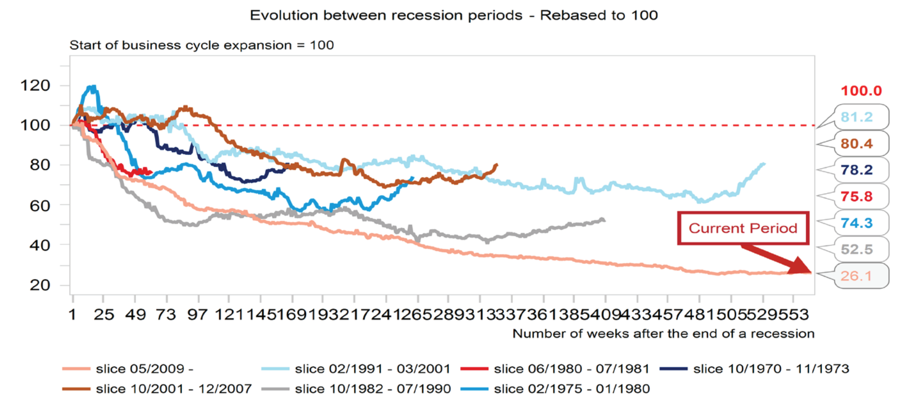
UNITED STATES OF AMERICA

FX & Rates	2Q20F	3Q20F	4Q20F	1Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25

Economic Indicators	2018	2019	2020F	2021F
GDP	2.9	2.3	-4.1	1.4
CPI (average, y/y %)	2.4	1.8	0.9	1.2
Unemployment rate (%)	3.9	3.7	8.5	7.0
Current account (% of GDP)	-2.4	-2.3	-2.0	-2.5
Fiscal balance (% of GDP)	-3.8	-4.6	-8.0	-7.5

The Surge Of Initial Jobless Claims

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY: Shutting Down

The US economy grew by a modest 2.3% in 2019, down from 2.9% in 2018. But that does not matter now as the US growth outlook has taken an extreme turn for the worst in the face of the COVID-19 pandemic which has spread across the country.

Quarantines, social distancing, travel restrictions, lockdowns and border closures are enforced, in an attempt to slow down the infection rate, "to flatten the infection curve", so as to protect lives and not overwhelm the health care system. The states of California, New York, Illinois, New Jersey and Connecticut, which collectively contributes about US$6.4 trillion, or 31% of US GDP issued state-wide stay-at-home orders on 20 Mar. They were later joined by Ohio, Louisiana and Delaware to enact broad restrictions, along with the city of Philadelphia (as at 22 Mar). We expect most if not all of US to impose restrictions by end-March.

The cost of containment is recession. Indeed, the price to pay to contain COVID-19 is a heavy economic cost. Strong, draconian measures that are absolutely necessary to break the transmission chains are also clearly disastrous for businesses and consumers (the pillar of US economy). We factor in two consecutive quarters of GDP contraction in 1H, of which we now project a 2% (annualised rate) decline in 1Q followed by a deeper 26.8% contraction in 2Q. This now implies that we see US falling into a severe technical recession (i.e. 2 consecutive quarters of sequential q/q declines) in 1H 2020. The subsequent 2H will resume q/q growth (we assume the COVID-19 situation will improve/be partly under control by mid-2020) but the rebound (+6.1% in 3Q and 10.4% in 4Q) in the latter half of the year will not offset the 1H contraction, so **US overall GDP will now contract by 4.1% in 2020** (from previous forecast of +0.6%), and will be the first full year contraction since 2008 and 2009. The significant impact on economic and day-to-day activities could see a sharp spike in US job losses (4-5 million) and unemployment could surge above 10% in 2Q before easing to end the year at 8.5%. Inflation is likely to be subdued, averaging below 1% in 2020.

The risk is after a brief period of respite, COVID-19 resurges with a vengeance in 2H, which means returning to personal restrictions, lockdown, border closures and other measures to contain the virus, and inevitably decimating economic activity again. With US and many other major economies in contraction for 2020 while China may record sub-5% growth, it will be inevitable that the global economy will head towards a recession. The US lawmakers will inject significant stimulus (likely US$4-5 trillion range) to help cushion the US economy from the negative fallout of COVID-19 but it cannot cure the economy from the ills of COVID-19 until the spread is contained.

CENTRAL BANK: Whatever It Takes…Except Negative Rates

The Federal Reserve brought forward its March 2020 FOMC in yet another unscheduled meeting on 15 March and announced a 100bps Fed rate cut to bring the Fed Funds Target rate (FFTR) range to 0.00-0.25% (GFC's low) and "to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." The Fed also re-started its quantitative easing program with latest decision (23 March) to "*purchase Treasury securities and agency mortgage-backed securities (MBS) in the amounts needed to support the smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy.*"

The Fed made a series of related actions on 16 March "*to support the credit needs of households and businesses.*" The Fed further unveiled unprecedented measures on 23 March including range of new programs for companies, households and small businesses in what it calls 'aggressive action to confront severe disruptions'. The Fed also announced (16 March) coordinated action with the central banks of Canada, UK, Japan, Eurozone and Switzerland to enhance the provision of US dollar liquidity which "*will remain in place as long as appropriate to support the smooth functioning of U.S. dollar funding markets*" and was extended to other central banks (20 March).

The Fed has demonstrated it will do whatever it takes, beyond interest rate cuts and asset buying, to restore financial market stability, smooth out US dollar funding conditions and safe-guard the economy. Fed's decisive action is seen as effective to prevent the financial market from becoming a compounding factor to worsen the COVID-19 impact to the real economy and US households. That said, we do not think the Fed will want to push rates beyond zero, into negative territory. The Fed rate policy is not suited to combat the ill effects of COVID-19 on the economy. Only the containment of the novel pathogen can bring back normalcy to the human activity but the Fed will do all it can to ward off a financial disaster before normalcy is restored.

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